

TECHNICAL MEMORANDUM

TO: Chris Martin, Executive Director
East Providence Waterfront Commission
145 Taunton Avenue
East Providence, RI 02914

FROM: RKG Associates, Inc.

DATE: December 1, 2021

SUBJECT: **FINAL DRAFT** - Peer Review - "Waterfront Residential Development – East Pointe – East Providence, Rhode Island"

Introduction and Purpose

RKG Associates, Inc. (RKG) was retained on behalf of the East Providence (RI) Waterfront Commission to provide an independent peer review of the TIF projection schedule¹ as offered by Noble Development LLC² to assist in their financing and redevelopment of a former brownfield site (locally referenced as the Ocean State Street site) comprising approximately 27.11 acres (across three separate parcels) and consisting of 392 residential units at full build out (refer to Figure 1 in the Appendix for a concept rendering).³

As RKG understands, the proposed development (Project) includes needed investment in public improvements and Project infrastructure, approximately \$14.2 million of which is sought to be covered through tax increment financing (TIF) whereby a portion of the development's projected incremental property tax receipts represent the revenue stream for repaying bonding debt incurred for said improvements and infrastructure. The total bonding request is approximately \$18.8 million with \$14.2 million (or 76%) applied to costs of public improvements. The remaining 24% is to be used to cover capitalized interest payments, issuance costs, an underwriter's discount, and a debt service refund fund.⁴

Per information offered by Noble Development LLC⁵, the overall duration of the proposed development is seven (7) years in two separate phases with Phase 1 requiring four (4) years and Phase 2 requiring four (4) years but overlapping - (refer to Table 1 for the development mix).

The purpose of this analysis, by RKG, is to review the specific inputs and assumptions, as provided by MuniCap, in deriving the estimates of property values and resulting property tax receipts (the TIF values) for their general reasonableness and applicability.

¹ Tax Increment Financing Projections, dated June 28, 2021, prepared by MuniCap, Inc. Public Finance (hereinafter **MuniCap**).

² A subsidiary of Churchill & Banks Companies, LLC – developers of the nearby Kettle Point project.

³ The concept rendering reflects that which was presented by Noble Development to the East Providence Waterfront Commission – dated November 18, 2021 (hereinafter **November Presentation**).

⁴ Tax Increment Financing Projections, dated June 28, 2021, prepared by MuniCap, Inc. Public Finance – **Schedule 1, page 1**.

⁵ The 2021-04-22 East Point WC Application Addendum (June 9, 2021, distribution).

Table 1 – Proposed East Point Residential Development Mix and Phasing (June 28, 2021)

Proposed East Point Development - East Providence, RI	Map / Block / Lot(s)	Acres	Proposed Residential Units		
			Rental	Condos	TOTAL
Seekonk Parcel (Phase 1)	203 / 1 / 4	18.80	136	112	248
Omega Parcel (Phase 2)	203 / 13 / 4 & 5	8.31	134	10	144
Total		27.11	270	122	392

Source : Noble Development LLC and RKG (2021)

RKG notes that the presentation and concept rendering presented by Noble Development to the East Providence Waterfront Commission (November 18, 2021, and with 2nd revision Amendment) indicates a residential build-out totaling 387 units, a decline of 5 units or 1.3% from the MuniCap report dated June 28, 2021. To the extent that this discrepancy in overall unit count, and potentially the overall mix of units by type is not reflected nor reconciled in the more detailed data provided to RKG in the MuniCap report, RKG cautions that while the overall differential is relatively small in terms of absolute unit count it could impact the summary findings presented in the MuniCap report.

A revised (November 2021 and with Amendment 2nd revision) development plan offered by Noble Development LLC appears in Table 2 in the Appendix of this memorandum. Again, while absolute unit count variations are 1.3%, RKG recommends that that the MuniCap report be revisited to reflect and reconcile any differences.

Summary of Findings

Overall, RKG finds the MuniCap report to be reasonable in its approach and application(s) and generally reflective of prevailing market conditions, however, a separate market report, indicating residential demand and supply dynamics has not been provided for RKG’s review. While some greater level (discussion) of the baseline inputs (although generally referenced and footnoted throughout the TIF schedule) utilized by MuniCap would be beneficial, RKG does not necessarily deem them to be critical to this review.

RKG concurs with the TIF analysis as presented by MuniCap, regarding the ability of the proposed Project to meet the debt service requirements for the requested TIF bonds, noting a marginal deficit after debt service, of approximately \$224,100, in the initial bond years ending May 2025 and May 2026 (**Schedule XII**).

While RKG was not provided with a detailed estimate of construction costs (in the MuniCap report), by phase and component, we note that the requested TIF includes costs estimated at approximately \$14.2 million for completing required public improvements and Project infrastructure investments. If these costs were borne by the proposed development, they would reflect an additional investment of \$36,310 per residential unit, on average, presumably to be recaptured in the eventual rents and selling prices of the proposed 392 units. If so, RKG considers that these potential increases could negatively impact the market competitiveness of the units, resulting in a less tenable development.

