Rhode Island
Historic Preservation
Investment Tax Credit
Economic & Fiscal Impact Analysis
2007

Prepared For:

Grow Smart Rhode Island
The Foundry
235 Promenade Street--Suite 550
Providence RI 02908

Submitted by:

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September 7, 2007

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September 7, 2007

Mr. Scott Wolf, Executive Director
Grow Smart Rhode Island
The Foundry
235 Promenade Street--Suite 550
Providence RI 02908

Subject: Rhode Island Historic Preservation Investment Tax Credit
Economic & Fiscal Impact Analysis--2007

Dear Mr. Wolf:

Enclosed please find Lipman Frizzell & Mitchell's analysis of certain economic and fiscal impacts of the Rhode Island Historic Preservation Investment Tax Credit. Our analysis focuses on the 150 projects in the program that have been completed through December 31, 2006, but also addresses the 127 projects now active and planned for future delivery.

LF&M finds that the Tax Credit Program is effective at returning properties to the tax rolls and generating employment and housing in localities where opportunities had been limited. The State's investment leverages substantial private investment, which otherwise would not have occurred in those localities. The enclosed report summarizes our findings.

It has been a pleasure working with Grow Smart Rhode Island and others interested in this important economic development program. Please call me at (410) 423-2372 should you have any questions or comments.

Sincerely,
LIPMAN FRIZZELL & MITCHELL LLC

Joseph M. Cronyn

Joseph M. Cronyn
Partner

Rhode Island
Historic Preservation Investment Tax Credit
Economic & Fiscal Impact Analysis
Executive Summary

LF&M finds that the Rhode Island Historic Preservation Investment Tax Credit Program is effective at returning properties to the tax rolls and generating employment and housing in localities where opportunities had been limited. The State's investment leverages substantial private investment, which otherwise would not have occurred in those localities. The State has benefited in the following ways:

- Preservation Portfolio - The 277 completed and active projects are located in 23 localities across the State representing urban, suburban and rural jurisdictions. During the first two years of the Historic Tax Credit program (2002-2003), 90% of the related investment activity occurred in Providence. The trend now indicates a wider distribution throughout the state, with slightly less than half (49.2%) of the total investment occurring in Providence. The $1.53 billion portfolio includes $535.25 million in 150 projects which have been completed over the past five years and $998.63 million in 127 projects which are scheduled for completion over the next five years. Three-quarters of the projects involve rental housing—totaling 6,739 units (5,891 of them net new) units and including 761 subsidized affordable units. Projects with a commercial or mixed-use focus, however, are a bigger portion of projects now in the pipeline than of those already completed.

- State Investment - The State's expense is estimated at $460.16 million for the 277 projects: $160.57 million already expended for completed projects and $299.59 million for projects scheduled to be completed over the next five years. The State's investment has been leveraged with private financing and equity investments as well as federal historic tax credits. Each $1.0 million of State tax credits in fact leverages $5.35 million in total economic output.

- Federal Investment - The State Historic Tax Credits are leveraging a significant federal investment. During the 5-year period preceding enactment of the state historic tax credit program (1996-2001), Rhode Island attracted less than $10 million in federal historic tax credit investment. For the 5-year period since enactment (2002-2007), more than $78 million in federal historic tax credits have been awarded to Rhode Island projects—an increase of 700%.

- Economic Impact - The total direct construction employment generated by the $1.53 billion investment in historic rehabilitation is estimated at approximately 17,725 jobs earning $677.54 million in wages. Indirect employment impact within the State during the construction period is estimated at 8,436 jobs earning an estimated $277.52 million in wages. Total permanent employment at these locations is anticipated to be over 7,200 jobs earning $321.02 million annually. The 277 projects are forecast to generate a total of $2.46 billion in economic activity throughout the State. During the first five years of the Historic Tax Credit program (2002 through 2006), Rhode Island experienced more investment in historic rehabilitation than in the previous 25 years combined.

- Fiscal Impact - Based on our analysis of public revenues generated by completed projects, LF&M estimates that almost one-quarter (24.3%) of the State's tax credit expense has already been offset before it is incurred, through construction period taxes collected. This translates into $39,019,507 for completed projects, $72,800,234 for active projects for a combined total of $111,819,741. In addition, the State benefits from income and sales tax revenues paid by new wage earners and resident households—an incremental revenue stream with an estimated present value of 18.3% of the State's tax credit investment.

  The addition to local assessable bases is estimated at approximately $267.6 million for the completed projects, $499.3 million for the active projects, and therefore $766.9 million for the full portfolio of tax credit projects. Given the variation in local commercial real estate tax rates among the State's jurisdictions, LF&M conservatively applies an effective statewide commercial tax rate of 1.94% based on the Rhode Island Public Expenditure Council (RIPEC) report entitled *2006 Property Tax Burdens in the Ocean State* to the increments—making no adjustment for location. We calculate an increase of $5.19 million annually in real estate tax collections for completed projects and $9.69 million for active projects—revenue streams with present values of $103.80 million and $193.80 million respectively and $297.60 million overall. We believe this estimate is very low due to the conservative approaches used to calculate value and effective tax rates.

