

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
City of Newport Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island Tax Credits to the City of Newport (the “Sponsor”). The credits would be issued in connection with Sponsor’s proposed investment in Innovate Newport, a project that entails redevelopment of a 33,974 square-foot former public school in Newport for use by entrepreneurs and other small businesses.

The Sponsor estimates the total cost of project to be nearly \$7.1 million.

The Sponsor is requesting Rebuild Rhode Island Tax Credits totaling \$1,915,311 net (\$2,128,123 gross). Because the Sponsor is a tax-exempt organization, the project is not eligible for an exemption from sales and use taxes.

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 \$7.1 million.

Table 1: Innovate Newport estimated total project cost (\$ millions)

Component	Estimated cost
Land and building acquisition	\$0.8
Construction (hard costs)	5.3
Soft costs	1.0
Total	\$7.1

After excluding the cost of property acquisition (an expenditure that does not have a direct, current impact on Rhode Island’s economy), spending on construction (both hard and soft costs) is estimated to total approximately \$6.3 million. Appleseed estimates that direct expenditures of approximately \$6.3 million will directly and indirectly generate:

- 49 person-years¹ of work in Rhode Island, with \$2.8 million in earnings;
- Approximately \$7.8 million in statewide economic output²; and
- A one-time increase of \$4.1 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, indirect and induced impact of construction and related spending (employment in person-years; income, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	37	\$2.2	\$3.1	\$6.1
Indirect Effect	12	\$0.6	\$1.0	\$1.7
Total Effect	49	\$2.8	\$4.1	\$7.8

In addition to the impacts on employment, earnings, output and state GDP cited above, direct spending of \$6.3 million would generate a projected one-time increase of approximately \$168,000 in taxes paid to the State during construction, including:

- \$107,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$47,000 in state sales taxes paid on those workers’ taxable household spending;
- \$14,000 in state business corporation taxes

Most of the activity reflected in Table 2 will occur during 2017 and 2018. The anticipated wage rates for construction jobs are shown below in Table 3. Because the project would be financed in part with funding from the U.S. Economic Development Administration, the project would be subject to the Davis-Bacon Act. Anticipated wage rates are Davis-Bacon prevailing wages for these occupations in Rhode Island (as cited by the Sponsor).

¹ A person-year is equivalent to the time worked by one person who is employed full-time for a year. It could for example 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	Davis-Bacon hourly wage
Architect	\$40.76
Construction manager	\$54.17
Carpenter	\$34.56
Electrician	\$35.83
Plumber	\$36.88
Painter	\$31.52

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 estimates that through a combination of co-working space and offices the proposed facility will provide work space for 130 people. Based on information provided by the sponsor, we assume that co-working members and office tenants will represent a mix of scientific research and development, computer systems design, customized computer programming, and environmental and technical consulting services. Based on information provided by the sponsor, we further estimate that 2 workers will be employed in management, operations and maintenance of the facility.

Based on these assumptions, Appleseed estimates (as shown below in Table 4) that when the project is completed and fully occupied (which is assumed to occur in 2017, it will directly and indirectly account for:

- 184 full-time equivalent jobs in Rhode Island, with approximately \$12.2 million in annual earnings (in 2017 dollars);
- \$25.2 million in annual statewide economic output; and
- An increase of \$14.7 million in Rhode Island’s annual GDP.

Table 4: Direct, indirect and impact of annual operations of Innovate Newport (employment in FTE; earnings, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	130	\$9.2	\$9.9	\$17.6
Indirect Effect	54	\$3.0	\$4.8	\$7.6
Total Effect	184	\$12.2	\$14.7	\$25.2

In addition to the impacts on employment, earnings, output and state GDP cited in Table 4, the ongoing operations of Innovate Newport would generate a projected gross increase of more than \$653,000 in taxes paid annually to the state (in addition to the \$168,000 in state tax revenues cited above that would be generated by spending on construction), including:

- \$455,000 in state personal income taxes paid by Rhode Island workers employed by tenant businesses or in building operations, or whose jobs are indirectly attributable to the project; and
- \$198,000 in state sales taxes paid on those workers' taxable household spending.

Tenant businesses could also generate corporate business tax revenues. However, given that many of the facility's tenants will be solo entrepreneurs or small start-ups, revenues from this source are likely to be minimal.

Workers employed by office-based businesses could be drawn from communities throughout the Providence-Warwick RI-MA NECTA, while co-working members may be more concentrated among residents of Newport and adjoining communities.

Impact

The state fiscal impact of the requested tax credits is up to \$1,915,311 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated increase in annual state GDP of \$14.7 million; the associated job creation; and a gross increase of \$8.0 million in personal income and sales tax revenues directly and indirectly generated by the project during the construction phase, and by ongoing operations during the twelve years following completion of the project.

In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in several other ways.

- Support the development of new science and technology-based companies in sectors that are likely to play a major role in the growth of Rhode Island's economy, including oceanography and ocean engineering, defense technology and information security
- Lead over time to additional job creation over time as companies started at Innovate Newport move out and expand.
- Reinforce the City of Newport's economic development efforts, including the planned Innovation Hub in the City's North End.

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 credits will be issued only upon completion of the development. The risk of project cost overruns is mitigated

by the fact that the credit is capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the credit will be reduced accordingly.