



## Rhode Island Commerce Corporation

### Rebuild Rhode Island Tax Credit – Economic Impact Analysis

#### *Bourne Avenue Capital Partners/93 Cranston LLC Application*

#### **Introduction:**

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to 93 Cranston LLC (“the Sponsor”), which is a single purpose Rhode Island LLC, that is owned, controlled, and managed by the principals of Bourne Avenue Capital Partners, D+P Real Estate Advisors LLC, and Truth Box Inc. The credits would be issued in connection with the Sponsor’s decision to invest in a mixed-income, mixed-use development at the former Louttit Laundry site at 93 Cranston Street in Providence. The two-building project would include 39 units of workforce and low-income housing, a garage with 26 parking spaces and an 8,000 square-foot ground-floor space that will be occupied by Urban Greens, an organic grocery co-operative. The total cost of the proposed project is estimated to be \$10.117 million.

The Sponsor is requesting a Rebuild Rhode Island tax credit of \$2,733,000 as well as a sales and use tax exemption on eligible construction and build out costs that is estimated at \$271,239.

This analysis was prepared by Appleseed, Inc., a consulting firm with more than 20 years of experience in economic impact analysis.

#### **Jobs Analysis:**

##### ***Construction***

As shown below in Table 1, the Sponsor’s estimate of the total cost of the proposed expansion is \$10,117,413.

**Table 1: Estimated cost of developing 93 Cranston Street**

| <b>Component</b>                     | <b>Estimated cost</b> |
|--------------------------------------|-----------------------|
| Land                                 | \$130,000             |
| Site remediation                     | \$200,000             |
| Construction (including contingency) | \$8,057,700           |
| Soft costs and reserves              | \$785,202             |

|                  |                     |
|------------------|---------------------|
| Interest costs   | \$363,956           |
| Financing fees   | \$37,981            |
| Developers' fees | \$542,574           |
| <b>Total</b>     | <b>\$10,117,413</b> |

For purposes of this analysis we exclude land acquisition and interest and carrying costs as expenses that do not have a direct, current impact on Rhode Island's economy. The remaining costs total is \$9,623,457.

Appleseed estimates that over the course of a two-year construction period, this expenditure will directly and indirectly generate:

- 81 person-years<sup>1</sup> of work in Rhode Island;
- Approximately \$4.344 million in earnings;
- \$13.551 million in State-wide economic output<sup>2</sup>;
- A projected one-time increase of approximately \$162,916 in personal income taxes paid to the State during construction; and
- A one-time increase of \$6.825 million in Rhode Island's GDP.

These impacts are summarized below in Table 2. The project's *direct impact* is the impact of the company's direct spending on design and construction. Its *indirect impact* is the effect of spending by contractors for goods and services (insurance, construction materials, etc.) purchased from other Rhode Island businesses.

**Table 2: Direct and indirect impact of construction spending (employment in person-years; income, value-added and output in thousands of 2017 dollars)**

|                     | Employment | Earnings         | Value added      | Output            |
|---------------------|------------|------------------|------------------|-------------------|
| Direct Effect       | 49         | \$2,910.1        | \$4,438.8        | \$9,623.5         |
| Indirect Effect     | 32         | \$1,434.4        | \$2,386.1        | \$3,927.6         |
| <b>Total Effect</b> | <b>81</b>  | <b>\$4,344.4</b> | <b>\$6,824.9</b> | <b>\$13,551.0</b> |

<sup>1</sup> A person-year is equivalent to the time worked by one person who is employed full-time for a year. It could for example represent the work of two people who are each employed full-time for six months; or the work of one person who is employed half-time for two years.

<sup>2</sup> Output is a measure of the total sales by Rhode Island companies (including the "sale" of labor by Rhode Island households) generated by the project.

Most of the activity reflected in Table 2 will occur during a two-year construction period (spring 2016 through spring 2018). The anticipated wage rates for construction jobs are shown below in Table 3. For construction managers, anticipated wage rates are the median hourly wage for these occupations in Rhode Island; for construction laborers and skilled tradespersons, anticipated wage rates are Rhode Island’s prevailing wage rates for these occupations.