- Necessity for Credits - LF&M finds that cashflows of the tax credit projects will support values which are only 50%-60% of project cost and that, without the State tax credits, these projects would simply not happen. They would not meet the threshold requirement of a fair return on the developer's equity investment.

- Return on State Investment - LF&M calculates that the State's estimated $460.16 million up-front investment in tax credits for the rehabilitation projects is likely to be recouped from four sources: construction period taxes, real property taxes, plus post-construction sales and income taxes. Moreover, new residents and employees drawn to Rhode Island by the rehabilitated space will contribute significant net new income and sales tax revenues to the State's coffers.

The Rhode Island Historic Preservation Investment Tax Credit Program is effective at returning properties to the tax rolls, generating employment and housing in numerous localities where opportunities had been limited. The State's investment leverages substantial private investment, which otherwise would not have occurred in those localities.

RHODE ISLAND
HISTORIC PRESERVATION INVESTMENT TAX CREDIT
Economic & Fiscal Impact Analysis
2007

Lipman Frizzell & Mitchell, LLC (LF&M) has been engaged by Grow Smart Rhode Island to analyze certain economic and fiscal impacts of the State of Rhode Island's Historic Preservation Investment Tax Credit.

In legislation effective January 1, 2002, the State of Rhode Island created economic incentives for the purpose of stimulating the redevelopment and reuse of its historic structures. Owners of historic commercial properties can earn State income tax credits equal to 30% of qualified rehabilitation expenditures. Application for the credits is made to the Rhode Island Historical Preservation & Heritage Commission (Commission) which certifies to the historic status of the property, consistency of the rehabilitation with U.S. Secretary of the Interior standards and the amount of a project’s total expenditures that qualify for the tax credit.

Introduction

This analysis brings up to date research originally released in 2005. At that time 111 rehabilitation projects were available for analysis, more than 80% of which had not been completed. In the two and a half years which have transpired, many projects have been finished, permitting us to better gauge utilization of the Tax Credit program as well as its actual impacts.

LF&M has accomplished the following tasks within our scope of work:

- Reviewed the 2005 study.
- Reviewed the utilization of the Historic Tax Credits statewide since 2002 and prospectively, placing them in the context of historic preservation efforts since 1978.
- Estimated certain economic and fiscal impacts of the construction activity fostered by the Program using the IMPLAN input-output economic model.
- Estimated long-term employment generated by the Program.
- Analyzed the necessity of tax credits to create the historic preservation activity.

LF&M's methodology is identical to that used two and a half years earlier, enabling certain comparisons to be made.

IMPLAN Input-Output Model

Input-output models examine the relationships between businesses and households by using multipliers to estimate the changes in economic activity occurring in a State due to the introduction of a new economic activity. The actual impact of a source of spending on an economy is greater than the simple total of the spending being measured because as this money is spent, it becomes income for other businesses or households, which in turn, spend this money on other purchases creating successive cycles of earnings and spending. Multipliers estimate the total impact of these successive cycles. A more complete description of the IMPLAN methodology is included in Appendix A.

Consultant Qualifications

LF&M and Joseph Cronyn, Partner, have conducted numerous analyses of the fiscal and economic benefits of historic preservation programs within Maryland, Maine, Pennsylvania and Rhode Island. Their qualifications are presented in Appendix B.

A. COMPLETED INVESTMENT TAX CREDIT PROJECTS

Using data provided by the Rhode Island Historical Preservation & Heritage Commission which covers completed rehabilitation projects from 2002 through December 2006 (Table 1), LF&M finds:

- Project Location - The 150 completed projects are located in 13 localities across the State. Though approximately three-fifths (63.2%) of investment activity occurred in Providence, the tax credits are being used on projects in a broad swath of Rhode Island communities, ranging from Westerly to Woonsocket and including such major population centers as Pawtucket, Cumberland, Newport and West Warwick.

- Project Value - The total $535.25 million in Qualified Rehabilitation Expenses (QRE) for the projects does not represent their total investment, since certain project expenses do not involve historic structures. Overall, we estimate that the QRE expenses understate total investment by approximately 10%. Since Tax Credits are calculated based on the QRE, we refer to QRE's throughout the analysis, knowing that economic and fiscal impacts are understated by doing so.

- Project Scale - Among the 150 completed projects, ninety (60%) have been completed at a final cost of less than $1.0 million—with a cumulative

Table 1
ECONOMIC AND FISCAL IMPACT ANALYSIS
Rhode Island Commercial Historic Preservation Tax Credit
Completed Projects: by Location and Year of Completion *

