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

Prepared For:

Grow Smart Rhode Island
The Foundry
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Submitted by:

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March 17, 2005

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March 17, 2005

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

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 is based on the 111 projects that had been enrolled in the program through September 23, 2004.

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, 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:

- <u>Preservation Portfolio</u> - The 111 total projects representing $484.91 million in investment are located across the State. Four-fifths (80.0%) of investment is represented by "Active" status projects, most of which are likely to be completed over a two to three year period. Applications made to the State for project eligibility seem to be relatively stable in the range of 18-26 semi-annually since June 2002. The large majority of projects involve rental housing component, with a total yield of 1,699 residential units anticipated including 409 low income housing units.

- <u>State Investment</u> - The State's expense is estimated at $145.47 million for the 111 projects. Understanding that the utilization of credits follows construction completion by one year, the average annual State expense over the 2004-2007 period is likely to be in the range of $29.49 million for the 63 Active and 2004 projects examined. The State's investment has been leveraged with private financing and equity investments. Each $1.0 million of State tax credits in fact leverages $5.47 million in total economic output.

- <u>Economic Impact</u> - The total direct construction employment generated by the $484.9 million investment in historic rehabilitation is estimated at approximately 5,334 jobs earning $184.9 million in wages. Indirect employment impact within the State during the construction period is estimated at 3,394 jobs earning an estimated $103.6 million in wages. Total permanent employment at these locations is anticipated to be over 3,000 jobs earning $154 million annually. The 111 projects are forecast to generate a total of $795.25 million in economic activity throughout the State.

- <u>Fiscal Impact</u> - LF&M estimates that approximately 20.0% of the State's tax credit expense has already been offset before it is incurred, through construction period taxes collected. 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 $42.14 million (29.0% of the State's tax credit investment). The increase in local assessable bases is estimated at approximately $242.5 million in current dollars, generating property tax revenue with an estimated present value of $179.4 million.

- 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 $145.47 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. New residents and employees drawn to Rhode Island by the rehabilitated space (many of those planning to live at Rising Sun and Riverfront Lofts, for example, are relocating from outside of Rhode Island, according to the developers) 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 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

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 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 tax credit for which the rehabilitation qualifies.

<u>Introduction</u>

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

- Reviewed the utilization of the Tax Credit Program statewide since 2002 and prospectively, placing it 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.
- Analyzed the necessity of tax credits to create the historic preservation activity.

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.

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

A. Investment Tax Credit Portfolio

Using data provided by the Rhode Island Historical Preservation & Heritage Commission which covers completed and active rehabilitation projects from 2002 through September 2004 (Table 1), LF&M finds:

- Project Location - The 111 total projects are located in eleven localities across the State. Though approximately three-fifths (64.0%) of 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 $484.91 million in estimated total value for the projects is, again, focused on Providence (65.8%), but with West Warwick receiving the second greatest investment at 15.4%.

- Timing - Four-fifths (80.0%) of investment is represented by “Active” status projects, only a small fraction of which will be completed in 2004. Program experience indicates that most of those projects are likely to be completed over a two to three year period. Applications made to the State by developers (Part II applications) for project eligibility seem to be relatively stable in the range of 18-26 semi-annually since June 2002.

- State Expense - The State's gross expense is estimated at $145.47 million for the 111 projects. Understanding that the utilization of credits follows construction completion by one year, the average annual State expense over the 2004-2007 period is likely to be in the range of $29.49 million for the 63 Active and 2004 projects examined.

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 projects (79.3%) involve at least some rental housing component, with a total yield of 1,699 residential units anticipated. That total includes 409 (24.1%) low income housing units.

Production (1978-2003)

LF&M also provides information on historical production levels for preservation of commercial structures in Rhode Island from 1978 through 2003 in Table 2. 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

Table 1
ECONOMIC AND FISCAL IMPACT ANALYSIS
Rhode Island Commercial Historic Preservation Tax Credit
Project Value by Location and Year of Completion

