

Rhode Island Commerce Corporation

Rebuild Rhode Island Tax Credits – Economic Impact Analysis

SAT Development LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to SAT Development LLC (the “Sponsor”), an entity owned by James Roiter. The credits would be issued in connection with the Sponsor’s decision to invest in the second phase of redevelopment the former Belvedere Hotel in Bristol. The project would include the development of 24 residential units and 2,783 rentable square feet of restaurant and retail space, and a 2,000 square-foot seasonal roof deck restaurant. The total cost of the proposed project is estimated to be more than \$9.4 million.

The Sponsor is requesting:

- A Rebuild Rhode Island tax credit with a gross value of \$995,000 gross (\$895,500 net);
- A sales and use tax exemption (approximately \$166,270) on eligible and construction and build-out costs;
- \$600,000 in tax increment financing.

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 more than \$9.4 million.

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

Component	Estimated cost
Property cost	\$1.4
Construction (hard cost)	\$6.8
Soft costs	\$1.2
Total	\$9.4

After excluding certain costs that for purposes of this analysis do not have a direct, current impact on Rhode Island’s economy (such as site acquisition, interest payments and a deferred

developer's fee), the remaining hard and soft costs total \$7.6 million. Using the IMPLAN input-output modeling system (a modeling tool commonly used in economic impact studies), Appleseed estimates that direct expenditures of \$7.6 million will directly and indirectly generate:

- 64 person-years¹ of work in Rhode Island;
- \$3.6 million in earnings;
- Approximately \$10.7 million in statewide economic output²; and
- A one-time increase of nearly \$5.3 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	39	\$2.4	\$3.4	\$7.6
Indirect Effect	25	1.2	1.9	3.1
Total Effect	64	\$3.6	\$5.3	\$10.7

In addition to the impacts cited in Table 2, direct expenditures of \$7.6 million would directly and indirectly generate a projected one-time increase of approximately \$208,000 in taxes paid to the State during construction. These taxes would include approximately:

- \$133,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$58,000 in state sales taxes paid on those workers' taxable household spending; and
- \$17,000 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 the spring of 2017 and the spring of 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	\$40.76
Construction manager	\$54.17
Carpenter	\$21.04
Electrician	\$24.86
Plumber	\$23.54
Painter	\$18.10
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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) most of the 2,783 square feet of rentable ground floor retail space will be occupied by a Providence Coal Fired Pizza restaurant with 17 full-time and 15 part-time employees. A smaller ground-floor space will be occupied by a small local retailer yet to be identified, with approximately 2 to 3 employees. The Sponsor also estimates that another 1.5 FTE's will be directly employed in management and operation of the building, with additional FTE jobs being supported through the purchase of other services such as building maintenance and repair, utilities, and insurance.

Using IMPLAN, Appleseed estimates that the commercial tenants and building management, operations and maintenance at the Belvedere at Bristol will directly and indirectly account for:

- 31 FTE jobs in Rhode Island;
- Approximately \$900,000 in annual earnings (in 2018 dollars);
- Approximately \$2.0 million in annual statewide economic output; and
- An increase of approximately \$1.2 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)

	Employment	Earnings	Value added	Output
Direct Effect	28	\$0.7	\$0.9	\$1.5
Indirect Effect	3	0.2	0.3	0.5
Total Effect	31	\$0.9	\$1.2	\$2.0

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2015

Workers who fill new restaurant, retail and building operations jobs are expected to be drawn primarily from Bristol and from other nearby communities.

In addition to the impacts cited in Table 4, ongoing operations at the Belvedere at Bristol would directly and indirectly generate a projected increase of approximately \$51,000 in taxes paid annually to the State. These taxes would include approximately:

- \$33,000 in state personal income taxes paid by Rhode Island workers employed directly at the Belvedere at Bristol, or whose jobs are indirectly attributable to tenant and building operations;
- \$14,000 in state sales taxes paid on those workers' taxable household spending; and
- \$4,000 in state business corporation taxes directly or indirectly attributable to building and tenant company operations.

Impact

The state fiscal impact of the requested tax credits and sales tax exemption is up to \$1,061,770 in foregone state revenues, and \$600,000 in tax increment financing. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase of \$1.2 million in annual state GDP, the estimated associated job creation, and a gross increase of approximately \$820,000 in personal income, sales 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.

- Increase density in the Town's residential core
- Provide four units of moderately-priced "workforce" housing
- Strengthen the area's retail sector, both through the development of new first-floor restaurant and retail space and by adding 30 to 40 new residents to the neighborhood
- Substantially 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 tax credits will be payable only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the tax credits and sales and use tax exemption are capped at the amounts set forth above. In addition, if project costs come in lower than anticipated, the tax credits to be paid will be reduced accordingly.