Qualified Rehabilitation Expenses

	2002	2003	2004	2005	2006	Total	Share
Bristol	$0	$0	$2,187,539	$9,459,034	$0	$11,646,573	2.2%
Burrillville	$0	$0	$0	$0	$2,107,456	$2,107,456	0.4%
Cumberland	$0	$2,989,625	$1,518,521	$36,753,281	$0	$41,261,427	7.7%
Lincoln	$0	$0	$0	$3,999,396	$1,289,455	$5,288,851	1.0%
New Shoreham	$0	$333,665	$1,086,084	$1,029,235	$0	$2,448,984	0.5%
Newport	$376,577	$2,696,820	$4,582,676	$13,285,875	$2,374,321	$23,316,269	4.4%
North Kingstown	$0	$0	$0	$319,928	$0	$319,928	0.1%
Pawtucket	$0	$0	$21,401,291	$11,222,986	$4,684,820	$37,309,097	7.0%
Providence	$12,986,933	$54,334,808	$78,481,334	$140,094,372	$52,257,954	$338,155,401	63.2%
Warren	$0	$0	$583,774	$0	$0	$583,774	0.1%
Warwick	$0	$0	$0	$0	$1,998,097	$1,998,097	0.4%
West Warwick	$0	$0	$0	$0	$53,495,559	$53,495,559	10.0%
Westerly	$0	$788,746	$150,736	$0	$0	$939,482	0.2%
Woonsocket	$0	$0	$0	$0	$16,376,121	$16,376,121	3.1%
Total	**$13,363,510**	**$61,143,664**	**$109,991,955**	**$216,164,107**	**$134,583,784**	**$535,247,019**	**100.0%**
Share	*2.5%*	*11.4%*	*20.5%*	*40.4%*	*25.1%*	*100.0%*	
Projects	5	45	38	34	28	150	
Avg. Project Size	*$2,672,702*	*$1,358,748*	*$2,894,525*	*$6,357,768*	*$4,806,564*	*$3,568,313*	
State Investment	**$4,009,053**	**$18,343,099**	**$32,997,586**	**$64,849,232**	**$40,375,135**	**$160,574,106**	

* Table limited to projects receiving State tax credits; most also received federal tax credits.

Source: Rhode Island Historical Preservation & Heritage Commission

investment of $40.02 million. Another 34 of the completed projects cost in the range of $1.0-$4.99 million, representing a total investment of $84.34 million. The largest 26 projects, each costing $5 million or more, represent a total investment of $410.89 million.

- Timing - The greatest number (45) of projects were completed in 2003. Those projects tended to be smaller in size ($1.36 million average) than other years. The greatest investment ($216.16 million) was completed in 2005 for 34 projects—an average of $6.36 million per project.

- State Expense - The State's gross expense is estimated at $160.57 million in tax credits awarded for the 150 completed projects.

The State's investment has been leveraged with private financing and equity investments, raised through federal historic preservation tax credits, federal low income housing tax credits and other sources. A large majority of completed projects (76.0%) involve at least some rental housing component, with a total yield of 2,059 residential units completed on investment of $660.0 million—1,506 (73.1%) of the units net new. That total includes 426 (20.6%) subsidized affordable housing units.

B. ACTIVE INVESTMENT TAX CREDIT PROJECTS

LF&M has also analyzed the pipeline of development projects now active (not yet completed) in the Tax Credit program as of June 2007. Active projects are further differentiated by the Commission in two categories: “In Progress” (approved/rehabilitation underway) and “Pending” (enrolled/not yet underway). The former, representing about two-fifths of active projects, are very likely to be completed and result in Tax Credit expenditures by the State. The latter, representing about three-fifths of active projects, have a high probability of significant change.

Based on our 2005 report, we do not distinguish between the two categories of active projects, judging that the combined total numbers offer a fair representation of future production. The years for completion are estimated, though projects are more likely to lag their estimated completion dates rather than accelerate their progress. Tax Credit expenditures by the State are assumed to occur in the fiscal year after a project is completed.

As summarized in Table 2, the Commission reports that there are currently 127 Tax Credit projects underway. They are located in 17 localities around the State and total $998.63 million in investment. Within this group, projects outside of Providence represent the bulk of investment – 58.3% of total investment.

Table 2
ECONOMIC AND FISCAL IMPACT ANALYSIS
Rhode Island Commercial Historic Preservation Tax Credit
Active Projects: by Location and Estimated Year of Completion

