

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
Hammetts Wharf LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may provide Rebuild Rhode Island tax increment financing (“TIF”) to Hammetts Wharf LLC (the “Sponsor”). The credits would be provided in connection with the Sponsor’s proposed investment in a new mixed-use development on the waterfront in Newport. The project would include:

- An 84-room limited-service hotel
- A 4,000 square-foot full-service restaurant
- 3,000 square feet of retail space
- 1,000 square feet of office space
- 160 parking spaces – 58 structured and 102 surface spaces
- A walkway providing public access to the waterfront

The Sponsor estimates the total cost of the project to be \$28.3 million. The Sponsor is requesting Rebuild Rhode Island tax increment financing totaling \$3.5 million.

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 \$28.3 million.

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

Component	Estimated cost
Land costs	\$0.3
Construction (hard costs)	18.1
Architecture and engineering	2.1
Owner’s direct costs	6.2
Carrying costs	0.7
Closing costs	0.9
Total	\$28.3

After excluding certain expenditures that do not have a direct, current impact on Rhode Island's economy (such land acquisition and interest paid during construction), spending on development of the proposed project is estimated to total approximately \$26.8 million.

Appleseed estimates that direct expenditures of \$26.8 million will directly and indirectly generate:

- 180 person-years¹ of work in Rhode Island, with \$11.0 million in earnings (in 2019 dollars);
- Approximately \$32.0 million in statewide economic output²; and
- A one-time increase of \$17.5 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 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	134	\$8.4	\$13.3	\$25.1
Indirect Effect	46	2.6	\$4.2	\$6.9
Total Effect	180	\$11.0	\$17.5	\$32.0

In addition to the impacts on employment, earnings, output and state GDP cited in Table 2, direct spending of \$26.8 million would generate a projected one-time increase of approximately \$645,000 in taxes paid to the State during construction, including:

- \$413,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$180,000 in state sales taxes paid on those workers' taxable household spending; and
- \$52,000 in state business taxes.

The activity reflected in Table 2 will occur from the fall of 2018 through the spring of 2020.

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, as of 2017.

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	RI median hourly wage ³
Architect	\$40.36
Construction manager	\$47.10
Carpenter	\$22.82
Electrician	\$27.42
Plumber	\$27.71
Painter	\$18.85
Laborer	\$19.39

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 proposed hotel and other new businesses at Hammetts Wharf are expected to begin operating in mid-2020, with stabilized operations being reached in 2022. Using IMPLAN, and based on information provided by the Sponsor, Appleseed estimates (as shown in Table 4) that in 2022, ongoing operations would directly and indirectly support:

- 99 full-time-equivalent jobs in Rhode Island, with approximately \$3.98 million in annual earnings (in 2022 dollars);
- \$11.12 million in annual statewide economic output; and
- An increase of \$6.70 million in Rhode Island's annual GDP.

Table 4: Direct, indirect and total incremental impact of hotel and commercial tenant operations at Hammetts Wharf, 2022 (employment in FTE; earnings, value-added and output in millions of 2022 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	84	\$3.0	\$5.1	\$8.3
Indirect Effect	15	\$1.0	1.6	2.8
Total Effect	99	\$4.0	\$6.7	\$11.1

In addition to the impacts on employment, earnings, output and state GDP cited in Table 4, ongoing operations would generate a projected gross increase of approximately \$589,000 in taxes paid to the state in 2022, including:

- \$356,000 in state sales and hotel taxes levied on room rentals at the proposed new hotel;

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2017

- \$149,000 in state personal income taxes paid by Rhode Island workers employed by the hotel or by other Hammetts Wharf commercial tenants, or whose jobs are indirectly attributable to the operations of those businesses;
- \$65,000 in state sales taxes paid on those workers' taxable household spending;
- \$19,000 in state business taxes.

Workers employed by the hotel and by commercial tenants at Hammetts Wharf would be drawn primarily from communities throughout the Providence-Warwick RI-MA NECTA.

Impact

The state fiscal impact of the requested TIF incentives is approximately \$3.5 million in foregone state tax revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated increase in annual state GDP (in 2022) of approximately \$6.7 million; the associated job creation; and a gross increase of approximately \$7.7 million in hotel, personal income, sales and business tax revenues directly and indirectly generated by the project during the construction phase, and by ongoing operations during the twelve years from mid-2020 through mid-2032.

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

- By redeveloping and activating an underutilized site on the Newport waterfront
- By improving public access to the waterfront
- By increasing hotel capacity in the city
- By increasing hotel, real property and personal property taxes paid to the city

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. Various features of the Rebuild Rhode Island program mitigate other risks 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 requested TIF incentives will be issued only upon completion of the development. The risk of project cost overruns is mitigated by the fact that state's participation would be capped at the amount set forth above.