	2002	2003	2004 (a)	Active (b)	Total	Share
Bristol	$ -	$ -	$ -	$ 6,750,000	$ 6,750,000	1.4%
Cumberland	$ -	$ 3,107,189	$ -	$ 34,329,944	$ 37,437,133	7.7%
Lincoln	$ -	$ -	$ -	$ 293,000	$ 293,000	0.1%
New Shoreham	$ -	$ 333,665	$ -	$ 2,303,777	$ 2,637,442	0.5%
Newport	$ 376,577	$ 2,973,577	$ 391,094	$ 8,687,000	$ 12,428,248	2.6%
Pawtucket	$ -	$ -	$ -	$ 28,080,000	$ 28,080,000	5.8%
Providence	$ 15,702,701	$ 68,438,673	$ 4,718,535	$ 230,389,500	$ 319,249,409	65.8%
Warren	$ -	$ -	$ -	$ 480,000	$ 480,000	0.1%
West Warwick	$ -	$ -	$ -	$ 74,500,000	$ 74,500,000	15.4%
Westerly	$ -	$ 826,291	$ -	$ 130,000	$ 956,291	0.2%
Woonsocket	$ -	$ -	$ -	$ 2,100,000	$ 2,100,000	0.4%
Total	**$ 16,079,278**	**$ 75,679,395**	**$ 5,109,629**	**$ 388,043,221**	**$ 484,911,523**	**100.0%**
Share	*3.3%*	*15.6%*	*1.1%*	*80.0%*	*100.0%*	

Notes: (a) The only projects included in this column are those completed between 1/1/04 and 9/23/04.
(b) Project in this column are all those projected to be completed between 9/24/04 and 12/31/09.

Source: Rhode Island Historical Preservation & Heritage Commission, 9/23/04.

Table 2
RHODE ISLAND HISTORIC PRESERVATION TAX CREDITS
Projects Completed Annually
1978 - 2003

Year Completed	Credit Type: Federal	Credit Type: State	Credit Type: Federal & State	Total Projects	Housing Units	Project Value	Average Project Value
1978	15			15	111	$ 5,007,800	$ 333,853
1979	12			12	13	$ 14,095,368	$ 1,174,614
1980	16			16	169	$ 8,138,700	$ 508,669
1981	15			15	49	$ 4,663,616	$ 310,908
1982	22			22	70	$ 7,072,176	$ 321,463
1983	27			27	62	$ 10,623,102	$ 393,448
1984	44			44	300	$ 28,943,392	$ 657,804
1985	41			41	246	$ 57,246,924	$ 1,396,266
1986	34			34	154	$ 16,376,054	$ 481,649
1987	20			20	36	$ 5,618,016	$ 280,901
1988	10			10	181	$ 11,631,647	$ 1,163,165
1989	10			10	31	$ 10,535,120	$ 1,053,512
1990	10			10	91	$ 32,451,896	$ 3,245,190
1991	3			3	94	$ 2,085,869	$ 695,290
1992	14			14	35	$ 13,949,381	$ 996,384
1993	3			3	1	$ 534,787	$ 178,262
1994	8			8	79	$ 5,445,703	$ 680,713
1995	18			18	45	$ 19,319,068	$ 1,073,282
1996	16			16	27	$ 1,609,832	$ 100,614
1997	15			15	77	$ 15,611,284	$ 1,040,752
1998	2			2	25	$ 1,204,515	$ 602,258
1999	4			4	6	$ 2,525,000	$ 631,250
2000	4			4	35	$ 20,048,249	$ 5,012,062
2001	8			8	44	$ 8,263,204	$ 1,032,901
2002	1	1	3	5	41	$ 16,704,278	$ 3,340,856
2003	1	7	24	32	113	$ 56,156,689	$ 1,754,897
Total	373	8	27	408	2135	$ 375,861,669	
Average ('78-'01)				**15.5**	**82.5**	**$ 12,625,029**	
Average ('02-'03)				**18.5**	**77.0**	**$ 36,430,483**	

Source: State of Rhode Island Historic Preservation & Heritage Commission; compiled by Lipman Frizzell & Mitchell, LLC shown as a significant source of residential housing units for the State, which continues to suffer an affordable housing shortage.

LF&M's review of historical production data shows that almost three-fifths (57.7%) of projects have been of relatively modest size, with values of less than $250,000. Though the largest projects with values of $2.5 million or more constitute only 9.1% of production, they represent 68.7% of total investment. A similar pattern is in evidence in the current portfolio.

B. Employment Impact

The rehabilitation of historic commercial structures creates employment in two principal ways: direct employment of on-site workers and indirect employment as the spending by developer (during the construction period) and workers (during the construction period and thereafter). All estimates are stated in 2004 dollars.

Direct 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	$370,500	10.7
Office	$392,003	11.3

The total construction employment generated by the $484.91 million investment in historic rehabilitation is estimated at approximately 5,334 jobs earning $184.9 million in wages. This estimate is considered conservative, since rehabilitation is typically more labor-intensive than the new construction standard used in IMPLAN.