Qualified Rehabilitation Expenses

	2007	2008	2009	2010	2011	Total	Share
Bristol	$0	$6,300,000	$33,400,000	$0	$0	$39,700,000	4.0%
Central Falls	$14,200,000	$11,800,000	$0	$13,550,000	$0	$39,550,000	4.0%
Coventry	$0	$4,545,533	$33,398,818	$17,068,588	$0	$55,012,939	5.5%
Cranston	$7,000,000	$0	$0	$0	$0	$7,000,000	0.7%
East Providence	$0	$34,800,000	$2,000,000	$13,800,000	$18,410,000	$69,010,000	6.9%
Middletown	$0	$300,000	$0	$0	$0	$300,000	0.0%
Newport	$20,171,078	$8,000,000	$650,000	$0	$0	$28,821,078	2.9%
North Providence	$0	$24,600,000	$0	$0	$0	$24,600,000	2.5%
North Smithfield	$52,000,000	$0	$0	$0	$0	$52,000,000	5.2%
Pawtucket	$10,320,000	$12,635,000	$18,150,000	$4,326,000	$11,124,000	$56,555,000	5.7%
Providence	$129,413,650	$135,433,274	$94,555,234	$54,084,602	$2,647,500	$416,134,260	41.7%
Scituate	$0	$27,352,644	$13,676,322	$0	$0	$41,028,966	4.1%
Tiverton	$0	$22,000,000	$22,000,000	$0	$0	$44,000,000	4.4%
Warwick	$1,200,000	$0	$0	$0	$0	$1,200,000	0.1%
West Warwick	$34,400,000	$16,560,000	$31,093,000	$0	$11,769,182	$93,822,182	9.4%
Westerly	$1,120,166	$13,126,881	$4,500,000	$0	$0	$18,747,047	1.9%
Woonsocket	$11,150,000	$0	$0	$0	$0	$11,150,000	1.1%
Total	**$280,974,894**	**$317,453,332**	**$253,423,374**	**$102,829,190**	**$43,950,682**	**$998,631,472**	**100.0%**
Share	*28.1%*	*31.8%*	*25.4%*	*10.3%*	*4.4%*	*100.0%*	
Projects	51	33	22	11	10	127	
Avg. Project Size	*$5,509,312*	*$9,619,798*	*$11,519,244*	*$9,348,108*	*$4,395,068*	*$7,863,240*	
State Investment	**$84,292,468**	**$95,236,000**	**$76,027,012**	**$30,848,757**	**$13,185,205**	**$299,589,442**	

Source: Rhode Island Historical Preservation & Heritage Commission

Logically, the near-term projects are more numerous and involve the greatest investment. It is estimated that up to 51 projects may be completed in 2007, involving an estimated $280.97 million in QRE rehabilitation expenses and earning an estimated $84.29 million in State tax credits. The 2007 projects represent over two-fifths (40.1%) of total active projects and more than one-quarter (28.1%) of anticipated total investment.

Among the 127 active projects, more than three-fifths (80 projects or 63.0%) representing over $600 million in investment, involve residential units. These projects are projected to produce up to 4,680 housing units—93.3% of them (4,368 units) net new—over the next five years. Subsidized affordable units are projected at 335, with hundreds more planned to be market rate workforce housing.

C. REHABILITATION PRODUCTION LEVELS (1978-2006)

LF&M also provides information on production levels for rehabilitation of commercial historic structures in Rhode Island from 1978 through 2006 in Table 3. The Historic Preservation & Heritage Commission data demonstrates that the introduction of the State tax credit has reinvigorated production, bringing it to levels not attained since the federal Tax Reform Act of 1986 (and the reduction/elimination of federal tax benefits for the development of rental housing and historic preservation) in terms of both projects completed and total financial investment. The rehabilitation of historic structures is also shown as a significant source of affordable residential housing units for the State, which continues to suffer an affordable housing shortage.

The total amount of investment in historic preservation during the 5 year period (2002 through 2006) exceeds all of the investment made during the preceding 25-year period (1977 through 2001). Investment dollars are not adjusted for inflation, so a precise comparison is not made—but the significant scale of construction activity in recent years is clear.

Prior to 2002 all projects listed were awarded federal historic preservation tax credits only. Since enactment of the State's tax credit legislation, 150 out of the 152 projects listed have earned State tax credits. Two projects, one each in 2002 and 2003 with a total investment of $2.77 million, had federal tax credits only. Both federal and State tax credits have been earned by 92 projects accounting for a total investment of $420.40 million. The remaining 58 projects received State tax credits only and represented a total investment of $114.85 million.

The 1,506 net new housing units produced during the 2002-2006 period exceeds by a substantial margin the 1,040 units produced between 1977 and 2001. That

Table 3
ECONOMIC AND FISCAL IMPACT ANALYSIS
Rhode Island Commercial Historic Preservation Tax Credit
Historic Preservation Projects, Investment and Housing Impact
1977 - 2006

			Housing Impact			
Year	**Final Cost**	**Projects**	**Units Before**	**Units After**	**Low Income Units**	**New Units**
1977	$2,687,000	6	4	100	88	96
1978	$2,320,800	10	36	11	0	-25
1979	$14,095,368	12	16	13	0	-3
1980	$8,138,700	16	16	169	1	153
1981	$4,552,209	15	16	49	0	33
1982	$7,042,176	22	24	70	0	46
1983	$10,623,102	27	36	62	7	26
1984	$28,943,392	44	78	300	0	222
1985	$57,246,924	41	145	246	0	101
1986	$16,376,054	34	95	154	6	59
1987	$5,618,016	20	28	36	0	8
1988	$11,631,647	10	120	181	0	61
1989	$10,373,428	10	4	31	0	27
1990	$32,451,896	10	28	91	73	63
1991	$2,085,869	3	12	94	6	82
1992	$13,949,381	14	29	35	24	6
1993	$534,787	3	1	1	0	0
1994	$5,445,703	8	18	79	70	61
1995	$19,319,068	18	37	45	32	8
1996	$1,609,832	16	29	27	3	-2
1997	$15,561,284	14	43	77	33	34
1998	$1,204,515	2	0	25	0	25
1999	$1,525,000	3	6	6	5	0
2000	$18,212,680	5	36	42	35	6
2001	$8,263,204	8	91	44	11	-47
2002	$13,988,510	6	7	41	0	34
2003	$63,287,167	46	255	265	152	10
2004	$109,991,955	38	55	371	42	316
2005	$216,164,107	34	153	955	157	802
2006	$134,583,784	28	83	427	75	344
Total	**$837,827,556**	**523**	**1,501**	**4,047**	**820**	**2,546**

Source: Rhode Island Historical Preservation & Heritage Commission

pace is projected to accelerate with the 4,368 units projected to be produced by projects active over the next five years.

