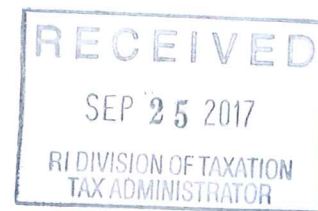




*A Limited Liability Partnership*



September 22, 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 tax credit agreements between the Rhode Island Commerce Corporation and Virgin Pulse, Inc. under the Rhode Island Qualified Jobs Incentive Act of 2015, and the Rebuild Rhode Island Tax Credit Act of 2015.

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**  
**Rebuild Rhode Island and Qualified Jobs Incentive Tax Credits – Economic Impact Analysis**  
*Virgin Pulse, Inc. Application*

**Introduction**

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits and Qualified Jobs Incentive tax credits to Virgin Pulse, Inc. (“the Company”),<sup>5</sup> The credits would be issued in connection with Virgin Pulse’s decision to relocate its 20 employees from Framingham, Massachusetts to leased space in an existing building at 75 Fountain Street in Providence in 2017, and to increase its employment at that site in stages to 292 in 2021.

The Company provides an on-line and mobile platform, tools and resources that employers and other organizations can use to encourage employees and members to engage in behaviors that support health and wellness.

The Company plans to invest \$10.8 million over five years in tenant improvements, fixtures, furniture and equipment, and is requesting:

- Rebuild Rhode Island tax credits of \$3,240,598;
- An exemption from the State’s sales and use tax on eligible costs associated with building out and equipping its leased space, valued by the Company at \$341,798; and
- Qualified Jobs Incentive tax credits of \$2,855,701.

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

**Jobs Analysis**

**Construction**

As shown in Table 1, the Company’s estimate of its investment at its new location is \$10.8 million.

**Table 1: Estimated total project cost (in \$ millions)**

Component	Estimated cost
Tenant improvements	\$8.4
Fixtures, furniture, office equipment	\$1.7
Information technology	\$0.7
<b>Total</b>	<b>\$10.8</b>

<sup>5</sup> As of December 31, 2016 Virgin Pulse Inc. and ShapeUp Inc. will merge and will thereafter operate solely as Virgin Pulse Inc.

Appleseed estimates that from 2017 through 2021, direct expenditures of \$10.8 million will directly and indirectly generate:

- 62 person-years<sup>6</sup> of work in Rhode Island;
- \$3.8 million in earnings;
- \$11.1 million in statewide economic output<sup>7</sup>; and
- A temporary increase of more than \$5.8 million in Rhode Island's GDP.

These impacts are summarized below in Table 2. 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 2: Direct and indirect impact of construction spending (employment in person-years; income, value-added and output in millions of 2017 dollars)**

	Employment	Earnings	Value added	Output
Direct Effect	47	\$3.0	\$4.4	\$8.8
Indirect Effect	15	0.8	1.4	2.3
<b>Total Effect</b>	<b>62</b>	<b>\$3.8</b>	<b>\$5.8</b>	<b>\$11.1</b>

In addition to the impacts on employment, earnings, output and state GDP cited above, direct spending of \$10.8 million would generate a projected one-time increase of approximately \$216,000 in taxes paid to the state during construction, including:

- \$143,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$55,000 in state sales taxes paid on those workers' taxable household spending;
- \$18,000 in state business corporation taxes.

Most of the activity reflected in Table 2 is expected to occur between 2017 and 2021. The anticipated wage rates for construction jobs are shown below in Table 3. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island.

**Table 3: Anticipated wages during construction**

Occupation	RI median hourly wage <sup>8</sup>
Architect	\$40.76
Construction manager	\$54.17
Carpenter	\$21.04

<sup>6</sup> A person-year is equivalent to the time worked by one person who is employed full-time for a year. In this case, 62 person-years of work would represent an average of 12.2 full-time-equivalent jobs each year for five years.

<sup>7</sup> 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.

<sup>8</sup> Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2015

Electrician	\$24.86
Plumber	\$23.54
Painter	\$18.10
Laborer	\$18.33

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 shown below in Table 4, the number of workers the Company will employ in Providence is expected to rise from 57 relocated and new positions in 2017 to 292 in 2021.<sup>9</sup>

**Table 4: Growth of Virgin Pulse employment in RI, 2017-2021**

Year	Number employed
2017	57
2018	100
2019	152
2020	215
2021	292

Based on these estimates, Appleseed projects (as shown below in Table 5) that in 2021 the Company will directly and indirectly account for:

- 628 FTE jobs in Rhode Island;
- Approximately \$46.2 million in annual earnings (in 2021 dollars);
- Approximately \$150.5 million in annual statewide economic output; and
- An increase of approximately \$58.9 million in Rhode Island’s annual GDP.

**Table 4: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2021 dollars)**

	Employment	Earnings	Value added	Output
Direct Effect	292	\$23.3	\$25.2	\$94.7
Indirect Effect	336	22.9	33.7	55.8
<b>Total Effect</b>	<b>628</b>	<b>\$46.2</b>	<b>\$58.9</b>	<b>\$150.5</b>

In addition to the impacts on employment, earnings, output and state GDP cited above, the Company’s operations would generate a projected increase of approximately \$2.7 million in taxes paid to the state in 2021, including:

<sup>9</sup> In addition to these 292 relocated and new jobs, employment at Virgin Pulse will include 63 positions now held by people who are already employed in Rhode Island by ShapeUp Inc., which is being acquired by Virgin Pulse. The number of people employed at Virgin Pulse in 2021 would thus total 355. However, because these already-existing jobs do not represent a net addition to the state’s economy, they are not included in our analysis.

- \$1.733 million in state personal income taxes paid by workers employed at Virgin Pulse, or whose jobs are indirectly attributable to the company's operations and in Rhode Island;
- \$756,000 in state sales taxes paid on those workers' taxable household spending; and
- \$219,000 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 its full-time employees a comprehensive benefits Package, including a choice between two health plans, dental and vision coverage, health savings accounts, dependent care flexible spending accounts, a 401(k) retirement plan with a company match, paid vacation and holidays and employee discounts.

### **Hiring**

Virgin Pulse posts all available positions on its own website and on other sites such as LinkedIn and Indeed.com. Current employees may also refer candidates and are eligible to receive a bonus if their candidates are hired.

After a review of all resumes received, applicants are selected for preliminary telephone interviews with the hiring manager. 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 on all applicants who have been selected for hiring, and offers are extended to the selected candidates.

### **Impact**

The state fiscal impact of the requested tax credits and sales tax exemption is up to \$6,438,097 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP (in 2021) of \$58.9 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 the construction phase and ongoing operations during the six years following the completion of the project. 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:

- Contribute to the ongoing revitalization of downtown Providence;
- Support the development of retail and restaurant space at 75 Fountain Street and at other nearby locations;
- Reinforce the state's attractiveness as a location for fast-growing digital media companies;
- 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, the completion risk (i.e., the risk that the project is not completed) is mitigated by the fact that Rebuild Rhode Island tax credits will be payable only upon completion of the first and second phases of construction. 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. Moreover, if the final value of the requested sales and use tax exemption exceeds the estimate cited on p.1, the increased value of that exemption would be offset by a reduction in the value of the approved Rebuild Rhode Island tax credits.

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