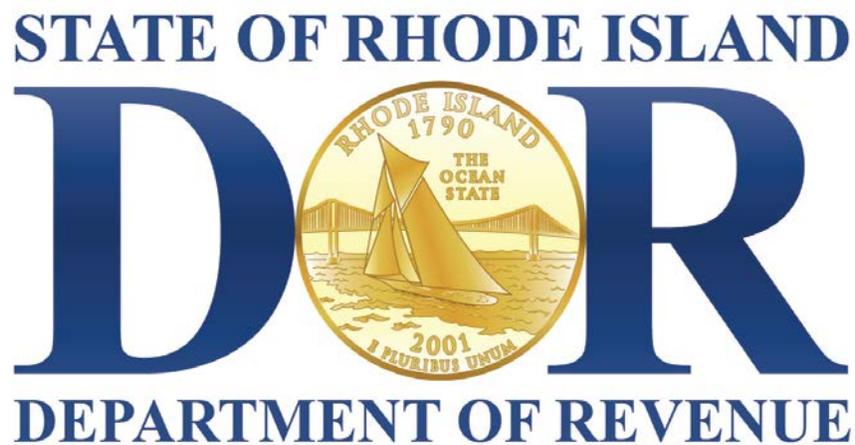


*STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS*  
Governor Gina M. Raimondo

# **Fiscal Year 2014**



## **Unified Economic Development Report**

**Office of Revenue Analysis**

**February 10, 2017**

## **List of Companies That Did Not Comply with Rhode Island General Law**

The following companies that received tax incentives or benefits as reported by the Division of Taxation in the *Tax Credit and Incentive Report – Fiscal Year 2014* did not comply with Rhode Island General Law as it pertains to the submission to the Tax Administrator of “each full-time equivalent, part-time or seasonal employee’s name, social security number, date of hire, and hourly wage as of the immediately preceding July 1” by September 1 of the year immediately following the fiscal year contained in the report. The lack of reporting of this required data may prevent the Office of Revenue Analysis from conducting a complete cost-benefit analysis of the tax incentives or benefits listed below.

### **Jobs Development Act Business Corporations Tax Rate Reduction:**

Statutory Reference: Rhode Island General Law § 42-64.5-8

1. AAA Southern New England and Subsidiaries  
110 Royal Little Drive  
Providence, RI 02904
2. AAA Southern New England Bank  
110 Royal Little Drive  
Providence, RI 02904

### **Enterprise Zone Wage Tax Credit:**

Statutory Reference: Rhode Island General Law § 42-64.3-6.1(h)

1. Child Care Connection, Inc. dba The Children’s Workshop  
45 Industrial Road, Suite 100  
Cumberland, RI 02864
2. Ronstan International Inc.  
45 High Point Avenue  
Portsmouth, RI 02871

### **Motion Picture Production Tax Credit:**

Statutory Reference: Rhode Island General Law § 44-31.2-6.1

1. Army of the Damned, LLC  
214 Main Street  
East Greenwich, RI 02818
2. Backmask LLC  
155 Chestnut Street  
Providence, RI 02903
3. God Only Knows, Inc  
270 Bellevue Avenue  
Newport, RI 02840
4. IPB, LLC  
199 2<sup>nd</sup> Avenue, #2  
New York, NY 10003

**Motion Picture Production Tax Credit (continued):**

Statutory Reference: Rhode Island General Law § 44-31.2-6.1

5. Self Storage, LLC  
214 Main Street  
East Greenwich, RI 02818

# Unified Economic Development Report Fiscal Year 2014

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## **Unified Economic Development Report Fiscal Year 2014**

### **Introduction**

Rhode Island General Law § 42-142-6, titled *Annual Unified Economic Development Report*, requires the Director of the Department of Revenue to “compile and publish...an annual unified economic development report which shall provide...comprehensive information regarding the tax credits or other tax benefits conferred pursuant to §§ 42-64-10, 44-63-3, 42-64.5-5, 42-64.3-1, and 44-31.2-6.1 during the preceding fiscal year”. The Director of Revenue tasked the Chief of the Office of Revenue Analysis with executing this requirement.

Part I of the report includes the required comprehensive information as follows:

1. The name of each tax credit/tax benefit recipient and the dollar amount of each tax credit or other tax benefit received;
2. Summaries of the full-time and part-time jobs created or retained for each tax credit/tax benefit recipient;
3. The employee benefits offered by each tax credit/tax benefit recipient;
4. The degree to which each tax credit/tax benefit recipient met the job creation and retention and wage and benefit goals and requirements of the tax credit/tax benefit, if any such goals and requirements exist for the recipient of the tax credit/tax benefit;
5. Aggregate dollar amounts for each tax credit or other tax benefit;
6. The total number of jobs created or retained for each tax credit or other tax benefit;
7. An overview of the employee benefits offered for each tax credit or other tax benefit;
8. The degree to which each tax credit or other tax benefit has met the job creation and retention and wage and benefit goals and requirements, if any such goals and requirements exist for the tax credit/tax benefit;
9. The cost to the State and the approving agency for each tax credit or other tax benefit conferred;
10. To the extent possible, the amounts of tax credits or other tax benefits by geographical area within the state; and
11. The extent to which any employees and/or recipients of the tax credits or other tax benefits have received RIte Care or RIte Share benefits or assistance.

In addition to the comprehensive information noted above, beginning January 15, 2014, the *Annual Unified Economic Development Report* is to include a cost-benefit analysis, prepared by the Office of Revenue Analysis, based upon the data collected for the report, to the extent that appropriate data exists for such an analysis to be conducted. The cost-benefit analysis for each of the tax incentives noted above “may include, but shall not be limited to,”

1. The cost to the state for the foregone revenue attributable to the tax credit or tax benefit;

2. The cost to administer the tax credit or tax benefit (this information is already captured in 9. above);
3. The projected revenues gained from the tax credit or tax benefit;
4. Other metrics that can be measured for the tax credit or tax benefit along with a baseline assessment of the original intent of the legislation;
5. The stated purpose of the tax credit or tax benefit to the extent that it is provided in the enabling legislation; and
6. Any measurable goals established by the granting authority of the tax credit or tax benefit.

If possible, the cost-benefit analysis shall cover a five-year period projecting the cost and benefits over this period. The cost-benefit analysis of the tax credits or tax benefits cited above are in Part II of this report.

It should be noted that the statute governing the Annual Unified Economic Development Report does not require the Director of Revenue to opine on or make recommendations concerning the tax credits or other tax benefits contained in the report.<sup>1</sup> The statute simply requires the Director of Revenue to report on the tax credits or other tax benefits based on the data provided to the Division of Taxation.

### **Tax Credits/Tax Benefits Included in the Report**

The tax credits/tax benefits covered by this report are:

- **Rhode Island General Law § 42-64-10**. This tax benefit, commonly referred to as *Project Status*, provides a sales and use tax exemption to lessees or sub-lessees of the Rhode Island Commerce Corporation (RICC) for “materials used in the construction, reconstruction, or rehabilitation” of a project approved by the Rhode Island Commerce Corporation “and to the acquisition of fixtures, furniture, and equipment except automobiles, trucks and other motor vehicles, or materials that otherwise are depreciable and have a useful life of one (1) year or more” provided that said items are used in the project. The sales and use tax exemption cannot exceed “an amount equal to the income tax revenue received by the state from the new full-time jobs with benefits...generated by the project within a period of three (3) years from after the receipt of a certificate of occupancy for any given phase of the project”.

In exchange for this sales and use tax exemption, RICC establishes the number of new jobs that must be added and maintained by the lessee or sub-lessee. In addition, the statute requires that the lessee or sub-lessee pay the new employees 105 percent of the annual median wage for full-time jobs within the qualifying company’s industry. The new jobs must also come with a health insurance and retirement benefit package that is typical for the qualifying company’s industry. The sales tax benefits granted a lessee or sub-lessee is effective only for projects approved prior to July 1, 2011.

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<sup>1</sup> The complete statute covering the Annual Unified Economic Development Report is contained in Appendix A.

Recipients of the Project Status sales and use tax exemption generally enter into agreements with RICC that cover the amount of money that must be invested in the project, the Project Status lessee's base employment, the number of new jobs the Project Status lessee must add as a result of the grant of project status, the wage that the Project Status lessee must pay its employees, the benefits package that the Project Status lessee must offer its employees, the time frame under which the Project Status lessee must meet its employment and wage and benefit goals, and the length of time for which the Project Status agreement is in effect. Conditions contained in these agreements, particularly those entered into in the 1990s may contain employment and wage goals that differ from those specified in statute. The Office of Revenue Analysis, upon the advice of Department of Revenue legal counsel, measured the achievement of Project Status objectives by a lessee as these objectives were outlined in the lessee's Project Status agreement rather than as they are indicated in state law.

- **Rhode Island General Law § 44-63-3**. Titled *Incentives for Innovation and Growth*, Rhode Island General Law § 44-63-3 provides for a credit against the business corporation tax (Rhode Island General Law Chapter 44-11), the franchise tax (Rhode Island General Law Chapter 44-12)<sup>2</sup>, and the personal income tax (Rhode Island General Law Chapter 44-30)<sup>3</sup> “in an amount equal to fifty percent (50%) of any investment made” in a company that operates in an “innovation industry”. For an investment in an “innovation industry” company to be eligible for this credit, the company must have had gross revenues of less than \$1,000,000 in each of the preceding two calendar years.

The maximum amount of an individual credit is \$100,000. Determination of company eligibility for the receipt of such an investment is made by the RICC in conjunction with the Rhode Island Science and Technology Advisory Council (RISTAC). The aggregate amount of tax credits that can be issued in any two-year period is \$1,000,000.

No employment or wage criteria need to be met by the qualifying company in order to receive the credit. The RICC is required, however, to produce an impact analysis which, among other things, requires RICC to identify “the approximate number of full-time, part-time, temporary, seasonal, and/or permanent jobs projected to be created, construction and non-construction”, “the approximate wage rates for each category of the identified jobs” and “the types of fringe benefits to be provided with the identified jobs, including health care insurance and any retirement benefits”. Finally, the Incentives for Innovation and Growth tax credit sunsets on December 31, 2016.

- **Rhode Island General Law § 42-64.5-5**. Titled *Jobs Development Act*, Rhode Island General Law § 42-64.5-5 provides for a reduction in the business corporation tax rate for each new unit of employment that is added to a company's previously established

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<sup>2</sup> The franchise tax was repealed during the 2014 legislative session effective for tax years beginning on or after January 1, 2015. See Rhode Island Public Law Chapter 145, Article 12, Section 20.

<sup>3</sup> The Incentives for Innovation and Growth tax credit was allowed against the personal income tax for tax years ending on or before December 31, 2010.

base employment. A unit of employment consists of 10 new full-time equivalent employees for companies with base employment levels of 100 or less full-time employees or 50 new full-time equivalent employees for companies with base employment of more than 100 full-time employees. For each unit of employment added the qualifying company receives a 0.25 percentage point reduction in the business corporation tax rate up to a maximum reduction of six percentage points for all companies other than telecommunications companies which receive a maximum reduction of one percentage point.<sup>4</sup> Failure to maintain employment levels above the base employment results in the permanent expiration of the rate reduction.

Prior to July 1, 2009, a full-time equivalent active employee was any employee who worked at least 30 hours per week or two or more part-time employees whose combined weekly hours totaled at least 30 hours per week. In addition to hiring new employees, companies that qualified for the rate reduction prior to July 1, 2009 had to pay each new employee 150 percent of the hourly minimum wage as prescribed by Rhode Island law at the time the employee was first treated as a full-time equivalent active employee. For companies that qualified for the rate reduction prior to July 1, 2009, there were no requirements as to the provision of health and retirement benefits.

For companies that qualify for the Jobs Development Act rate reduction on or after July 1, 2009, new full-time equivalent active employees are employees that work at least 30 hours per week and are paid 250 percent of the hourly minimum wage as prescribed by Rhode Island law at the time the employee was first treated as a full-time equivalent active employee. Companies that qualify for the rate reduction on or after July 1, 2009 must also provide to each full-time equivalent active employee “healthcare insurance benefits, and retirement benefits.”

- **Rhode Island General Law § 42-64.3-1.** Titled *Distressed Areas Economic Revitalization Act*, Rhode Island General Law § 42-64.3-1 is commonly referred to as the Enterprise Zone Wage Credit. The Enterprise Zone Wage Credit provides for a tax credit against the business corporation tax (Rhode Island General Law Chapter 44-11), the public service corporation tax (Rhode Island General Law Chapter 44-13 except for § 44-13-13), the taxation of banks (Rhode Island General Law Chapter 44-14), the taxation of insurance companies (Rhode Island General Law Chapter 44-17), or the personal income tax (Rhode Island General Law Chapter 44-30).<sup>5</sup> Only

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<sup>4</sup> Passage of Article 12 of 14-H-7133 Substitute A as amended, titled “Relating to Making Appropriations for the Support of the State for the Fiscal Year Ending June 30, 2015” changed the rate reduction allowed for each unit of new employment and the maximum rate reduction allowed under Rhode Island General Law § 42-64.5-5 effective for tax years beginning on or after January 1, 2015. For tax years beginning on or after January 1, 2015, the tax rate imposed under Rhode Island General Law § 44-11-2 on the apportioned net income of C-corporations is reduced to 7.0 percent (from the current law tax rate of 9.0 percent). For all tax years in which the 7.0 percent business corporation tax rate applies (i.e., January 1, 2015 and thereafter), the rate reduction for each new unit of employment allowed under Rhode Island General Law § 42-64.5-5 is reduced to 0.20 percentage points and the maximum rate reduction allowed is reduced to four percentage points.

<sup>5</sup> The Enterprise Zone Wage Credit was allowed against the personal income tax for tax years ending on or before December 31, 2010.

companies located in a designated enterprise zone, as determined by the Rhode Island Enterprise Zone Council (RIEZC), are eligible for the credit.

The allowable tax credit is equal to 50 percent of the wages paid to a newly hired employee, up to a maximum of \$2,500, if the employee does not reside in a designated enterprise zone, or 75 percent of wages paid, up to a maximum of \$5,000, if the employee is domiciled in a designated enterprise zone. In order to qualify for the credit, the qualifying company must increase total employment by at least five percent from the previous calendar year and have its total Rhode Island payroll exceed the prior year's total Rhode Island payroll. There are no benefit criteria to receive this tax credit. Unused amounts of the tax credit can be carried forward for up to three years provided that when the carry forward amount is used, the tax credit recipient has not lowered its employment below the levels that were required for the recipient to earn the tax credit in the first place.<sup>6</sup>

- **Rhode Island General Law § 44-31.2-6.1**. Titled *Motion Picture Production Tax Credits*, Rhode Island General Law § 44-31.2-6.1 provides a motion picture production company a tax credit against the business corporation tax (Rhode Island General Law Chapter 44-11), the taxation of banks (Rhode Island General Law Chapter 44-14), the taxation of insurance companies (Rhode Island General Law Chapter 44-17), or the personal income tax (Rhode Island General Law Chapter 44-30) in an amount of “twenty-five percent (25%) of the state certified production costs incurred directly attributable to activity within the state, provided that the primary locations are within the state of Rhode Island.” For motion picture productions that were certified prior to July 1, 2012, primary locations are locations at which at least 51 percent of the principal photography days were filmed in Rhode Island. In addition, the minimum amount of state certified production costs incurred is \$300,000 for those motion picture productions that were certified prior to July 1, 2012.

