

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
Steeple Street RI LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may provide Rebuild Rhode Island tax credits to Steeple Street RI LLC (the “Sponsor”). The credits would be provided in connection with the Sponsor’s proposed investment in the development of Phase II of Edge College Hill. Phase I, completed in 2018, is a fifteen-story building housing students and young workers. Phase II would be an eleven-story building with approximately 163 residential units and approximately 9,000 square feet of retail space, serving a similar population, to be constructed in Providence.

The Sponsor estimates the total cost of the project to be \$59.2 million. The Sponsor is requesting Rebuild Rhode Island tax credits totaling \$6.0 million gross (approximately \$5.4 million net), and an exemption from sales and use taxes on construction with an estimated value of \$1.295 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 \$59.2 million.

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

| Component | Estimated cost |
|-----------------------------------|-----------------------|
| Property acquisition | \$3.5 |
| Construction (hard costs) | 44.7 |
| Soft costs | 9.5 |
| Fixtures, furniture and equipment | 1.5 |
| Total | \$59.2 |

After excluding certain expenditures that do not have a direct, current impact on Rhode Island’s economy (such property acquisition and interest paid during construction), spending on development of the proposed project is estimated to total approximately \$52.3 million.

Appleseed estimates that direct expenditures of \$52.3 million will directly and indirectly generate:

- 414 person-years¹ of work in Rhode Island, with \$23.8 million in earnings (in 2019 dollars);
- Approximately \$71.5 million in statewide economic output²; and
- A one-time increase of \$35.3 million in Rhode Island’s GDP.

These impacts are summarized below in Table 2. The project’s *direct impact* is the impact of the Sponsor’s direct spending on construction, including both hard and soft costs. 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 | 252 | \$16.2 | \$22.7 | \$51.0 |
| Indirect Effect | 162 | 7.6 | 12.6 | \$20.5 |
| Total Effect | 414 | \$23.8 | \$35.3 | \$71.5 |

In addition to the impacts on employment, earnings, output and state GDP cited in Table 2, direct spending of \$52.3 million would generate a projected one-time increase of approximately \$1.34 million in taxes paid to the State during construction, including:

- \$857,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$374,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$109,000 in state business taxes.

The activity reflected in Table 2 will occur primarily in 2019 and 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 wage³ |
|----------------------|--|
| 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

Edge College Hill Phase II, and the retail businesses assumed to occupy the project's commercial space, are expected to begin operating in 2020. Using IMPLAN, and based on information provided by the Sponsor, Appleseed estimates (as shown in Table 4) that in 2020, ongoing operations would directly and indirectly support:

- 42 full-time-equivalent jobs in Rhode Island, with approximately \$1.6 million in annual earnings (in 2020 dollars);
- \$3.5 million in annual statewide economic output; and
- An increase of \$2.2 million in Rhode Island's annual GDP.

Table 4: Direct, indirect and total impact of ongoing operations operations, 2021 (employment in FTE; earnings, value-added and output in millions of 2021 dollars)

| | Employment | Earnings | Value added | Output |
|---------------------|-------------------|-----------------|--------------------|---------------|
| Direct Effect | 37 | \$1.3 | \$1.7 | \$2.7 |
| Indirect Effect | 5 | 0.3 | 0.5 | 0.8 |
| Total Effect | 42 | \$1.6 | \$2.2 | \$3.5 |

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 \$91,000 in taxes paid to the state in 2020, including:

- \$59,000 in state personal income taxes paid by Rhode Island workers employed by Edge commercial tenants, or whose jobs are indirectly attributable to the operations of those businesses;

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

- \$25,000 in state sales taxes paid on those workers' taxable household spending;
- \$7,000 in state business taxes.

Workers employed by Edge II and by commercial tenants would be drawn primarily from communities in the Providence area.

Impact

The state fiscal impact of the requested tax credits and sales tax exemption is approximately \$6.695 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 2020) of approximately \$2.2 million; the associated job creation; and a gross increase of approximately \$2.432 million in 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 2020 through 2031.

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

- By increasing the supply of off-campus housing available to accommodate a growing student population
- By enhancing the competitiveness of the city's universities
- By increasing real 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 tax credits 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.