

May 22, 2018

The Honorable Marvin L. Abney
Chairperson of the House Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

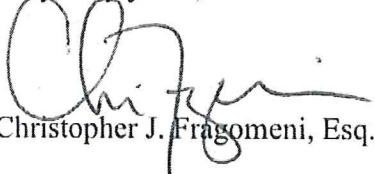
The Honorable William J. Conley, Jr.
Chairperson of the Senate Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

Dear Mr. Chairpersons,

Pursuant to R.I. Gen. Laws § 42-64-10(e), please find enclosed an economic impact analysis, conducted pursuant to R.I. Gen. Laws § 42-64-10(a), in relation to a tax credit agreement between the Rhode Island Commerce Corporation and Southern Rhode Island Hospitality, LLC under the Tax Increment Financing Act of 2015.

Should you have any questions or concerns, please contact the undersigned at 401-272-1400.

Very truly yours,


Christopher J. Fragomeni, Esq.

cc: Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor
Scott R. Jensen, Department of Labor and Training
Neena S. Savage, Division of Taxation

1080 Main Street
Pawtucket, Rhode Island 02860
p 401.272.1400 f 401.272.1403

www.shslawfirm.com

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Rhode Island Commerce Corporation
Tax Increment Financing – Economic Impact Analysis
Southern Rhode Island Hospitality LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) is considering exempting Southern Rhode Island Hospitality LLC (the “Sponsor”) from 75 percent of the state sales tax and 18 percent of the state hotel tax (“TIF”). This incentive would be issued in connection with the Sponsor’s decision to invest in the development of a new Fairfield Inn – a 100-room “focused service” hotel, to be located at the Village at South County Commons in South Kingstown. The total cost of the proposed project is estimated to be approximately \$19.0 million.

The Sponsor is requesting a TIF in an amount equal to the financing gap for the project, which is expected to be satisfied through the use of \$1.8 million in tax increment financing from the Sponsor’s lender.

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 \$19.0 million.

Table 1: Estimated total project cost (in millions of 2018 dollars)

Component	Estimated cost
Land acquisition	\$2.0
Architecture and engineering	\$0.4
Hard cost	\$13.0
Soft costs	\$1.6
Fixtures, furnishings & equipment	\$2.0
Total	\$19.0

After excluding certain costs that for purposes of this analysis do not have a direct, current impact on Rhode Island’s economy (such as land acquisition, hotel franchise fees and interest costs), the remaining hard and soft costs total approximately \$16.3 million. Applesseed estimates that direct expenditures of \$16.3 million will directly and indirectly generate:

- 111 person-years² of work in Rhode Island;
- Nearly \$6.7 million in earnings (in 2018 dollars);
- Approximately \$19.3 million in statewide economic output³; and
- A one-time increase of more than \$10.2 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 and indirect impact of construction spending (employment in person-years; income, value-added and output in millions of 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	84	\$5.2	\$7.7	\$15.2
Indirect Effect	27	1.5	2.5	4.1
Total Effect	111	\$6.7	\$10.2	\$19.3

In addition to the impacts cited in Table 2, direct expenditures of \$16.3 million would directly and indirectly generate a projected one-time increase of approximately \$770,000 in taxes paid to the State during construction. This increase would include approximately:

- \$378,000 in state sales and use taxes paid on construction materials and hotel fixtures, furniture and equipment;
- \$251,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$109,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$32,000 in state business corporation taxes paid by companies directly or indirectly working on the project.

Most of the activity reflected in Table 2 is expected to occur in 2018-2019. 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.

² 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.

³ 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 ⁴
Architect	\$42.50
Construction manager	\$50.86
Carpenter	\$22.42
Electrician	\$25.26
Plumber	\$24.84
Painter	\$18.69
Laborer	\$18.68

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, the Sponsor estimates that 25 people (on a full-time-equivalent basis) will be employed in the operation of the hotel.

Based on the Sponsor's estimates of hotel employment and revenues, Appleseed projects (as shown below in Table 4), that when the hotel is completed and fully operational and stabilized (which is assumed to occur in 2020), it will directly and indirectly account for:

- 30 FTE jobs in Rhode Island;
- Nearly \$1.2 million in annual earnings (in 2020 dollars);
- More than \$4.3 million in annual statewide economic output; and
- An increase of more than \$2.4 million in Rhode Island's annual GDP.

Table 4: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2020 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	25	\$0.9	\$2.0	\$3.6
Indirect Effect	5	0.3	0.4	0.7
Total Effect	30	\$1.2	\$2.4	\$4.3

Workers who fill jobs at the hotel are expected to be drawn primarily from South Kingstown and from other nearby communities.

⁴ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2016

In addition to the impacts cited in Table 4, ongoing operations at the new hotel would directly and indirectly generate a projected gross increase of approximately \$528,000 in taxes paid annually to the state. These taxes would include approximately:

- \$459,000 in state sales and hotel taxes paid on room rents and other hotel charges (before allocating to the Sponsor the amount required to support the proposed TIF);
- \$44,000 in state personal income taxes paid by Rhode Island workers employed directly by the hotel, or whose jobs are indirectly attributable to the hotel;
- \$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 hotel operations.

Impact

The state fiscal impact of the requested tax increment financing is that portion of the eligible incremental tax revenues generated by the project that will be directed to the Sponsor. Specifically, 75 percent of the sales tax revenues and 18 percent of the hotel tax revenues generated by the hotel during the life of the TIF agreement (not to exceed 20 years) will be allocated to the Sponsor. Those funds are directed to the Sponsor to enable it to secure the financing necessary to close the financing gap on the project. The State will collect the balance of the sales and hotel occupancy tax revenue not directed to the Sponsor.

Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase of \$2.4 million in Rhode Island's GDP, the estimated associated job creation, and the gross increase of nearly \$7.1 million in state personal income, sales, hotel and business 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.

- Increase the supply of hotel rooms in southern Rhode Island;
- Support continued growth in the number of visitors to Rhode Island;
- Create entry-level employment opportunities for less-skilled Rhode Island residents; and
- Increase local real property, tangible personal property and hotel 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. In particular, the completion risk (i.e., the risk that the project is not completed) is mitigated by the fact that the incentives will be payable only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the TIF is capped at the amount set forth above.