



A Limited Liability Partnership



March 30, 2017

The Honorable Marvin L. Abney
Chairperson of the House Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

The Honorable Senator Daniel DaPonte
Chairperson of the Senate Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

Dear Mr. Chairpersons,

Pursuant to R.I. Gen. Laws § 42-64-10(e), please find enclosed an economic impact analysis, conducted pursuant to R.I. Gen. Laws § 42-64-10(a), in relation to a tax credit agreement between the Rhode Island Commerce Corporation and 78 Fountain JV Owner LLC under the Rebuild Rhode Island Tax Credit Act of 2015.

Should you have any questions or concerns, please contact undersigned at 401-272-1400.

Very truly yours,

Christopher J. Fragomeni, Esq.

cc: Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor
Scott R. Jensen, Department of Labor and Training
Neena S. Savage, Division of Taxation

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Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
78 Fountain JV Owner LLC – Nordbloom / Cornish JV

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to 78 Fountain JV Owner LLC (the “Sponsor”). The credits would be issued in connection with the Sponsor’s decision to invest in the construction of a new mixed-use building at 78 Fountain Street in Providence, which is currently operated as a parking lot. The project will include 16,813 square feet of ground floor retail and restaurant space, 145 residential units, and underground parking. The total cost of the proposed project is estimated to be \$48.4 million. The Sponsor is requesting a Rebuild Rhode Island tax credit of \$6,115,119. The Sponsor has already included the estimated sales and use tax exemption, valued by the Sponsor at approximately \$902,000, in its construction budget. This analysis was prepared by Applesseed, 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 \$48.4 million.

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

Component	Estimated cost
Land acquisition /predevelopment	\$3.4
Construction ¹	\$33.2
Soft costs	\$11.8
Total	\$48.4

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 and interest costs), the remaining hard and soft costs total \$49.5 million. Applesseed estimates that direct expenditures of \$41.9 million will directly and indirectly generate:

- 352 person-years² of work in Rhode Island;
- \$19.0 million in earnings;
- More than \$59.0 million in statewide economic output³;
- A projected one-time increase of approximately \$713,000 in personal income taxes paid to the State during construction; and
- A one-time increase of nearly \$29.4 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

¹ Includes contingency, tenant improvements and other miscellaneous construction costs

² 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.

³ 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.

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	213	\$12.7	\$19.0	\$42.0
Indirect Effect	139	6.3	10.4	17.0
Total Effect	352	\$19.0	\$29.4	\$50.0

Most of the activity reflected in Table 2 is expected to occur during an eighteen-month period beginning in 2023 and ending in 2024. 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.

Table 3: Anticipated wages during construction

Occupation	RI median hourly wage ⁴
Architect	\$41.70
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

After construction is completed, ongoing operations at 78 Fountain Street will include:

- Three retail stores, totaling over 10,000 square feet
- Two 2,200 square-foot restaurants
- A 1,223 square-foot coffee shop
- Management and maintenance of the new building (including 145 new residential units)

The Sponsor estimates that the three retail stores will employ 33 full-time and 31 part-time workers; and the restaurants and coffee shop, 32 full-time and 14 part-time workers. Assuming for purposes of this analysis that all part-time workers are employed half-time, these estimate equate to approximately 49 FTE employees in retail operations, and 39 FTE employees in restaurant and coffee shop operations, for a total of approximately 88 FTE jobs in retail and restaurant operations.

The Sponsor also estimates that 5 people (3.67 FTE's) will be employed in management and maintenance of the residential space at 78 Fountain Street.

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 2024), it will directly and indirectly account for:

⁴ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2014

- 108 FTE jobs in Rhode Island;
- More than \$3.4 million in annual earnings (in 2017 dollars);
- Approximately \$8.9 million in annual statewide economic output;
- An increase of approximately \$129,000 in personal income taxes paid annually to the State; and
- An increase of approximately \$5.6 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 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	92	\$2.6	\$3.9	\$6.1
Indirect Effect	16	0.8	1.7	2.8
Total Effect	108	\$3.4	\$5.6	\$8.9

Retail, restaurant and building maintenance workers are likely to be drawn primarily from neighborhoods within the City of Providence or from other nearby communities.

Impact

The state fiscal impacts of the requested tax credits and sales tax exemption is up to approximately \$7 million in foregone state revenue and/or state expenditures. Direct and indirect economic and fiscal benefits of the proposed project include the estimated state GDP increase of \$5.6 million, the estimated associated job creation, and the gross increase of more than \$2.2 million in personal income 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.

- Redevelop a site in downtown Providence that is currently used primarily for surface parking;
- Provide 145 units of housing that will support the continued growth of the downtown area's resident population; and
- Increase the City's real property tax revenues, relative to what the property now generates.

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.