For motion picture productions that are certified on or after July 1, 2012, the minimum amount of state certified production costs incurred is \$100,000 and primary locations are defined as locations (1) at which at least 51 percent of the principal photography days were filmed in Rhode Island; or (2) at which at least 51 percent of the motion picture's final production budget is spent and at which at least five individuals are employed in Rhode Island; or (3) for documentary productions, at which at least 51 percent of the total production costs, including both pre- and post-production costs, are incurred in Rhode Island. Finally, the amount of credit allowed any single production is capped at \$5,000,000.

Effective July 1, 2012, qualified musical and theatrical productions are allowed a tax credit equal to 25 percent of the total production and performance expenditures and transportation expenditures against the business corporation tax (Rhode Island General Law Chapter 44-11), the taxation of banks (Rhode Island General Law Chapter 44-14), the taxation of insurance companies (Rhode Island General Law Chapter 44-17), or the personal income tax (Rhode Island General Law Chapter 44-

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<sup>6</sup> No new Enterprise Zone tax credits will be issued on or after July 1, 2015 unless the business has received certification prior to this date.

30). The total production budget for these productions must be at least \$100,000 and the total amount of credit earned is capped at \$5,000,000 per production.

Motion picture and musical and theatrical productions must be certified as eligible for a tax credit by the Rhode Island Film and TV Office (RIFTVO). In each case, the tax credit is assignable and transferable and effective January 1, 2008 the total amount of credits issued for both motion picture and musical and theatrical productions are capped at \$15,000,000 in total for both sets of credits. Finally, no motion picture or musical and theatrical production tax credits can be issued on or after July 1, 2019.<sup>7</sup>

No employment or wage criteria need to be met by the motion picture or musical and theatrical production company in order to qualify for the credit. RIFTVO is required, however, to produce an impact analysis which, among other things, requires RIFTVO to identify “the approximate number of full-time, part-time, temporary, seasonal, and/or permanent jobs projected to be created, construction and non-construction”, “the approximate wage rates for each category of the identified jobs” and “the types of fringe benefits to be provided with the identified jobs, including health care insurance and any retirement benefits”.

### **Data Collected for the Report**

In the 2011 session,<sup>8</sup> the General Assembly amended Rhode Island General Law §§ 42-64-10, 42-64.3-6.1, 42-64.5-8, 44-31.2-6.1 and 44-63-3 to require that “on or before September 1 2011, and every September 1 thereafter” the recipients of any tax credits/tax benefits under the RICC’s Project Status designation, Distressed Areas Economic Revitalization Act, Jobs Development Act,<sup>9</sup> Motion Picture Production Tax Credits, and Incentives for Innovation and Growth provide the tax administrator with an annual report containing “each full-time equivalent, part-time or seasonal employee’s name, social security number, date of hire, and hourly wage as of the immediately preceding July 1 and such other information deemed necessary by the tax administrator.” The annual reports filed by the recipients of the tax benefits received under these various statutes are the source of the data provided in this report. Calculations included in the report were done by the Office of Revenue Analysis based on this data. The accuracy of the data is the sole responsibility of the recipients of the tax credit/tax benefit and not the Office of Revenue Analysis.

The Office of Revenue Analysis (ORA) obtained tax credit/tax benefit amounts from the Rhode Island Division of Taxation’s *Tax Credit and Incentive Report — Fiscal Year 2014*. Detailed data on “each full-time equivalent, part-time, or seasonal employee’s name, social security number, date of hire, and hourly wage as of the immediately preceding July 1” for each tax benefit recipient was also provided to ORA by the Division of Taxation. Any errors of fact or interpretation of the data provided by the Division of Taxation are the sole responsibility of the Office of Revenue Analysis. ORA provided the Rhode Island Executive Office of Health and Human Services (EOHHS) with social security numbers of all employees, by employer, so that

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<sup>7</sup> Article 13, Section 17 of 16-H-7454 Substitute A as amended extended the date after which no motion picture or musical and theatrical production tax credits can be issued to July 1, 2021.

<sup>8</sup> See Rhode Island Public Laws 2011, Chapter 151, Article 19, §§ 5 – 8.

<sup>9</sup> In the case of the Jobs Development Act the effective dates of the reporting requirement are “on or before September 1, 2009 and every September 1 thereafter.”

EOHHS could determine the extent to which a given tax credit/tax benefit recipient's employees utilized the state's RIt Care and RIt Share health insurance programs.

### **Office of Revenue Analysis' Approach to the Report**

The Department of Revenue's Office of Revenue Analysis (ORA) was tasked by the Director to produce Part I of the report required by Rhode Island General Law § 42-142-6. The Office of Revenue Analysis relied on the data provided to the Division of Taxation, to the extent such data was provided, as required by Rhode Island General Law §§ 42-64-10(k), 42-64.3-6.1(h), 42-64.5-8, 44-31.2-6.1(h) and 44-63-3(i). ORA made no attempt to verify the accuracy of the data provided and made minimal corrections to the data in order to be able to execute specific calculations for the report. The data included in this report is unaudited and reported as compiled.

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# **Part I**

## **Required Comprehensive Information**

**Summary of Part I Findings**

The table below lists, by tax credit/tax benefit, the aggregate dollar amounts and the number of recipients of each tax credit or other tax benefit for FY 2014:

<b>Name of Tax Credit/Tax Benefit</b>	<b>Aggregate Dollar Amounts</b>	<b>Number of Recipients<sup>^</sup></b>
RICC – Project Status	\$ 5,385,407	4
Incentives for Innovation and Growth	\$ 0	0
Jobs Development Act	\$ 7,520,261	7
Distressed Areas Economic Revitalization Act	\$ 191,188	4
Motion Picture Production Tax Credit	\$ 1,728,224	7
<sup>^</sup> Figures in column do not represent the unique number of recipients of a tax credit/tax benefit as recipients may qualify for more than one tax credit/tax benefit. Subsidiaries of parent companies that qualified for a tax credit/tax benefit are reported with the parent company and count as one recipient.		

The table below lists, by tax credit/tax benefit and to the extent possible, the amounts of tax credits and other tax benefits by geographical area in FY 2014:

<b>Geographical Area (in alphabetical order)</b>	<b>Amount of Tax Credit/ Tax Benefit</b>
Cumberland	\$ 237
East Providence	\$ 120,203
Johnston	\$ 700,000
Middletown	\$ 7,950
North Kingstown	\$ 1,470,868
Portsmouth	\$ 2,500
Providence	\$ 316,038
Smithfield	\$ 426,222
Warren	\$ 108,451
Woonsocket	\$ 9,944,387
It should be noted that \$1,728,224 of tax incentives could not be tied to a single geographic area.	

The table below lists, by tax credit/tax benefit, an overview of the employee benefits offered and the number of tax credit/tax benefit recipients that offered employee benefits in FY 2014:

<b>Name of Tax Credit/Tax Benefit</b>	<b>Number of Recipients Offering Health Insurance</b>	<b>Number of Recipients Offering Retirement</b>
RICC – Project Status	4	3
Incentives for Innovation and Growth	n/a	n/a
Jobs Development Act*	5	5
Distressed Areas Economic Revitalization Act †	2	1
Motion Picture Production Tax Credit ‡	unknown	unknown
<p>*Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.5-8. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p> <p>†Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.3-6.1. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p> <p>‡Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 44-31.2-6.1. Five tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p>		

The table below lists, by tax credit/tax benefit, the degree to which tax credit/tax benefit recipients met job creation and retention goals in FY 2014:

<b>Name of Tax Credit/Tax Benefit</b>	<b>Percentage of Recipients that Met Job Creation/Retention Goal</b>
RICC – Project Status	100.0
Incentives for Innovation and Growth	No Job Creation/ Retention Goal Specified
Jobs Development Act *	80.0
Distressed Areas Economic Revitalization Act †	100.0
Motion Picture Production Tax Credit	No Job Creation/ Retention Goal Specified
<p>*Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.5-8. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation</p> <p>†Figure reflects data as provided by the RICC’s Enterprise Zone Council. No attempt was made to verify the figures provided by the Enterprise Zone Council. Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.3-6.1. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p>	

The table below lists, by tax credit/tax benefit, the degree to which tax credit/tax benefit recipients met wage and benefit goals in FY 2014:

<b>Name of Tax Credit/Tax Benefit</b>	<b>Percentage of Recipients That Met Goals</b>	
	<i>Wage Goal</i>	<i>Benefit Goal</i>
RICC – Project Status	100.0	100.0
Incentives for Innovation and Growth	No Wage or Benefit Goals Specified	
Jobs Development Act *	100.0	100.0
Distressed Areas Economic Revitalization Act †	100.0	No Benefit Goal Specified
Motion Picture Production Tax Credit	No Wage or Benefit Goals Specified	
<p>*Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.5-8. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p> <p>†Figure reflects data as provided by the RICC’s Enterprise Zone Council. No attempt was made to verify the figures provided by the Enterprise Zone Council. Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.3-6.1. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p>		

The table below lists, by tax credit/tax benefit, the extent to which any employees of and/or recipients of tax credits/tax benefits received RItE Care or RItE Share benefits or assistance in FY 2014:

<b>Name of Tax Credit/Tax Benefit ^</b>	<b>Number of Employees Receiving RItE Care or RItE Share</b>	<b>Cost to State of the Employees Receiving RItE Care or RItE Share</b>
RICC – Project Status *	24	\$ 103,276
Incentives for Innovation and Growth	n/a	n/a
Jobs Development Act †	82	\$ 198,928
Distressed Areas Economic Revitalization Act ‡	15	\$ 115,861
Motion Picture Production Tax Credit **	0	0
<b>Multiple Tax Credits / Tax Benefits Received</b>	<b>253</b>	<b>\$ 1,155,438</b>
<p>^Figure reflects only those tax credit/tax benefit recipients that received the Projects Status Sales Tax Exemption, the Jobs Development Act rate reduction or the Enterprise Zone Wage Credit as their only tax credit/tax benefit. Data for the two recipients that received multiple tax credits/tax benefits are listed under the Multiple Tax Credits/Tax Benefits Received line.</p> <p>*Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64-10. Two tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p> <p>†Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.5-8. One tax credit/tax benefit recipient failed to provide the required data to the Division of Taxation.</p> <p>‡Figure reflects those tax credit/tax benefit recipients that provided data to the Division of Taxation as required by Rhode Island General Law § 42-64.3-6.1. One tax credit/tax benefit recipient failed to provide the required data to the Division of Taxation.</p> <p>**Figure reflects the one tax credit/tax benefit recipient that provided data to the Division of Taxation as required by Rhode Island General Law § 44-31.2-6.1. Five tax credit/tax benefit recipients failed to provide the required data to the Division of Taxation.</p>		

The table below lists, by tax credit/tax benefit, the cost to the state and the approving agency for the administration of each tax credit or other tax benefit in FY 2014:

Name of Tax Credit/Tax Benefit	Approving Agency	Cost to Administer Tax Credit/Tax Benefit
RICC – Project Status	RICC	\$ 35,650
Incentives for Innovation and Growth	RICC	\$ 44
Jobs Development Act	Division of Taxation	\$ 6,406
Distressed Areas Economic Revitalization Act	RICC	\$ 13,707
Motion Picture Production Tax Credit	RI Film & TV Office	\$ 29,251
*The cost to administer the tax credit/tax benefit program include both the direct costs incurred by the approving agency and the indirect costs of awarding and auditing the tax credits/tax benefits that are incurred by the Division of Taxation to the extent that such indirect costs could be determined.		

**Detailed Results of Part I by Tax Credit/Tax Benefit**

A written description of the detailed results of Part I of the report by tax credit/tax benefit program follows. These written descriptions include references to tables that show the information required in the report by tax credit/tax benefit recipient.

**Project Status**

Total FY 2014 sales and use tax exemptions granted under RICC Project Status designation were \$5,385,407. Four recipients received this tax benefit, with three recipients under a long-term agreement with RICC for the Project Status sales and use tax exemption. One recipient did not have a Project Status sales and use tax agreement with RICC and was included as a Project Status tax benefit recipient in error. The geographic locations of the tax benefit recipients are directly related to the location of the projects that were built under the Project Status agreement. The four projects with Project Status agreements with RICC were located in Johnston, North Kingstown, Smithfield, and Woonsocket. Detailed results by tax credit/tax benefit recipient are contained in *Table I* on page 24.

Based on data submitted by four Project Status sales and use tax exemption recipients, a total of 1,161 part-time jobs, no temporary jobs, and 12,281 full-time jobs were reported for FY 2014. All four recipients of Project Status sales and use tax exemptions met or exceeded the job creation and retention goals contained in their respective Project Status agreements. With respect to new job creation during the investment time period as specified in the agreements, the Office of Revenue Analysis was able to determine that all Project Status sales and use tax exemption recipients met these goals as outlined in their respective Project Status agreements. With respect to the wage and benefit criteria, only three of the four Project Status sales and use tax exemption recipients had wage and benefit goals specified in their Project Status agreements. All Project Status sales and use tax exemption recipients who submitted data and had specified goals, met

the wage goals specified in their respective Project Status agreements. Four of the Project Status sales and use tax exemption recipients offered health insurance and three offered retirement benefit packages, however, ORA was unable to determine whether the benefit packages that were offered were “typical for the qualifying company’s industry”.

The Rhode Island Executive Office of Health and Human Services (EOHHS) provided ORA with information on the number of employees of Project Status sales and use tax exemption recipients that received RItE Care and/or RItE Share benefits during FY 2014.<sup>10</sup> EOHHS also provided ORA with the amount of benefits received. Based on the information provided by EOHHS, ORA reports that two of the four companies that only received tax benefits under the Project Status sales and use tax exemption had employees who received RItE Care and/or RItE Share benefits through EOHHS.<sup>11</sup> A total of 24 employees of the two companies had \$103,276 of medical services paid for under the State’s Medicaid program. Detailed results of the utilization of RItE Care and RItE Share benefits for Project Status recipients are included in *Table V* on page 29.

Finally, ORA surveyed RICC and the Division of Taxation to ascertain the cost for the administration of the Project Status sales and use tax exemption. ORA found that the total cost to administer the tax benefit was \$35,650. The direct cost incurred by RICC in FY 2014 to administer the Project Status sales and use tax exemption was \$9,067 while the indirect costs incurred by the Division of Taxation to administer the exemption were \$26,584 in FY 2014.

### **Incentives for Innovation and Growth**

For FY 2014, no companies took the Incentives for Innovation and Growth tax credit against business corporations, franchise, and/or personal income taxes. The Incentives for Innovation and Growth tax credit has no employment or wage criteria that must be met in order to receive the credit.

### **Jobs Development Act**

For FY 2014, six companies received a business corporation tax rate reduction under the Jobs Development Act. It should be noted that one of these six companies was an eligible subsidiary of an eligible company that also received the Jobs Development Act corporate income tax rate reduction. Rhode Island, as a separate entity filing state,<sup>12</sup> allows subsidiaries to file business corporation tax returns separately from the parent company and receive the rate reduction on that return. Of the six parent companies that received a tax credit for FY 2014, one did not provide the Division of Taxation with the data required by Rhode Island General Law § 42-64.5-8. The value of this tax benefit for these six corporations was \$7,520,261. Of the six parent companies that received business corporation tax rate reductions, two are located in Providence, and one

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<sup>10</sup> The figures reported here are for companies that received only the Project Status sales and use tax exemption as a tax credit/tax benefit in FY 2014. Two companies that received the Project Status sales and use tax exemption also received other tax credits/tax benefits that are required to be reported by Rhode Island General Law § 42-142-6. The data on the utilization of RItE Care and RItE Share benefits by their employees is reported separately after the section that covers the Motion Picture Production Tax Credit.

