

Rhode Island Commerce Corporation

Qualified Jobs Incentive Tax Credits – Economic Impact Analysis

Ivory Ella, LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Qualified Job Incentive tax credits to Ivory Ella, LLC (the “Company”), an apparel and accessory product design, manufacturing and e-commerce company headquartered in Connecticut. The credits would be issued in connection with the Company’s proposed relocation of its manufacturing, storage and fulfillment operations from three locations in Connecticut to leased space at 89 Tom Harvey Road in Westerly. The proposed relocation would bring to Rhode Island 19 existing (but new to Rhode Island) jobs. The Company expects to add 11 more jobs at its new location between 2016 and 2018. The median annual salary for the jobs to be located to Rhode Island and those to be created is \$50,000. None of the jobs to be relocated or created would pay less than \$40,000.

The Company donates 10 percent of its net profits to Save the Elephants.

The Company’s initial lease at 89 Tom Harvey Road will be for five years. The Company is requesting a Qualified Jobs Incentive Tax Credit totaling \$362,055 over five years, with a commitment period of six years.

This analysis was prepared by Appleseed, a consulting firm with more than twenty years of experience in economic impact analysis.

Jobs Analysis

Construction

The Company estimates that it will spend approximately \$250,000 to build out and equip its leased space in Westerly. Appleseed estimates that this spending will directly and indirectly generate:

- 1.3 person-years¹ of work in Rhode Island;
- More than \$76,000 in earnings;
- More than \$197,000 in State-wide economic output²;

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.

- A projected one-time increase of nearly \$2,900 in personal income taxes paid to the State during construction; and
- A one-time increase of nearly \$118,000 in Rhode Island’s GDP.

Annual operations

The Company states that it will relocate 19 jobs from Connecticut to Westerly in 2016, and hire 3 additional employees in 2016, 7 in 2017 and 1 in 2018. Annual salaries for the existing and new jobs will range from \$40,000 to \$150,000, with a median of \$50,000.

Based on these estimates, Appleseed projects (as shown below in Table 1) that by 2018 operations associated with the Company’s relocated and newly-created jobs would directly and indirectly account for:

- 43 full-time equivalent jobs in Rhode Island;
- More than \$2.7 million in annual earnings (in 2018 dollars);
- More than \$8.2 million in annual statewide economic output;
- A projected net increase³ of more than \$25,000 in personal income taxes paid annually to the State; (in addition to the \$2,900 in personal income tax revenues cited above that would be generated by spending on building out and equipping the newly- leased space); and
- An increase of more than \$5.3 million in Rhode Island’s annual GDP.

Table 1: Direct and indirect impact of annual operations (employment in FTE; income, value-added and output in millions of 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	30	\$2.0	\$3.9	\$6.0
Indirect Effect	13	\$0.7	\$1.4	\$2.2
Total Effect	43	\$2.7	\$5.3	\$8.2

Benefits

In addition to the salaries cited above, the Sponsor covers 80 percent of the cost of a health insurance plan for employees and their families, 80 percent of the cost of a vision care plan and 90 percent of the cost of a dental plan. Other benefits include a \$50,000 employer-paid life insurance policy.

³ This does not include the value of the income taxes generated in 2018 for the 30 new jobs created by Ivory Ella, as those income taxes will be offset by the tax credit paid to Ivory Ella under the Act.

Hiring

The Company anticipates hiring for new positions from southern Rhode Island and surrounding areas. The Company is also planning to hire students from the Rhode Island School of Design as interns, with the expectation that some may transition into regular employment.

Impact

The state fiscal impact of the requested tax credits is up to \$362,055 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include an estimated state GDP increase of \$5.3 million, the associated job creation, a gross increase of approximately \$585,000 in personal income tax revenues directly and indirectly generated by the project during the build-out of the Company's space and during a six-year commitment period. In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in other ways.

- Continue growth in design and manufacturing.
- Highlight Rhode Island's ability to attract growing Internet-based businesses.

Based upon the foregoing analysis, the Corporation anticipates that the issuance of the tax credits will have a positive impact on the State's revenues, as indicated in the estimate of net income tax revenues provided above. 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 the 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.