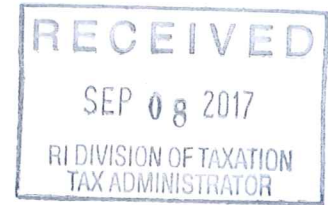




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September 7, 2017

The Honorable Marvin L. Abney
Chairperson of the House Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

The Honorable Senator 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 Johnson & Johnson Services, Inc., under the Rhode Island Qualified Jobs Incentive Act of 2015 and the First Wave Closing Fund Act.

Should you have any questions or concerns, please contact 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

Johnson & Johnson Application

Introduction

The Rhode Island Commerce Corporation (the "Corporation") may issue Qualified Jobs Incentive tax credits to Johnson & Johnson ("the Company"), a New Jersey-based health care company. The credits would be issued in connection with Johnson & Johnson's decision to locate a new Digital Health Technology and Analytics Center at 1 Ship Street in Providence.

The Company is requesting Qualified Jobs Incentive tax credits with an estimated value of \$4,425,860 and a talent attraction grant of \$250,000 through the First Wave Closing Fund. In addition to providing these tax credits, the I-195 Redevelopment District approved an allocation of up to \$1 million to pay for renovation and fit-out of the Company's space at 1 Ship Street. The State may also provide workforce services valued at up to \$450,000. In addition, negotiations are ongoing to potentially provide the space at 1 Ship Street at a nominal charge.

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

Jobs Analysis

Construction

As noted above, the cost of renovation and fit-out for the Company's space at 1 Ship Street is expected to be up to \$1 million. For purposes of this analysis, we assume a total cost of \$1,000,000, including \$750,000 for renovation and \$250,000 for fit-out, with all of this spending to occur in 2017.

As shown below in Table 1, we estimate that direct spending of \$1,000,000 will directly and indirectly support:

- 6 person-years¹ of work in Rhode Island;
- \$350,000 in earnings;
- \$1.0 million in statewide economic output²; and
- A one-time increase of \$530,000 in Rhode Island's GDP.

¹ A person-year is equivalent to the time worked by one person who is employed full-time for a year. In this case, 6 person-years of work could for example represent an average of 18 workers employed full-time for four months.

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.

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 renovation and fit-out (employment in person-years; income, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	4.5	\$0.27	\$0.40	\$0.79
Indirect Effect	1.5	0.08	0.13	0.21
Total Effect	6.0	\$0.35	\$0.53	\$1.00

In addition to the impacts on employment, earnings, output and state GDP cited above, direct spending of \$1,000,000 would generate a projected one-time increase of approximately \$20,000 in taxes paid to the state during construction, including:

- \$13,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$5,700 in state sales taxes paid on those workers' taxable household spending;
- \$1,600 in state business corporation taxes.

Annual operations

As shown in Table 2, the Company expects to hire a total of 75 employees in 2017 to work at its Digital Health Technology and Analytics Center at 1 Ship Street.

Table 1: Projected staffing and salaries

Position	Number	Average salary
Director	1	\$273,000
Managers	3	\$193,000
Senior analysts	71	\$137,000
Total	75	

Using the IMPLAN input-output modeling system (a modeling tool commonly used in economic impact studies), Appleseed estimates that when fully staffed the new Center will directly and indirectly support:

- 147 full-time-equivalent (FTE) jobs in Rhode Island;
- \$14.6 million in annual earnings;

- \$33.2 million in statewide economic output³; and
- An increase of nearly \$19.3 million in Rhode Island's annual GDP.

These impacts are summarized below in Table 2. The Center's *direct impact* is the impact of the Company's direct spending on its ongoing operations, including payroll and purchases of goods and services from Rhode Island-based companies. Its *indirect impact* is the effect of spending by the Center's Rhode Island-based suppliers on goods and services (insurance, utilities etc.) purchased from other Rhode Island businesses.

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

	Employment	Earnings	Value added	Output
Direct Effect	75	\$10.6	\$12.8	\$23.0
Indirect Effect	72	4.0	6.5	10.2
Total Effect	147	\$14.6	\$19.3	\$33.2

In addition to the impacts on employment, earnings, output and state GDP cited above, the Center's operations would generate a projected increase of approximately \$877,000 in annual state tax revenues, including:

- \$561,000 in state personal income taxes paid by workers employed at the Center, or by Rhode island workers whose jobs are indirectly attributable to the Center's operations;
- \$245,000 in state sales taxes paid on those workers' taxable household spending; and
- \$71,000 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 package of benefits including health care, pensions, 401k accounts, tuition reimbursement and other benefits. The Company estimates the value of these benefits at approximately \$60,000 per employee.

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 Center's operations.

Hiring

The Company provides extensive, easily accessible online information about available positions, searchable by function, skill level and location, and invites candidates to submit applications online. The Company's Talent Acquisition Team reviews all applications with the responsible hiring managers. The Team then conducts initial phone interviews with selected applicants, who may then be contacted to arrange additional in-person interviews. After interviews are completed, the Talent Acquisition Team will extend a written offer to the selected candidate or candidates.

Impact

The state fiscal impact of the requested tax credits and other incentives is up to \$4,425,860 in foregone state revenue, up to \$1 million in renovation and fit-out costs at 1 Ship Street, and up to \$700,000 in workforce services and talent attraction grant funds. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of \$19.3 million, the estimated associated job creation, and the gross increase of approximately \$10.5 million in personal income, sales and business corporation tax revenues during renovation and during the twelve-year commitment period following the Center's opening. 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 several other ways:

- Reinforce the state's attractiveness as a location for the information technology and data analytics functions of major companies in a wide range of industries;
- Help establish the I-195 Redevelopment District as an attractive location for similar high-value jobs.
- Help the state attract and retain highly-skilled workers in high-value industries.
- Increase local real property tax revenues.

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, Qualified Jobs Incentive tax credits will be determined on the basis of salaries and wages actually paid.