RKG notes that the November Presentation (Amendment with 2nd revision) indicates \$17.25 million in costs for horizontal development (infrastructure) inclusive of \$2.5 million in soft costs and \$1.3 million in contingencies. If these costs were borne by the proposed Project, they would reflect an additional investment of \$44,561 per residential unit, on average, presumably to be recaptured in the eventual rents and selling prices of the proposed 387 units. If so, RKG considers that these potential increases could also impact the Project’s overall market competitiveness.

Conclusion

In conclusion, while RKG concurs with the TIF analysis as presented by MuniCap, regarding the ability of the proposed Project to meet the debt service requirements for the requested TIF bonds, we caution that the unit count discrepancies between the MuniCap report and the November Presentation (and with Amendment 2nd revision) be referenced and reconciled in the former as they may have some impacts on the Project's overall value, revenue stream and resulting property tax generating capacities.

RKG offers that these may be negligible in the aggregate but could present some variations during the years prior to full build-out and stabilization - particularly considering pending additional information on the proposed 39 affordable multi-family housing units. *However, it should be noted that the addition of 39 affordable units will assist the City to meet the State's required 10% threshold for affordable units.*⁶

General Observations

While RKG's peer review, overall, does not take issue with the findings and the schedule as offered by MuniCap, some general observations regarding the inputs and the assumption used in their derivation are worth note, as follows:

- **Page 1** – there is a minor discrepancy of \$1,000 in bonds proceeds (total) – *although noted that information is preliminary and subject to change.*

RKG notes that the MuniCap report (page 1) indicates public improvements costs of \$14,232,698 while the November Presentation (with Amendment 2nd revision) indicates costs of \$17.25 million (inclusive of soft costs at \$2.5 million and contingency costs of \$1.3 million).

- **Page 8** – the proposed residential mix is 75% renter and 25% owner – this is somewhat counter to the City average (2018) of approximately 60% owner – *while RKG notes that the proposed mix differs from the prevailing market mix, this is not unexpected as household sizes continue to decline and the costs associated with single-family construction continue to rise making such construction less tenable for developers to realize a return on their investment.*

RKG notes that while the overall unit mix in the November Presentation (Amendment with 2nd revision) and the MuniCap report are marginally different, with the former at 32% owner and 68% renter and the latter at 25% owner and 75% renter. Any differences in price points (owner) and lease rates (renter) are not reflected nor reconciled in the more detailed data provided to RKG in the MuniCap report. However, it is reasonable to assume that a greater mix of owner units would equate to a greater assessed valuation in the aggregate.

- **Page 10 (Schedule VI-B)** – average rent (presumably blended for all units) is stated at \$1,854/month, with an average unit size (also presumed as blended) of 1,193 SF or approximately \$1.55 per SF – *greater detail on the mix of units, by bedroom count and size (SF) would be helpful in better understanding these estimates.*

For example, an RKG spot check of available rentals in East Providence indicated somewhat greater asking rents at \$3.22 per SF (1 BR) and \$3.36 per SF (2 BR).⁷ Further, the assumed expense ratio, at 42.8%, may be somewhat high in RKG's experience, particularly for a newer property. *As such, the information presented in **Schedule VI-B** may err conservatively.*

⁶ As noted in the Amendment 2nd revision – “The City of East Providence currently has 9.38% of its year-round housing stock attributed to affordable housing. This is below the State's goal of 10% in each City or Town according to the 2021 Housing Fact Book. The City of East Providence would need 37 more affordable units in order to reach this goal.”

⁷ As listed on [Apartments.com](https://www.apartments.com) for 580 South Water Street, Kettle Point and The Four Seasons.

Nonetheless, RKG notes that the information presented in **Schedule VI-B** is footnoted as being vetted through standard industry sources and the City of East Providence Assessment Division and RKG does not take issue with the information provided and utilized in the TIF analysis.

- **Page 11 (Schedule VI-D, Table 2)** – projected sales prices for owner housing range from \$422,400 (row house) to \$900,000 (waterfront single family). Based on the reported average unit sizes (SF) these reflect prices ranging from \$325 per SF to \$350 per SF – *greater detail from the developer would help to better understand these projected price points.*

However, if these price points include an assumed 20% developer profit and an allowance of 20% for soft costs, then the construction value hard costs range from around \$190 per SF to \$225 per SF which are more consistent with RKG’s experience elsewhere and allow for an assumed higher level of finish and fit-out.

If so, RKG does not take issue with the information provided and further notes that the assessed values for the TIF analysis have been adjusted, on average, to reflect 89% of the sales price.

RKG notes that the November Presentation (Amendment with 2nd revision) indicated \$17.25 million in horizontal costs (infrastructure) and \$85.82 million in vertical costs – averaging approximately \$273,382 per unit which is not unreasonable considering the revised 68% mix of renter units. This equates to an average vertical cost per SF of \$161 and a horizontal cost of \$32 per SF (or 20% of vertical) – both also considered reasonable.