D. EMPLOYMENT IMPACT

In this section, LF&M estimates the employment impact created by the historic preservation projects which have already been completed and projects impacts for active projects, using the IMPLAN economic model. For our calculations, we have assumed, based on data provided by the RI Historical Preservation & Heritage Commission, that 76% of the QRE investment is devoted to multifamily residential work and 24% is targeted to commercial/office work.

The rehabilitation of historic commercial structures creates employment in two principal ways: 1) direct employment of on-site workers and 2) indirect employment as the spending by developers (during the construction period) and workers (during the construction period and thereafter) winds through the State's economy. Employment estimates are stated as "FTEs" (Full-Time Equivalents) and wages are stated in 2007 dollars.

Direct Employment

Construction Period Employment

The IMPLAN model projects that, for every $1.0 million of construction spending by the developer, the following direct employment outputs will be generated according to the intended property use:

Construction Period – Direct Employment per $1.0 Million		
Use	**Wages**	**Jobs**
Multifamily Residential	$455,717	12.0
Office	$397,374	10.2

The total construction employment generated by the $535.25 million investment in completed rehabilitation projects is, therefore, estimated at approximately 6,185 jobs earning $236.43 million in wages. This estimate is considered conservative, since rehabilitation is typically more labor-intensive than the new construction standard used in IMPLAN and QRE investment does not include all construction spending associated with the tax credit projects.

Total construction employment generated by the $998.63 million investment in active rehabilitation projects is projected at approximately 11,540 jobs earning $441.11 million in wages over the next five years.

Long-Term Employment

In addition, there are permanent jobs created on-site by each of these uses. LF&M estimates those jobs by property use according to the following relationships:

Direct Permanent Employment Estimates		
Use	**Jobs**	**Wages**
Office	3.3 per 1,000 sq.ft.	$45,000 per job
Multifamily Residential	3.9 per 100 units	$32,300 per job

Completed commercial and mixed use projects are estimated to have created approximately 650,000 sq.ft. of employment space, based on LF&M's estimates of the proportion of residential and commercial space within the projects and assuming an average rehabilitation cost of approximately $200 per square foot. Accordingly, active projects may deliver as many as 1.2 million sq.ft. of employment space over the next five years.

Total permanent office employment opportunities provided at the completed locations, then, are estimated to have been in the range of 2,145 jobs over the past five years. Active projects may provide space for office employment of up to 4,800 additional jobs in the next five years.

Using 2006 data from the Rhode Island Department of Labor & Training, we estimate the annual wages paid to a mix of managerial and administrative workers to be $45,000 per year. The wages paid in the rehabilitated offices could, then, total $96.53 million annually.

Estimated Permanent Employment—Office		
	Jobs	**Wages**
Completed Projects	2,145	$96.53 million
Active Projects	4,800	$216.00 million
Total	**6,945**	**$312.53 million**

The 2,059 multifamily units (1,501 net new) in completed projects are estimated to directly employ at least 80 FTE (full-time equivalent) persons annually. Again using State wage data, we estimate wages paid on-site to be at least $2.58 million. Almost three-quarters of the jobs and wages are likely to be net new since 74% of the units are net additions to the State's multifamily rental housing stock. We project employment generated by the 4,680 residential units now in active status at 183 jobs paying $5.91 million—93.3% of that net new—over the next five years.

Estimated Permanent Employment—Multifamily		
	Jobs	**Wages**
Completed Projects	80	$2.58 million
Active Projects	183	$5.91 million
Total	**263**	**$8.49 million**

LF&M, therefore, estimates total permanent employment at the rehabilitated structures at up to 7,208 jobs earning $321.02 million annually in wages when all the projects are completed:

Estimated Total Permanent Employment		
	Jobs	**Wages**
Completed Projects	2,225	$99.11 million
Active Projects	4,983	$221.91 million
Total	**7,208**	**$321.02 million**

Indirect Employment

The IMPLAN model projects that, for every $1.0 million of construction spending by the developer, the following additional indirect employment outputs will be generated throughout the Rhode Island economy according to the intended property use:

Construction Period—Indirect Employment per $1.0 Million		
Use	**Wages**	**Jobs**
Multifamily Residential	$180,494	5.5
Office	$182,305	5.5

These are jobs and wages created within the State at the manufacturing and supply-chain firms serving the developer as well as at the stores serving the construction workers and their families.

