

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
SSL Partner, LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to SSL Partner, LLC (the “Sponsor”), a subsidiary of Wexford Science + Technology. The credits would be issued in connection with the Sponsor’s decision to invest in the development of an approximately 191,000 square-foot office building/innovation center which will include office, research and education space as well as an approximately 9,300 square-foot District Hall and Café, a meeting and event space that would be open to the public. The project is part of the first phase of a proposed three-phase, mixed-use development on Parcels 22 and 25 in the I-195 Redevelopment District in Providence. A second element of Phase One – an approximately 164-room Aloft Hotel with ground floor retail – is not included in the Sponsor’s application for Rebuild Rhode Island tax credits and thus the economic impacts associated with the future hotel are not considered in this analysis.

The Sponsor estimates that total project cost for the project will be approximately \$104.7 million, which includes base building costs, tenant improvements, and operating incentives for an anchor tenant, the Cambridge Innovation Center.

The Sponsor is requesting:

- A Rebuild Rhode Island tax credit of \$15,000,000 which is anticipated to be redeemed for a value of \$13,500,000; and
- A sales and use tax exemption (valued at \$1,597,036) requested by the Sponsor on eligible office building construction and build-out costs.

Other incentives already approved include:

- Base building and tenant improvement and inducement subsidies for the office building and District Hall totaling \$18,500,000, to be paid from the I-195 Fund;
- A contribution of land from the I-195 Redevelopment District Commission.

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 \$104.7 million.

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

Component	Estimated cost
Land acquisition	\$3.9
Building construction (hard cost)	\$54.1
Tenant improvements	\$25.2
Soft costs	\$18.4
Developer's fee	\$3.1
Total	\$104.7

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 and interest costs), the remaining hard and soft costs total \$91.3 million. Appleseed estimates that direct expenditures of \$91.3 million will directly and indirectly generate:

- 679 person-years¹ of work in Rhode Island;
- \$40.7 million in earnings;
- \$116.0 million in statewide economic output²; and
- A one-time increase of \$62.0 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 (e.g., 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	515	\$31.5	\$47.1	\$91.3
Indirect Effect	164	9.2	14.9	24.7
Total Effect	679	\$40.7	\$62.0	\$116.0

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.

In addition to the impacts on employment, earnings, output and state GDP cited above, direct spending of \$91.3 million would generate a projected one-time increase of \$2.384 million in taxes paid to the state during construction, including:

- \$1.525 million in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$666,000 in state sales taxes paid on those workers' taxable household spending;
- \$193,000 in state business corporation taxes

Most of the activity reflected in Table 2 is expected to occur between mid to late-2017 and mid to late-2019. 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 ³
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 the Innovation Center will include:

- The operations of office tenant businesses, including shared office and co-working space to be leased and managed by Cambridge Innovation Center
- District Hall, a public meeting space and café, also managed by Cambridge Innovation Center
- Brown University's School of Professional Studies

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

As shown in Table 4, we estimate based on information provided by the Sponsor that when the project is completed and fully occupied, 814 people will be directly employed at the new office building/innovation center.

Table 4: Current estimates of employment by business type, 2019

Business type	Jobs
Office tenants and shared space users ⁴	706
Brown University	100
Food service	8
Total	814

Because approximately 90 of the estimated 100 employees of the Brown University School of Professional Studies who will be moving into the new building in 2020 represent already-existing Rhode Island jobs, we have included only 10 of the 100 Brown jobs in our analysis of the proposed development’s economic impact. Similarly, for purposes of this analysis, one-third of the 260 positions associated with shared office space users were assumed to be already-existing Rhode Island jobs. These 87 jobs are also excluded from our analysis, leaving a total of 637 new jobs in Rhode Island directly associated with Wexford’s proposed office building/innovation center.

Based on these job estimates, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied, it will directly and indirectly account for:

- 1,106 FTE jobs in Rhode Island;
- Approximately \$81.9 million in annual earnings (in 2020 dollars);
- Approximately \$232.4 million in annual statewide economic output; and
- An increase of approximately \$121.1 million in Rhode Island’s annual GDP.

Table 5: Direct and indirect annual impact of ongoing operations from net new jobs in Rhode Island (employment in FTE; income, value-added and output in millions of 2020 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	637	\$50.0	\$73.0	\$153.4
Indirect Effect	469	31.9	48.1	79.0
Total Effect	1,106	\$81.9	\$121.1	\$232.4

In addition to the impacts on employment, earnings, output and state GDP cited above, office, research, educational and food service tenant operations would generate a projected increase of nearly \$4.81 million in taxes paid annually to the state, including:

⁴ For purposes of this analysis we have assumed that office tenants will include a mix of research and development, information technology, digital media, professional and technical services and investment firms.

- \$3.07 million in state personal income taxes paid by Rhode Island workers employed by office building tenants, or whose jobs are indirectly attributable to office tenant operations;
- \$1.34 in state sales taxes paid on those workers' taxable household spending; and
- \$389,000 in state business corporation taxes.

Workers who fill jobs with office, research and university tenants are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

Impact

The state fiscal impact of the requested Rebuild Rhode Island tax credits is up to \$15,000,000 in foregone state revenue; an additional \$1,597,036 in foregone state revenue resulting from the request for exemption of certain eligible construction and fit-out costs from the state sales tax.

Direct and indirect economic and fiscal benefits of the proposed project include the estimated annual state GDP increase of \$121.1 million, the estimated associated job creation, and the gross increase of more than \$60.1 million in personal income, sales and business corporation 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.

- Contribute to the ongoing development of the Providence Innovation District
- Set the stage for completion of the second and third phases of Wexford's proposed development
- Help attract additional private investment in the I-195 Redevelopment District
- Enhance opportunities for commercialization of new technologies initially developed at Rhode Island's universities
- Provide growth space for Rhode Island-based technology start-ups
- Help attract and retain highly skilled young workers and entrepreneurs
- Provide amenities and resources – including shared office space, meeting and event space and educational programs that will benefit businesses in and residents of the wider community

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 are capped at the amount set forth above; and any increase in the value of the requested sales and use tax exemption would be offset by a corresponding reduction in the value of the Rebuild Rhode Island tax credits. In addition, if project costs come in lower than anticipated, the tax credits to be paid will be reduced accordingly. The future hotel development may also be eligible for an incentive through Tax Increment Financing (TIF), and any net TIF incentive will offset the Rebuild Rhode Island tax credits on a dollar-for-dollar basis.