

A Limited Liability Partnership



October 2, 2018

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

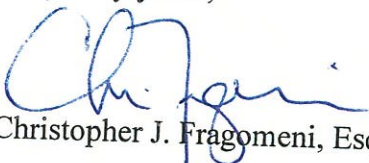
The Honorable Senator William J. Conley, Jr.
Chairperson of the Senate Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

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 Sprague Street Owner, LLC under the Rebuild Rhode Island Tax Credit Act of 2015.

Should you have any questions or concerns, please contact the 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 Credit Fund – Economic Impact Analysis
Sprague Street Owner LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Sprague Street Owner LLC (the “Sponsor”). The credits would be issued in connection with the Sponsor’s proposed investment in the second phase of its ROOMS & WORKS (R&W) project a mixed-use redevelopment of the historic Mechanical Fabric Company mill complex in Providence. (The first phase of ROOMS & WORKS was completed in 2017.)

Phase II entails the redevelopment of 34,000 square feet in three existing buildings on Sprague Street. The redeveloped properties would include 25 residential units (including 12 live-work units), six office units totaling 3,000 square feet, and a 4,000 square-foot shared-use facility for micro-brewing, distilling, coffee roasting and other beverages. The latter facility would be operated by Foodworks/Providence in collaboration with a Providence-based micro-brewery.

The Sponsor estimates the total cost of the project to be nearly \$7.2 million. The Sponsor is requesting Rebuild Rhode Island tax credits for the project totaling \$1 million (gross), and an exemption from state sales and use taxes on materials used in construction of R&W Phase II, valued at \$150,000.

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 \$7.2 million.

Table 1: R&W Phase II estimated total project cost (\$ millions)

Component	Estimated cost
Land and building acquisition	\$0.6
Construction (hard costs)	5.3
Soft costs	1.3
Total	\$7.2

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 \$6.24 million. Appleaseed estimates that direct expenditures of approximately \$6.24 million will directly and indirectly generate:

- 48 person-years¹ of work in Rhode Island, with \$2.7 million in earnings (in 2018 dollars);
- Approximately \$8.5 million in statewide economic output²; and
- A one-time increase of \$4.4 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 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 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	31	\$1.9	\$3.0	\$6.2
Indirect Effect	17	\$0.8	\$1.4	\$2.3
Total Effect	48	\$2.7	\$4.4	\$8.5

In addition to the impacts on employment, earnings, output and state GDP cited in Table 2, direct spending of \$6.2 million would generate a projected one-time increase of approximately \$158,000 in taxes paid to the State during construction, including:

- \$101,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$44,000 in state sales taxes paid on those workers' taxable household spending;
- \$13,000 in state business taxes

Most of the activity reflected in Table 2 will occur during 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 wage³
Architect	\$42.50
Construction manager	\$50.86
Carpenter	\$22.42
Electrician	\$25.26
Plumber	\$24.84
Painter	\$18.69
Laborer	\$18.68

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 users of the shared beverage space would employ 4 to 6 full-time workers and 4 to 8 part-timers. Using the midpoint of these ranges, and assuming that part-timers work an average of 20 hours per week, Appleseed estimate that this space would accommodate 8 full-time-equivalent (FTE) jobs.

For purposes of this analysis, Appleseed further assumes that the six office units will be occupied by small technology start-ups and self-employed professionals at a ratio of 4 FTEs per 1,000 square feet, for a total of 12 FTEs. Spending on operation and maintenance of the 25 proposed residential units would support additional employment.

Based on the preceding assumptions, Appleseed estimates (as shown in Table 4) that when the project is completed and occupied (which is assumed to occur in 2019), ongoing tenant operations and building management, maintenance and operations would directly and indirectly support:

- 33 full-time equivalent jobs in Rhode Island, with approximately \$1.9 million in annual earnings (in 2019 dollars);
- \$6.3 million in annual statewide economic output; and
- An increase of \$2.9 million in Rhode Island's annual GDP.

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2016

Table 4: Direct, indirect and impact of annual operations of R&W Phase II (employment in FTE; earnings, value-added and output in millions of 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	21	\$1.2	\$1.8	\$4.6
Indirect Effect	12	\$0.7	\$1.1	\$1.7
Total Effect	33	\$1.9	\$2.9	\$6.3

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 approximately \$110,000 in taxes paid annually to the State, including:

- \$70,000 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;
- \$31,000 in state sales taxes paid on those workers' taxable household spending;
- \$9,000 in state business taxes.

While detailed information on wages that will be paid to those working in R&W Phase II's commercial space is not yet available, we can use the results of our analysis cited above to estimate these workers' earnings. Appleseed estimates that those directly employed by R&W Phase II office tenant businesses or working in the Foodworks beverage facilities will earn an average of approximately \$57,650 per FTE position.

Workers employed by office-based or beverage-related businesses could be drawn from communities throughout the Providence-Warwick RI-MA NECTA, while those employed in building maintenance would mostly be drawn from neighborhoods within Providence and other nearby communities.

Impact

The state fiscal impact of the requested tax credits and sales tax exemption is approximately \$1.15 million in foregone state tax revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated increase in annual state GDP of \$2.9 million; the associated job creation; and a gross increase of nearly \$1.478 million in personal income, sales and business 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:

- Preserving, redeveloping and activating three vacant historic buildings in the West End neighborhood of Providence;

- Supporting the continued development of small-scale and artisan food and beverage production in Rhode Island.
- Providing office space and live-work space that will support the continued growth of Rhode Island's innovation economy; and
- Adding to the City's property tax base.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. Various features of the Rebuild Rhode Island 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 tax credits will be issued only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the credits capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the value of the credits will be reduced accordingly.