

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

Infosys Limited, Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island and Qualified Jobs Incentive tax credits and First Wave funding to Infosys Limited (“the Company”), an India-based provider of software, information technology and consulting services. The credits would be issued in connection with the Company’s decision to open an Innovation and Technology Center in Providence. The Company’s new Center would employ 50 people in 2019 rising to 500 by 2023 with an average annual salary of \$79,400.

The Company is requesting:

- \$750,000 in Rebuild Rhode Island tax credits;
- An exemption from sales and use taxes due on construction materials and furnishings, with an estimated value of \$100,000;
- Qualified Jobs Incentive tax credits with an estimated value of approximately \$8.5million; and
- \$500,000 from the First Wave Closing Fund.

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 the total cost of finishing, furnishing and equipping the proposed Center at \$10.25 million, partially offset by a tenant improvement allowance of \$1.75 million. The total cost includes \$4.0 million for information technology equipment; for this analysis, we assume that all of this equipment would be procured out-of-state, leaving a total in-state expenditure of \$6.25 million, including:

- \$4.75 million in construction;
- \$500,000 for architecture and engineering; and
- \$1 million for furniture.

Appleseed estimates that direct expenditures of \$6.25 million will directly and indirectly generate:

- 41 person-years of work in Rhode Island;
- Nearly \$2.5 million in earnings (in 2018 dollars);
- Approximately \$6.9 million in statewide economic output; and
- A one-time increase of more than \$3.6 million in Rhode Island's GDP.

These impacts are summarized below in Table 1. 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 1: 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 | 30 | \$1.9 | \$2.7 | \$5.4 |
| Indirect Effect | 11 | 0.6 | 0.9 | 1.5 |
| Total Effect | 41 | \$2.5 | \$3.6 | \$6.9 |

In addition to the impacts cited in Table 1, direct expenditures of \$6.25 million would directly and indirectly generate a projected one-time increase of approximately \$147,000 in taxes paid to the State during construction. This increase would include approximately:

- \$94,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$41,000 in state sales taxes paid on those workers' taxable household spending; and
- \$12,000 in state business taxes paid by companies directly or indirectly working on the project.

The activity reflected in Table 1 would occur in two phases, with the first phase in 2018 and the second a few years later. The anticipated wage rates for construction jobs are shown below in Table 2. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island.

Table 2: Anticipated wages during construction

| Occupation | RI median hourly wage ¹ |
|----------------------|------------------------------------|
| Architect | \$42.50 |
| Construction manager | \$50.86 |
| Carpenter | \$22.42 |
| Electrician | \$25.26 |
| Plumber | \$24.84 |
| Painter | \$18.69 |
| Laborer | \$18.68 |

¹ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2016

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

As noted above, the Company intends to hire 50 employees at its Innovation and Technology Center in 2019, rising to 500 by January 2023. Table 3 summarizes the categories in which these jobs will be created, and average earnings for each category.

Table 3: Projected employment, year-end 2022

| Job category | New positions (end of 2022) | Average salary |
|---|--|-----------------------|
| Technology and software engineering | 400 | \$71,166 |
| Lead designers and industry principals | 100 | \$112,500 |
| Total | 500 | \$79,400 |

Based on data provided by the Company, and using the IMPLAN input-output modeling system, Appleseed estimates that in 2023, ongoing operations associated with the 500 full-time jobs the Company would be committed to creating and maintaining will directly and indirectly support:

- 716 full-time-equivalent (FTE) jobs in Rhode Island;
- \$51.0 million in annual earnings (in 2023 dollars);
- \$101.2 million in statewide economic output; and
- An increase of \$62.8 million in Rhode Island's annual GDP.

These impacts are summarized below in Table 4.

Table 4: Direct, indirect and total annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2023 dollars)

| | Jobs | Earnings | Value added | Output |
|------------------------|-------------|-----------------|--------------------|----------------|
| Direct Effect | 500 | \$39.7 | \$45.2 | \$73.7 |
| Indirect Effect | 216 | 11.3 | 17.6 | 27.5 |
| Total Effect | 716 | \$51.0 | \$62.8 | \$101.2 |

In addition to the impacts on employment, earnings, output and state GDP cited above, the Company's operations in Rhode Island would generate a projected increase of approximately \$2.988 million in annual state tax revenues, including:

- \$1.912 million in state personal income taxes paid by workers newly employed by the Company in its new operations in Rhode Island, or by Rhode Island workers whose jobs are indirectly attributable to the Company's new facility;
- \$834,000 in state sales taxes paid on those workers' taxable household spending; and
- \$242,000 in state business taxes.

Benefits

The Company provides medical, dental and vision care (with employee cost-sharing); health savings accounts; company-paid life and accidental death and dismemberment insurance; voluntary employee-paid supplemental insurance; disability insurance; an employee-funded 401k plan; voluntary employee-paid home and auto insurance; and paid vacation and sick leave.

Hiring

Infosys posts all available positions on its own website and on other sites such as LinkedIn and Indeed.com and works with leading national recruitment firms to fill open employment positions. Resumes are collected and reviewed, and phone interviews are conducted with selected applicants. Those selected by the hiring manager for further consideration are then scheduled for a round of interviews with the global hiring team. After the second interview round, background checks are conducted, and offers are extended to the successful job applicants.

Impact

The state fiscal impact of the requested tax credits is estimated to be approximately \$9.35 million in foregone state revenue, and a direct outlay of \$500,000 for the First Wave grant. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of \$62.8 million in 2023, the estimated associated job creation, and a gross increase of more than \$28.0 million in personal income, sales and business tax revenues during the twelve-year commitment period beginning in 2019. These benefits are detailed in the foregoing analysis.

In addition to the economic and tax revenue impacts cited above, the Company's new facility would benefit Rhode Island in other ways, including:

- Highlighting Rhode Island's attractiveness as a U.S. location for global companies
- Providing new opportunities in software engineering and technology for Rhode Island college and university graduates
- Increasing local tangible personal property tax revenues

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. Various features of the Rebuild Rhode Island program mitigate 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 tax credits will be issued only upon completion of construction work. The risk of project cost overruns is mitigated by the fact that the credits would 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.

Various features of the Qualified Jobs Incentive program similarly mitigate risk to the state. The value of Qualified Jobs Incentive tax credits would be determined on the basis of the number of people actually employed and the wages actually paid by the Company