**Table 3: Anticipated wages during construction**

| Occupation           | RI median hourly wage <sup>3</sup> |
|----------------------|------------------------------------|
| Architect            | \$40.29                            |
| Construction manager | \$52.12                            |
| Carpenter            | \$19.70                            |
| Electrician          | \$23.71                            |
| Plumber              | \$24.03                            |
| Painter              | \$16.07                            |
| Laborer              | \$16.77                            |

Fringe benefits associated with these jobs are expected to be in accordance with industry norms, with the cost of such benefits generally ranging between 22 and 28 percent of wages. Workers who fill these jobs are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

**Annual operations:**

The Sponsor estimates that when the project is completed and occupied, Urban Greens will employ 18 people in its first year of operation, rising to 26 in year 7 (the last year of an initial seven-year lease) and 32 in year 10. Detail on the types of positions offered, wages or benefits is not available. However, using IMPLAN (an economic modeling tool commonly used in economic impact analyses), we can estimate the impact of the grocery co-op. Appleseed estimates that as of year 7, Urban Greens will directly and indirectly account for:

- 29 full-time equivalent jobs in Rhode Island;
- Approximately \$981,800 in annual earnings (in 2018 dollars);
- \$2.240 million in annual State-wide economic output;
- A projected increase of approximately \$36,818 in personal income taxes paid to the State in year 7 of the store’s operation; and
- An increase of \$1.487 million in Rhode Island’s annual GDP.

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<sup>3</sup> Rhode Island Department of Labor & Training, Occupational Employment Statistics, 2014

**Table 4: Direct and indirect impact of annual operations (employment in FTE; income, value-added and output in thousands of 2019 dollars)**

|                     | <b>Employment</b> | <b>Earnings</b> | <b>Value added</b> | <b>Output</b>    |
|---------------------|-------------------|-----------------|--------------------|------------------|
| Direct Effect       | 26                | \$802.4         | \$1,137.4          | \$1,668.9        |
| Indirect Effect     | 3                 | \$179.4         | \$349.3            | \$570.9          |
| <b>Total Effect</b> | <b>29</b>         | <b>\$981.8</b>  | <b>\$1,486.7</b>   | <b>\$2,239.8</b> |

Workers who fill these jobs are likely to be drawn primarily from the West Side of Providence and other nearby neighborhoods.

In addition to jobs at Urban Greens, Appleseed estimates (based on data on operating expenses provided by the Sponsor) that spending for ongoing management, maintenance and operation of the two-building complex will directly and indirectly support:

- 2 FTE jobs in Rhode Island, with \$92,012 in salaries and wages (in 2018 dollars);
- \$261,218 in Statewide economic output;
- A projected increase \$3,450 in State personal income tax revenues; and
- An increase of \$147,694 in Rhode Island’s GDP.

**Impact:**

The state fiscal impact of the tax credits is up to \$ 2,733,000 in forgone state revenue and/or state expenditure. Direct and indirect state fiscal and economic benefits of the project, including the estimated GDP increase of \$8.459 million and the estimated associated job creation, are detailed in the foregoing analysis. Induced impacts (the impact associated with household spending by Rhode Islanders employed on the project) are not estimated in the foregoing analysis, but they would increase the fiscal and economic benefits of project. In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in several other ways:

- Remediate and redevelop a blighted property that has been vacant for twenty years.
- Respond to a growing demand for rental housing in the Providence area, which has seen a sharp decline in the vacancy rate for rental units since 2009.
- Provide 39 units of affordable and workforce housing, targeting segments of the local population for whom rental housing in Providence may otherwise be out of reach.
- Make high-quality fresh food more readily available in an underserved area of the City.
- Contribute to the ongoing revitalization of the City’s West Side.
- Add to the City’s tax base.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. In addition, various features of the program mitigate risk to the state. In particular, the completion risk (i.e., the risk that the project is not completed) is mitigated by the fact that the tax credits will be payable only upon completion of the development. The risk of project cost overruns is

mitigated by the fact that the tax credits are capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the tax credits to be paid will be reduced accordingly.