<sup>11</sup> Two companies that were reported as receiving the Project Status sales and use tax exemption did not provide data to the Division of Taxation as required by Rhode Island General Law § 42-64-10(k).

<sup>12</sup> Rhode Island became a unitary combined reporting filing state for all C corporations effective with tax years beginning on or after January 1, 2015.

each is located in East Providence, Middletown, North Kingstown and Woonsocket. Detailed results by tax credit/tax benefit recipient are contained in *Table III* on page 26.

Base year employment numbers for each tax benefit recipient were deduced from information provided by the Division of Taxation. Information on the total number of employees, wages paid and benefits offered is derived from the submissions required of the tax benefit recipients. For tax benefit recipients that consisted of a parent company and one or more subsidiaries that were eligible for the Jobs Development Act rate reduction, data on employment, wages paid, and benefits offered were submitted only for the parent company. Analysis of the data for the parent company is assumed to hold by extension for any subsidiaries of the parent company.

FY 2014 Jobs Development Act recipients reported a total of 1,183 part-time jobs and 10,959 full-time jobs. ORA determined that, based on the data provided by five parent companies, four met or exceeded the job creation and retention goals set forth in statute. With respect to the wage criteria, which requires full-time equivalent active employees to be paid 150 percent or more of the minimum wage in effect at the time of hire for employees hired before July 1, 2009 and 250 percent or more of the minimum wage in effect at the time of hire for employees hired after July 1, 2009, all five parent companies exceeded the wage goals. The Jobs Development Act only requires that health insurance and retirement benefits be offered to full-time equivalent active employees hired after July 1, 2009. ORA found that all five parent companies met the benefit requirements of the Jobs Development Act.

The Rhode Island Executive Office of Health and Human Service (EOHHS) provided ORA with information on the number of employees of Jobs Development Act rate reduction recipients that received RItE Care and/or RItE Share benefits during FY 2014.<sup>13</sup> EOHHS also provided ORA with the amount of benefits received. Based on the information provided by EOHHS, ORA reports that two of the three companies that received tax benefits only under the Jobs Development Act rate reduction had employees who received RItE Care and/or RItE Share benefits through EOHHS. A total of 82 employees of the two companies had \$198,928 of medical services paid for under the State's Medicaid program. Detailed results of the utilization of RItE Care and RItE Share benefits for Jobs Development Act recipients are included in *Table VI* on page 29.

Finally, ORA surveyed the Division of Taxation to ascertain the cost for the administration of the Jobs Development Act corporate income tax rate reduction. ORA found that the direct cost incurred by the Division of Taxation in FY 2014 to administer the Jobs Development Act corporate income tax rate reduction was \$6,406.

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<sup>13</sup> The figures reported here are for companies that received only the Jobs Development Act rate reduction as a tax credit/tax benefit in FY 2014. Two companies that received the Jobs Development Act rate reduction also received other tax credits/tax benefits that are required to be reported by Rhode Island General Law § 42-142-6. The data on the utilization of RItE Care and RItE Share benefits by their employees is reported separately after the section that covers the Motion Picture Production Tax Credit.

## **Distressed Areas Economic Revitalization Act**

Total tax credits received under the Enterprise Zone Wage Credit program were \$191,188 in FY 2014. A total of four companies received tax credits under the Distressed Areas Economic Revitalization Act. Of the four companies that received a tax credit for FY 2014, two did not provide the Division of Taxation with the data required by Rhode Island General Law § 42-64.3-6.1(h). Detailed results by tax credit/tax benefit recipient are contained in *Table IV* on page 27.

The geographic distribution of the four recipients of Enterprise Zone Wage Tax Credits was confined to four communities in the state. Cumberland, Providence, Portsmouth, and Warren were each a location of the qualifying operations of one tax credit recipient.

Two recipients of the Enterprise Zone Wage Credit reported eight part-time jobs, one seasonal job, and 461 full-time jobs for FY 2014.<sup>14</sup> The Office of Revenue Analysis was able to determine the employment benchmark for all four recipients of the Enterprise Zone Wage Credit. To earn the credit, a recipient is required to increase employment by five percent over the recipient's benchmark employment level. Based on data provided by the Enterprise Zone Council to the Division of Taxation, ORA determined that all the recipients of the Enterprise Zone Wage Credit met the employment growth threshold to qualify for the credit.

With respect to the wage requirement for the Enterprise Zone Wage Credit, each recipient's total wage bill for the year in which the tax credit is earned must exceed the total wage bill paid in the year prior to receiving the tax credit. Based on data provided by the Enterprise Zone Council to the Division of Taxation, ORA determined that all recipients of the Enterprise Zone Wage Credit met the wage bill requirement for the credit. Since the Distressed Areas Economic Revitalization Act has no requirement for tax credit recipients to provide employee benefits, no assessment of whether the Enterprise Zone Wage Credit recipients met the benefit goals of the act were made. *Table IV* lists the benefits offered for the six tax credit recipients that provided the information required under Rhode Island General Law § 42-64.3-6.1(h) to the Division of Taxation.

The Rhode Island Executive Office of Health and Human Services (EOHHS) provided ORA with information on the number of employees of the two Enterprise Zone Wage Credit recipients that provided the required data to the Division of Taxation that received RIt Care and/or RIt Share benefits during FY 2014.<sup>15</sup> EOHHS also provided ORA with the amount of benefits received. ORA reports that, based on the information received from EOHHS the one company that received only the Enterprise Zone Wage Credit had employees who received RIt Care and/or RIt Share benefits.<sup>16</sup> A total of 15 employees of the company had \$115,861 of medical services paid for under the State's Medicaid program. Detailed results of the utilization of RIt

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<sup>14</sup> Two companies that were reported as receiving the Enterprise Zone Wage Credit did not provide data to the Division of Taxation as required by Rhode Island General Law § 42-64.3-6.1(h).

<sup>15</sup> The figures reported here are for companies that received only the Enterprise Zone wage credit as a tax credit/tax benefit in FY 2014 and provided required data to the Division of Taxation as required under Rhode Island General Law § 42-64.3-6.1(h). One company that received the Enterprise Zone wage tax credit also received other tax credits/tax benefits that are required to be reported by Rhode Island General Law § 42-142-6. The data on the utilization of RIt Care and RIt Share benefits by its employees is reported separately after the section that covers the Motion Picture Production Tax Credit. Two companies did not provide the required data to the Division of Taxation.

<sup>16</sup> The remaining company did not have any employees that utilized RIt Care/RIt Share benefits in FY 2014.

Care and RIte Share benefits for Enterprise Zone Wage Credit recipients are included in *Table VI* on page 29.

Finally, ORA surveyed RICC and the Division of Taxation to ascertain the cost for the administration of the Enterprise Zone Wage Credit. ORA found that the total cost to administer the tax credit was \$13,708. The direct cost incurred by RICC in FY 2014 to administer the Enterprise Zone Wage Credit was \$12,793 while the indirect costs incurred by the Division of Taxation to administer the tax credit were \$915 in FY 2014.

### **Motion Picture Production Tax Credit**

Total tax credits received under the Motion Picture Production Tax Credit program were \$1.73 million in FY 2014. A total of seven production companies were awarded tax credits. According to information provided by the Rhode Island Film & TV Office, motion picture production activity took place in Central Falls, one production; Cranston, two productions; Exeter, one production; East Greenwich, one production; East Providence, one production; Newport, one production; North Providence, one production; Pawtucket, one production; Providence, three productions; and Tiverton, one production. Detailed results by tax credit/tax benefit recipient are contained in *Table V* on page 28.

The one production receiving the Motion Picture Production tax credit that submitted employment data to the Division of Taxation reported no part or full-time jobs for FY 2014. The Motion Picture Production Tax Credit has no employment or wage criteria that must be met in order to receive the credit and thus no assessment of the extent to which recipients of the tax credit attained job creation and retention and wage and benefit goals was conducted. Based on information provided to the Rhode Island Film & TV Office by the motion picture production companies at the time of their initial application for the motion picture production tax credit, a total of 684 full and part-time jobs were expected to be created by the tax credit recipients. Based on the same information, a total of \$3,693,913 of Rhode Island wages or salaries were expected to be paid. Thus, for all seven productions, average Rhode Island wages or salaries paid were expected to be \$5,400.

The Rhode Island Executive Office of Health and Human Services (EOHHS) typically provides ORA with information on the number of employees of Motion Picture Production Tax Credit recipients that received RIte Care and/or RIte Share benefits. However, the only Motion Picture Production tax credit recipient to have submitted the required employee-level information reported zero employees, and therefore EOHHS was unable to identify any employees who received RIte Care and/or RIte Share benefits through EOHHS.

Finally, ORA surveyed the Rhode Island Film & TV Office and the Division of Taxation to ascertain the cost for the administration of the Motion Picture Production Tax Credit. ORA found that the total cost to administer the tax credit was \$29,251 in FY 2014. The direct cost incurred by the RI Film & TV Office in FY 2014 to administer the Motion Picture Production Tax Credit was \$15,000 while the indirect costs incurred by the Division of Taxation to administer the tax credit were \$14,251 in FY 2014.

## **RItE Care and RItE Share Use by Companies Receiving Multiple Tax Incentives**

Three companies received more than one of the tax credits/tax benefits that are required to be reported on under Rhode Island General Law § 42-142-6. These three companies received three tax credits/tax benefits covered in this report.<sup>17</sup> Unlike jobs created or retained or wage and benefit goals, it is not possible to allocate the utilization of RItE Care and/or RItE Share benefits by employees of a company to one tax credit/tax benefit versus another tax credit/tax benefit. As a result, ORA has decided to add a new section to the report that covers the utilization of RItE Care and/or RItE Share benefits by employees of companies that receive more than one tax credit/tax benefit that is required to be included in this report.

EOHHS provided ORA with information on the number of employees of the three companies that received multiple tax credits/tax benefits that are covered in this report and had employees that received RItE Care and/or RItE Share benefits during FY 2014. All three of these companies had provided to the Division of Taxation the data on their employees that is required by state law. EOHHS also provided ORA with the amount of benefits received. ORA reports that based on the information from EOHHS, all three companies had employees who received RItE Care and/or RItE Share benefits through EOHHS. A total of 253 employees of the three companies had \$1,155,438 of medical services paid for under the State's Medicaid program. Detailed results of the utilization of RItE Care and RItE Share benefits for recipients of multiple tax credits/tax benefits covered by this report are included in *Table VI*.

### **Definitions of Table Column Headers**

Tables I through VI show the individual tax credit/tax benefit recipients by the specific tax credit or tax benefit. Essentially, these tables provide the detail underlying the narrative descriptions for each tax credit/tax benefit above. The following are the definitions of the column headers that appear in the tables that follow. The column header definitions are broken down by table.

#### **Table I through Table V**

“Name of Recipient” (All Tables, Column 1) is the name of the company that received the tax credit/tax benefit as provided by the tax credit/tax benefit recipient.

“Amount” (All Tables, Column 2) is the amount of tax credit/tax benefit received by the named recipient as provided by the Division of Taxation in its *Tax Credit and Incentive Report – Fiscal Year 2014*.

“Reported Total Part-Time Jobs” (All Tables, Column 3) is the number of part-time jobs either reported by the tax credit/tax benefit recipient or estimated by ORA. ORA determined whether an employee worked part-time as follows: (1) ORA determined the most frequently occurring value for the hours worked per week supplied by the tax credit and/or tax benefit recipient; (2) The most frequently occurring value for hours worked per week was deemed to constitute the standard work week; (3) If the tax credit and/or tax benefit recipient reported hours worked per week for an employee that were less than the most frequently occurring value of hours worked per week, then that employee was labeled as part-time.

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<sup>17</sup> Two companies received tax credits/tax benefits from the Project Status sales and use tax exemption and the Jobs Development Act rate reduction, and the other company received tax credits/tax benefits from the Jobs Development Act rate reduction and the Enterprise Zone Wage Credit.

“Reported Total Seasonal/Temporary Jobs” (*Tables IV and V, Column 4*) is the number of seasonal/temporary jobs either reported by the tax credit/tax benefit recipient or estimated by ORA. ORA determined whether an employee was a seasonal/temporary job as follows: (1) ORA considered the term of employment for each employee based on the information provided by the tax credit/tax benefit recipient; (2) If an employee’s term of employment was for less than 52 weeks, then the employee was deemed to be a seasonal/temporary employee; (3) If an employee’s term of employment was for 52 weeks, then the employee was deemed to be a regular employee; (4) If an employee was deemed to be a regular employee, ORA applied the methodology described under “Reported Total Part-Time Jobs Created or Retained” and “Reported Full-Time Jobs Created or Retained” to determine whether the regular employee was a full or part-time employee.

“Reported Total Full-Time Jobs” (*Tables II and III, Column 4; Tables I, IV and V, column 5*) is the number of full-time jobs either reported by the tax credit and/or tax benefit recipient or estimated by ORA. ORA determined whether an employee worked full-time as follows: (1) ORA determined the most frequently occurring value for the hours worked per week supplied by the tax credit/tax benefit recipient; (2) The most frequently occurring value for hours worked per week was deemed to constitute the standard work week; (3) If the tax credit/tax benefit recipient reported hours worked per week for an employee that were greater than or equal to the most frequently occurring value of hours worked per week, then that employee was labeled as full time.

“Reported Total Full-Time Equivalent Jobs Created or Retained” (*Table I, Column 6*) is the number of full-time equivalent jobs as calculated by ORA based on the employee information provided by the tax credit/tax benefit recipient. The actual determination of the number of full-time equivalent jobs was dependent upon the terms of the individual Project Status agreements entered into by each company. In general, ORA summed the reported hours worked per week for each employee across all employees and then divided this sum by the hours worked per week criteria in the definition of full-time equivalent employee contained in the individual Project Status agreements.

“Estimated Full-Time and Part-Time Jobs Created or Retained per EDC Analysis” (*Table II, Column 5*) is the number of full-time and part-time jobs that the RICC estimated a recipient of the Incentive for Innovation and Growth Tax Credit would create or retain at the time the recipient applied for the Incentive for Innovation and Growth Tax Credit with the Rhode Island Science and Technology Advisory Council.

“Reported Total Full-Time Equivalent Active Jobs Created or Retained” (*Table III, Column 5*) is the number of full-time equivalent active jobs as calculated by the ORA based on the definition of a full-time equivalent active employee contained in Rhode Island General Law § 42-64.5-2(7). For employees hired prior to July 1, 2009, ORA determined whether an individual employee worked 30 or more hours per week and was paid more than 150 percent of the minimum wage or two or more part-time employees worked 30 or more hours per week and were paid more than 150 percent of the minimum wage. If these conditions were met, then ORA counted these employees as full-time equivalent active employees. For employees hired after June 30, 2009, ORA determined whether an individual employee worked 30 or more hours per week and was

paid 250 percent of the minimum wage. If these conditions were met, then ORA counted these employees as full-time equivalent active employees.

“Required Minimum Number of Full-Time Equivalent Jobs Created or Retained” (*Table I*, Column 6) is the minimum number of full-time equivalent jobs created or retained that a Project Status tax benefit recipient was mandated to have at the end of the Investment Period in exchange for receiving the Project Status sales tax exemption. The mandated total of full-time equivalent jobs created or retained was determined from the Project Status agreement between the recipient and the RICC.

“Required Number of Full-Time Equivalent Active Jobs Created or Retained” (*Table III*, Column 6) is the total number of full-time equivalent active jobs as defined in Rhode Island General Law § 42-64.5-2(7) created or retained that a recipient of the Jobs Development Act rate reduction must achieve in order to receive the tax benefit.

