



A Limited Liability Partnership



September 30, 2019

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

The Honorable 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, Prospect Redevelopment I Limited Partnership, and Omni Development Corporation under the Rebuild Rhode Island Tax Credit Act.

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 Credits – Economic Impact Analysis
Omni Development Corporation and Winn Development – Prospect Heights
Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Omni Development Corporation and Winn Development (together the “Sponsor”). The credits would be issued in connection with the Sponsor’s decision to invest in the first phase of rehabilitation of Prospect Heights, a public housing development owned by the Pawtucket Housing Authority and located at the intersection of Prospect Street and Beverage Hill Avenue in Pawtucket. The first phase will involve the rehabilitation of 101 out of 292 existing units at Prospect Heights. The total cost of the first phase is estimated to be \$12.2 million. The Sponsor is requesting a Rebuild Rhode Island tax credit of \$3,657,600. This amount will be reduced by the value of the sales and use tax exemption requested by the Sponsor for its eligible construction and build-out costs (valued by the Sponsor at approximately \$180,000). 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 \$12.2 million.

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

Component	Estimated cost
Land/building acquisition	\$1.4
Construction (hard costs)	\$6.6
Soft costs	\$4.2
Total	\$12.2

After excluding certain costs that do not have a direct, current impact on Rhode Island’s economy (such as property acquisition interest paid during construction) for the purposes of this analysis, the remaining hard and soft costs total approximately \$9.4 million. Applesseed estimates that direct expenditures of \$9.4 million will directly and indirectly generate:

- 48 person-years¹ of work in Rhode Island;
- More than \$4.0 million in earnings;
- Approximately \$12.9 million in statewide economic output²;
- A projected one-time increase of approximately \$151,000 in personal income taxes paid to the State during construction; and
- A one-time increase of nearly \$6.9 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 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.

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	48	\$2.8	\$4.7	\$9.4
Indirect Effect	27	1.3	2.2	3.5
Total Effect	75	\$4.0	\$6.9	\$12.9

Most of the activity reflected in Table 2 is expected to occur during a construction period lasting from April 2016 through August 2017. 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 ³
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

The Sponsor estimates that when the project is completed, four workers will be employed to manage and maintain the rehabilitated property, and that annual operating costs in 2017 (including payroll, utilities, maintenance services, insurance, etc) will total approximately \$785,000. Based on these estimates, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied, it will directly and indirectly account for:

- 11 full-time equivalent jobs in Rhode Island, with approximately \$320,000 in annual earnings (in 2017 dollars);
- Approximately \$960,000 in annual statewide economic output;
- A projected gross increase of more than \$14,000 in personal income taxes paid annually to the State (in addition to the nearly \$151,000 in personal income tax revenues cited above that would be generated by spending on construction); and
- An increase of approximately \$570,000 in Rhode Island's annual GDP.

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

Employment	Earnings	Value added	Output
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³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2014

Direct Effect	10 ⁴	\$0.32	\$0.44	\$0.73
Indirect Effect	1	\$0.07	\$0.13	\$0.23
Total Effect	11	\$0.39	\$0.57	\$0.96

The four workers employed directly in management and maintenance of the building will most likely be drawn from neighborhoods within the City of Pawtucket or from other nearby communities.

Impact

The state fiscal impacts of the requested tax credits is up to \$3,657,600 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 \$570,000, the estimated associated job creation, and a gross increase of nearly \$320,000 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.

- Improve in the near term and preserve in the long term 101 units that are part of a limited supply of affordable housing in Pawtucket.
- Provide improved services to residents of Prospect Heights.
- Enhance open space at Prospect Heights.
- Contribute to the revitalization of the surrounding Beverage Hill neighborhood.
- Provide a model for private investment in the preservation and revitalization of public housing.

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.

⁴ In Table 4, direct employment includes both the four workers to be directly employed by the sponsor and six FTE workers whom we estimate would be employed by contractors, primarily in building operations and maintenance.