

# Rhode Island Commerce Corporation

## Rebuild Rhode Island Tax Credits – Economic Impact Analysis

### *Case Mead Associates LLC Application*

#### Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits or a loan to Case Mead Associates LLC (the “Sponsor”). It is managed by Joseph R. Paolino, Jr., the Managing Partner of Paolino Properties. The credits or the loan would be issued in connection with the Sponsor’s decision to invest in the redevelopment of the Case Mead Building, located at 68-76 Dorrance Street in Providence. The project will consist of the rehabilitation of the building exterior, the development of 44 residential micro lofts, and the construction of a second means of egress. The total cost of the proposed project is estimated to be approximately \$11 million.

The Sponsor is requesting Rebuild Rhode Island Tax Credits of \$248,330 or, in the event that the construction lender reduces the project’s construction loan, the Sponsor is requesting a loan of up to \$1.6 million. The Sponsor is also seeking a sales and use tax exemption for its eligible construction and build-out costs with an estimated value of \$225,000.

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 \$11 million.

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

<b>Component</b>	<b>Estimated cost</b>
Land	\$1.6
Construction	\$7.3
Soft costs	\$1.5
Fixtures, furniture and equipment	\$0.6
<b>Total</b>	<b>\$11.0</b>

After excluding certain costs that do not have a direct, current impact on Rhode Island’s economy (such as land acquisition), Appleseed estimates that the remaining hard and soft costs

total \$9.5 million. Applesseed estimates that direct expenditures of \$9.5 million will directly and indirectly generate:

- 74 person-years<sup>1</sup> of work in Rhode Island;
- More than \$4.0 million in earnings;
- More than \$12.5 million in statewide economic output<sup>2</sup>; and
- A one-time increase of nearly \$6.5 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 (e.g. 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	46	\$2.7	\$4.3	\$9.0
Indirect Effect	28	\$1.3	\$2.2	\$3.5
<b>Total Effect</b>	<b>74</b>	<b>\$4.0</b>	<b>\$6.5</b>	<b>\$12.5</b>

In addition to the impacts on employment, earnings, output and state GDP cited above, direct spending of \$9.5 million would generate a projected one-time increase of approximately \$235,000 in taxes paid to the State during construction, including:

- \$150,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$66,000 in state sales taxes paid on those workers' taxable household spending;
- \$19,000 in state business corporation taxes

Most of the activity reflected in Table 2 will occur during a nineteen-month construction period (estimated to be 2017-2018). 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.

<sup>1</sup> 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.

<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.

**Table 3: Anticipated wages during construction**

Occupation	RI median hourly wage <sup>3</sup>
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***

The Sponsor estimates that when the project is completed, two workers will be employed to manage and maintain the building, each with annual earnings of \$45,000. Upon stabilization, other operating costs are estimated at \$243,399. Based on these estimates, 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:

- 4 full-time equivalent jobs in Rhode Island, with approximately \$168,000 in annual earnings (in 2019 dollars);
- Approximately \$443,000 in annual statewide economic output;
- An increase of \$258,000 in Rhode Island's annual GDP.

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

	Employment	Earnings	Value added	Output
Direct Effect	3 <sup>4</sup>	\$132	\$196	\$334
Indirect Effect	1	\$36	\$62	\$109
<b>Total Effect</b>	<b>4</b>	<b>\$168</b>	<b>\$258</b>	<b>\$443</b>

In addition to the impacts on employment, earnings, output and state GDP cited above, ongoing operations of the completed project would generate approximately \$9,900 in taxes paid annually to the State, including:

<sup>3</sup> Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2015

<sup>4</sup> Direct employment includes both the two workers cited above and 1 FTE with contract service providers

- \$6,300 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$2,800 in state sales taxes paid on those workers' taxable household spending;
- \$800 in state business corporation taxes

Workers employed directly in management and maintenance of the building will most likely be drawn from neighborhoods within the City of Providence or from other nearby communities.

## **Impact**

The state fiscal impacts of the requested tax credits and the sales and use tax exemption is up to \$448,497 in state tax credits and foregone state revenue. Alternatively, if the loan option is exercised, the state fiscal impacts of the requested loan and the sales and use tax exemption is up to \$1,813,798 in state loans and foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated annual state GDP increase of \$258,000, the estimated associated job creation, and the gross increase of approximately \$354,000 in state personal income, sales and business corporation tax revenues during the construction phase and ongoing operations 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.

- Provide 44 units of housing that will support the continued growth of the downtown area's resident population;
- Increase the variety of housing options that are available in the area; and
- Add to 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.