“Employment Benchmark” (*Table IV*, Column 6) is the base employment level that an Enterprise Zone Wage Credit recipient had in the year prior to receiving the tax credit as recorded by the Enterprise Zone Council of the RICC.

“Estimated Full-Time and Part-Time Jobs Created or Retained” (*Table V*, Column 6) is the number of full-time and part-time jobs that a Motion Picture Production Tax Credit recipient reported would be created at the time of application for a Motion Picture Production Tax Credit with the Rhode Island Film & Television Office.

“New Enterprise Jobs Required” (*Table IV*, Column 7) is the number of full-time employees required to receive the Enterprise Zone Wage Credit as determined by the Enterprise Zone Council. The definition of an “Enterprise Job Employee” is contained in Rhode Island General Law § 42-64.3-3(6).

“Required Number of Full-Time and Part-Time Jobs Created or Retained” (*Table V*, Column 7) is the number of full-time and part-time jobs created or retained that are required to receive the Motion Picture Production Tax Credit.

“New Enterprise Jobs Created” (*Table IV*, Column 8) is the number of full-time employees added in order to receive the Enterprise Zone Wage Credit as determined by the Enterprise Zone Council. The definition of an “Enterprise Job Employee” is contained in Rhode Island General Law § 42-64.3-3(6).

“Degree to Which Full-Time Equivalent/Full-Time Equivalent Active Job Creation or Retention Goals Were Met” (*Tables I and III*, Column 7; *Table II*, Column 6; *Table IV*, Column 9; *Table V*, Column 8) is a measure of the extent to which the recipient of the tax credit/tax benefit achieved the job creation or retention goals specified for the tax credit/tax benefit. The measure is a percentage of the job creation and retention goal for the tax credit/tax benefit that was achieved by the tax credit/tax benefit recipient. A value of 100 percent means that the specified jobs goal was met exactly by the recipient of the tax credit/tax benefit. A value greater than 100 percent means the specified jobs goal was exceeded by the recipient of the tax credit/tax benefit. A value less than 100 percent means the specified jobs goal was not met by the recipient of the tax credit/tax benefit.

“Reported Number of New Full-Time Equivalent Jobs Created” (*Table I*, Column 8) is the number of new full-time equivalent jobs as calculated by ORA based on the employee information provided by the Project Status tax benefit recipient. The actual determination of the number of new full-time equivalent jobs was dependent upon the terms of the individual Project Status agreements entered into by each company. In general, ORA summed the reported hours worked per week for each new employee hired during the Investment Period across all new employees hired during the Investment Period and then divided this sum by the hours worked per week criteria in the definition of full-time equivalent employee contained in the individual Project Status agreements.

“Required Number of New Full-Time Equivalent Jobs Created” (*Table I*, Column 9) is the required number of new full-time equivalent jobs created that a Project Status tax benefit recipient was mandated to create by the end of the Investment Period in exchange for receiving the Project Status sales tax exemption. The mandated number of new full-time equivalent jobs created was determined from the Project Status agreement between the recipient and RICC.

“Degree to Which New Full-Time Equivalent Job Creation Goals Were Met” (*Table I*, Column 10) is a measure of the extent to which the recipient of the Project Status sales tax exemption achieved the new full-time equivalent job creation goals specified in the recipient’s Project Status agreement. The measure is a percentage of the new full-time equivalent job creation goal for the Project Status tax benefit that was achieved by the Project Status recipient. A value of 100 percent means that the new full-time equivalent jobs created goal was met exactly by the Project Status recipient. A value greater than 100 percent means the new full-time equivalent jobs created goal was exceeded by the Project Status recipient. A value less than 100 percent means the new full-time equivalent jobs created goal was not met by the Project Status recipient.

“Benefits Offered” (*Table I*, Column 11; *Table II*, Column 7; *Table III*, Column 8; *Table IV*, Column 10; *Table V*, Column 9) is the type of benefits offered to the employees of the recipient of the tax credit/tax benefit.

“Degree to Which Wage and Benefit Goals Were Met” (*Tables I*, Column 12; *Table II*, Column 8; *Table IV*, Column 11; *Table V*, Column 10) is a measure of the extent to which the recipient of the tax credit/tax benefit achieved the wage and benefit goals specified for the tax credit/tax benefit. The measure is a percentage of the wage and benefit goal for the tax credit/tax benefit that was achieved by the tax credit/tax benefit recipient. A value of 100 percent means that the specified wage and benefit goal was met exactly by the recipient of the tax credit/tax benefit. A value greater than 100 percent means the specified wage and benefit goal was exceeded by the recipient of the tax credit/tax benefit. A value less than 100 percent means the specified wage and benefit goal was not met by the recipient of the tax credit/tax benefit.

“Degree to Which Wage and Benefit Goals Were Met Prior to July 1, 2009” (*Table III*, Column 8) is a measure of the extent to which the recipient of the Jobs Development Act rate reduction achieved the wage and benefit goals that were in place for the Act for employees hired prior to July 1, 2009 as defined in Rhode Island General Law § 42-64.5-2(7). The measure is a percentage of the wage and benefit goal for the Jobs Development Act rate reduction that was achieved by the Jobs Development Act recipient. A value of 100 percent means that the specified wage and benefit goal was met exactly by the Jobs Development Act recipient. A value greater

than 100 percent means the specified wage and benefit goal was exceeded by the Jobs Development Act recipient of the tax credit/tax benefit. A value less than 100 percent means the specified wage and benefit goal was not met by the Jobs Development Act recipient.

“Degree to Which Wage and Benefit Goals Were Met Prior after June 30, 2009” (*Table III*, Column 9) is a measure of the extent to which the recipient of the Jobs Development Act rate reduction achieved the wage and benefit goals that were in place for the Act for employees hired after June 30, 2009 as defined in Rhode Island General Law § 42-64.5-2(7). The measure is a percentage of the wage and benefit goal for the Jobs Development Act rate reduction that was achieved by the Jobs Development Act recipient. A value of 100 percent means that the specified wage and benefit goal was met exactly by the Jobs Development Act recipient. A value greater than 100 percent means the specified wage and benefit goal was exceeded by the Jobs Development Act recipient of the tax credit/tax benefit. A value less than 100 percent means the specified wage and benefit goal was not met by the Jobs Development Act recipient.

“Geographic Location of Project/of Business/of Corporate Headquarters and/or Qualifying Facility/of Company or Enterprise Zone/Used by Production” (*Table I*, Column 13; *Table II*, Column 9; *Tables III* and *V*, Column 11; *Table IV*, Column 12) indicates either where in Rhode Island the economic activity occurred that qualified the recipient of the tax credit/tax benefit to receive the tax credit/tax benefit or the corporate headquarters of the parent company of a subsidiary located in Rhode Island where the economic activity occurred that qualified the recipient of the tax credit/tax benefit to receive the tax credit/tax benefit.

#### **Table VI**

“Name of Recipient” (Column 1) is the name of the company that received the tax credit/tax benefit as provided by the tax credit/tax benefit recipient.

“Tax Credit/Tax Benefit Program” (Column 2) identifies the tax credit/tax benefit program for which the recipient of the tax credit/tax benefit was eligible.

“Number of Employees Receiving RItE Care or RItE Share Benefits” (Column 3) is the number of employees, including employees’ dependents, of a tax credit/tax benefit recipient that received fee-for-service payments, RItE Care capitation payments, RItE Share premium payments and RItE Smiles capitation payments made by the State on their behalf during the period of employment with the tax credit/tax benefit recipient.

“Total Amount of RItE Care or RItE Share Benefits Received” is the amount of fee-for-service payments, RItE Care capitation payments, RItE Share premium payments and RItE Smiles capitation payments made by the State on behalf of employees, including employees’ dependents, of a tax credit/tax benefit recipient during the employee’s period of employment with the tax credit/tax benefit recipient.

**TABLE I:  
PROJECT STATUS SALES AND USE TAX EXEMPTION  
Rhode Island General Law Section 42-64-10  
(Administrator: Rhode Island Commerce Corporation)**

Name of Recipient	Amount	Reported Total Part-Time Jobs	Reported Total Temporary Jobs	Reported Total Full-Time Jobs	Reported Total Full-Time Equivalent Jobs Created or Retained	Required Minimum Number of Full-Time Equivalent Jobs Created or Retained	Degree to Which Full-Time Equivalent Job Creation or Retention Goals Were Met	Reported Number of New Full-Time Equivalent Jobs Created <sup>5</sup>	Required Number of New Full-Time Equivalent Jobs Created	Degree to Which New Full-Time Equivalent Job Creation Goals Were Met <sup>6</sup>	Benefits Offered	Degree to Which Wage and Benefit Goals Were Met	Geographic Location of Project
CVS Pharmacy Inc. <sup>1</sup>	\$ 3,412,606	639.0	0	4,723	4,910	3,973	123.6%	798	744	107.3%	Health; Pension	198.1%	Woonsocket
Electric Boat Corp. <sup>2</sup>	\$ 846,579	0	0	2,485	2,485	2,468	100.7%	536	450	119.1%	Health; Pension	133.1%	North Kingstown
Factory Mutual Ins Co. <sup>3</sup>	\$ 700,000	258	0	875	1,083	500	216.7%	573	325	176.3%	Health; Pension	262.2%	Johnston
FMR LLC <sup>4</sup>	\$ 426,222	264	0	4,198	4,334	1,000	433.4%	1,542	1,000	154.2%	Health	No Goals Specified	Smithfield
Perot Systems Corp. <sup>†</sup>	\$ 51,557	†	†	†	†	†	†	†	†	†	†	†	†
<b>Totals</b>	<b>\$ 5,436,964</b>	<b>1,161</b>	<b>0</b>	<b>12,281</b>	<b>12,812</b>	<b>7,941</b>	<b>161.3%</b>	<b>3,449</b>	<b>2,519</b>	<b>136.9%</b>	<b>n/a</b>	<b>202.1%</b>	<b>n/a</b>

<sup>1</sup> CVS Pharmacy Inc.'s Project Status agreement commenced on December 16, 1997 and has a 30 year term. EDC administratively recorded CVS' base employment as 3,623 FTEs. The Project Status agreement requires CVS to invest \$50.0 million in the project governed by the agreement, employ its new hires for 2,080 hours per year, and pay its new hires an average of no less than \$40,000 per year. CVS was required to meet its employment and wage and benefit mandates by December 16, 2004.

<sup>2</sup> Electric Boat (EB) Corporation's Project Status agreement commenced June 30, 2010 and has a three year term. The agreement specifies EB's base employment at 2,018. The Project Status agreement requires EB to invest \$45 million in the project governed by the agreement, employ its new hires for 1,560 hours per year, and pay its new hires a median of no less than \$36,691 per year. EB was required to meet its employment and wage benefit mandates by June 30th, 2014

<sup>3</sup> Factory Mutual Insurance Company's (FM Global) Project Status agreement commenced on November 5, 1998 and has a 20 year term. The agreement specifies FM Global's base employment at 175 FTEs. The Project Status agreement requires FM Global to invest \$70.0 million in the project governed by the agreement, employ its new hires for 2,080 hours per year, and pay its new hires an average of no less than \$35,000 per year. FM Global was required to meet its employment and wage and benefit mandates by November 5, 2004.

<sup>4</sup> FMR LLC's (Fidelity) Project Status agreement commenced on May 28, 1996 and has a 30 year term. The agreement specifies Fidelity's base employment at zero FTEs. The Project Status agreement requires Fidelity to invest at least \$30.0 million in the project governed by the agreement and employ its new hires for 2,080 hours per year. There is no minimum compensation requirement for new hires under the agreement. Fidelity was required to meet its employment mandate by December 1, 2003 at the latest.

<sup>5</sup> The number of new jobs created is derived from historical firm data. Specifically, the base number of employees at a recipient firm is subtracted from the number of employees immediately following the Project Status investment period. The exception to this method of measuring new job creation is CVS, for which historical data at the end of the investment period was unavailable. New employment for CVS is calculated by subtracting base employment from the total number of FTEs employed in 2011. FMR employee counts were submitted in accordance with reporting requirements for the Jobs Rent Credit. The extent to which Jobs Rent Credit job requirements are the same as Project Status agreement requirements is unclear from the data, but rent credit employees are at the least salaried and employed for 40 hours per week. As such ORA used this number for new employment creation metrics.

<sup>6</sup> Wage and salary data were only available for employees who are still employed by the recipient firm as of the end of FY 2014. Wage and benefit figures are calculated using a sample restricted to those hired during the investment period, as those are the employees for which credit is awarded. To the extent to which attrition from the firm is nonrandom with respect to salary, this calculation may be biased.

<sup>†</sup> Perot Systems Corp. qualified for a sales and use tax rebate under Rhode Island General Law Chapter 45-37.1 titled Industrial Facilities Corporation. The Division of Taxation's inclusion of Perot Systems Corp. as the recipient of the Project Status sales and use tax exemption in the *Tax Credit and Incentive Report - FY 2014* is an error.

**TABLE II:  
INCENTIVES FOR INNOVATION AND GROWTH TAX CREDIT  
Rhode Island General Law Section 44-63-3  
(Administrator: Rhode Island Commerce Corporation)**

<b>Name of Recipient</b>	<b>Amount</b>	<b>Reported Total Part- Time Jobs</b>	<b>Reported Total Full- Time Jobs</b>	<b>Estimated Full- Time and Part- Time Jobs Created or Retained per EDC Analysis</b>	<b>Degree to Which Job Creation or Retention Goals Were Met</b>	<b>Benefits Offered</b>	<b>Degree to Which Wage and Benefit Goals Were Met</b>	<b>Geographic Location of Business</b>
No Recipients in FY 2014								
<b>Totals</b>	<b>\$ -</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**TABLE III.**  
**JOBS DEVELOPMENT ACT BUSINESS CORPORATION TAX RATE REDUCTION**  
**Rhode Island General Law Section 442-64.5-5**  
(Administrator: Rhode Island Division of Taxation)

<b>Name of Recipient</b>	<b>Amount</b>	<b>Reported Total Part-Time Jobs <sup>2</sup></b>	<b>Reported Total Full-Time Jobs <sup>2</sup></b>	<b>Reported Total Full-Time Equivalent Active Jobs Created or Retained</b>	<b>Required Number of Full-Time Equivalent Active Jobs Created or Retained</b>	<b>Degree to Which Full-Time Equivalent Active Job Creation or Retention Goals Were Met</b>	<b>Benefits Offered</b>	<b>Degree to Which Wage and Benefit Goals Were Met Prior to July 1, 2009</b>	<b>Degree to Which Wage and Benefit Goals Were Met After June 30, 2009</b>	<b>Geographic Location of Corporate Headquarters and/or Qualifying Facility <sup>3</sup></b>
AAA Southern New England <sup>1</sup>	\$ 52,344	*	*	*	725.0	*	*	*	*	Providence
AAA Southern New England Bank	\$ 17,192									
CCO Investment Services Corp.	\$ 120,203	414.0	3,328.0	3,619.0	2,337.0	154.9%	Health; Pension	365.3%	287.5%	East Providence
CVS Pharmacy Inc.	\$ 6,531,781	686.6	4,723.0	5,325.6	3,430.0	155.3%	Health; Pension	337.9%	241.2%	Woonsocket
Electric Boat Corporation	\$ 624,289	0.0	2,485.0	2,485.0	1,501.0	165.6%	Health; Pension	292.7%	134.2%	North Kingstown
RITE Solutions, Inc.	\$ 7,950	76.0	48.0	68.0	104.0	65.4%	Health; Pension	428.9%	174.7%	Middletown
United Natural Foods, Inc.	\$ 166,502	6.0	375.0	375.0	200.0	187.5%	Health; Pension	Qualified for JDA after 7/1/2009	214.4%	Providence
<b>Totals</b>	<b>\$ 7,520,261</b>	<b>1,183</b>	<b>10,959</b>	<b>11,873</b>	<b>8,297</b>	<b>143.1%</b>	<b>n/a</b>	<b>336.1%</b>	<b>235.9%</b>	<b>n/a</b>

<sup>1</sup> Rhode Island, as a separate entity filing state, allows subsidiaries to file business corporation tax returns separately from the parent company and receive the rate reduction on that return.