The indirect employment within Rhode Island generated by $535.25 million in construction spending on the completed projects over the first five years of the Program is estimated at 2,944 jobs earning an estimated $96.84 million in wages. The next five years may see indirect employment totaling an additional 5,492 jobs earning a projected $180.68 million in wages.

Benefit of New Housing Units

Rhode Island municipalities benefit from the production of new market rate and affordable apartment units stimulated by the tax credit program in many ways including:

- Market Rate Households - If an average monthly rent of approximately $1,200 per apartment is assumed, then the average household income for market rate units can be estimated conservatively at $48,000 per year. The 1,075 new market rate apartments produced by completed projects will add $51.6 million in aggregate income to their neighborhoods, supporting additional local retail uses. Using estimates from the Rhode Island Public Expenditure Council, each Rhode Island household is estimated to pay approximately $1,237 annually in income taxes and $1,106 annually in sale taxes on eligible items.

Based on a survey conducted by Grow Smart Rhode Island, a number of the market rate residential projects are attracting out-of-state residents. Were 20% of the new 1,075 market rate units occupied by residents new to the State (a lower “out of state” figure than found in the results of the Grow Smart survey), LF&M computes the State’s annual net new income tax revenue at $265,950 and its sales tax revenue at $237,770. The present value of that income stream to the State is estimated at $10.1 million.

- Affordable Housing Units - The 426 subsidized affordable housing units produced by the completed projects add quality housing for lower income households, upgrading the housing stock generally. Though these households have low incomes, they typically spend a higher proportion of their earnings on retail purchases than more affluent households.

Total Economic Output

In summary, using the IMPLAN model, LF&M estimates that the total economic output of the State may be increased by $2.46 billion during their construction periods alone for the 277 total projects ($1.604 million for every $1.0 million in project investment.) That figure is comprised of $858.72 which has already occurred in completed projects and $1.60 billion attributable to active projects.

Viewed from the perspective of the State’s investment, its estimated investment of $460.16 million will leverage a total of $2.46 billion in economic activity at all levels throughout the State. Each $1.0 million of State tax credits, therefore, leverages $5.35 million in total economic output.

E. FISCAL IMPACT

State and local government revenues will benefit from the rehabilitation projects during both the construction period and on an on-going basis.

Construction Period

The State is the principal beneficiary during the construction period, realizing sales tax revenue on the purchase of construction materials and income tax revenue on construction workers' earnings.

IMPLAN estimates total public revenues during the construction period to be approximately $.073 on every $1.00 of project investment. Using that assumption, approximately $39.07 million in public revenues are realized before the tax credit certificates are even issued. Estimating the total State investment at $160.57 million (30% of the $535.25 million QRE cost) for the completed projects, that means that approximately 24.3% of the State's tax credit expense was already offset before it had been incurred.

Long-Term Impact

State of Rhode Island

The persons holding jobs in the rehabilitated employment space will pay taxes to the State. Applying Rhode Island Public Expenditure Council factors to the wages generated on-site, LF&M calculates the potential annual fiscal impact on State revenues as follows:

Total Permanent Employment—Annual Fiscal Impact			
	Wages	**Income Tax**	**Sales Tax**
Completed Projects	$99.11 million	$2.55 million	$2.28 million
Active Projects	$221.91 million	$5.72 million	$5.11 million
Total	**$321.02 million**	**$8.27 million**	**$7.39 million**

The present value of the State's annual revenue stream generated by the total permanent employment in the completed projects is estimated at $96.60 million and in active projects at $216.60 million.

Realistically, the majority of the on-site employment will have been shifted to the rehabilitated space from elsewhere in the State in the normal course of business, as companies relocate to find locations which better fit their needs. If we make the assumption that only 20% of the on-site permanent employment is net new to the State (accommodating business expansion of Rhode Island firms, relocation of businesses from elsewhere, new multifamily services), then State revenues will increase by the following increment:

Net New Permanent Employment—Annual Fiscal Impact			
	Wages	**Income Tax**	**Sales Tax**
Completed Projects	$19.82 million	$511,000	$456,652
Active Projects	$44.38 million	$1.14 million	$1.02 million
Total	**$64.2 million**	**$1.65 million**	**$1.47 million**

The present value of the State's annual revenue stream generated by only the net new permanent employment in the completed projects is estimated at $19.35 million and in active projects at $43.20 million.

Local Governments

Many, perhaps most, of the properties being rehabilitated using historic tax credits have been yielding local government relatively little in the way of property taxes since they are typically underutilized or vacant. As commercial properties, if their income streams are minimal then their capitalized fair market value will be minimal. The tax credit enables those properties to be "recycled" as income-producers, adding significantly to the assessable tax base.

Estimates of the amount to be added to local tax bases by the completed projects are conjectural at this point for at least three reasons:

- Few tax credit properties have operated long enough to produce stabilized earnings which can be evaluated by the assessor.

- Few of the affordable housing units will ever generate substantial cashflow, thereby limiting their assessed value.

