

# Rhode Island Commerce Corporation

## Rebuild Rhode Island Tax Credit – Economic Impact Analysis

### *Wexford Science & Technology LLC Application*

#### Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island Tax Credits to Wexford Science & Technology LLC (the “Sponsor”). The credits would be issued in connection with Sponsor’s proposed investment in the development of River House, a 174-unit (270-bed), approximately 152,800 gross square-foot residential building located on the Providence River in Providence, just north of the Point Street Bridge. The building – which will also include 4,194 square feet of ground-floor retail space – will primarily serve graduate, medical and undergraduate students from Brown University and other nearby institutions.

River House is the third and final element of a larger project that also includes South Street Landing (the redevelopment of a 265,000 square-foot power station) and construction of a new 744-car parking garage.

The Sponsor estimates the total cost of River House to be \$61.9 million. The Sponsor is requesting a Rebuild Rhode Island Tax Credit of \$7,519,419 (net), along with an exemption from state sales and use taxes on construction materials and certain other eligible costs totaling \$700,000.

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 cost is approximately \$61.9 million.

**Table 1: River House estimated total project cost (\$ millions)**

<b>Component</b>	<b>Estimated cost</b>
Land acquisition	\$2.5
Construction (hard costs)	50.8
Soft costs	8.6
<b>Total</b>	<b>\$61.9</b>

After excluding certain expenditures (such as property acquisition and interest payments) that do not have a direct, current impact on Rhode Island’s economy, direct spending on

construction (both hard and soft costs) is estimated to total approximately \$56.6 million. Appleseed estimates that direct expenditures of approximately \$56.6 million will directly and indirectly generate:

- 464 person-years<sup>1</sup> of work in Rhode Island, with \$25.0 million in earnings (in 2017 dollars);
- Approximately \$78.3 million in statewide economic output<sup>2</sup>; and
- A one-time increase of \$38.9 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	280	\$16.7	\$25.1	\$55.7
Indirect Effect	184	\$8.3	\$13.8	\$22.6
<b>Total Effect</b>	<b>464</b>	<b>\$25.0</b>	<b>\$38.9</b>	<b>\$78.3</b>

In addition to the impacts on employment, earnings, output and state GDP cited above, direct spending of \$56.6 million would generate a projected one-time increase of approximately \$1.465 million in taxes paid to the State during construction, including:

- \$938,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$409,000 in state sales taxes paid on those workers’ taxable household spending;
- \$118,000 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.

<sup>1</sup> 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.

<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.

**Table 3: Anticipated wages during construction**

<b>Occupation</b>	<b>RI median hourly wage<sup>3</sup></b>
Architect	\$40.76
Construction manager	\$54.17
Carpenter	\$21.04
Electrician	\$24.86
Plumber	\$23.54
Painter	\$18.10
Laborer	\$18.33

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***

After construction is completed, ongoing operations at River House will include:

- The operations of a tenant business (or businesses) occupying the proposed 4,194 square feet of street-level commercial space; and
- Management, operations and maintenance of the new building.

Appleseed estimates that when fully operational first-floor retail tenants will directly employ 14 people (on a full-time-equivalent basis); and that 13 additional FTE's will be employed (either directly or through contractors and vendors) in building management, operations and maintenance.

Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied (which for purposes of this analysis is assumed to occur in 2018), it will directly and indirectly account for:

- 31 FTE jobs in Rhode Island;
- Approximately \$1.19 million in annual earnings (in 2018 dollars);
- Approximately \$2.82 million in annual statewide economic output; and
- An increase of approximately \$1.80 million in Rhode Island's annual GDP.

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<sup>3</sup> Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2015

**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	27	\$0.97	\$1.38	\$2.12
Indirect Effect	4	0.22	0.42	0.70
<b>Total Effect</b>	<b>31</b>	<b>\$1.19</b>	<b>\$1.80</b>	<b>\$2.82</b>

In addition to the impacts cited in Table 4, ongoing operations at River House would directly and indirectly generate a projected increase of approximately \$70,000 in taxes paid annually to the State. These taxes would include approximately:

- \$45,000 in state personal income taxes paid by Rhode Island workers employed directly at River House, or whose jobs are indirectly attributable to tenant and building operations;
- \$19,000 in state sales taxes paid on those workers' taxable household spending; and
- \$6,000 in state business corporation taxes directly or indirectly attributable to building and tenant company operations.

Workers who fill retail and building services jobs at River House are expected to be drawn primarily from Providence or from other nearby communities.

## Impact

The state fiscal impact of the requested tax credits and sales and use tax exemptions is up to \$8,219,419 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated one-time, construction-related increase in state GDP increase in state GDP of \$38.9 million, followed by an increase in annual state GDP of \$1.8 million, the estimated associated job creation, and the gross increase of \$2.31 million in state 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.

- Support the ongoing development of the Jewelry District as a "24/7" mixed-use community
- Expand retail options for people living and working in the area
- Support continued enrollment growth and the development of new programs at several of the state's colleges and universities
- 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. The risk of project cost overruns is mitigated by the fact that tax credits and the value of the requested sales tax exemption are capped at the amounts set forth above. In addition, if project costs come in lower than anticipated, the value the requested tax benefits may be reduced.