<sup>2</sup> To determine the standard workweek for an employer, the Office of Revenue Analysis determined the most frequently occurring value for the hours worked per week supplied by the tax credit and/or tax benefit recipient. This value was then used to determine whether a particular employee was a full-time or part-time employee. Employees whose hours worked per week were equal to or greater than the most frequently occurring value for a tax credit and/or tax benefit recipient were classified as full-time. All other employees were classified as part-time.

<sup>3</sup> Rhode Island General Law § 42-64.5-2 defines an "eligible company" as including an "eligible subsidiary" where an "eligible subsidiary means each corporation eighty percent (80%) or more of the common stock of which is owned by an eligible company." Thus, a corporation can be eligible for the Jobs Development Act rate reduction, even though it is located outside of the state, via its ownership of an "eligible subsidiary".

\* Company did not respond to notification from the Division of Taxation and thus did not provide the information required by Rhode Island General Law § 42-64.5-8.

**TABLE IV.**  
**DISTRESSED AREAS ECONOMIC REVITALIZATION ACT WAGE TAX CREDIT**  
**Rhode Island General Law Section 42-64.3-1**  
(Administrator: Rhode Island Commerce Corporation)

Name of Recipient	Amount Taken	Reported Total Part-Time Jobs	Reported Total Seasonal Jobs	Reported Total Full-Time Jobs	Employment Benchmark	New Enterprise Jobs Required	New Enterprise Jobs Created	Degree to Which Job Creation or Retention Goals Were Met	Benefits Offered	Degree to Which Wage and Benefit Goals Were Met	Geographic Location of Company or Enterprise Zone
Child Care Connection, Inc dba The Children's Workshop <sup>1</sup>	\$ 237	*	*	*	*	*	*	*	*	*	Cumberland
Ronstan International, Inc <sup>2</sup>	\$ 2,500	*	*	*	*	*	*	*	*	*	Portsmouth
United Natural Foods, Inc	\$ 80,000	6	0	375	310	16	56	350.0%	Health; Pension	130.9%	Providence
WaterRower, Inc	\$ 108,451	2	1	86	57	3	31	1033.3%	Health	139.6%	Warren
<b>Totals</b>	<b>\$ 191,188</b>	<b>8</b>	<b>1</b>	<b>461</b>	<b>367</b>	<b>19</b>	<b>87</b>	<b>457.9%</b>	<b>n/a</b>	<b>131.3%</b>	<b>n/a</b>

\* Company did not respond to notification from the Division of Taxation and thus did not provide the information required by Rhode Island General Law § 42-64.3-6.1(h).

<sup>1</sup> Child Care Connection Inc. was not certified for the Enterprise Zone Wage Credit in 2014, but filed a return claiming the Enterprise Zone Wage Credit for the amount included in the Division of Taxation's *Tax Credit and Incentive Report - FY 2014*.

<sup>2</sup> Ronstan International Inc. was not certified for the Enterprise Zone Wage Credit in 2014, but self reported the amount included in the Division of Taxation's *Tax Credit and Incentive Report - FY 2014*.

**TABLE V.**  
**MOTION PICTURE PRODUCTION TAX CREDITS**  
**Rhode Island General Law Section 44-31.2-6.1**  
(Administrator: Rhode Island Film and TV Office)

Name of Recipient	Amount	Reported Total Part-Time Jobs	Reported Total Temporary Jobs	Reported Total Full-Time Jobs	Estimated Full-Time and Part-Time Jobs Created or Retained <sup>1</sup>	Required Number of Full-Time and Part-Time Jobs Created or Retained	Degree to Which Job Creation or Retention Goals Were Met	Benefits Offered <sup>1</sup>	Degree to Which Wage and Benefit Goals Were Met	Reported Geographic Locations Used by Production <sup>1</sup>
Army of the Damned, LLC	\$ 62,376	*	*	*	30	None	No Goals Specified	None	No Goals Specified	Cranston, East Greenwich
Backmask LLC	\$ 442,074	*	*	*	98	None	No Goals Specified	Per Union Contract	No Goals Specified	Exeter
Ginkgo Leaf Productions, Inc.	\$ 9,650	*	*	*	21	None	No Goals Specified	Health, 50 percent coverage for full-time employees only	No Goals Specified	Newport, Providence, Tiverton
God Only Knows, Inc.	\$ 334,965	*	*	*	195	None	No Goals Specified	Per IATSE/SAG/AFTRA & Teamster Agreement	No Goals Specified	Central Falls, Providence, East Providence
IPB, LLC	\$ 596,979	*	*	*	320	None	No Goals Specified	Per Union Contract	No Goals Specified	Providence, Pawtucket, North Providence
Self Storage, LLC	\$ 37,678	*	*	*	20	None	No Goals Specified	None	No Goals Specified	East Greenwich, Cranston
The Institute Rhode Island, LLC	\$ 244,502	0	0	0	0	None	No Goals Specified	None	No Goals Specified	None
<b>Totals</b>	<b>\$ 1,728,224</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>684</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>Various</b>

<sup>1</sup> Data is from page 1 of the Motion Picture Production Tax Credit Information Request Form as provided by the Rhode Island Film & Television Office.

**TABLE VI.**  
**UTILIZATION OF Rite CARE AND Rite SHARE BENEFITS BY TAX BENEFIT RECIPIENTS**  
**Rhode Island General Law Section 42-142-6(a)(4)**  
(Executive Office of Health and Human Services)

<b>Name of Recipient</b>	<b>Tax Credit / Tax Benefit Program</b>	<b>Number of Employees Receiving Rite Care or Rite Share Benefits^</b>	<b>Total Amount of Rite Care or Rite Share Benefits^ Received</b>
Factory Mutual Insurance Co.	Project Status Sales Tax Exemption	10	43,033
FMR LLC and Affiliates	Project Status Sales Tax Exemption	14	60,243
Perot Systems Corporation	Project Status Sales Tax Exemption	*	*
<b>Sub-Total</b>	<b>Project Status Sales Tax Exemption</b>	<b>24</b>	<b>\$ 103,276</b>
AAA Southern New England and Subsidiaries	Jobs Development Act Rate Reduction	*	*
Citizens Bank	Jobs Development Act Rate Reduction	81	188,981
Rite-Solutions, Inc.	Jobs Development Act Rate Reduction	1	9,947
<b>Sub-Total</b>	<b>Jobs Development Act Rate Reduction</b>	<b>82</b>	<b>\$ 198,928</b>
Child Care Connection, Inc dba The Children's Workshop	Enterprise Zone Wage Credit	*	*
Ronstan International, Inc	Enterprise Zone Wage Credit	*	*
WaterRower, Inc.	Enterprise Zone Wage Credit	15	115,861
<b>Sub-Total</b>	<b>Enterprise Zone Wage Credit</b>	<b>15</b>	<b>\$ 115,861</b>
Army of the Damned, LLC	Motion Picture Production Tax Credit	*	*
Backmask, LLC	Motion Picture Production Tax Credit	*	*
Ginkgo Leaf Productions, Inc.	Motion Picture Production Tax Credit	0	0
God Only Knows, Inc.	Motion Picture Production Tax Credit	*	*
IPB, LLC	Motion Picture Production Tax Credit	*	*
Self Storage, LLC	Motion Picture Production Tax Credit	*	*
The Institute Rhode Island, LLC	Motion Picture Production Tax Credit	*	*
<b>Sub-Total</b>	<b>Motion Picture Production Tax Credit</b>	<b>0</b>	<b>\$ -</b>
CVS Pharmacy, Inc.	Project Status Sales Tax Exemption / Jobs Development Act Rate Reduction	153	\$ 760,893
Electric Boat	Project Status Sales Tax Exemption / Jobs Development Act Rate Reduction	93	379,048
United Natural Foods	Jobs Development Act Rate Reduction / Enterprise Zone Wage Credit	7	15,497
<b>Sub-Total</b>	<b>Multiple Tax Incentives / Tax Benefits</b>	<b>253</b>	<b>\$ 1,155,438</b>
<b>Grand Total</b>	<b>n/a</b>	<b>374</b>	<b>\$ 1,573,502</b>

^ Benefits include Fee-for-service payments, Rite Care capitation payments, Rite Share premium payments, Rite Smiles capitation payments, and transportation capitation payments made on behalf of an employee through the State's medicaid program. Payments are for any member in the same Medicaid case as the employee. Employees are assumed to have been employed by the tax credit/tax benefit recipient from the date of the employee's hire through June 30, 2014.

\* Company did not respond to notification from the Division of Taxation and thus did not provide the information required by Rhode Island General Law § 42-64-10(k) or 42-64.3-6.1(h) as applicable.

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## **Part II**

### **Cost – Benefit Analysis of the Tax Credits/Tax Benefits**

## **Introduction**

Rhode Island General Law § 42-142-6(a)(5) requires the Office of Revenue Analysis (ORA) to conduct an analysis of the economic costs and benefits to the state for the incentives included in the *Annual Unified Economic Development Report* beginning January, 15, 2014.<sup>18</sup> The statute specifies that ORA shall work in conjunction with the Rhode Island Commerce Corporation (RICC) in the preparation of the cost-benefit analysis section of the report.

ORA prepared a cost benefit analysis for four tax incentives that were covered in the first part of this report—the Project Status sales and use tax exemption, the Jobs Development Act business corporations tax rate reduction, the Enterprise Zone wage tax credit, and the Motion Picture Production Company tax credit.<sup>19</sup>

## **Cost-Benefit Analysis Methodology**

ORA analyzed the self-reported firm-level data on employment, wages, and benefits for tax incentive recipients in FY 2014 as detailed in Part I of this report. Using these data, as well as data from the Division of Taxation, Rhode Island Commerce Corporation, and publicly available historical data on the regional and national economies, the following cost-benefit analysis seeks to evaluate the net economic and fiscal impacts of the covered incentives. Metrics include employment, state gross domestic product (GDP), and state revenue impacts.

To execute the cost-benefit analysis, ORA utilized Regional Economic Models, Incorporated's (REMI) 70-sector model of the Rhode Island economy via the REMI PI+ software platform to produce estimates of the total economic effects of the incentives issued in FY 2014.<sup>20</sup> The dynamic capabilities of the REMI PI+ model allows one to estimate the impacts of exogenous shocks to the state's economy, including changes to public policy, shifts in consumer behavior and demand, and developments in industry.

The retrospective timing of the FY 2014 cost-benefit analysis necessitated a unique modeling approach. The modeling procedure had to overcome complications created by the fact that historical economic data for the Rhode Island economy includes the economic impact that may have resulted from the tax incentives being analyzed. In consultation with REMI, ORA developed a “counterfactual” approach that analyzes the impact on the state's economy if the tax incentive in question had not been in effect in FY 2014. The resulting deviations in economic indicators from historic figures represent the estimated economic impact of each incentive.

### *Identifying the Scope of Benefits*

A fundamental challenge in evaluating economic development incentives is determining the extent to which an incentive actually stimulated or attracted new economic activity rather than subsidized economic activity that would have been largely present even in the absence of the

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<sup>18</sup> The FY 2013 Unified Economic Development Report is the first report for which the cost-benefit analysis specified in Rhode Island General Law § 42-142-6(a)(5) was required.

<sup>19</sup> The Division of Taxation reported no credits issued in FY 2014 for the Incentives for Innovation and Growth tax credit program and therefore no cost-benefit analysis was conducted on this program.

<sup>20</sup> The REMI model consists of four economic impact methodologies: input-output analysis, computable general equilibrium dynamics, econometric estimation techniques, and economic geography and migration flows. Detailed documentation on the REMI PI+ v1.7.2 model employed in this analysis is available at: <http://www.remi.com/resources/documentation>

incentive. On one hand, the availability of a tax incentive might have a decisive influence on a firm's production decision. In this case it might be appropriate for an evaluator to attribute all of the firm's economic activity to the incentive. On the other hand, an incentive program may simply reward or subsidize behavior that likely would have occurred anyway. In this case the tax credit might have an impact on a firm's marginal productivity, but it would be inappropriate to attribute the full economic activity of the firm solely to the availability of the tax incentive. Real world conditions often make it difficult or impossible for an evaluator to assess where on this continuum the impact of any given tax incentive falls.

An issue complicating an analyst's ability to neatly define the scope of benefits resulting from a tax incentive program is the fact that not all enabling legislation for tax incentive programs contain provisions requiring that qualifying economic activity would not have occurred without the availability of the tax incentive. Some tax incentive programs are broadly available to all qualifying firms and projects regardless of whether the incentive was an instrumental factor in making the investment, employment, or project possible. For example, the Motion Picture Production Company tax credit is available to all motion picture productions meeting statutory requirements regardless of whether the production company had considered competitive out-of-state alternative locations or would have been unable to engage in production without the credit. Additionally, the Enterprise Zone wage tax credit is intended to stimulate development within an Enterprise Zone, but could potentially be awarded to firms locating in a qualifying zone rather than somewhere else in Rhode Island—resulting in benefits to the Enterprise Zone community but little or no net benefit to the state. The Jobs Development Act provides a valuable rate reduction of sufficient magnitude that it is plausible that it could influence a firm's production decisions, but there is not an explicit requirement that additional employment would not have occurred in the absence of the rate reduction. Finally, Project Status recipients are governed by individual agreements that may or may not contain any assurances that economic activity associated with the exemption would not have occurred without the credit.

Finally, the interaction of tax incentives awarded over multiple years and firms receiving multiple tax incentives simultaneously complicates the process of performing a cost-benefit analysis of a single tax incentive in a single year. Consider the Jobs Development Act business corporations tax rate reduction. A firm may retain the rate reduction benefit established during the initial expansion period indefinitely as long as it maintains a minimum employment level. When a firm makes a long-term commitment to locate a corporate headquarters in Rhode Island—along with all of the associated capital investment and employment—it likely considered all of the available incentives and the long-term benefits associated with them. It would be inappropriate to claim that all of the investment and employment associated with a particular firm would vanish if the tax incentive were removed for a single year when a firm makes a long-term investment decision while considering a package of available incentives over a timeline spanning many years. Note that the Jobs Development Act rate reduction, Project Status exemption, and Enterprise Zone wage credit can provide benefits to firms over multiple years. The Motion Picture Production Company Credit is granted on a project-by-project basis, but may be awarded to the same firm engaged in successive projects.

ORA identified the following firms to be recipients of multiple incentive programs, including firms with multiple subsidiaries/related entities receiving that same credit:

<b>Firms Receiving Multiple State Tax Incentives in FY 2014</b> (including firms with multiple subsidiaries/related entities receiving separate incentives)			
<b>Recipient Firm</b>	<b>Subsidiaries/Related Entities</b>	<b>Incentives Awarded</b>	<b>Total Credit Awarded</b>
AAA	AAA Southern New England and Subsidiaries, AAA Southern New England Bank	JDA	\$69,536
CVS Pharmacy, Inc.	n/a	Project Status, JDA, Investment Tax Credit, Jobs Training Credit	\$15,023,067
Electric Boat	n/a	Project Status, JDA, Investment Tax Credit, Jobs Training Credit	\$3,234,742
Fidelity	FMR LLC	Project Status, Jobs Rent Credit	\$3,610,248
United Natural Foods, Inc.	n/a	JDA, Enterprise Zone, Project Status	\$246,502

Source: State of Rhode Island Division of Taxation, FY 2014 Tax Credit and Incentive Report.

