

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
Royal Oaks Realty LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Royal Oaks Realty LLC (the “Sponsor”). The credits would be issued in connection with the Sponsor’s decision to invest in the development of 45 Pike Street, a mixed-use project in Providence. The project will include:

- 47 residential units in a new building to be constructed on the site;
- 5,800 square feet of office space and 5,100 square feet of retail space in another new building to be built on the site; and
- 10,800 square feet of office space and 2,450 square feet of restaurant space in an existing building that will be preserved on the site.

The total cost of the proposed project is estimated to be more than \$21.5 million. The Sponsor is requesting a Rebuild Rhode Island tax credit of \$2,148,558 and a sales and use tax exemption on eligible construction costs valued at \$404,600.

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 in Table 1, the Sponsor’s estimate of total project cost is approximately \$21.5 million.

Table 1: Estimated total project cost (in \$ millions)

Component	Estimated cost
Land and building acquisition	\$2.8
Building construction (hard cost)	\$15.6
Soft costs	\$3.1
Total	\$21.5

After excluding certain costs that for purposes of this analysis do not have a direct, current impact on Rhode Island's economy (such as land acquisition and interest costs), the remaining hard and soft costs total \$18.4 million. Appleseed estimates that direct expenditures of \$18.4 million will directly and indirectly generate:

- 152 person-years¹ of work in Rhode Island;
- \$8.3 million in earnings;
- Nearly \$25.9 million in statewide economic output²; and
- A one-time increase of nearly \$13.1 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 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	92	\$5.6	\$8.6	\$18.4
Indirect Effect	60	2.7	4.5	7.5
Total Effect	152	\$8.3	\$13.1	\$25.9

In addition to the impacts cited in Table 2, direct expenditures of \$18.4 million would directly and indirectly generate a projected one-time increase of approximately \$488,000 in taxes paid to the State during construction. These taxes would include approximately:

- \$312,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$136,000 in state sales taxes paid on those workers' taxable household spending; and
- \$40,000 in state business corporation taxes paid by companies directly or indirectly working on the project.

Most of the activity reflected in Table 2 is expected to occur between November 2016 and January 2018. 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. For example, it could 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 wage³
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 are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

Annual operations

After construction is completed, ongoing operations will include:

- Management and maintenance of the new residential building (including 47 new units)
- The operations of tenants occupying the proposed new office and retail space
- The operations of office and restaurant tenants in the existing building (39 Pike Street)

Because the existing building is already fully occupied, we include in this analysis only the impact of ongoing operations of the new residential and commercial buildings.

For purposes of this analysis, we estimate that the 5,800 square feet of office space to be included in the new building will accommodate 26 employees⁴; and that the tenant (or tenants) occupying the 5,100 square feet of retail space to be included in the building will employ 18 (on a full-time-equivalent basis).

Based on the Sponsor's estimate of ongoing operating costs, Appleseed estimates that 4 people will be employed (directly or by contractors) in ongoing management, operations and maintenance of the project.

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

⁴ For purposes of this analysis the occupant of the new office space is assumed to be a real estate firm.

Based on these assumptions, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied (which is estimated to occur in 2018), it will directly and indirectly account for:

- 61 FTE jobs in Rhode Island;
- Approximately \$1.8 million in annual earnings (in 2018 dollars);
- Approximately \$6.9 million in annual statewide economic output; and
- An increase of approximately \$9.7 million in Rhode Island’s annual GDP.

Table 4: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	48	\$1.2	\$5.7	\$7.8
Indirect Effect	13	0.6	1.2	1.9
Total Effect	61	\$1.8	\$6.9	\$9.7

In addition to the impacts cited in Table 4, ongoing operations at 45 Pike Street would directly and indirectly generate a projected increase of approximately \$109,000 in taxes paid annually to the State. These taxes would include approximately:

- \$70,000 in state personal income taxes paid by Rhode Island workers employed directly at 45 Pike Street, or whose jobs are indirectly attributable to tenant and building operations;
- \$30,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$9,000 in state business corporation taxes directly or indirectly attributable to building and tenant company operations.

Workers who fill office jobs at 45 Pike are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA). Retail and building maintenance workers are likely to be drawn primarily from Providence or from other nearby communities.

Impact

The state fiscal impact of the requested tax credits and exemptions is up to \$2,553,158 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of \$6.9 million, the estimated associated job creation, and the gross increase of nearly \$1.8 million in state personal income, sales and business corporation tax revenues during the construction phase and during the twelve years following the completion of the project. These benefits are detailed in the foregoing analysis. In

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

- Through quick completion of one of the first projects to be undertaken by a private developer on land acquired from the I-195 Redevelopment District Commission.
- Through the addition of new residential units, retailing and office space in an area likely to play a key role in Rhode Island's future economic growth.
- By increasing local real property tax revenues.
- By supporting public open space in the area through the I-195 Redevelopment District common area maintenance fund.

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.