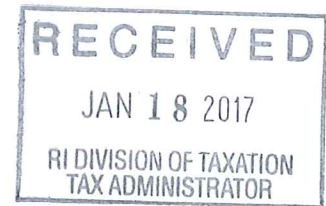


*A Limited Liability Partnership*



January 17, 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 Union Mill, 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

### *Union Mill LLC Application*

#### **Introduction**

The Rhode Island Commerce Corporation (the "Corporation") may issue Rebuild Rhode Island tax credits to Union Mill LLC (the "Sponsor"), an entity owned by the principals of CAM Construction LLC and Union Box Company. The credits would be issued in connection with the Sponsor's decision to invest in the redevelopment of Pontiac Mills, a complex of historic textile mill buildings located in Warwick. The project will include 127 residential units and approximately 37,000 gross square feet of commercial space. The total cost of the proposed project is estimated to be nearly \$34.2 million.

The Sponsor is requesting a Rebuild Rhode Island tax credit of \$3,626,403, plus a sales and use tax exemption of \$500,000 on eligible materials 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 Sponsor's estimate of total project cost is approximately \$34.2 million (excluding costs associated with bridging Rebuild tax credits).

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

Component	Estimated cost
Land and building acquisition	\$1.0
Building construction (hard cost)	\$25.6
Hard cost contingency	\$0.75
Architecture and engineering	\$0.2
Financing and closing costs	\$1.4
Other soft costs	\$1.4
Soft cost contingency	\$0.25
Fixtures, furnishings, equipment	\$0.1
Developer's fee	\$3.5
<b>Total</b>	<b>\$34.2</b>

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 financing costs), the remaining hard and soft costs total \$31.8 million. Appleseed estimates that direct expenditures of \$31.8 million will directly and indirectly generate:

- 256 person-years<sup>1</sup> of work in Rhode Island;
- \$13.3 million in earnings;
- Nearly \$43.6 million in statewide economic output<sup>2</sup>;

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<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.

- A projected one-time increase of approximately \$500,000 in personal income taxes paid to the State during construction; and
- A one-time increase of nearly \$22.7 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 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	162	\$9.0	\$19.0	\$31.8
Indirect Effect	94	4.3	10.4	11.8
<b>Total Effect</b>	<b>256</b>	<b>\$13.3</b>	<b>\$29.4</b>	<b>\$43.6</b>

Most of the activity reflected in Table 2 is expected to occur between mid-2016 and mid-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 construction is completed, ongoing operations at Pontiac Mills will include:

- The operations of tenants occupying the proposed commercial space
- Management and maintenance of the new building (including 127 new residential units)

The Sponsor expects commercial tenants to include providers of legal, financial, business and health services, and estimates that these tenants will employ approximately 125 people. Based on information provided by the Sponsor, we estimate that approximately one-third of these jobs will be new to Rhode Island.

<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.

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



Based on the Sponsor's estimate of ongoing operating costs, Appleseed estimates that 4 people will be employed in ongoing management and maintenance of the project. 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:

- 186 FTE jobs in Rhode Island;
- Approximately \$12.1 million in annual earnings (in 2018 dollars);
- Approximately \$28.8 million in annual statewide economic output;
- An increase of approximately \$446,000 in personal income taxes paid annually to the State; and
- An increase of approximately \$17.2 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 2018 dollars)**

	Employment	Earnings	Value added	Output
Direct Effect	129	\$9.1	\$12.2	\$20.8
Indirect Effect	57	3.0	5.0	8.0
<b>Total Effect</b>	<b>186</b>	<b>\$12.1</b>	<b>\$17.2</b>	<b>\$28.8</b>

Workers who fill office jobs at Pontiac Mills are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA). Building maintenance workers are likely to be drawn primarily from Warwick or from other nearby communities.

### Impact

The state fiscal impact of the requested tax credits is up to \$3,626,403 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated state GDP increase of \$17.2 million, the estimated associated job creation, and the gross increase of nearly \$5.9 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.

- Redevelop and reactivate a cluster of vacant and rapidly deteriorating industrial buildings in a strategic location – close to T.F. Green Airport, I-95 and I-295, and with easy access to downtown Providence;
- Provide 127 units of housing; and
- Substantially increase local real property tax revenues.

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.