

Rhode Island Commerce Corporation
**Rebuild Rhode Island and Qualified Job Tax Credits – Economic
Impact Analysis**

Ocean State Jobbers Application

Introduction

The Rhode Island Commerce Corporation (the "Corporation") may issue Rebuild Rhode Island and Qualified Job Incentive tax credits to Ocean State Jobbers Inc, A & M Special Purchasing Inc and Zakopane Real Estate LLC (collectively the "Sponsor"), which together represent the corporate headquarters and distribution center for Ocean State Job Lot, a chain of 123 retail stores operating in the northeastern U.S. The credits would be issued in connection with the Sponsor's decision to invest in the expansion of its existing headquarters and distribution operations in North Kingstown. The project will result directly in the creation of 178 new jobs over a four-year period, including 125 jobs with annual wages exceeding Rhode Island's current median annual wage (\$39,042), and will indirectly support 54 full-time-equivalent jobs elsewhere in Rhode Island. The total cost of the proposed project is estimated to be \$49.1 million.

The Company is requesting Rebuild Rhode Island tax credits of \$3,100,000, and Qualified Jobs tax credits of \$3,230,190. The Company is also eligible for a sales tax exemption associated with the project's eligible construction materials, furnishings and equipment costs, estimated to be approximately \$1.5 million.

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

Jobs Analysis

Construction

As shown below in Table 1, the Company's estimate of the total cost of the proposed expansion is \$49.1 million.

Table 1: Estimated cost of the Company's proposed expansion

| Component | Estimated cost (\$mm) |
|------------------------|------------------------------|
| Land | \$1.8 |
| Site work | \$2.2 |
| Building construction | \$27.1 |
| Fixtures and equipment | \$17.9 |
| Total | \$49.1 |

For purposes of this analysis we count only site work, building construction and the local labor component of the cost of fixtures and equipment (\$3.1 million) as having a direct impact on Rhode

Island's economy. Appleseed estimates that these expenditures, totaling \$32.5 million, will directly and indirectly generate:

- 247 person-years¹ of work in Rhode Island;
- Approximately \$14.1 million in earnings;
- \$40.9 million in State-wide economic output²;
- A projected one-time increase of approximately \$954,000 in taxes paid to the State during construction including approximately:
 - \$530,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;;
 - \$231,000 in state sales taxes paid on those workers' taxable household spending;
 - \$193,000 in state business corporation taxes; and
- A one-time increase of \$21.3 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 millions of 2016 dollars)

| | Employment | Earnings | Value added | Output |
|---------------------|------------|---------------|---------------|---------------|
| Direct Effect | 190 | \$11.0 | \$16.3 | \$32.5 |
| Indirect Effect | 57 | \$3.1 | \$5.0 | \$8.4 |
| Total Effect | 247 | \$14.1 | \$21.3 | \$40.9 |

Most of the activity reflected in Table 2 will occur during a one-year construction period beginning no later than December 2016. The anticipated wage rates for construction jobs are shown below in Table 3. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island.

¹ 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.

² 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.

Table 3: Anticipated wages during construction

| Occupation | RI median hourly wage ³ |
|----------------------|------------------------------------|
| Architect | \$40.76 |
| Construction manager | \$54.17 |
| Carpenter | \$21.04 |
| Electrician | \$24.86 |
| Plumber | \$23.54 |
| Painter | \$18.10 |
| Laborer | \$18.33 |

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 would be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

Annual operations

Appleseed estimates that when the Sponsor's expansion is fully phased in (which is expected to occur in 2019), it will directly and indirectly account for:

- 232 full-time equivalent jobs in Rhode Island.
- Approximately \$13.3 million in annual earnings (in 2016 dollars).
- \$30.5 million in annual State-wide economic output.
- A projected gross increase of more than \$8.1 million in taxes paid to the State during a commitment period of not less than twelve years (in addition to the \$954,000 in tax revenues cited above that would be generated by spending on construction). These taxes will include approximately:
 - \$5.2 million in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;;
 - \$2.3 million in state sales taxes paid on those workers' taxable household spending;
 - \$657,000 in state business corporation taxes.
- An increase of \$17.5 million in Rhode Island's annual GDP.

Table 4: Direct and indirect impact of annual operations (employment in FTE; income, value-added and output in millions of 2016 dollars)

| | Employment | Earnings | Value added | Output |
|---------------------|------------|---------------|---------------|---------------|
| Direct Effect | 178 | \$10.3 | \$12.3 | \$22.0 |
| Indirect Effect | 54 | \$3.0 | \$5.2 | \$8.5 |
| Total Effect | 232 | \$13.3 | \$17.5 | \$30.5 |

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, May 2015.

Expected 2017 median salary across the 125 new jobs directly created by the Company is approximately \$47,000.

Workers who fill these jobs would be drawn primarily from the Providence-Warwick RI-MA NECTA.

Benefits

Benefits provided in conjunction with the newly-created jobs would include health insurance; flexible spending and dependent spending accounts; accident, disability and life insurance; medical, maternity, adoption and other leaves of absence; an unmatched 401k plan; tuition reimbursement; store discounts and other benefits.

Hiring

The Sponsor has a well-defined process for posting new positions both internally and externally. All open positions are posted on its website and on job boards such as Monster.com and Beyond.com. New hires begin their careers with an orientation and a structured on-boarding, and continue thereafter to have access to OSJL's career development programs.

Impact

The state fiscal impact of the requested tax credits and state sales and use tax exemption is up to \$7.8 million in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated \$17.5 million increase in Rhode Island's annual GDP; and a gross increase of \$9.1 million in personal income, sales and business corporation tax revenues directly and indirectly generated by the project during construction and during a twelve-year commitment period.

In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in other ways.

- Preparation of the site has involved remediation and demolition of three old structures that contained hazardous materials, and removal of abandoned utilities.
- New provisions for stormwater management will reduce runoff and improve water quality.
- The project will add to North Kingstown'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.