

Rhode Island Commerce Corporation

Qualified Jobs Incentive Tax Credits – Economic Impact Analysis

General Electric Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Qualified Jobs Incentive tax credits to General Electric (doing business as GE Digital, the “Company”). The credits would be issued in connection with the Company’s decision to create a new information technology center in leased space at 75 Fountain Street in Providence. The Company would employ 50 people in the center’s first year, 75 in its second year, and 100 in its third year and through the remainder of the commitment period. The average annual earnings of Company employees working at the proposed center in 2017 would be approximately \$120,000.

The total value of the requested Qualified Jobs Incentive Tax Credits would be approximately \$4.6 million. The Company would also be requesting a first-year grant of \$150,000 from the First Wave Closing Fund to help cover the cost of tenant improvements. When employment reaches 100, the Company would be eligible for an additional \$500,000 from the First Wave Closing Fund.

Jobs Analysis

Construction

The impact of spending on tenant improvements would be minimal. We estimate that expenditure of \$150,000¹ on tenant improvements would directly and indirectly support:

- 2 person-years² of work in Rhode Island;
- \$82,000 in earnings;
- Approximately \$251,000 in State-wide economic output³;
- A projected one-time increase of approximately \$4,100 in personal income, sales and business corporation taxes paid to the State during construction; and
- A one-time increase of \$130,000 in Rhode Island’s GDP.

¹ Costs actually incurred by the Company for tenant improvements could significantly exceed \$150,000; but since total costs for this work are not yet known, this analysis includes only an amount equivalent to the initial grant from the First Wave Fund.

² 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.

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.

As noted above, the Company would be eligible for \$500,000 in additional First Wave funding when the number of people employed at the new center reaches 100. Assuming that total tenant improvements required for a staff of 100 would be \$650,000, including both disbursements from the First Wave Closing Fund, we estimate that this expenditure would directly and indirectly support:

- 6 person-years of work in Rhode Island;
- \$349,000 in earnings;
- Approximately \$1.1 million in State-wide economic output;
- A projected one-time increase of approximately \$20,000 in personal income, sales and business corporation taxes paid to the State during construction; and
- A one-time increase of \$556,000 in Rhode Island's GDP

The tenant improvement work supported by the initial grant of \$150,000 would be completed in 2017, while additional work supported by the additional \$500,000 under the second scenario would occur in 2019. 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 1: Anticipated wages during tenant improvements

| Occupation | RI median hourly wage⁴ |
|----------------------|--|
| 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

⁴ Rhode Island Department of Labor and Training, Occupational Employment Statistics, May 2015.

As proposed, the number of people employed at the new center would stabilize at 100 in its third year of operation (expected to be 2019). In its third year the center's operations would directly and indirectly account for:

- 160 full-time equivalent jobs in Rhode Island.
- Approximately \$15.1 million in annual earnings (in 2017 dollars).
- \$28.7 million in annual State-wide economic output.
- An increase of \$18.5 million in Rhode Island's annual GDP.
- A projected gross increase of \$1.1 million in taxes paid to the State during the third year of operation. These taxes would include approximately:
 - \$723,000 in state personal income taxes paid by Rhode Island workers employed at the center, or whose jobs are indirectly attributable to the center's operations;
 - \$316,000 in state sales taxes paid on those workers' taxable household spending; and
 - \$91,000 in state business corporation taxes.

Table 2: Direct, indirect and induced impact of annual operations, years 3-12 (employment in FTE; income, value-added and output in millions of 2017 dollars)

| | Employment | Earnings | Value added | Output |
|---------------------|-------------------|-----------------|--------------------|---------------|
| Direct Effect | 100 | \$12.0 | \$13.7 | \$21.3 |
| Indirect Effect | 60 | \$3.1 | \$4.8 | \$7.4 |
| Total Effect | 160 | \$15.1 | \$18.5 | \$28.7 |

Alternatively, if the number of people employed at the new center did not rise above the first-year level cited above (that is, 50 employees, the estimated impact of annual operations would be reduced commensurately. In this case, the center's annual operations starting in 2017 would directly and indirectly account for:

- 80 full-time equivalent jobs in Rhode Island.
- Approximately \$7.5 million in annual earnings (in 2017 dollars).
- \$14.4 million in annual State-wide economic output.
- An increase of \$9.3 million in Rhode Island's annual GDP.
- A projected gross increase of \$566,000 million in taxes paid to the State during the third year of operation. These taxes would include approximately:
 - \$362,000 in state personal income taxes paid by Rhode Island workers employed at the center, or whose jobs are indirectly attributable to the center's operations;

- \$158,000 in state sales taxes paid on those workers' taxable household spending; and
- \$46,000 in state business corporation taxes.

The new center's operating impact under this alternative is shown below in Table 3.

Table 3: Direct, indirect and induced impact of annual operations, years 1-12 (employment in FTE; income, value-added and output in millions of 2017 dollars)

| | Employment | Earnings | Value added | Output |
|---------------------|-------------------|-----------------|--------------------|---------------|
| Direct Effect | 50 | \$6.0 | \$6.9 | \$10.7 |
| Indirect Effect | 30 | \$1.5 | \$2.4 | \$3.7 |
| Total Effect | 80 | \$7.5 | \$9.3 | \$14.4 |

Benefits

The Company will provide a comprehensive set of benefits to those employed at the new center, including health insurance and retirement benefits, typically valued at 33 percent of direct salary costs.

Hiring

Under both scenarios, the Company would be hiring employees with skills in software design, software engineering and high-performance computing. The Company has stated that no employees will be transferred to the new center in Providence from any of its other locations in Rhode Island; all positions would thus represent net new hires in Rhode Island.

Impact

Assuming that the Company's workforce at the new center reaches 100 employees in 2019, the state fiscal impact of the requested tax credits and grants is \$5.3 million in foregone state revenue and direct spending. In this case, the direct and indirect economic and fiscal benefits of the proposed project include an estimated \$18.5 million increase in Rhode Island's annual GDP starting in 2019; and a gross increase of more than \$12.7 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 new center in Rhode Island will reinforce the state's efforts to grow its knowledge-based industries.

- By choosing a site in downtown Providence, the Company will enhance the city's reputation as an attractive location for high-value, innovation-economy jobs.
- The Company's presence in Providence will assist the city and the state in their efforts to attract and retain well-educated, highly-skilled young workers.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. 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. Any risk that employment at the new center (and associated tax revenues) might not reach the level assumed in Table 2 (100 employees by 2019) is mitigated by the fact that Qualified Jobs Incentive tax credits will be based on actual employment and wages, and that the additional \$500,000 in First Wave funding cited above would be provided only when employment reaches 100.