

Rhode Island Commerce Corporation Rebuild Rhode Island and Qualified Job Tax Credits – Economic Impact Analysis

Finlay Extracts and Ingredients USA, Inc. Application

Introduction

The Rhode Island Commerce Corporation (the "Corporation") may issue Rebuild Rhode Island and Qualified Jobs Incentive tax credits to Finlay Extracts and Ingredients USA, Inc. (the "Company"). The credits would be issued in connection with the Company's decision to invest in the development of new R&D, manufacturing and distribution facilities in the Quonset Business Park in North Kingstown. This investment would occur in two phases:

- A 28,800 square-foot R&D and pilot-scale production facility, to be completed in 2017 at an estimated cost of \$16.8 million. When completed, this facility would directly employ up to 25 people with average earnings of \$54,813.
- Addition of 65,000 square feet of manufacturing and distribution space (expandable to 130,000), to be completed by 2020 at an estimated cost of \$37.5 million. When completed, this expansion would result in the hiring of 48 additional employees with average earnings of \$50,304.

The Company is requesting a Rebuild Rhode Island tax credit of \$276,972 and Qualified Jobs Incentive tax credits totaling \$1,354,105 for both phases of the project. The Company is also eligible for state sales and use tax exemption for qualifying investments in construction, fixtures and equipment, up to \$572,000. This exemption would offset the value of the Rebuild Rhode Island tax credit on a dollar-for-dollar basis up to \$571,000.

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 below in Table 1, the Company's estimate of the total cost of both phases is \$54.3 million.

Table 1: Estimated project cost, Phases 1 and 2

Component	Phase 1 (\$mm)	Phase 2 (\$mm)
Hard cost	\$5.9	\$14.6
Equipment	\$7.9	\$16.0
Soft costs (including contingency)	\$3.0	\$6.9
Total	\$16.8	\$37.5

For purposes of this analysis, we assume that all construction spending (both hard and soft costs) occurs in Rhode Island, and that all process machinery and other specialized equipment is procured from out-of-state sources.

Applesseed estimates that Phase 1 spending on hard and soft costs, totaling \$8.1 million, will directly and indirectly generate:

- 62 person-years¹ of work in Rhode Island;
- More than \$3.8 million in earnings;
- Nearly \$10.6 million in State-wide economic output²;
- A projected one-time increase of approximately \$225,000 in taxes paid to the State during construction including approximately:
 - \$144,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
 - \$63,000 in state sales taxes paid on those workers' taxable household spending;
 - \$18,000 in state business corporation taxes; and
- A one-time increase of \$5.5 million in Rhode Island's GDP.

Phase 1 construction impacts are summarized below in Table 2.

Table 2: Direct and indirect impact of construction spending (employment in person-years; income, value-added and output in millions of 2016 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	45	\$2.9	\$4.0	\$8.1
Indirect Effect	17	\$0.9	\$1.5	\$2.5
Total Effect	62	\$3.8	\$5.5	\$10.6

In Phase 2, spending on hard and soft costs totaling \$19.8 million will directly and indirectly generate:

- 146 person-years of work in Rhode Island;
- More than \$9.6 million in earnings;
- \$24.2 million in State-wide economic output;
- A projected one-time increase of approximately \$565,000 in taxes paid to the State during construction including approximately:
 - \$361,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;

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.

- \$158,000 in state sales taxes paid on those workers' taxable household spending;
- \$46,000 in state business corporation taxes; and
- A one-time increase of \$13.6 million in Rhode Island's GDP.

Phase 2 construction impacts are summarized below in Table 3.

Table 3: 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	119	\$7.9	\$11.0	\$19.8
Indirect Effect	27	\$1.7	\$2.6	\$4.4
Total Effect	146	\$9.6	\$13.6	\$24.2

Most of the activity reflected in Table 2 will occur during 2016-2017; and that reflected in Table 3 in 2018-2020. The anticipated wage rates for construction jobs are shown below in Table 4. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island as of May 2015.

Table 4: Anticipated wages during construction

Occupation	RI median hourly wage
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 would be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

Annual operations

Appleseed estimates that when the first phase of the project is completed and fully operational (which is expected to occur by the end of 2017), it will directly and indirectly account for:

- 55 full-time equivalent jobs in Rhode Island.
- Approximately \$3.1 million in annual earnings (in 2017 dollars).
- \$16.6 million in annual State-wide economic output.

