



A Limited Liability Partnership

January 4, 2019

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 Xeros, 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
Xeros, Inc. Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Qualified Jobs Incentive tax credits to Xeros, Inc. (“the Company”), a Manchester, New Hampshire-based division of the UK-based Xeros Technology Group (XTG). XTG specializes in the development and commercialization of water- and energy-saving technology used in water-intensive industries such as tanning, textiles and commercial laundry services. Its U.S. division, Xeros, Inc, focuses on commercial laundry and other cleaning technologies.

The credits would be issued in connection with the Company’s decision to relocate its research and development center from Seekonk, Massachusetts to leased space in Rhode Island, and to add quality control and warehousing operations at its new site. The Company would employ 25 people at its new facility by 2019, at a median salary of \$73,000. Based on the relocation and retention of these employees, the Company is requesting Qualified Jobs Incentive tax credits with an estimated value of approximately \$785,000 over ten years.

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 expects to spend approximately \$600,000 on leasehold improvements and the purchase of equipment for its new facility. Assuming for purposes of this analysis that half this total would be spent on leasehold improvements and half on equipment, and using the IMPLAN input-output modeling system (a modeling tool commonly used in economic impact studies), we estimate that this expenditure of \$600,000 would directly and indirectly support:

- 2.5 person-years¹ of work in Rhode Island;
- Approximately \$156,200 in earnings (in 2018 dollars);
- Approximately \$448,700 in statewide economic output²; and

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.

- A one-time increase of \$241,700 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 ongoing operations (employment in person-years; income, value-added and output in 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	2	\$120,100	\$183,200	\$351,900
Indirect Effect	0.5	36,100	58,500	96,800
Total Effect	2.5	\$156,200	\$241,700	\$448,700

In addition to the impacts cited in Table 1, direct expenditures of \$600,000 would directly and indirectly generate a projected one-time increase of approximately \$22,000 in taxes paid to the State during construction. This increase would include approximately:

- \$12,500 in state sales and use taxes paid on construction materials and fixtures, furniture and equipment;
- \$6,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$2,500 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 2018-2019. 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 employ 25 people at its new location by 2019. Table 2 summarizes the categories in which these jobs will be created, and median earnings for each category.

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 2019

Position	Employees	Median Salary
Administration	2	\$49,000
Engineering and technical	18	65,500
Management	5	110,000
Total jobs/median salary	25	\$73,000

Based on data provided by the Company, and using the IMPLAN input-output modeling system Applesseed estimates that in 2019, ongoing operations associated with the 25 full-time jobs the Company would bring to and retain in Rhode Island will directly and indirectly support:

- 45 full-time-equivalent (FTE) jobs in Rhode Island;
- More than \$3.1 million in annual earnings (in 2019 dollars);
- Nearly \$9.1 million in statewide economic output; and
- An increase of \$4.6 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 thousands of 2019 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	25	\$1,948.9	\$2,590.1	\$5,806.5
Indirect Effect	20	1,184.8	\$2,019.2	3,283.4
Total Effect	45	\$3,133.7	\$4,609.3	\$9,089.9

In addition to the impacts on employment, earnings, output and state GDP cited in Table 3, in 2019 the Company’s operations in its new location would generate a projected increase of approximately \$184,000 in annual state tax revenues, including:

- \$118,000 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;
- \$51,000 in state sales taxes paid on those workers' taxable household spending; and
- \$15,000 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

Xeros offers its employees a comprehensive Health and Welfare Benefits package, including medical, dental, vision, disability and life insurance, and a 401(k) program.

Hiring

Xeros posts all available positions on its own website and on other sites such as LinkedIn and Indeed.com. Third party search firms are also utilized to find candidates for some of the more highly technical positions. Received resumes are reviewed, and phone interviews are conducted with selected applicants. Those whom the hiring manager selects for further consideration will then be scheduled for a second interview. After the second interview, background checks are conducted, and offers are extended to the selected candidates.

Impact

The state fiscal impact of the requested tax credits is estimated to be approximately \$785,000 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of \$4.6 million in 2019, the estimated associated job creation, and a gross increase of approximately \$2.23 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 Company's proposed relocation would benefit Rhode Island in other ways, including:

- Creating the potential for further job growth at the Company's new facility
- Adding to the state's strengths as a center of applied scientific and technological research and development
- Highlighting Rhode Island's attractiveness as a U.S. location for international businesses
- 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.