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**
Multifamily Residential	3.9 per 100 units	$30,770 per job
Office	3.3 per 1,000 sq.ft.	$49,750 per job

Commercial and mixed use projects are estimated to produce at least 925,000 sq.ft. of employment space, if an average rehabilitation cost of approximately $175 per square foot (based on LF&M's analysis of developer pro formas) for commercial space is assumed. Total permanent employment at these locations, then, is anticipated to be in the range of 3,053 jobs. Using 2004 data from the Rhode Island Department of Labor & Training, we estimate the annual wages paid to an office worker in the "professional and technical services" category to be $49,750 per year. The wages paid in the rehabilitated offices could, then, total $151.89 million annually.

The multifamily units are estimated to directly employ at least 66 FTE (full-time equivalent) persons annually. Again using State wage data, we estimate wages paid on-site to be at least $2.03 million. These are likely to be all net new jobs and wages since the properties are additions to the State's multifamily rental housing stock.

In as far as the permanent jobs are new to the State, they will increase State income tax and sales tax revenues. It is reasonable to estimate that at least 20% of the 3,119 worker on-site permanent employment is new—accommodating business expansion of Rhode Island firms and relocation of businesses from elsewhere, as well as new multifamily service employment. Applying Rhode Island Public Expenditure Council factors to those wages, LF&M computes the State's incremental annual income tax revenue at $795,240 and its sales tax revenue at $706,730. The present value of that income stream to the State is estimated at $30.04 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	$204,477	6.9
Office	$222,791	7.3

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 $484.91 million in construction spending is estimated at 3,394 jobs earning an estimated $103.6 million in wages.

Benefit of New Housing Units

Rhode Island municipalities benefit from the production of new market rate and affordable apartment units 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 1,290 market rate apartments produced by these projects will add $61.9 million in aggregate income to their neighborhoods, supporting additional local retail uses. Using estimates from the Rhode Island Public Expenditure Council, each household is estimated to pay approximately $1,240 annually in income taxes and $1,102 annually in sale taxes on eligible items.

Early anecdotal evidence suggests that a number of the market rate residential projects (e.g., Rising Sun and Alice Building in Providence; Riverfront Lofts in Pawtucket) are attracting out-of-state residents. Were 20% of the 1,290 market rate units occupied by residents new to the State, LF&M computes the State's annual net new income tax revenue at $319,920 and its sales tax revenue at $284,316. The present value of that income stream to the State is estimated at $12.1 million.

- Affordable Households - The 409 affordable housing units produced by the projects will add quality housing for lower income households, upgrading the housing stock generally. Though these households have low incomes, they will typically spend a higher proportion of their earnings on retail purchases than more affluent households.

Total Economic Output

Using the IMPLAN model, LF&M further estimates that the total economic output of the State will be increased during the construction period alone by $795.25 million, which translates to $1.64 million for every $1.0 million in project investment.

Viewed from the perspective of the State's investment, its estimated investment of $145.47 million will leverage a total of $795.25 million in economic activity at all levels throughout the State. Each $1.0 million of State tax credits, therefore, leverages $5.47 million in total economic output (calculated as follows: $1.64 million in output divided by $.3 million in tax credits).

C. 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 taxes on the purchase of construction materials and income taxes on construction workers earnings.

IMPLAN estimates total public revenues during the construction period to be approximately $.06 on every $1.00 of project investment. Using that assumption, approximately $29.1 million in public revenues are realized before the tax credit certificates are even issued. Estimating the total State obligation at $145.47 million (30% of the $484.9 million investment) for the known portfolio, that means that approximately 20.0% of the State's tax credit expense has already been offset before it is incurred.

Assessable Tax Base

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 <u>ever</u> generate substantial cashflow, thereby reducing 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 never sufficient on their own to generate significant redevelopment activity.

Understanding those 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 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 $242.5 million in current dollars.

D. Necessity for Historic Tax Credits

Are State historic tax credits necessary in order to achieve the economic and fiscal benefits detailed above? Could the rehabilitation projects continue without the 30% tax credit? Is the State "over-subsidizing" development which might well take place in any case?