- Some properties have also received from their jurisdictions additional real estate tax and other inducements, which have been intended to incentivize redevelopment efforts. Though the inducements do reduce the public revenues from those properties on a temporary basis, the jurisdiction will benefit in the long-run from additions to its assessable base. In point of fact, however, the State's historic preservation investment tax credit seems to have made the limited available local incentives more effective since they were seldom sufficient on their own to generate significant redevelopment activity.

Understanding these limitations, it is not unreasonable to estimate that the assessed value of the rehabilitated properties overall will be in the range of 50% of their QRE project value. This judgment is based on capitalizing the projected Net Operating Incomes of a number of properties we have evaluated, but also on the simple logic that the 50% subsidy (most often both federal and State tax credits) is required to make the projects feasible. The addition to local assessable bases is, therefore, estimated at approximately $267.6 million for the completed projects, $499.3 million for the active projects, and $766.9 million for the full portfolio of tax credit projects.

There is significant variation in local commercial real estate tax rates among the State's jurisdictions, ranging from $3.98 per $1,000 in New Shoreham (estimated effective rate of 0.28% of assessed value) to $38.25 per $1,000 in Woonsocket (estimated effective rate of 3.13% of assessed value). LF&M estimates annual tax collections from the tax credit portfolio conservatively, by applying an effective statewide commercial tax rate of 1.94% (based on a RIPEC analysis) to the increments in assessable tax base calculated above, making no adjustment for location. We, therefore, calculate an increase of $5.19 million annually in real estate tax collections for completed projects and $9.69 million for active projects—revenue streams with present values of $103.80 million and $193.80 million respectively. This estimate is considered very low due to the conservative approaches we are using to estimate property value and the effective tax rate applied to the full portfolio of tax credit projects.

APPENDIX A
IMPLAN Input-Output Economic Model

The economic impacts of the construction and other activity supported by the Rhode Island Historic Preservation Investment Tax Credit have been estimated using the IMPLAN input-output model. Input-output models examine the relationships between businesses and households by using multipliers to estimate the changes in economic activity occurring in a State due to the introduction of a new economic activity or the withdrawal of an existing economic activity. Multiplier effects occur as the result of the introduction of a source of spending or production in an economy. The actual impact of a source of spending on an economy is greater than the simple total of the spending being measured because as this money is spent, it becomes income for other businesses or households, which in turn, spend this money on other purchases creating successive cycles of earnings and spending. Multipliers estimate the total impact of these successive cycles.

This report uses the IMPLAN input-output model developed by the Minnesota IMPLAN Group for all economic impact analysis calculations. IMPLAN stands for IMpact analysis for PLANing. Researchers at the University of Minnesota created the first IMPLAN model in 1979 and the Minnesota IMPLAN Group was spun out of the University of Minnesota in 1992. IMPLAN is one of the three major input-output models used today, the other two being RIMS II (U.S. Bureau of Economic Analysis) and REMI (Regional Economic Models, Inc.) The IMPLAN model offers a higher degree of flexibility than the RIMS II model at a substantially lower cost than the REMI model. Academic, government, and private sector researchers estimating the economic impacts of key issues use IMPLAN.

Economic Impacts

In the case of this analysis, the economic effects of construction expenditures are analyzed. Total effects include **direct** and **multiplier** effects:

- Direct Impacts – The direct impact component is the initial change in economic activity occurring as a result of the Tax Credit investment. In the case of construction impacts, this is the total increase in construction activity for funded projects.

- Multiplier Impacts – The multiplier impact component is the change in State economic activity caused by the introduction of construction expenditures. Multiplier impacts occur as the directly impacted industry makes purchases from area businesses or pays wages to area employees, who in turn make other purchases from area business or residents though several successive cycles of spending and income.

The combination of direct and multiplier impacts represents the total impact of the Tax Credit Program investment. Construction impacts are one-time impacts only. Additional benefits accrue on an ongoing basis when a business is expanded or when housing opportunities are created. The key economic outcomes measured in this study are:

- Output - Net new output in the economy due to the original construction expenditures;

- Employment - Net new jobs created by the output impact; and

- Employee Compensation - That portion of new output that resulted in income and wages.

It is important to note two important caveats to this analysis. First, this analysis depends on construction expenditure estimates which assume that the tax credit award amount will be 30% of total expenditures. This should be a conservative assumption (overstating the State's expense) since significant project expenses may not be eligible. Second, no attempt is made in this analysis to adjust for the potential substitution of Tax Credit funded activities for other development or business activities that would occur in the absence of the Tax Credit funded projects. Understanding the net effect of these (and other) offsetting factors requires a case-by-case analysis of the subject projects beyond the scope of this study. All financial figures are in Year 2007 dollars.

Fiscal Impacts

The fiscal impacts in this report are for the construction activity related to the projects analyzed. They do not include taxes paid by the property owner, occupants, or tenants. The fiscal impacts were estimated using the tax impact reporting function in the IMPLAN input-output model. The IMPLAN model allows for the estimation of state and local government revenue impacts relating to the projects being modeled. The IMPLAN fiscal impact estimates are based on two assumptions:

1. Marginal changes (impacts) will use the same distribution as in the base year social accounts. Social accounts track the monetary flows between industries and institutions in an economy.