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

- An increase of \$5.5 million in Rhode Island's annual GDP.
- A projected gross increase of nearly \$358,000 in taxes paid to the State during the first two years of operation (in addition to the \$225,000 in tax revenues cited above that would be generated by spending on Phase 1 construction). These taxes will include approximately:
 - \$229,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
 - \$100,000 in state sales taxes paid on those workers' taxable household spending; and
 - \$29,000 in state business corporation taxes.

Table 5: Direct and indirect impact of Phase 1 annual operations (employment in FTE; income, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	24	\$1.4	\$2.8	\$12.1
Indirect Effect	31	\$1.7	\$2.7	\$4.5
Total Effect	55	\$3.1	\$5.5	\$16.6

The average salary across the 24 new jobs directly created by the Company in 2017 would be \$54,813.

When the second phase of the project is completed and fully operational (which is expected to occur by 2020), the entire operation (including operations started during Phase 1) will directly and indirectly account for:

- 155 full-time equivalent jobs in Rhode Island.
- Approximately \$8.4 million in annual earnings (in 2019 dollars).
- \$44.9 million in annual State-wide economic output.
- An increase of \$15.3 million in Rhode Island's annual GDP.

These impacts are summarized below in Table 6.

Table 6: Direct and indirect impact of annual operations after completion of Phase 2 (employment in FTE; income, value-added and output in millions of 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	73	\$3.8	\$7.9	\$32.6
Indirect Effect	82	\$4.6	\$7.4	\$12.3
Total Effect	155	\$8.4	\$15.3	\$44.9

Workers who fill the jobs cited in Tables 5 and 6 would be drawn primarily from the Providence-Warwick RI-MA NECTA.

During a commitment period of not less than twelve years (including the first two years following completion of Phase 1 construction), annual operations would directly and indirectly account for a projected gross increase of nearly \$5.3 million in taxes paid to the State (in addition to the \$790,000 in tax revenues cited above that would be generated by spending on Phase 1 and Phase 2 construction). These taxes will include approximately:

- \$3.4 million in state personal income taxes paid by Rhode Island workers employed by the Company at its new facility in North Kingstown, or whose jobs are indirectly attributable to the operation of that facility;
- \$1.5 million in state sales taxes paid on those workers' taxable household spending; and
- \$429,000 in state business corporation taxes.

Benefits

The Company will provide an array of employee benefits that includes (among others):

- Health and dental insurance
- Health savings accounts, partially funded by the Company
- Paid vacation, holidays, and sick leave
- Life and long-term disability insurance
- A 401k retirement plan;
- Profit-sharing
- Tuition assistance for approved job-related courses

The Company estimates that annual spending on employee benefits will total approximately 38 percent of direct salary costs.

Hiring

The Company will use all available resources at state and local levels to recruit new employees, including online postings, job fairs, recruiting through colleges and universities, and referrals from current employees. The Company also plans to structure internship programs aligned with specific programs at Bryant University and Johnson & Wales University.

Impact

The state fiscal impact of the requested tax credits and state sales and use tax exemption is up to \$1.9 million in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated \$15.3 million increase in Rhode Island's annual GDP during Phase 2 operations; and a gross increase of nearly \$6.1 million in personal income, sales and business corporation tax revenues directly and indirectly generated by the project during construction and during a twelve-year commitment period.

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

- The company's decision to locate the proposed facility in Rhode Island will reinforce the state's efforts to grow its research and development and manufacturing sectors.
- The Company will collaborate with Johnson & Wales University's culinary arts and nutrition programs in research, new product development and provision of internships for JWU students; with the University of Rhode Island on supply chain management; and with Bryant University on marketing.
- The project will add to North Kingstown's real property and personal property tax base.

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 Rebuild Rhode Island tax credits are capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the tax credits to be paid will be reduced accordingly. As the Qualified Jobs tax credit amounts are limited to reasonably expected W-2 withholdings for the new, directly-created jobs, any potential exposure for State taxpayers, or any other foreseeable negative contingency, is limited.