It is important to address these questions in order to assure the State's taxpayers that they are making a productive investment. LF&M has reviewed the financial pro formas of two larger mixed use tax credit rehabilitation projects (Rising Sun and Pearl Street Apartments/Commercial) and we have come to the following general conclusions:

- Cost vs. Value - The higher costs of historic rehabilitation do not translate dollar for dollar into additional market value for the projects. Our analysis of the operating income and expenses of the projects indicates that those cashflows will support values which are only 50%-60% of the total project cost. In making that determination, we have capitalized the projects' first year stabilized Net Operating Income at a liberal rate of 9.0%.

- Leverage - Real estate development is a business which requires significant leverage of the developer's capital in order to make an acceptable profit in light of the risk borne. That leverage is achieved principally by borrowing capital (construction and permanent mortgages) against the appraised value which is derived from the properties' Net Operating Income. In these cases where costs significantly exceed appraised value, developer equity must be supplemented in order to achieve a reasonable return. Without tax credits these projects, therefore, simply would not happen.

LF&M has also consulted with affordable housing providers. Their production is typically at a small scale (a few units at a time), but would be slowed or stopped if historic preservation investment tax credits were halted. Until, that is, another source of subsidy were found. Affordable housing cannot proceed without such subsidies. The net cost to the State, then, is likely to remain the same—just derived from a different program budget within State government.

Understanding that the State is subsidizing the development of these rehabilitation projects (otherwise they would not happen), is the State receiving a fair return on its investment?

LF&M calculates that the State's estimated $145.47 million up-front investment in tax credits for the rehabilitation projects is likely to be recouped from four sources: construction period taxes (estimated at $29.1 million above), real property taxes, plus post-construction sales and income taxes. Assuming the $242.5 million assessed value added by the projects estimated above, LF&M estimates the potential real property tax revenue to localities to be approximately $8.97 million per year. The present value of that revenue stream is at least $179.4 million when discounted at a conservative 5.0% rate (an estimate of the long-term public bond rate). Personal property taxes are not estimated here, but they will further add to the revenue stream.

We consider those additional property tax revenues to be "net new" to the localities and an offset against requests for aid from State government which might otherwise be required. LF&M is of the opinion that the State will also more directly benefit from some new income and sales taxes as the result of the rehabilitation projects, with some of those revenues being displaced from other areas of the State. Displacement is, however, not necessarily an “even trade”—since the State and localities will be saved the marginal expense of extending infrastructure to new greenfields sites which are a principal alternative to the rehabilitation projects in historic municipalities.

E. Conclusion

In reviewing the Rhode Island Historic Preservation Investment Tax Credit Program portfolio, 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 111 total projects representing $484.91 million in investment are located across the State. Four-fifths (80.0%) of investment is represented by “Active” status projects, most of which are likely to be completed over a two to three year period. Applications made to the State for project eligibility seem to be relatively stable in the range of 18-26 semi-annually since June 2002. The large majority of projects involve rental housing component, with a total yield of 1,699 residential units anticipated including 409 low income housing units.

- State Investment - The State's expense is estimated at $145.47 million for the 111 projects. Understanding that the utilization of credits follows construction completion by one year, the average annual State expense over the 2004-2007 period is likely to be in the range of $29.49 million for the 63 Active and 2004 projects examined. The State's investment has been leveraged with private financing and equity investments. Each $1.0 million of State tax credits leverages $5.47 million in total economic output.

- Economic Impact - The total direct construction employment generated by the $484.9 million investment in historic rehabilitation is estimated at approximately 5,334 jobs earning $184.9 million in wages. Total permanent employment at these locations is anticipated to be over 3,000 jobs earning $154 million annually. During the construction period, indirect employment impact within the State is estimated at 3,394 jobs earning an estimated $103.6 million in wages and a total of $795.25 million in economic activity is generated throughout the State.

- Fiscal Impact - LF&M estimates that approximately 20.0% of the State’s tax credit expense has already been offset before it is incurred, through construction period taxes collected. 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 $42.14 million (29.0% of the State's tax credit investment). The increase in local assessable bases is estimated at approximately $242.5 million in current dollars, generating property tax revenue with an estimated present value of $179.4 million.

- Necessity for Credits - LF&M finds that cashflows of the commercial 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 $145.47 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. 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 localities where opportunities had been limited. The State's investment leverages substantial private investment, which otherwise would not have occurred in those localities.

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 2004 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 (in this case 2000) 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 and Pennsylvania. 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> (MAHDC) **-** Analysis of the economic and fiscal benefits generated by six local historic districts located throughout the State of Maryland. 1998.

- <u>State of Maryland Heritage Structure Rehabilitation Tax Credits: Parts I and II</u> (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.

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

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
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.