

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credit Fund Loan – Economic Impact
Analysis

Cornish Associates LP Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue a Rebuild Rhode Island Tax Credit Fund Loan to Cornish Associates LP (the “Sponsor”). The loan would be issued in connection with the Company’s proposed investment in its DOWNCITY Redevelopment, a mixed-use project located in downtown Providence. The project includes the conversion of three existing historic buildings into 65 units of multifamily housing and approximately 25,800 square feet of office, retail and entertainment space. (Phase 2, to be undertaken at a later date and not included in this analysis, would include construction of a 6-story building with 93 residential units with ground floor commercial space; and a parking structure).

The Sponsor estimates the total cost of project (excluding Phase 2) to be \$29.5 million.

The Sponsor is requesting a Rebuild Rhode Island Tax Credit Fund Loan for the project totaling \$7,320,506 as well as an exemption from sales and use taxes on construction materials and furnishings valued at \$500,081.

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 \$29.5 million.

Table 1: DOWNCITY II estimated total project cost (\$ millions)

Component	Estimated cost
Land and building acquisition	\$5.7
Construction (hard costs)	16.8
Soft costs	7.0
Total	\$29.5

After excluding certain expenditures that do not have a direct, current impact on Rhode Island's economy (such as property acquisition costs and interest expenses), spending on construction (both hard and soft costs) is estimated to total approximately \$22.4 million. Applesseed estimates that direct expenditures of approximately \$22.4 million will directly and indirectly generate:

- 180 person-years¹ of work in Rhode Island, with \$10.2 million in earnings;
- Approximately \$30.9 million in statewide economic output²; and
- A one-time increase of \$15.8 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, indirect and induced impact of construction and related spending (employment in person-years; income, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	112	\$7.0	\$10.5	\$22.3
Indirect Effect	68	\$3.2	\$5.3	\$8.6
Total Effect	180	\$10.2	\$15.8	\$30.9

In addition to the impacts on employment, earnings, output and state GDP cited in Table 2, direct spending of \$22.4 million would generate a projected one-time increase of approximately \$599,000 in taxes paid to the State during construction, including:

- \$383,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$167,000 in state sales taxes paid on those workers' taxable household spending;
- \$49,000 in state business corporation taxes

Most of the activity reflected in Table 2 will occur during 2017 and 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. 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 are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

Annual operations

Based on square-foot-per worker ratios typical of office-based industries, retailing, restaurants and entertainment venues, we estimate that after the project is completed, businesses occupying the proposed commercial space at Downcity II would employ approximately 104 people (on a full-time-equivalent basis).⁴ We further estimate that 4 people will be employed in management and maintenance of the proposed residential units.

As shown below in Table 4, Appleseed estimates that when the project is completed and fully occupied (which is assumed to occur in 2019, it will directly and indirectly account for:

- 142 full-time equivalent jobs in Rhode Island, with approximately \$7.1 million in annual earnings (in 2018 dollars);
- \$18.3 million in annual statewide economic output; and
- An increase of \$10.8 million in Rhode Island's annual GDP.

Table 4: Direct, indirect and impact of annual operations of Downcity II (employment in FTE; earnings, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	108	\$4.7	\$7.4	\$12.6
Indirect Effect	34	\$2.4	\$3.4	\$5.7
Total Effect	142	\$7.1	\$10.8	\$18.3

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

⁴ We assume for purposes of this analysis that in addition to the headquarters of Betaspring and the Founders' League, office space at Downcity II will be occupied by a range of businesses that reflect the continued growth of the State's "knowledge economy," including information technology and professional service firms.

In addition to the impacts on employment, earnings, output and state GDP cited in Table 4, ongoing operations would generate a projected gross increase of more than \$416,000 in taxes paid annually to the State (in addition to the \$599,000 in state tax revenues cited above that would be generated by spending on construction), including:

- \$266,000 in state personal income taxes paid by Rhode Island workers employed by tenant businesses or in building operations, or whose jobs are indirectly attributable to the project;
- \$116,000 in state sales taxes paid on those workers' taxable household spending;
- \$34,000 in state business corporation taxes

While detailed information on wages that will be paid to those working in Downcity II's commercial spaces is not yet available, we can use the results of our analysis cited above to estimate these workers' earnings. We estimate those directly employed by Downcity II tenant businesses will earn an average of \$49,900 per FTE job.

Fringe benefits associated with these jobs will vary substantially across, office, retail, restaurant and entertainment businesses, and building operations and management.

Workers employed by office-based businesses could be drawn from communities throughout the Providence-Warwick RI-MA NECTA, while those employed at the planned music venue, in retail and restaurants and building maintenance would mostly be drawn from neighborhoods within Providence and other nearby communities.

Impact

The state fiscal impact of the requested loan and sales tax exemption is up to \$7,820,587 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated increase in annual state GDP of \$10.8 million; the associated job creation; and a gross increase of nearly \$5.592 million in personal income, sales and business corporation tax revenues directly and indirectly generated by the project during the construction phase, and by ongoing operations during the twelve years following completion of the project.

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

- Rehabilitate and activate three vacant buildings in downtown Providence;
- Provide 65 housing units and amenities (an entertainment venue and a park) that will support the continued growth of the Downcity area's resident population;
- Provide office space that will support the continued growth of Rhode Island's innovation economy; and
- Add to the City's tax base.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. While the state bears the risk of non-repayment of the requested loan, various features of the program mitigate other risks 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 loan will be issued only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the loan is capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the value of the loan will be reduced accordingly.