

Rhode Island Commerce Corporation
Tax Increment Financing – Economic Impact Analysis
30 Kennedy Partners LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may provide Tax Increment Financing (TIF) to 30 Kennedy Partners LLC (the “Sponsor”). The TIF would be made in connection with the Sponsor’s decision to invest in the conversion of an historic building at 59 Westminster Street and 30 Kennedy Plaza in Providence into a 48-room boutique hotel, with a restaurant occupying half the ground floor. The remaining half of the ground floor would continue to be occupied by Citizens Bank.

The total cost of the proposed project is estimated to be nearly \$19.4 million. The Sponsor is requesting a TIF up to a principal sum of \$4,250,000.

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

Jobs Analysis

Construction

As shown in Table 1, the Sponsor’s estimate of total project costs is nearly \$19.4 million.

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

Component	Estimated cost
Land and building acquisition	\$5.4
Construction (hard cost)	\$10.5
Soft costs	\$3.5
Total	\$19.4

After excluding certain costs that for purposes of this analysis do not have a direct, current impact on Rhode Island’s economy (such as property acquisition), the remaining hard and soft costs total \$14.0 million. Using the IMPLAN input-output modeling system (a modeling tool commonly used in economic impact studies), Appleseed estimates that direct expenditures of \$14.0 million will directly and indirectly generate:

- 95 person-years¹ of work in Rhode Island;
- \$5.7 million in earnings (in 2018 dollars);
- Approximately \$16.1 million in statewide economic output²; and
- A one-time increase of \$8.6 million in Rhode Island’s GDP.

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

Table 2: Direct and indirect impact of construction spending (employment in person-years; income, value-added and output in millions of 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	72	\$4.4	\$6.5	\$12.6
Indirect Effect	23	1.3	2.1	3.5
Total Effect	95	\$5.7	\$8.6	\$16.1

In addition to the impacts cited in Table 2, direct expenditures of \$14.0 million would directly and indirectly generate a projected one-time increase of approximately \$672,000 in taxes paid to the State during construction. This increase would include approximately:

- \$339,000 in state sales and use taxes paid on construction materials and hotel fixtures, furniture and equipment;
- \$213,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$93,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$27,000 in state business corporation taxes paid by companies directly or indirectly working on the project.

Most of the activity reflected in Table 2 is expected to occur between mid-2017 and mid-2018. 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.

¹ 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.

² Output is a measure of the total sales by Rhode Island companies (including the “sale” of labor by Rhode Island households) generated by the project.

Table 3: Anticipated wages during construction

Occupation	RI median hourly wage ³
Architect	\$42.50
Construction manager	\$50.86
Carpenter	\$22.42
Electrician	\$25.26
Plumber	\$24.84
Painter	\$18.69
Laborer	\$18.68

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

Annual operations

The Sponsor has stated that after the project is completed (expected to occur in 2018), 20 people would be employed (including 16 full-time and 4 part-time workers) in management and operations of the hotel; and 25 (20 full-time and 5 part-time) would be employed in the ground-floor restaurant.

Using IMPLAN, Appleseed estimates that the ongoing operations of the proposed hotel and restaurant together would directly and indirectly account for:

- 51 FTE jobs in Rhode Island;
- More than \$1.9 million in annual earnings (in 2019 dollars);
- Nearly \$5.1 million in annual statewide economic output; and
- An increase of approximately \$3.1 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 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	45	\$1.5	\$2.4	\$4.0
Indirect Effect	6	0.4	0.7	1.1
Total Effect	51	\$1.9	\$3.1	\$5.1

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2016

Workers who fill new hotel and restaurant jobs are expected to be drawn primarily from Providence and from other nearby communities.

In addition to the impacts cited in Table 4, ongoing operations at the new hotel would directly and indirectly generate a projected increase of approximately \$490,000 in taxes paid annually to the state. These taxes would include approximately:

- \$377,000 in state sales and hotel taxes paid on room rents and restaurant bills
- \$72,000 in state personal income taxes paid by Rhode Island workers employed directly by the hotel or by the restaurant, or whose jobs are indirectly attributable to those businesses;
- \$32,000 in state sales taxes paid on those workers' taxable household spending; and
- \$9,000 in state business corporation taxes directly or indirectly attributable to hotel and restaurant operations.

Impact

The state fiscal impact of the requested TIF is a total of \$4.25 million in foregone hotel and sales tax revenue used to support the TIF. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase of \$3.1 million in annual state GDP, the estimated associated job creation, and an increase of approximately \$2.3 million (after netting out the foregone revenues used to support the TIF) in personal income, sales, hotel and business corporation tax revenues during the construction phase and during the twelve years following the completion of the project. These benefits are detailed in the foregoing analysis. In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in several other ways.

- Renovate and reuse a mostly-vacant historic building
- Add new hotel capacity in the Downcity area
- Increase local property tax and hotel 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 state would not begin to forego tax revenues until after the hotel is completed and operational. The risk of project cost overruns is mitigated by the fact that the TIF is capped at the amount set forth above.