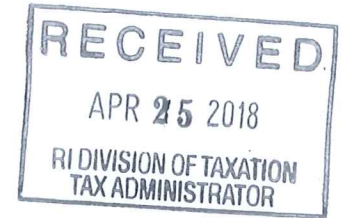


A Limited Liability Partnership



April 23, 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 Magellan HRSC, Inc. under the Rhode Island Qualified Jobs Incentive 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

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Rhode Island Commerce Corporation
Qualified Jobs Incentive Tax Credits – Economic Impact Analysis
Magellan HRSC, Inc. Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Qualified Jobs Incentive tax credits to Magellan HRSC, Inc. (“the Company”), a subsidiary of Magellan Health Inc., a Scottsdale, Arizona-based provider of health care management services that in 2014 acquired CDMI, a Newport, Rhode Island-based pharmacy benefits management firm. The credits would be issued in connection with the Company’s decision to expand its operations in Rhode Island.

The Company would retain the 86 people it now employs in Newport. From 2019 through 2021, the company would then add a cumulative total of 100 new employees, bringing its total workforce at the new location to 186. Of the 100 new employees the Company plans to add, 75 are anticipated to be eligible for Qualified Jobs Incentive tax credits based on wage thresholds required for eligibility. Based on the hiring and retention of these employees, the Company is requesting Qualified Jobs Incentive tax credits with an estimated value of \$2.1 million over ten years. In addition, to accommodate the planned growth, the Company plans to move to a larger facility on Aquidneck Island.

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

Jobs Analysis

The impact of building out newly-leased space

The Company estimates that fitting out its newly-leased space will cost approximately \$1.964 million, including \$1.464 million for fixtures, furnishings and equipment; \$238,000 for information technology; and \$80,100 for construction. After accounting for equipment that may be purchased out-of-state, Appleseed estimates that approximately \$1.726 million of this total would be spent in Rhode Island

Using the IMPLAN input-output modeling system (a modeling tool commonly used in economic impact studies), we estimate that this expenditure of \$1.726 million would directly and indirectly support:

- 4 person-years¹ of work in Rhode Island;
- \$239,000 in earnings (in 2017 dollars);
- Approximately \$587,800 in statewide economic output²; and
- A one-time increase of \$367,300 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 annual impact of initial capital investment (employment in person-years; income, value-added and output in 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	3	\$181,600	275,000	\$436,900
Indirect Effect	1	57,400	92,300	150,900
Total Effect	4	\$239,000	\$367,300	\$587,800

In addition to the impacts cited in Table 1, direct expenditures of \$1.726 million would directly and indirectly generate a projected one-time increase of approximately \$119,000 in taxes paid to the State during construction. This increase would include approximately:

- \$104,000 in state sales and use taxes paid on construction materials and fixtures, furniture and equipment;
- \$10,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$4,000 in state sales taxes paid on those workers' taxable household spending; and
- \$1,000 in state business corporation taxes paid by companies directly or indirectly working on the project.

Most of the activity reflected in Table 1 is expected to occur in 2017-2018. Workers who fill these jobs are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

The impact of ongoing operations

As noted above, the Company intends to hire 100 new employees at its new location by 2021. Table 1 summarizes the categories in which these jobs will be created, and median earnings for each category.

¹ 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.

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.

Table 2: Projected employment in 2021

Position	Employees	Median Salary
Clinical staff	60	\$100,000
Management and administration	11	60,000
Financial and data analytics	4	77,500
Pharmacy technicians and customer care staff	25	35,500
Total jobs/median salary	100	\$55,000

Based on data provided by the Company, and using the IMPLAN input-output modeling system Applesseed estimates that in 2021, ongoing operations associated with the 100 new full-time jobs the Company would create and maintain in Rhode Island will directly and indirectly support:

- 135 full-time-equivalent (FTE) jobs in Rhode Island;
- \$9.3 million in annual earnings (in 2021 dollars);
- \$18.5 million in statewide economic output; and
- An increase of \$10.6 million in Rhode Island's annual GDP.

These impacts are summarized below in Table 3.

Table 3: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	100	\$7.2	\$7.4	\$13.3
Indirect Effect	35	2.1	\$3.2	5.2
Total Effect	135	\$9.3	\$10.6	\$18.5

In addition to the impacts on employment, earnings, output and state GDP cited in Table 2, in 2021 the Company's operations in its new location would generate a projected increase of approximately \$547,000 in annual state tax revenues, including:

- \$350,000 in state personal income taxes paid by workers employed by the Company at its new location, or by Rhode Island workers whose jobs are indirectly attributable to the Company's operations at that site;
- \$153,000 in state sales taxes paid on those workers' taxable household spending; and
- \$44,000 in state business corporation taxes.

Workers employed by the Company are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

Benefits

The Company offers a comprehensive package of employee benefits, including health, dental, vision, life, short-term disability, long-term disability, and accidental death and dismemberment insurance. The Company's 401(k) plan includes a 3 percent employee contribution and a 50 percent employer match, up to a maximum of 6 percent of annual salary. The Company also offers an employee assistance plan, education and adoption assistance, paid time off, and an employee stock purchase plan.

Hiring

The Company recruits through social media such as LinkedIn, online job boards, professional organizations, employee referrals and other sources. When necessary, the Company also uses localized print advertising, local job fairs – and for some positions, professional search firms.

The Company relies on a comprehensive interview process to identify qualified candidates. After offers are made and accepted, prospective new hires are subject to detailed background investigations and drug screening.

Impact

The state fiscal impact of the requested tax credits is estimated to be \$2.1 million in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of \$10.6 million by 2021, the estimated associated job creation, and a gross increase of approximately \$6.02 million in personal income, sales and business corporation tax revenues during the fit-out of the Company's new space and 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 proposed project would benefit Rhode Island in other ways, including:

- Retaining the Company's 86 existing Rhode Island jobs
- Highlighting the state's attractiveness as a location for information-intensive professional services firms
- 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 program of the Qualified Jobs Incentive program mitigate risk to the state. In particular, Qualified Jobs Incentive tax credits will be determined on the basis of the number of people actually employed, and eligible salaries and wages actually paid.