Facing these and other barriers related to the identifying the appropriate scope of benefits to be included in this analysis, ORA presents here two different analyses based on contrasting assumptions of the direct impact of the incentives.

The first analysis estimates the economic and fiscal impacts of the incentives under the assumption that the tax incentives impacted economic activity at recipient firms at the margin. This assumption means that the tax incentive increased productivity at the recipient firm, but it did not leverage any additional investment beyond this immediate impact. Rather than making long-term production decisions based on the availability of an incentive in a given year, firms simply made short-term cost-structure decisions in response to the availability of an incentive. This analysis is referred to herein as the “marginal analysis.”

The second analysis assumes the opposite of the first. In this case, it is assumed that the tax incentives directly leveraged all of the economic activity required of recipient firms to receive a tax benefit. This assumption means that much of the economic activity required of recipient firms to receive a tax benefit would not have occurred in the absence of the incentives. Under this assumption, firms made long-term production decisions based on the availability of an incentive over a period of time, and removal of that incentive in a given year would undo all such decisions. This analysis is referred to herein as the “leveraged analysis”.

Though these two approaches represent two ends of the continuum on which potential benefits from a tax incentive might fall, it is not appropriate to assume that the average of the two approaches represent the best, unbiased estimate of the impact of an incentive. In any given case, it is possible that the actual impact may fall on one extreme or the other—dependent on the key

assumption of whether or not the recipient would have engaged in the necessary employment, investment, or production in the absence of the tax incentive.

### *Inputting Costs and Benefits in the REMI Model*

The economic benefits of a tax incentive are considered to be the direct economic effects associated with the tax incentive/benefit, as well the indirect and induced economic effects. Tax incentives/benefits also have direct, indirect, and induced costs. Tax incentives/benefits reduce the resources available to government to pursue other objectives. Rhode Island state government, as is the case in 48 other states, is required to operate under a balanced budget. As a result, this report assumes that tax incentives/benefits must be funded with either a decrease in other state expenditures or an increase in taxes. These revenue offsets, and the indirect and induced economic effects associated with them, comprise the costs of an incentive.

This general cost-benefit methodology is summarized in the following figure:

$$\begin{aligned} & \text{Net Benefits} = \text{Benefits} - \text{Costs} \\ & \text{Where:} \\ & \text{Benefits} = \text{Direct Positive Economic Effects} + \text{Positive "Multiplier" Effects} \\ & \text{Costs} = \text{Direct Negative Economic Effects} + \text{Negative "Multiplier" Effects} \end{aligned}$$

In the figure above, *Direct Positive Economic Effects* refer to the economic activity associated with firms that are direct recipients of tax incentives/benefits, while the *Positive "Multiplier" Effects* capture indirect economic activity resulting from increased industrial activity throughout the recipient firms' supply chains as well as induced economic activity resulting from increased household consumption attributable to increases in compensation and/or employment at recipient firms and throughout the economy.

*Direct Negative Economic Effects* refer to the reduction in economic activity associated with state expenditure cuts or tax and/or fee increases necessary to maintain a balanced budget. The *Negative "Multiplier" Effects* incorporate forgone indirect economic activity throughout the state government's or taxpaying industries' supply chains as well as forgone induced economic activity resulting from a reduction in household consumption attributable to a reduction in compensation and/or employment in state government or at taxpaying firms throughout the economy.

The regional linkages in the REMI model are able to assess the extent to which costs and benefits remain within the state or leak outside the state's economy. Additionally, the dynamic capabilities of the model allow the effects of a policy shock to ripple throughout the economy, leading to further adjustments to output, labor and capital demand, population and labor supply, compensation, prices, and costs, as well as regional market shares until the economy arrives at a new equilibrium.

Direct benefits are entered into the REMI model as policy variables simulating changes in industry sales, exogenous final demand, employment, compensation or wages, and production costs. ORA assigned these benefits to a profile of sectors among the 70 sectors available in the

REMI PI+ model in proportion with the amount of each incentive issued to firms in each industry. As an example, under ORA’s modeling approach, a hypothetical \$5,000,000 tax credit awarded to a pharmaceutical manufacturing firm would be modeled as an adjustment to production costs for the “Chemical Manufacturing” (NAICS Code: 325) industrial sector of \$5,000,000.

#### *Modeling Alternative Uses of Tax Credit/Tax Benefit Resources*

The cost-benefit analyses contained in this report considers two options for modeling the alternative uses of resources dedicated to the tax incentives analyzed. This section refers to these two options generally as the “Government Expenditure Response” scenario and the “Tax Policy Response” scenario.

The “Government Expenditure Response” scenario assumes that the tax incentive is funded by an equivalent reduction in state government spending. These adjustments are made based on a comprehensive historical analysis of Rhode Island general fund expenditures for each of the fiscal years within the scope of this analysis. This analysis compiled all state general fund expenditures and assumed that the level of all of these expenditures could be adjusted to maintain a balanced general fund budget. Certain long-term commitments such as debt/lease payments and preexisting obligations to current retirees were held harmless. The breakdown of general fund expenditures by category for FY 2014 is shown in the table below.<sup>21</sup>

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<sup>21</sup> FY 2014 is presented for illustrative purposes. REMI PI+ requires all policy variables to be entered on a calendar year basis. As a result, actual model inputs were constructed by taking the average of the two adjacent July-June state fiscal years overlapping each calendar year. For example, average government expenditure percentages for calendar year 2014 consist of the average of fiscal years 2014 and 2015.

<b>FY 2014 Rhode Island General Fund Expenditures</b>			
<b>Industry Description</b>	<b>NAICS Code</b>	<b>Amount</b>	<b>Percent of Total</b>
Ambulatory Healthcare Services <sup>22</sup>	621	\$1.1 billion	33.8%
Educational Services	61	\$1.0 billion	31.7%
State Wages, Salary, and other Compensation	n/a (entered as “state/local govt. compensation” and “employment”)	\$737.6 million	23.3%
Social Assistance	624	\$116.7 million	3.7%
Local Government Spending	n/a (entered as “local government spending”)	\$72.6 million	2.3%
Administrative and Support Services	561	\$32.9 million	1.0%
Wholesale Trade	42	\$30.9 million	1.0%
Professional, Scientific, and Technical Services	54	\$36.6 million	1.2%
Remaining/Other	19 additional industries and also non-residential capital investment	\$63.0 million	2.0%
<b>Total:</b>		<b>\$3.161 billion</b>	<b>100.0%</b> <sup>23</sup>

The following table summarizes Rhode Island state government employment in FY 2014:

<b>FY 2014 State Wages and Salary Detail</b>	
Full Time Equivalent (FTE) Positions Count (all fund sources)	13,892.0
Total Compensation Cost Per FTE (all fund sources)	\$97,697.95

As a large portion of government expenditures are on personnel, a significant portion of the direct cost in this scenario is entered into the REMI model as an adjustment to the number of state employees and their level of compensation. The remainder of the policy adjustment is entered into the model as changes in investment and exogenous final demand for the industries from which the state purchases goods and services.

The “Tax Policy Response” scenario assumes that the tax incentive is funded by broad-based tax increase. This broad-based tax increase is entered into the REMI model as an adjustment to

<sup>22</sup> Of the \$1.1 billion in state general fund expenses on ambulatory health care services in FY 2014, a vast majority (98.9 percent or \$1.07 billion) consists of the state general fund portion of Medicaid payments made via Medicaid Management Information System (MMIS). This represents the state’s required contribution in order to receive matching funds according to the Federal Medical Assistance Percentage (FMAP). Although eligibility for Medicaid programs is determined through an entitlement process and the General Assembly is legally bound to appropriate the amount adopted at the annual Caseload Estimating Conference, this analysis assumes that some marginal adjustment to the Medicaid appropriation amount is possible through policy changes, especially considering changes on the relatively small order of magnitude necessary to fund an individual tax incentive program such as those included in this report.

<sup>23</sup> Total may not sum precisely due to rounding.

production costs and is distributed across industries in proportion with each industry's total value added to the Rhode Island economy. Value added roughly corresponds to a firm's business profits, so this approach provides an efficient method for distributing the impact of a broad-based tax increase in proportion with the taxes paid by each industry. For example, the Construction industry (NAICS Code: 23) had total value added in calendar year 2014 of \$1.851 billion out of total value added for all private, non-farm Rhode Island industries of \$44.0 billion. This implies that the construction industry's value added as a percentage of the total value added of all Rhode Island industries is 4.2 percent. This percentage is used to yield the adjustment to production costs for the Construction industry.

The methodology employed in this report also considers the cost to administer each tax incentive as appropriate. In the "Government Expenditure Response" scenario, it is unnecessary to consider administrative costs because it is assumed that the same level of state government expenditures would occur regardless of whether the tax incentive program were in place. In the "Tax Policy Response" scenario, it is assumed that if a tax incentive had not been in place then the cost of tax incentive administration would not have been incurred and the cost savings would be passed along to taxpayers as a tax decrease.

#### *Calculation of Fiscal Impacts*

Fiscal impact estimates were calculated outside of the REMI model as derived from the ratio of Rhode Island state general revenues to Rhode Island GDP in each year covered by this analysis. For example, in FY 2014 Rhode Island GDP, was \$52.48 billion. FY 2014 total general revenues were \$3.378 billion. Thus, in FY 2014, general revenues were 6.48 percent of FY 2014 Rhode Island GDP. ORA used this percentage to estimate the amount of general revenues that result from changes in Rhode Island GDP associated with each tax incentive analyzed.

#### *Definition of Terms*

The following are terms that will be used in the subsequent sections of this part of the report. Additional clarity around the meaning of these terms will be provided as needed in the sections below.

Compensation: The sum of wages and salary disbursements and supplements to wages and salaries including fringe benefits.

Direct economic effects: Economic activity associated with firms that are direct recipients of tax incentives/benefits, including but not limited to changes in employment, compensation, and output.

Factors of production: The sum of all inputs, including capital, labor, fuel, and intermediate inputs used in the production of a firm's final output.

Economic multiplier effects: The sum of indirect and induced economic effects.

Exogenous final demand: The total amount of goods or services demanded by Rhode Island consumers and firms. Local demand is satisfied by firms inside and outside of Rhode Island as is most efficient for buyers and sellers.

Industry sales: The total amount of a good or service demanded by consumers that is produced by Rhode Island firms. Rhode Island industry sales are comprised of purchases made by consumers inside and outside of Rhode Island as is most efficient for buyers and sellers.

Indirect economic effects: Economic activity resulting from increased demand for intermediate inputs by a firm that has received a tax incentive/benefit.

Induced economic effects: Economic activity resulting from increased household consumption attributable to increases in compensation and/or demand for labor by firms that have received a tax incentive/benefit and firms in their supply chain.

Intermediate inputs: Goods and services, other than capital, labor, or fuel used by a firm in the production of its final output.

Investment: Firm and individual spending on structures, equipment, and intellectual property.

Gross Domestic Product: Gross domestic product can be expressed as the sum of final consumption, investment, government spending, and imports less exports. Gross domestic product can also be expressed as the sum of value added across all industries.

Gross Output: The sum of all sales receipts, including those generated from goods and services sold for final consumption and as intermediate inputs, operating income, commodity taxes, and the change in inventories within the state. Gross output is duplicative when compared with gross domestic product as it recognizes consumption at each and every step in the supply chain, even when purchases represent intermediate inputs destined to be transformed into some other final product. Gross domestic product recognizes only final consumption.

Production cost: The final cost to a firm of all factors of production used in the production of final goods and services.

Tax credit: The direct dollar-for-dollar reduction of an individual's or entity's tax liability. The value of a tax credit is invariant to a taxpayer's tax bracket.

Tax exemption: A taxable expenditure, income, or investment on which no tax is levied. A tax exemption may be of limited or permanent duration.

Tax rate reduction: The direct reduction of the percentage at which an individual or entity is taxed. A tax rate reduction confers monetary benefits in direct proportion to the tax base upon which it is assessed.

Value added: The gross output of all firms in an industry less the cost of intermediate inputs. Value added can also be expressed as the sum of employee compensation, production taxes, net imports, proprietor's income, corporate profits, and the consumption of capital.

Wages: The sum of pecuniary earnings of an employee, expressed in dollar amounts, typically either by number of dollars per hour or per year.

### **Modeling the Tax Incentives in REMI**

ORA matched each recipient firm to its corresponding industry code according to the North American Industry Classification System (NAICS) in order to accurately simulate direct shocks to the Rhode Island economy with the REMI model. The following tables depict the amount of a given tax credit/tax benefit received by firms in each industry that were included in the cost-benefit analysis (CBA). Failure by firms to comply with data reporting requirements resulted in ORA excluding some firms from the CBA analysis. Individual firms that did not comply with necessary requirements are noted in each analysis.

<b>FY 2014 Project Status Sales and Use Tax Exemption</b>	
<b>Industry (NAICS Code)</b>	<b>Amount Received</b>
Management of Companies and Enterprises (55)	\$ 3,412,606
Miscellaneous Manufacturing (339)	\$ 846,579
Insurance Carriers and Related Activities (524)	\$ 700,000
Securities, Commodity Contracts, Investments (523)	\$ 426,222
<b>Total Included in CBA Analysis</b>	<b>\$ 5,385,407</b>

<b>FY 2014 Jobs Development Act Business Corporations Tax Rate Reduction</b>	
<b>Industry (NAICS Code)</b>	<b>Amount Received</b>
Management of Companies and Enterprises (55)	\$ 6,698,283
Miscellaneous Manufacturing (339)	\$ 624,289
Professional, Scientific, and Technical Services (54)	\$ 7,950
Securities, Commodity Contracts, Investments (523)	\$ 120,203
<b>Total Included in CBA Analysis</b>	<b>\$ 7,450,725</b>
Non-Complying Firms (excluded from CBA analysis)	<b>\$ 69,536</b>

<b>FY 2014 Enterprise Zone Wage Credit</b>	
<b>Industry (NAICS Code)</b>	<b>Amount Received</b>
Management of Companies and Enterprises (55)	\$ 80,000
Miscellaneous Manufacturing (339)	\$ 108,451
<b>Total Included in CBA Analysis</b>	<b>\$ 188,451</b>
Non-Complying Firms (excluded from CBA analysis)	\$ 2,737

<b>FY 2014 Motion Picture Production Tax Credit</b>	
<b>Industry (NAICS Code)</b>	<b>Amount Received</b>
Motion Picture and Sound Recording (512)	\$ 1,728,224
<b>Total Included in Modified CBA Analysis<sup>24</sup></b>	<b>\$ 1,728,224</b>

<sup>24</sup> Six out of the seven FY 2014 MPPTC recipients, receiving a total of **\$1,483,722** of credits, did not comply with data reporting requirements. Therefore, because of the overwhelming lack of data reporting compliance, ORA implemented a modified CBA approach that did not present any estimates of employment impacts.

## **The Marginal Impact Analysis of the FY 2014 Tax Incentives / Benefits**

### *Key Assumptions*

The marginal impact analysis estimates the economic and fiscal impacts of the tax incentives under the assumption that the tax incentives impacted economic activity at recipient firms at the margin. This assumption means that most of the economic activity required of recipient firms to receive a tax benefit would have occurred in the absence of the incentive. Rather than making global production decisions based on the availability of an incentive in a given year, firms simply made marginal cost-structure decisions in response to the availability of an incentive.

