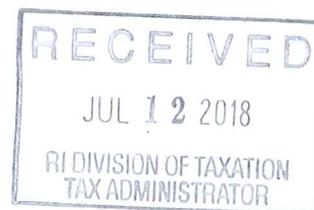




*A Limited Liability Partnership*



July 10, 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 Chestnut Commons WCM-MP LP 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 Credits – Economic Impact Analysis**  
***Waldorf Capital Management LLC Application***

**Introduction**

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Waldorf Capital Management LLC (the “Sponsor”). The credits would be issued in connection with the Sponsor’s decision to invest in the development of Chestnut Commons, a residential project to be located on Parcel 30 of the I-195 Redevelopment District in Providence. The project will include:

- 95 residential units in a newly-constructed seven-story building;
- 5,900 square feet of street-level retail and restaurant space;
- 55 covered parking spaces; and
- 5,000 square feet of public open space.

The total cost of the proposed project is estimated to be approximately \$32.9 million. The Sponsor is requesting a Rebuild Rhode Island tax credit of \$3,127,820 (net) and a sales and use tax exemption on eligible construction costs valued at \$572,000.

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 \$32.9 million.

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

<b>Component</b>	<b>Estimated cost</b>
Land and building acquisition	\$1.5
Building construction (hard cost)	\$25.7
Soft costs	\$5.7
<b>Total</b>	<b>\$32.9</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 acquisition, interest costs and operating reserves), the remaining hard and soft costs total \$30.3 million. Appleseed estimates that direct expenditures of \$30.3 million will directly and indirectly generate:

- 245 person-years<sup>1</sup> of work in Rhode Island;
- \$13.7 million in earnings (in 2018 dollars);
- Approximately \$42.3 million in statewide economic output<sup>2</sup>; and
- A one-time increase of approximately \$21.1 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 2018 dollars)**

	Employment	Earnings	Value added	Output
Direct Effect	148	\$9.2	\$13.7	\$30.2
Indirect Effect	97	4.5	7.4	12.1
<b>Total Effect</b>	<b>245</b>	<b>\$13.7</b>	<b>\$21.1</b>	<b>\$42.3</b>

In addition to the impacts cited in Table 2, direct expenditures of \$30.3 million would directly and indirectly generate a projected one-time increase of approximately \$802,000 in taxes paid to the State during construction. These taxes would include approximately:

- \$513,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$224,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$65,000 in state business taxes paid by companies directly or indirectly working on the project.

Most of the activity reflected in Table 2 is expected to occur between early 2018 and mid- 2019. 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.

<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.

**Table 3: Anticipated wages during construction**

<b>Occupation</b>	<b>RI median hourly wage<sup>3</sup></b>
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***

After construction is completed, ongoing operations at Chestnut Commons will include:

- The operations of tenant businesses occupying the proposed 5,900 square feet of street-level commercial space, including a 1,700 square-foot restaurant and a 4,200 square-foot retail store, which we estimate will employ 22 people (on a full-time-equivalent basis);
- A fitness center employing 2 FTE's; and
- Management and maintenance of the new building.

Based on these assumptions, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied (which for purposes of this analysis is assumed to occur in 2019), it will directly and indirectly account for:

- 35 FTE jobs in Rhode Island;
- Approximately \$1.07 million in annual earnings (in 2019 dollars);
- Approximately \$3.16 million in annual statewide economic output; and
- An increase of approximately \$1.96 million in Rhode Island's annual GDP.

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<sup>3</sup> Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2016

**Table 4: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2019 dollars)**

	<b>Employment</b>	<b>Earnings</b>	<b>Value added</b>	<b>Output</b>
Direct Effect	31 <sup>4</sup>	\$0.83	\$1.51	\$2.41
Indirect Effect	4	0.24	0.45	0.75
<b>Total Effect</b>	<b>35</b>	<b>\$1.07</b>	<b>\$1.96</b>	<b>\$3.16</b>

In addition to the impacts cited in Table 4, ongoing operations at Chestnut Commons would directly and indirectly generate a projected increase of approximately \$63,000 in taxes paid annually to the State. These taxes would include approximately:

- \$40,000 in state personal income taxes paid by Rhode Island workers employed directly at Chestnut Commons, or whose jobs are indirectly attributable to tenant and building operations;
- \$18,000 in state sales taxes paid on those workers' taxable household spending; and
- \$5,000 in state business taxes directly or indirectly attributable to building and tenant company operations.

Workers who fill retail, restaurant, fitness and building services jobs at Chestnut Commons are expected to be drawn primarily from Providence or from other nearby communities.

## Impact

The state fiscal impact of the requested tax credits and sales and use tax exemptions is up to approximately \$3.7 million in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of \$1.96 million, the estimated associated job creation, and the gross increase of nearly \$1.56 million in state personal income, sales and business corporation tax revenues during the construction phase and 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.

- Increase the supply of housing in the I-195 Redevelopment District
- Expand retail and restaurant options in the District
- Create new, green open space in the District
- Increase local real property tax revenues

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<sup>4</sup> In addition to retail, restaurant, and fitness employees, direct employment here includes both workers employed directly by the Sponsor in the management, maintenance and operation of the building and workers employed on-site by contract service providers.

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.