Rhode Island Commerce Corporation

Streamlined Rebuild Rhode Island – Economic Impact Analysis

30 Kennedy Partners LLC Application

Introduction

The Rhode Island Commerce Corporation (the "Corporation") may provide Streamlined Rebuild Rhode Island tax credits to 30 Kennedy Partners LLC (the "Sponsor"). The credits would be provided in connection with the Sponsor's increased investment in the Beatrice Hotel, located at 30 Kennedy Plaza in Providence. The project was begun in 2017 with the assistance of $4.5 million in tax increment financing (TIF) provided by the Rhode Island Corporation.

As revised, the project will include:

- A 48-room extended-stay hotel with a rooftop bar
- A restaurant, a fitness center and a multi-function space located in an adjoining building owned by the Sponsor

Since 2017 the sponsor's estimate of total project cost has increased from approximately $19.4 million to $28.5 million. Factors contributing to this increase include:

- Increased cost and delayed delivery of materials procured from China, as a result of changes in federal regulations
- Costs associated with repositioning the hotel as an extended-stay hotel
- Delays in completing the project (and thus higher carrying costs) due to Covid-19
- Changes in the scope of the project
- Other costs not anticipated in the Sponsor's 2017 construction budget

The Sponsor is requesting $100,000 gross ($90,000 net) in Streamlined Rebuild Rhode Island tax credits to support completion of the project.

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 $28.5 million. After excluding certain expenditures that do not have a direct, current impact on Rhode Island's economy (such property acquisition, leasing reserves and interest paid during construction), spending on development of the proposed project is estimated to total approximately $24.8 million.

Table 1: Estimated total project cost ($ millions)

Component	Estimated cost
Contributed land and buildings	$2.9
Construction – hard costs	$15.2
Construction – soft costs	$8.0
Furniture, fixtures and equipment	$2.4
Total	**$28.5**

Using IMPLAN – a modeling tool commonly used in economic impact studies – Appleseed estimates that direct expenditures of $24.8 million will directly and indirectly generate:

- 175 person-years[1] of work in Rhode Island, with $11.6 million in earnings (in 2019 dollars);
- Approximately $25.4 million in statewide economic output[2]; and
- A one-time increase of $14.3 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 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	145	$9.8	$11.3	$19.9
Indirect Effect	30	$1.8	$3.0	$5.5
Total Effect	**175**	**$11.6**	**$14.3**	**$25.4**

The activity reflected in Table 2 will have occurred from the summer of 2017 through the fall of 2020.

In addition to the impacts on employment, earnings, output and state GDP cited in Table 2, direct spending of $24.8 million would generate a projected one-time increase of approximately $670,000 in taxes paid to the State during construction, including:

[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.

- $436,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project
- $179,000 in state sales taxes paid by these workers on taxable household spending
- $55,000 in state business taxes

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 May 2018.

Table 3: Anticipated wages during construction

Occupation	RI median hourly wage[3]
Architect	$37.59
Construction manager	$54.75
Carpenter	$22.68
Electrician	$28.40
Plumber	$27.71
Painter	$19.92
Laborer	$21.25

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

For purposes of this analysis, the Sponsor's hotel, restaurant, fitness center and multi-function space are assumed to be fully operational by the beginning of 2021. Using IMPLAN, along with information on the property's operating expenditures provided by the Sponsor Appleseed estimates (Table 4) that in 2021, operations will directly and indirectly support:

- 54 jobs in Rhode Island, with approximately $1.99 million in annual earnings (in 2021 dollars);
- $5.56 million in annual statewide economic output; and
- An increase of $3.44 million in Rhode Island's annual GDP.

[3] Median wages cited in Table 3 are from Rhode Island Department of Labor and Training, Occupational Employment Statistics, May 2018, except for plumbers, which are from May 2017

Table 4: Direct, indirect and total incremental impact of hotel, restaurant and fitness operations, 2021 (employment in jobs; earnings, value-added and output in millions of 2021 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	45	$1.52	$2.69	$4.20
Indirect Effect	9	$0.47	$0.75	$1.36
Total Effect	**54**	**$1.99**	**$3.44**	**$5.56**

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 $528,000 in taxes paid to the state in 2021, including approximately:

- $310,000 in state hotel and sales taxes on hotel room rentals
- $103,000 in state sales taxes on restaurant meals
- $75,000 in state personal income taxes paid by Rhode Island workers employed in hotel, restaurant and fitness operations, or whose jobs are indirectly attributable to those operations
- $31,000 in state sales taxes paid on those workers' taxable household spending
- $9,000 in state business taxes

Workers employed by businesses'operating on the project site would be drawn primarily from communities in and near Providence.

Impact

The total cost to the state of the previously-approved TIF and the requested tax credits will be approximately $4.6 million in forgone state tax revenue. Direct and indirect economic and fiscal benefits of the project include an estimated increase in annual state GDP (in 2021 dollars) of approximately $3.44 million; the associated job creation; and a cumulative gross increase of approximately $8.59 million in state personal income, sales and business tax revenues directly and indirectly generated by the project during the construction phase, and by ongoing operations during the six years after completion of the project.

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 extended-stay hotel rooms in downtown Providence
- By adding to the City's real property and personal property tax base

Beyond the fiscal impact noted above, the state's financial exposure will be limited. 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 tax credits will be issued only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the credits are capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the value of the credits will be reduced accordingly.