### *Results*

The following sections provide a brief summary of each tax incentive, a description of any unique considerations impacting the modeling approach, a listing and explanation of inputs to the REMI model, and a summary of costs and benefits as reported by the model output.

### *Project Status*

The tax benefit commonly referred to as Project Status provides a sales and use tax exemption to lessees or sub-lessees of the Rhode Island Commerce Corporation for construction materials as well as durable fixtures, furniture, and equipment.<sup>25</sup> In FY 2014, four firms in four industries received a total reduction in sales and use tax liability of \$5,385,407.<sup>26</sup>

### *Benefits*

ORA modeled the \$5,385,407 sales and use tax exemption for the four recipients with Project Status agreements as a commensurate adjustment to industry-specific production costs. This approach results in a direct, indirect, and induced increase of 22 jobs.<sup>27</sup> Additionally, the sales and use tax exemption generates a direct, indirect, and induced increase in state GDP of \$2,019,763 and an estimated \$130,881 increase in state general revenues.

### *Alternative Scenario I: Government Expenditure Response*

Assuming that the sales and use tax exemption resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 66 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$4,662,508 and an estimated \$302,131 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate decrease of 44 jobs. Direct, indirect, and induced economic effects generate an aggregate net decrease in state GDP of \$2,642,691, and an estimated \$171,246 decrease in state general revenues. The following table summarizes the results of this analysis.

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<sup>25</sup> See Section 1 for a more detailed explanation of the exemption.

<sup>26</sup> This number differs from the number on the division of Taxation's Tax Credit and Incentive Report because one firm was included in error for an amount of \$51,557.37.

<sup>27</sup> The wages and hours of an average job vary by industry according to US Department of Commerce, Bureau of Economic Analysis regional observations. This employment count comprises the estimates of the number of jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are weighted equally.

<b>FY 2014 Project Status Sales and Use Tax Exemption Marginal Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	0	-15	-15
Indirect Jobs	4	-8	-4
Induced Jobs	17	-43	-25
<b>Total Jobs</b>	<b>22</b>	<b>-66</b>	<b>-44</b>
Total GDP	\$ 2,019,763	\$ (4,662,508)	\$ (2,642,691)
<b>Total Revenue</b>	<b>\$ 130,881</b>	<b>\$ (302,131)</b>	<b>\$ (171,246)</b>

*Alternative Scenario II: Tax Policy Response*

Assuming that the sales and use tax exemption resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an adjustment to industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 35 jobs. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of \$2,776,294 and an estimated \$179,904 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate decrease of 13 jobs. Direct, indirect, and induced economic effects generate an aggregate net decrease in state GDP of \$756,368, and an estimated \$49,013 decrease in state general revenues. The following table summarizes the results of this analysis.

<b>2014 Project Status Sales and Use Tax Exemption Marginal Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	0	0	0
Indirect Jobs	4	-5	-1
Induced Jobs	17	-29	-12
<b>Total Jobs</b>	<b>22</b>	<b>-35</b>	<b>-13</b>
Total GDP	\$ 2,019,763	\$ (2,776,294)	\$ (756,368)
<b>Total Revenue</b>	<b>\$ 130,881</b>	<b>\$ (179,904)</b>	<b>\$ (49,013)</b>

It is clear from the marginal impact analysis that the provision of the Project Status sales and use tax exemption reduced total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive.

***Jobs Development Act***

The Jobs Development Act (JDA) provides for a reduction in the business corporations tax rate for each new unit of employment that is added within an initial three-year measurement period to

a company's previously established base employment.<sup>28</sup> In FY 2014, seven firms in six industries received a total reduction in tax liability of \$7,450,725.

*Benefits*

ORA modeled the \$7,450,725 reduction in tax liability for the seven recipients of the JDA business corporation tax rate reduction as a commensurate adjustment to industry-specific production costs. This approach results in an aggregate increase of 31 jobs. Additionally, the rate reduction generates an aggregate increase in state GDP of \$2,991,575 and an estimated \$193,854 increase in state general revenues.

*Alternative Scenario I: Government Expenditure Response*

Assuming that the JDA rate reduction resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 37 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$2,998,837 and an estimated \$194,325 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate decrease of 61 jobs. Direct, indirect, and induced economic effects generate an aggregate net decrease in state GDP of \$7,214, and an estimated \$467 decrease in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Jobs Development Act Rate Reduction Marginal Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	0	-20	-20
Indirect Jobs	6	-6	0
Induced Jobs	26	-11	-6
<b>Total Jobs</b>	<b>31</b>	<b>-37</b>	<b>-6</b>
Total GDP	\$ 2,991,575	\$ (2,998,837)	\$ (7,214)
<b>Total Revenue</b>	<b>\$ 193,854</b>	<b>\$ (194,325)</b>	<b>\$ (467)</b>

*Alternative Scenario II: Tax Policy Response*

Assuming that the JDA tax rate reduction resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 49 jobs. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of \$3,856,052 and an estimated \$249,872 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate decrease of 17 jobs. Direct, indirect, and induced economic effects generate an

<sup>28</sup> See Section 1 for a more detailed explanation of the rate reduction.

aggregate net decrease in state GDP of \$864,178 and an estimated \$55,999 decrease in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Jobs Development Act Rate Reduction Marginal Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	0	0	0
Indirect Jobs	6	-7	-2
Induced Jobs	26	-41	-16
<b>Total Jobs</b>	<b>31</b>	<b>-49</b>	<b>-17</b>
Total GDP	\$ 2,991,575	\$ (3,856,052)	\$ (864,178)
<b>Total Revenue</b>	<b>\$ 193,854</b>	<b>\$ (249,872)</b>	<b>\$ (55,999)</b>

It is clear from the marginal impact analysis that the provision of the Jobs Development Act rate reduction reduced total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive.

#### *Enterprise Zone Wage Credit*

The Enterprise Zone Wage Credit (“EZ Credit”) allows businesses located in a designated enterprise zone with newly hired employees to claim a tax credit against the business corporations tax, the public service corporation tax, the taxation of banks, or the taxation of insurance companies.<sup>29</sup> In FY 2014, four firms in four industries received a total reduction in tax liability of \$191,188. Because two firms declined to submit statutorily required data on employment and wages, they are omitted from this analysis, and the results herein apply to two firms receiving a total tax liability reduction of \$188,451.

#### *Benefits*

ORA modeled the \$188,451 reduction in tax liability for the two recipients of the EZ Credit as a commensurate adjustment to industry-specific production costs. This approach results in an aggregate increase of one job. Additionally, the rate reduction generates an aggregate increase in state GDP of \$65,814 and an estimated \$4,265 increase in state general revenues.

#### *Alternative Scenario I: Government Expenditure Response*

Assuming that the credit resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of two jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$169,541 and an estimated \$10,533 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate decrease of two jobs. Direct, indirect, and induced economic effects generate an aggregate net decrease in state GDP of \$96,727, and an estimated \$6,268 decrease in state general revenues. The following table summarizes the results of this analysis.

<sup>29</sup> See Section 1 for a more detailed explanation of the tax credit.

<b>FY 2014 Enterprise Zone Wage Credit Marginal Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	0	-1	-1
Indirect Jobs	0	0	0
Induced Jobs	1	-1	-1
<b>Total Jobs</b>	<b>1</b>	<b>-2</b>	<b>-2</b>
Total GDP	\$ 65,814	\$ (162,541)	\$ (96,727)
<b>Total Revenue</b>	<b>\$ 4,265</b>	<b>\$ (10,533)</b>	<b>\$ (6,268)</b>

*Alternative Scenario II: Tax Policy Response*

Assuming that the credit resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of one job. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of \$92,362 and an estimated \$5,985 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in no net aggregate change in jobs. Direct, indirect, and induced economic effects generate an aggregate net decrease in state GDP of \$26,548 and an estimated \$1,720 decrease in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Enterprise Zone Wage Credit Marginal Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	0	0	0
Indirect Jobs	0	0	0
Induced Jobs	1	-1	0
<b>Total Jobs</b>	<b>1</b>	<b>-1</b>	<b>0</b>
Total GDP	\$ 65,814	\$ (92,362)	\$ (26,548)
<b>Total Revenue</b>	<b>\$ 4,265</b>	<b>\$ (5,985)</b>	<b>\$ (1,720)</b>

It is clear from the marginal impact analysis that the provision of the Enterprise Zone wage credit reduced total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive.

***Motion Picture Production Tax Credit***

The Motion Picture Production Tax Credit (MPPTC) provides for a transferable credit equal to 25 percent of the qualifying in-state expenditures of an eligible motion picture production.<sup>30</sup> This analysis reports on the economic and fiscal impacts of the credits *issued* in 2014. However, credits issued in 2014 were for production spending that occurred as far back as 2010. The significant time difference between the year in which the economic activity occurred which

<sup>30</sup> See Section 1 for a more detailed explanation of the tax credit.

generated the credit and the year in which the credit is issued is unique to the MPPTC among tax credits/tax benefits included in the report. The allowance of MPPTC recipients to carry forward unused credit amounts for up to three years further expands the time delay between production spending and credit redemption.

ORA considered several options for modeling the impact of the incentive given the unique lag between the economic activity that generated the credit and the issuance of the credit, and selected the modeling approach which introduced the least error and provided for the most easily interpretable presentation of results. The selected modeling approach shifted all costs and benefits associated with credits issued in 2014 into 2014, even though the production expenses may have been incurred several years prior and credit redemption may not happen until several years following.<sup>31</sup> This approach allows ORA to estimate economic indicators without introducing error as a result of excessive shifting of the model backwards in time, or excessive forecasting forward in time. As a secondary support for this method, modeling the effects of a single year allows for comparison of results from the analysis of the MPPTC to analyses of the other incentives in this report, despite differences in credit structure.

ORA was unable to report certain indicators related to employment due to the failure of Motion Picture Production tax credit recipients to comply with data reporting requirements. Of the seven firms receiving the credit, only one firm (“The Institute, LLC”) complied with all data reporting requirements. The remaining six firms failed to file RI Form 8201A (“Annual Report”) with the Rhode Island Department of Revenue, Division of Taxation. This form requires tax credit recipients to provide employment information including a count and listing of employees, wages, terms of employment, state of residency, and other information. The types of jobs associated with motion picture productions vary widely from temporary/seasonal jobs lasting only hours to permanent, full-time positions that persist even after the production wraps. In providing a count of jobs associated with a motion picture production, it is necessary to distinguish between temporary and permanent as well as between highly-compensated and low-paying jobs. Therefore, ORA determined that it was not possible to provide a meaningful measurement of jobs in light of the lack of RI Form 8201A data.

Another consequence of the general noncompliance with RI Form 8201A is that ORA was not able to make any adjustments to the standard REMI model assumptions regarding employee state of residency. Instead, relying on the default assumptions of the REMI model may result in estimates that overstate the true economic impact of the MPPTC. When a policy variable is entered into the REMI model resulting in increased motion picture and sound recording industry employment and compensation, the REMI model assumes that these employees reside in Rhode Island and its commuting regions. However, it is plausible that a substantial portion of these jobs are held by out-of-state workers. For example, highly-paid “above-the-line” actors, producers,

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<sup>31</sup> This MPPTC modeling approach simply shifted nominal dollars from one year to another, making no discounting or compounding adjustment to account for the time value of money. ORA assumed the budget planners formally or informally recognize the anticipated liabilities associated with upcoming tax credit issuances and redemptions, making it appropriate to recognize the stream of costs and benefits in a single year. Furthermore, the compounding and discounting of payments over time would require further assumptions in selecting an appropriate discount rate. This approach also assumes that the full value of issued credits are eventually redeemed, despite the historical observation that a small percentage of credits are allowed to expire unredeemed at the conclusion of the carryforward period.

and directors comprise a significant portion of a production’s payroll and frequently reside outside of Rhode Island. To the extent that these individuals earn income in Rhode Island and spend it in support of their out-of-state households, there would be little or no induced economic impact resulting from these salaries. Therefore, the assumption that all employees reside within the typical commuter geography of the Rhode Island motion picture and sound recording industry labor force may result in both the marginal and leveraged analysis overstating the true economic impact of the MPPTC.

In FY 2014, seven firms received a total reduction in tax liability of \$1,728,224. This reduction in tax liability is associated with \$7,430,513.52 in total project spending.

*Benefits*

ORA modeled the reduction in tax liability for the seven recipients of the credit as an adjustment to production costs in the motion picture and sound recording industry of \$1,728,224.46—the amount of the MPPTC issued in FY 2014. This approach results in a direct, indirect, and induced decrease of 16 jobs. Additionally, the tax credit generates an aggregate increase in state GDP of \$936,426 and an estimated \$60,680 increase in state general revenues from taxes.

*Alternative Scenario I: Government Expenditure Response*

Assuming that the credit resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 21 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$1,492,841 and an estimated \$96,736 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a direct, indirect, and induced decrease of five jobs, and an aggregate net decrease in state GDP of \$ 556,408, and an estimated \$36,055 decrease in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Motion Picture Production Tax Credit Marginal Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	0	-5	-5
Indirect Jobs	2	-3	0
Induced Jobs	14	-14	-1
Total Jobs	16	-21	-5
Total GDP	\$ 936,426	\$ (1,492,841)	\$ (556,408)
<b>Total Revenue</b>	<b>\$ 60,680</b>	<b>\$ (96,736)</b>	<b>\$ (36,055)</b>

*Alternative Scenario II: Tax Policy Response*

Assuming that the credit resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in in a direct, indirect, and induced decrease of 11 jobs. Additionally, the reduction in

government spending generates a direct, indirect, and induced decrease in state GDP of \$883,796 and an estimated \$57,270 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a direct, indirect, and induced decrease of five jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$52,661, and an estimated \$3,412 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Motion Picture Production Tax Credit Marginal Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	0	0	0
Indirect Jobs	2	-2	0
Induced Jobs	14	-9	-5
Total Jobs	16	-11	-5
Total GDP	\$ 936,426	\$ (883,796)	\$ 52,661
<b>Total Revenue</b>	<b>\$ 60,680</b>	<b>\$ (57,270)</b>	<b>\$ 3,412</b>

When interpreting the results of the MPPTC analysis, it should be noted that estimates of compensation, GDP, and state revenue are founded on the assumption that motion picture production compensation flows through to the economies of Rhode Island and commuting regions based on the standard assumptions of the REMI model despite the fact that it is plausible that the employment associated with motion picture productions contains a greater proportion of non-resident employees.

It is clear from the marginal analysis that the impact of the provision of the Motion Picture Production tax credit relative to alternative uses of the resources expended on the incentive depends on the assumptions about the way in which the program was funded. Removing locally impactful government spending results in modest net negative effects on compensation, state GDP, and revenues to the state, while levying a tax on the business community to fund the credit results in modest net positive effects on state GDP and revenues to the state.

### **The Leveraged Impact Analysis of the FY 2014 Tax Incentives/Benefits**

#### *Key Assumptions*

The leveraged impact analysis assumes that the tax incentives directly leveraged the economic activity required of recipient firms to receive a tax benefit. This assumption means that all of the economic activity required of recipient firms to receive a tax incentive would not have occurred in the absence of the incentive. Under this assumption, firms made global production decisions based on the availability of an incentive in a given year.

#### *Results*

The following sections provide a brief summary of each tax incentive, a description of any unique considerations impacting the modeling approach, a listing and explanation of inputs to the REMI model, and a summary of costs and benefits as reported by the model output.