Also of note, the proposed East Point residential development indicates that the Project will “include the requisite ten percent minimum inclusionary requirement for affordable housing as well”.⁸ RKG did not note in the MuniCap TIF analysis where there was a specific reference to affordable housing with respect to rent rates or owner pricing and assumes that they have been blended into the overall mix and values.

RKG notes that Amendment No. 6, (accompanying the November Presentation and with 2nd revision) specifically indicated (page 13) that the Project “will consist of 39 affordable multi-family housing units. The affordable units will be priced based on 100% AMI. The proposed affordable units will also be age restricted.”

- **Page 12 (Schedule VII)** – this schedule provides a year-by-year phasing of the residential development, by type of use, for the proposed East Point Project. RKG notes that in the previously identified rental income analysis (**Schedule VI-B**) allowances were made for vacancy and operating expenses. However, there does not appear to be a stabilization factor (typically 95%) for the owner (for sale) residential - *RKG assumes that the owner residential units will not be built “on spec” and that all units are built, sold and occupied.*

If not, it should be noted that there may be some impact on resulting assessed values and collected property tax receipts, although likely considered to be nominal.

- **Schedule VIII-A and Schedule VIII-B** – these schedules present the change (annually) in projected assessment values for rental housing and owner housing, respectively, at a two percent rate of inflation. RKG notes that these have been footnoted as being vetted with the City of East Providence Assessment Division and does not take issue with their application in the overall TIF analysis by MuniCap.

⁸ The 2021-04-22 East Point WC Application Addendum (June 9, 2021, distribution).

- **Page 19 (Schedule X-A)** – this schedule presents the projected annual property tax receipts for the renter residential, noting that the commercial tax of \$25.33 per \$1,000 (FY 2020) has been applied.⁹ The schedule further assumes that all property taxes will be paid in a timely manner (prior to July 1st) and thus qualify for a 1.5% discount. If so, this effectively reduces the projected cumulative real property tax receipts from approximately \$32.7 million to \$32.2 million.

If not paid in a timely manner, actual tax receipts could be marginally higher, but RKG concurs with MuniCap in applying the 1.5% discount to err conservatively.

- **Page 20 (Schedule X-B)** – this schedule presents the projected annual property tax receipts for the owner residential, noting that the residential tax of \$20.59 per \$1,000 (FY 2020) has been applied.¹⁰ The schedule further assumes that all property taxes will be paid in a timely manner (prior to July 1st) and thus qualify for a 1.5% discount. If so, this effectively reduces the projected cumulative real property tax receipts from approximately \$27.0 million to \$26.6 million.

If not paid in a timely manner, actual tax receipts could be marginally higher, but RKG concurs with MuniCap in applying the 1.5% discount to err conservatively.

Additionally, the schedule assumes that a 13% discount (Homestead Exemption) applies for the owner housing.¹¹ If this is not the case, then resulting valuations and property tax receipts could be marginally higher, although RKG concurs with applying this discount to err conservatively.

However, the City of East Providence also affords an exemption and resulting tax deduction for homeowners aged 65 and over – *which does not appear to have been considered in the TIF analysis*. This is worth noting as the proposed development states that there will be a “various assortment of single level condominiums geared toward an older buyer demographic”.¹²

Source References

- Tax Increment Financing Projections, dated June 28, 2021, prepared by MuniCap, Inc. Public Finance (referenced as **MuniCap**).
- Copy of presentation by Noble Development LLC to the East Providence Waterfront Commission – dated November 18, 2021 (referenced as the **November Presentation**).
- The 2021-04-22 East Point WC Application Addendum (June 9, 2021, distribution).
- Amendment No. 6 to city of East Providence Special Waterfront Development District Redevelopment Plan and Project Plan for the East Point Project Area within the Phillipsdale Sub-District of the Waterfront Special Development District (**2nd revision**)

⁹ Although footnote 5 indicates the rate is “for fiscal year 2020-2021”.

¹⁰ Although footnote 6 indicates the rate is “for fiscal year 2020-2021”.

¹¹ As indicated in footnote 3.

¹² The 2021-04-22 East Point WC Application Addendum (June 9, 2021, distribution).

Appendix

Figure 1 – Preliminary Concept Rendering of Proposed East Point Development (November 18, 2021)



Table 2 – Revised Development Plan (November 2021 – 2nd revision)

Proposed East Point Development - East Providence, RI - revised					
November 2021	2nd revision	Unit Count	Gross SF	Average SF per Unit	Units as % of Total
Renter Apartments		265	316,145	1,193	68.5%
For Sale		122	217,333	na	31.5%
	Row houses	28	42,840	1,530	7.2%
	Duplexes	4	8,668	2,167	1.0%
	Small Duplexes	4	7,468	1,867	1.0%
	Waterfront Mid-Rise	12	21,840	1,820	3.1%
	Central Mid-Rise	32	57,280	1,790	8.3%
	Northeast Walk-Ups	24	26,400	1,100	6.2%
	Small Single-Family	1	1,837	1,837	0.3%
	Waterfront Single-Family	17	51,000	3,000	4.4%
Total		387	533,478	na	na

Source : Noble Development LLC and RKG (2021)