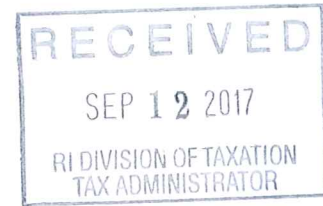




*A Limited Liability Partnership*



September 8, 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 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 Providence Capital III, 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,

A handwritten signature in black ink, appearing to read 'Chris Fragomeni'.

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**  
*Providence Capital III LLC – Union Trust Building Application*

**Introduction**

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Providence Capital III LLC (the “Sponsor”), owned and managed by Vincent Geoffroy, Managing Member. The credits would be issued in connection with the Sponsor’s decision to invest in the redevelopment of the Union Trust Building, located at 170 Westminster Street/62 Dorrance Street in Providence. The project will consist of the rehabilitation of the building exterior, retention of an existing ground-floor restaurant, one floor of renovated office space, conversion of floors 3 through 11 from office to 61 rental apartments, and potential development of a new rooftop restaurant. The total cost of the proposed project is estimated to be \$15.2 million.

The Sponsor is requesting a Rebuild Rhode Island tax credit of \$3,036,033. This amount shall be reduced by the sales and use tax exemption on eligible and construction and build out costs. 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 Company’s estimate of total project cost is approximately \$15.2 million.

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

Component	Estimated cost
Land/building	\$4.5
Construction (hard costs)	\$9.3
Soft costs	\$1.4
<b>Total</b>	<b>\$15.2</b>

After excluding certain costs that do not have a direct, current impact on Rhode Island’s economy (such as land and building acquisition) for the purposes of this analysis, the remaining hard and soft costs total \$10.7 million. Appleseed estimates that direct expenditures of \$10.7 million will directly and indirectly generate:

- 53 person-years<sup>1</sup> of work in Rhode Island;
- Nearly \$4.7 million in earnings;
- Nearly \$15.0 million in statewide economic output<sup>2</sup>;
- A projected one-time increase of nearly \$174,000 in personal income taxes paid to the State during construction; and
- A one-time increase of nearly \$7.6 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

<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.

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	53	\$3.1	\$5.0	\$10.7
Indirect Effect	35	1.6	2.6	4.3
<b>Total Effect</b>	<b>88</b>	<b>\$4.7</b>	<b>\$7.6</b>	<b>\$15.0</b>

Most of the activity reflected in Table 2 (specifically, that associated with the renovation of second-floor office space and conversion of other floors to residential) is expected to occur through mid-2017, with construction of the remaining units and potential rooftop restaurant space completed in 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.

**Table 3: Anticipated wages during construction**

Occupation	RI median hourly wage <sup>3</sup>
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 redevelopment of the Union Trust Building is completed, ongoing operations will include restaurants on the ground floor and the top floor, an office tenant (or tenants) on the second floor, and management, maintenance and leasing of the 61 residential units. Because the ground floor space will continue to be occupied by its current tenant, The Dorrance, we exclude it from our analysis of the economic impact of the project's ongoing operations.

For purposes of this analysis, we assume (consistent with the assumption used in the Sponsor's pro forma) that occupancy of the second-floor office space (about 4,656 square feet) will stabilize at 90 percent. We further assume:

- An employment ratio of 4.25 full-time-equivalent jobs per 1,000 square feet of occupied space, for a total of approximately 28 FTE jobs;
- That the space will be occupied by one or more professional service firms.

The Sponsor estimates that the top-floor restaurant will employ a total of 45 full-and part-time workers. For purposes of this analysis, we assume a total of 38 FTE jobs.

<sup>3</sup> Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2014

The Sponsor also estimates that when the project is completed, 5 workers will be employed to manage and maintain the building; and that upon stabilization, operating costs will total approximately \$854,000.

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 2018), it will directly and indirectly account for:

- 85 FTE jobs in Rhode Island;
- Nearly \$3.9 million in annual earnings (in 2017 dollars);
- More than \$8.4 million in annual statewide economic output;
- An increase of approximately \$146,000 in personal income taxes paid annually to the State; and
- An increase of nearly \$4.7 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	71	\$3.1	\$3.3	\$6.2
Indirect Effect	14	0.8	1.4	2.2
<b>Total Effect</b>	<b>85</b>	<b>\$3.9</b>	<b>\$4.7</b>	<b>\$8.4</b>

Employees of the building's office tenants are likely to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA), while 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 is up to \$3,036,033 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 \$4.7 million, the estimated associated job creation, and the gross increase of approximately \$1.9 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.

- Provide 61 units of housing that will support the continued growth of the downtown area's resident population;
- Provide approximately 4,656 square feet of modernized office space to support continued job growth in the area; and
- Provide a new amenity (the top-floor restaurant) that will add to the downtown area's attractiveness as a place to live, work, visit and do business.

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.