

**Rhode Island Commerce Corporation**  
**Tax Increment Financing – Economic Impact Analysis**  
***Exchange Street Hotel LLC Application***

**Introduction**

The Rhode Island Commerce Corporation (the "Corporation") is exempting Exchange Street Hotel LLC (the "Sponsor") from 75% of the state sales tax and 18% of the state hotel tax ("TIF"). The incentive would be issued in connection with the Sponsor's decision to invest in the development of a new Homewood Suites by Hilton Hotel – a 120-room, extended-stay hotel, to be located on Exchange Street in Providence. The total cost of the proposed project is estimated to be more than \$24.5 million.

The Sponsor is requesting a TIF in an amount equal to the financing gap for the project, which is expected to be satisfied through the use of \$3.0 million in tax increment financing from the Sponsor's lender.

This analysis was prepared by Appleseed, a consulting firm with more than twenty years of experience in economic impact analysis.

**Jobs Analysis**

***Construction***

As shown in Table 1, the Sponsor's estimate of total project cost is approximately \$24.5 million.

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

<b>Component</b>	<b>Estimated cost</b>
Land acquisition	\$1.0
Architecture and engineering	\$0.5
Site work and soil improvement	\$0.8
Building construction (hard cost)	\$18.0
Fixtures, furnishings & equipment	\$2.0
Parking garage lifts	\$0.3
Interest costs	\$0.5
Other soft costs	\$1.0
Developer's overhead and fee	\$0.4
<b>Total</b>	<b>\$24.5</b>

After excluding certain costs that for purposes of this analysis do not have a direct, current impact on Rhode Island's economy (such as land and interest costs), the remaining hard and soft costs total approximately \$22.5 million. Appleseed estimates that direct expenditures of \$22.5 million will directly and indirectly generate:

- 161 person-years<sup>1</sup> of work in Rhode Island;
- \$9.3 million in earnings;
- Nearly \$26.4 million in statewide economic output<sup>2</sup>;
- A projected one-time increase of approximately \$348,000 in personal income taxes paid to the State during construction; and
- A one-time increase of \$14.0 million in Rhode Island's GDP.

These impacts are summarized below in Table 2. The project's *direct impact* is the impact of the company's direct spending on design and construction. Its *indirect impact* is the effect of spending by contractors for goods and services (insurance, construction materials, etc.) purchased from other Rhode Island businesses.

**Table 2: Direct and indirect impact of construction spending (employment in person-years; income, value-added and output in millions of 2017 dollars)**

	Employment	Earnings	Value added	Output
Direct Effect	122	\$7.2	\$10.7	\$20.8
Indirect Effect	39	2.1	3.4	5.6
<b>Total Effect</b>	<b>161</b>	<b>\$9.3</b>	<b>\$14.1</b>	<b>\$26.4</b>

Most of the activity reflected in Table 2 is expected to occur in 2017. The anticipated wage rates for construction jobs are shown below in Table 3. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island.

**Table 3: Anticipated wages during construction**

Occupation	RI median hourly wage <sup>3</sup>
Architect	\$41.70
Construction manager	\$52.12
Carpenter	\$19.70
Electrician	\$23.71
Plumber	\$24.03
Painter	\$16.07
Laborer	\$16.77

Fringe benefits associated with these jobs are expected to be in accordance with industry norms, with the cost of such benefits generally ranging between 22 and 28 percent of wages. Workers who fill these jobs are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

<sup>1</sup> A person-year is equivalent to the time worked by one person who is employed full-time for a year. For example, it could represent the work of two people who are each employed full-time for six months; or the work of one person who is employed half-time for two years.

<sup>2</sup> Output is a measure of the total sales by Rhode Island companies (including the "sale" of labor by Rhode Island households) generated by the project.

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

## **Annual operations**

After construction is completed, ongoing operations will include:

- Operation of the hotel itself; and
- The operations of a business (which for purposes of this analysis we assume to be a full-service restaurant) occupying the proposed 3,000 square-foot ground-floor commercial space.

The Sponsor estimates that 48 people (32 full-time and 16 part-time, assumed to equal 40 full-time-equivalent jobs) will be employed in the operation of the hotel. Appleseed estimates that a 3,000 square-foot ground-floor restaurant would have 21 full-time-equivalent (FTE) employees.

Based on these estimates, Appleseed projects (as shown below in Table 4), that when the hotel and ground-floor commercial space are completed and fully operational (which is assumed to occur in 2017), it will directly and indirectly account for:

- 70 FTE jobs in Rhode Island;
- Approximately \$2.3 million in annual earnings (in 2017 dollars);
- Nearly \$6.8 million in annual statewide economic output;
- An increase of approximately \$87,000 in personal income taxes paid annually to the State; and
- An increase of approximately \$4.3 million in Rhode Island's annual GDP.

**Table 4: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2018 dollars)**

	<b>Employment</b>	<b>Earnings</b>	<b>Value added</b>	<b>Output</b>
Direct Effect	61	\$1.8	\$3.5	\$5.4
Indirect Effect	9	0.5	0.8	1.4
<b>Total Effect</b>	<b>70</b>	<b>\$2.4</b>	<b>\$4.3</b>	<b>\$6.8</b>

Workers who fill jobs at the hotel and restaurant are expected to be drawn primarily from neighborhoods in Providence and from other nearby communities.

## **Impact**

The state fiscal impact of the requested tax increment financing is that portion of the eligible incremental tax revenues generated by the project that will be directed to the Sponsor. Specifically, the revenues dedicated to the Sponsor will be 75% of the sales tax generated and 18% of the hotel tax generated by the project during the life of the TIF Agreement, which shall not exceed 20 years. Those funds are directed to the Sponsor to enable it to secure the financing necessary to close the financing gap on the project and bring it to fruition. The State will collect the balance of the sales and hotel occupancy tax revenue not directed to the Sponsor.

Direct and indirect economic and fiscal benefits of the proposed project include the estimated annual state GDP increase of \$4.3 million, the estimated associated job creation, and the gross increase of nearly \$1.4 million in personal income tax revenues during the construction phase and ongoing operations during the twelve years following the completion of the project. These benefits are detailed in the foregoing analysis. In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in several other ways.

- Redevelop and reactivate a long-vacant site in Providence's Capital Center area;
- Support the continued growth in the number of visitors to Rhode Island;
- Create employment opportunities for Rhode Island residents; and
- Increase local real property tax revenues.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. In addition, various features of the program mitigate risk to the state. In particular, the completion risk (i.e., the risk that the project is not completed) is mitigated by the fact that the incentives will be payable only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the incentives are capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the incentives to be paid will be reduced accordingly.