2. The estimation of revenues is based on average relationships in the economy–-for example, the average amount of taxes paid by households—not on industry specific relationships.

As a result, a more detailed fiscal analysis, based on specific data on construction industry expenditures, may yield different results.

APPENDIX B
ANALYST QUALIFICATIONS

Lipman Frizzell & Mitchell LLC is a multifaceted real estate consulting and appraisal firm serving the Mid-Atlantic since 1977. LF&M is one of the largest real estate advisory firms headquartered in the Region, with 16 professionals in our Columbia, MD headquarters.

LF&M provides clients with objective advice and practical assistance at every stage of decision-making on the development, use or reuse of all types of real estate. Our clients include corporations, institutions, real estate owners, builders, developers, and government entities. Our professional staff has an exceptional capability to use a vast array of information and resources to assist clients in making sound, timely decisions through the real estate planning, financing and development process. Eight senior members of the firm hold the MAI designation and other advanced degrees. Professional licenses are held by various members of the firm in Maryland, District of Columbia, Pennsylvania, Delaware and Virginia.

Joseph Cronyn has conducted analyses of the fiscal and economic benefits of historic preservation within Maryland, Maine, Pennsylvania and Rhode Island. Particularly relevant to this assignment are the following:

- <u>Property Tax Credit for Historic Restorations and Rehabilitations</u> (City of Baltimore) **-** Analysis of program structure, economic and fiscal benefits. 1995.

- <u>Class B Office Building Conversion Analysis</u> (Downtown Partnership of Baltimore, Inc.) - Analysis of rehab, financing, market and fiscal issues of the conversion of historic downtown office structures to multifamily apartments. 1996.

- <u>Heritage Structure Rehabilitation Tax Credit</u> (Maryland Historical Trust) **-** Analysis of the implications of the tax credit and projected its impact on such factors as: employment, incomes, local government revenues and expenses, State revenues and expenses. 1996.

- <u>Economic Benefits of Heritage Conservation Zoning</u> (Maryland Association of Historic District Commissions) **-** Analysis of the economic and fiscal benefits generated by six local historic districts located throughout the State of Maryland. 1998.

- State of Maryland Heritage Structure Rehabilitation Tax Credits: Parts I and II (Preservation Maryland and Maryland Historical Trust) - Analysis of economic and fiscal benefits and other public policy issues regarding the Maryland residential and commercial historic tax credit program, including 10-year forecast of public expenditures. 2002 and 2003.

- Historic Rehabilitation & Economic Revitalization Tax Credit Act (Pittsburgh Downtown Partnership) - Analysis of the economic and fiscal benefits of the State of Pennsylvania's proposed commercial historic tax credit program. 2003.

- Rhode Island Historic Preservation Investment Tax Credit: Economic & Fiscal Impact Analysis (Grow Smart Rhode Island) - Analysis of the economic and fiscal benefits of the State of Rhode Island's commercial historic tax credit program. 2005.

- Maine Historic Preservation Tax Credits: Impact on Development in State (Maine Preservation) - Analysis of likely distribution, volume, location and impact on State budget for historic preservation projects under changes in tax credit legislation in the State of Maine. 2007.

Additional information on LF&M is available on our website at "lfmvalue.com".

JOSEPH M. CRONYN

Cronyn has 30 years of professional experience in real estate research, sales and marketing, development, public policy, financing and appraisal. His experience includes market and financial feasibility analyses of major real estate projects; land acquisition and marketing for commercial and residential development; planning for mixed use development, including historic preservation concerns; tax-motivated and conventional financing for single family and multifamily residential projects; and advising public, nonprofit and private clients concerning economic and community development strategies.

PROFESSIONAL EXPERIENCE

Lipman Frizzell & Mitchell, LLC, Columbia, MD (2003 - present), *Partner*
(1997 - 2003), *Senior Associate*
Legg Mason Realty Group, Inc., Baltimore, MD (1989-1997), *Vice President*
Financial Associates of Maryland, Baltimore, MD (1987-1989), *Vice President*
Baltimore Federal Financial, F.S.A., Baltimore, MD (1982-1987), *Sr. Vice President*
Neighborhood Reinvestment Corporation, Washington, DC (1978-1982), *Asst. Director*
Baltimore Federal Savings & Loan, Baltimore, MD (1976-1978), Mortgage Underwriter

EDUCATION

Master of Business Administration, Loyola College, Executive Program, 1986
Bachelor's Degree, English & Philosophy, Boston College, 1969

AFFILIATIONS

Neighborhood Housing Services of Baltimore, Chairman of the Board emeritus
Citizens Planning and Housing Association, Member
National Trust for Historic Preservation, Member
Preservation Maryland, Member
Maryland Economic Development Association (MEDA), Member
Lambda Alpha International Land Economics Society, Baltimore Chapter, Board of Directors

PROFESSIONAL LICENSES

State of Maryland Real Estate Agent's License

QUALIFIED AS EXPERT WITNESS

Before public administrative bodies, zoning hearing examiners and/or boards of appeals in Maryland jurisdictions.