## ***Project Status***

### ***Benefits***

ORA modeled the \$5,385,407<sup>32</sup> sales and use tax exemption for the five recipients with Project Status agreements as an adjustment to industry-specific employment and compensation. Employment and compensation inputs were calculated according to minimum employment requirements specified in each firm's Project Status agreement. Additionally, because the dollar amount of the credit is directly calculated from firm spending, ORA was also able to model the effect of this spending on the economy by using data on industry intermediate inputs from the Bureau of Economic Analysis. This approach results in a direct, indirect, and induced increase of 5,282 jobs. Additionally, the Project Status exemption generates a direct, indirect, and induced increase in state GDP of \$526,427,429 and an estimated \$34,112,497 increase in state general revenues.

### ***Alternative Scenario I: Government Expenditure Response***

Assuming that the sales and use tax exemption resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 66 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$4,662,508 and an estimated \$302,131 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 5,216 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$521,764,996, and an estimated \$33,810,372 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Project Status Sales and Use Tax Exemption Leveraged Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	2,519	-15	2,519
Indirect Jobs	1,105	-8	1,097
Induced Jobs	1,658	-43	1,600
<b>Total Jobs</b>	<b>5,282</b>	<b>-66</b>	<b>5,216</b>
Total GDP	\$ 526,427,429	\$ (4,662,508)	\$ 521,764,996
<b>Total Revenue</b>	<b>\$ 34,112,497</b>	<b>\$ (302,131)</b>	<b>\$ 33,810,372</b>

### ***Alternative Scenario II: Tax Policy Response***

Assuming that the sales and use tax exemption resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an adjustment to industry production costs by value added. This approach results in a direct, indirect, and induced increase of 35 jobs. Additionally,

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<sup>32</sup> This number differs from the number on the division of Taxation's *Tax Credit and Incentive Report* because one firm was included in error for an amount of \$51,557.37.

the increase in taxes generates a direct, indirect, and induced decrease in state GDP of \$2,776,294 and an estimated \$179,904 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 5,247 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$523,664,955, and an estimated \$33,933,489 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Project Status Sales and Use Tax Exemption Leveraged Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	2,519	0	2,519
Indirect Jobs	1,105	-5	1,100
Induced Jobs	1,658	-29	1,628
<b>Total Jobs</b>	<b>5,282</b>	<b>-35</b>	<b>5,247</b>
Total GDP	\$ 526,427,429	\$ (2,776,294)	\$ 523,664,955
<b>Total Revenue</b>	<b>\$ 34,112,497</b>	<b>\$ (179,904)</b>	<b>\$ 33,933,489</b>

It is clear from the leveraged impact analysis that the provision of the Project Status sales and use tax exemption increased total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive. The large magnitude of the direct, indirect, and induced economic impacts of the Project Status sales and use tax exemption should be considered in the context of the assumptions underlying the leveraged analysis methodology. The leveraged analysis counts as a benefit all of the wages and spending required to earn the credit. Though it may not be plausible that a firm would completely exit the Rhode Island economy if it were to lose a seven percent sales tax exemption in a single year, it may be one of many factors contributing to a recipient firm's location and production decisions. The inclusion of the leveraged analysis in this report provides a contrast to the marginal analysis.

### ***Jobs Development Act***

#### ***Benefits***

ORA modeled the \$7,450,725 reduction in tax liability for the seven recipients of the JDA business corporation tax rate reduction as an adjustment to industry-specific employment and compensation. Employment and compensation inputs were calculated according to minimum employment requirements specified in governing statute. This approach results in an aggregate increase of 4,070 jobs. Additionally, the rate reduction generates an aggregate increase in state GDP of \$428,304,096 and an estimated \$27,754,105 increase in state general revenues.

#### ***Alternative Scenario I: Government Expenditure Response***

Assuming that the JDA rate reduction resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 91 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced

decrease in state GDP of \$6,435,947 and an estimated \$417,049 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 3,979 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$421,853,488 and an estimated \$27,336,106 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Jobs Development Act Rate Reduction Leveraged Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	2,210	-22	2,188
Indirect Jobs	861	-11	850
Induced Jobs	999	-59	941
<b>Total Jobs</b>	<b>4,070</b>	<b>-91</b>	<b>3,979</b>
Total GDP	\$ 428,304,096	\$ (6,435,947)	\$ 421,853,488
<b>Total Revenue</b>	<b>\$ 27,754,105</b>	<b>\$ (417,049)</b>	<b>\$ 27,336,106</b>

*Alternative Scenario II: Tax Policy Response*

Assuming that the JDA rate reduction resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 49 jobs. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of \$3,866,343 and an estimated \$250,539 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 4,119 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$432,159,058, and an estimated \$28,003,907 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Jobs Development Act Rate Reduction Leveraged Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	2,210	0	2,210
Indirect Jobs	861	-7	869
Induced Jobs	999	-41	1,040
<b>Total Jobs</b>	<b>4,070</b>	<b>-49</b>	<b>4,119</b>
Total GDP	\$ 428,304,096	\$ 3,866,343)	\$ 432,159,158
<b>Total Revenue</b>	<b>\$ 27,754,105</b>	<b>\$ (250,539)</b>	<b>\$ 28,003,907</b>

It is clear from the leveraged impact analysis that the provision of the Jobs Development Act rate reduction increased total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive. The large magnitude of the direct, indirect, and induced economic impacts of the JDA rate reduction should be considered in the context of the

assumptions underlying the leveraged analysis methodology. The leveraged analysis counts as a benefit all of the wages paid by firms needed to earn the JDA tax rate reduction. Though it may not be plausible that a firm would completely exit the Rhode Island economy if it were to lose a single year of a JDA tax rate reduction, it should be noted that JDA recipient firms are among the state's largest employers, paying their workers well above the state's median and average wage. The inclusion of the leveraged analysis in this report provides a contrast to the marginal analysis.

### ***Enterprise Zone Wage Credit***

#### ***Benefits***

ORA modeled the \$188,451 reduction in tax liability for the two recipients of the EZ Credit as an adjustment to industry-specific employment and compensation. Employment and compensation inputs were calculated according to minimum employment requirements specified in governing statute. This approach results in an aggregate increase of 156 jobs. Additionally, the rate reduction generates an aggregate increase in state GDP of \$18,499,184 and an estimated \$1,198,747 increase in state general revenues.

#### ***Alternative Scenario I: Government Expenditure Response***

Assuming that the credit resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of two jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$163,154 and an estimated \$10,572 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 164 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$19,394,385, and an estimated \$1,256,756 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Enterprise Zone Wage Credit Leveraged Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	87	-1	92
Indirect Jobs	30	0	32
Induced Jobs	39	-2	40
<b>Total Jobs</b>	<b>156</b>	<b>-2</b>	<b>164</b>
Total GDP	\$ 18,499,184	\$ (163,154)	\$ 19,394,385
<b>Total Revenue</b>	<b>\$ 1,198,747</b>	<b>\$ (10,572)</b>	<b>\$ 1,256,756</b>

#### ***Alternative Scenario II: Tax Policy Response***

Assuming that the credit resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results zero job. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of \$92,808 and an estimated \$6,014 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 155 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$18,406,389 and an estimated \$1,192,734 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Enterprise Zone Wage Credit Leveraged Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Tax Increase Only</b>	<b>Simultaneous</b>
Direct Jobs	87	0	87
Indirect Jobs	30	0	30
Induced Jobs	39	-1	38
<b>Total Jobs</b>	<b>156</b>	<b>-1</b>	<b>155</b>
Total GDP	\$ 18,499,184	\$ (92,808)	\$ 18,406,389
<b>Total Revenue</b>	<b>\$ 1,198,747</b>	<b>\$ (6,014)</b>	<b>\$ 1,192,734</b>

It is clear from the leveraged impact analysis that the provision of the Enterprise Zone wage credit increased total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive. The large magnitude of the direct, indirect, and induced economic impacts of the EZ wage credit should be considered in the context of the assumptions underlying the leveraged analysis methodology. The leveraged analysis counts as a benefit all of the wages paid by firms needed to earn the credit. It should be further noted that firms receiving the EZ wage credit do not need to prove that they have chosen to locate in a designated Enterprise Zone over some competitive out-of-state location. It is possible that firms choose to locate in an Enterprise Zone over some other Rhode Island location. In this example it would be necessary to significantly discount the results of the leveraged analysis. The inclusion of the leveraged analysis in this report provides a contrast to the marginal analysis.

### ***Motion Picture Production Tax Credit***

The amount of motion picture production tax credit issued in 2014 leveraged total eligible motion picture production expenditures of \$7,430,513.52. Due to the fact that motion picture production company-level expenditure data was available for all seven recipients, ORA considered directly impacted industries as the industries in which direct film industry spending occurred, allocated as shown in the following table.

A significant conclusion from the spending profile of MPPTC recipient projects issued in FY 2014 is the high proportion of labor costs and low proportion of capital investment. According to the standard industry assumptions included in the REMI model based on US Bureau of Economic Analysis (BEA) input-output data, one dollar of motion picture and sound recording industry output consists of 39 cents of intermediate inputs, 22 cents of labor, 39 cents on capital investment, and one cent on fuel. In comparison, one dollar of certified spending on FY 2014 MPPTC recipient projects consists of 19 cents of intermediate inputs, 8 cents on capital investment, 73 cents of labor, and an insignificant amount of spending on capital and fuel.<sup>33</sup> The

<sup>33</sup> For purposes of this breakdown of MPPTC production expenses, intermediate inputs consist of spending on the following: professional, scientific, and technical services; food services and drinking places; amusement, gambling,

absence of capital investment can be explained by the fact that many of the MPPTC recipient firms are short-term entities incorporated by out-of-state production firms for the time period of the production and lacking a substantial physical presence in the state. These firms do not make typical capital investments such as owning or renting real estate for offices and production space. Furthermore, to the extent that firms with a significant, long-term physical presence in Rhode Island do take advantage of the MPPTC, these firms' capital investments would not be associated with a single motion picture production and therefore would not be eligible to be considered certified production expenses for the purposes of the MPPTC. In this way, the MPPTC is not well-designed to promote capital investment. In addition, the disproportionate presence of labor does not necessarily diminish the benefits of the MPPTC, but it does present administrative challenges.

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and recreation; wholesale trade; administrative and support services; retail trade; repair and maintenance; waste management and remediation services; couriers and messengers; telecommunications; transit and ground passenger transportation; and, accommodations. Capital investment consists of the following: rental and leasing services; and, real estate. It should be noted that this categorization may overstate capital investment by MPPTC recipient firms because the cost of leasing equipment or property includes a cost of capital component as well as value-added services such as brokerage fees and profits extracted by the owners of the capital. Labor consists of expenses dedicated to compensation and payment to loan-out companies and other conduits. For purposes of this analysis, fuel spending is considered to be insignificant. However, categories such as rental and leasing, repair and maintenance, and transit and ground passenger transportation may include some indeterminate level of fuel expenses.

<b>Motion Picture Production Tax Credit</b>	
<b>Industry (NAICS Code)</b>	<b>Amount of Leveraged Production Spending</b>
Accommodation (721)	\$ 483,117
Administrative and support services (561)	\$ 41,861
Amusement, gambling, and recreation (713)	\$ 286
Couriers and messengers (492)	\$ 24,461
Food services and drinking places (722)	\$ 524,739
Professional, scientific, and technical services (54)	\$ 68,001
Real estate (531)	\$ 311,874
Rental and leasing services; Lessors of nonfinancial intangible assets (532, 533)	\$ 311,689
Repair and maintenance (811)	\$ 21,758
Telecommunications (517)	\$ 73
Transit and ground passenger transportation (485)	\$ 20,833
Waste management and remediation services (562)	\$ 1,500
Wholesale trade (42)	\$ 196,071
Compensation <sup>34</sup>	\$ 5,385,410
Unclassifiable <sup>35</sup>	\$ 38,842
<b>Total</b>	<b>\$ 7,430,514</b>

Labor compensation by MPPTC recipient projects would be most impactful to the Rhode Island economy if it were paid to Rhode Island residents, whose households would then recirculate the increase in income throughout the economy. However, there is no requirement in the MPPTC certified production expenses on labor be confined to Rhode Island resident employees. While the Division of Taxation does require MPPTC recipients to file form RI-8201A, which requires firms to provide a list of employees, compensation, and state of residency among other requirements, after completion of the project, there is significant non-compliance with this requirement. For example, six out of seven recipient firms in FY 2014 failed to complete this basic requirement. Even with greater compliance, the compensation structures provided to motion picture and sound recordings industry employees make this requirement challenging to administer. For example, it is quite common for highly-compensated “above-the-line” actors, producers, and directors to be paid through out-of-state “loan-out” companies. Short-term

<sup>34</sup> For purposes of entering compensation into the REMI model, all compensation is assumed to be associated with the “Motion pictures and sound recording industry (NAICS Code 512).” The amount spent on compensation is reported in the schedule of certified production expenses provided by each recipient firm, but detailed employee-level information is not available from this source.

<sup>35</sup> “Unclassifiable” refers to expenses for which the description is not easily assignable to any single NAICS industry. When expenses are entered into the REMI model, unclassified expenses for each individual motion picture production were redistributed among all other reported expense categories in proportion with the level of reported spending in each category.

staffing needs may be met by Rhode Island staffing agencies, but these firms may then employ out-of-state workers. Finally, the definition of “employee” itself requires careful consideration as well because the short-term nature of motion picture projects results in many individuals to be engaged as 1099 contractors rather than W-2 employees. Compensation earned by individuals from a Rhode Island source for services performed in the state is subject to Rhode Island personal income tax, but this tax revenue along with its indirect and induced economic impacts are the only significant economic benefits of labor performed by out-of-state individuals in the state for only the short duration of a motion picture production.

### *Benefits*

ORA modeled the production activity that generated the credit as an adjustment to motion picture and sound recording (NAICS 512) industry sales of \$7,430,513.52—the amount of certified motion picture production spending associated with credits issued in FY 2014. This approach counts the entire production as a benefit, implying that the production company would have not engaged in the production at all or located in an out-of-state geographic location had the MPPTC not been available. Additionally, the standard industry assumptions regarding intermediate inputs and labor were nullified and replaced with the actual reported spending on intermediate inputs and compensation as depicted in the table above. This adjustment was made so that the model results would more accurately reflect actual production spending. As in the marginal analysis, the modeling approach employed in the leveraged analysis allows compensation and employment to flow through to the economies of Rhode Island and its commuting regions according to the standard assumptions built into the REMI model. To the extent that actual employment on MPPTC productions flowed through to non-resident employees in greater proportion than the standard assumption, the estimate produced by this approach may overstate the induced economic activity resulting from the MPPTC.

This approach results in an indeterminate number of direct, indirect, and induced jobs due to failure of credit recipients to comply with data reporting requirements. However, the credit generates an aggregate increase in state GDP of \$9,585,650 and an estimated \$621,150 increase in state general revenues.

### *Alternative Scenario I: Government Expenditure Response*

Assuming that the credit resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 21 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$1,492,841 and an estimated \$96,736 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in an indeterminate number of direct, indirect, and induced jobs due to failure of credit recipients to comply with data reporting requirements. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$8,092,824, and an estimated \$524,415 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Motion Picture Production Tax Credit Leveraged Analysis</b>			
<b>Government Spending Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	*	-5	*
Indirect Jobs	*	-3	*
Induced Jobs	*	-14	*
<b>Total Jobs</b>	*	<b>-21</b>	*
Total GDP	\$ 9,585,650	\$ (1,492,841)	\$ 8,092,824
<b>Total Revenue</b>	<b>\$ 621,150</b>	<b>\$ (96,736)</b>	<b>\$ 524,415</b>

\* No estimate of job count possible due to failure of recipients to comply with data reporting requirements.

#### *Alternative Scenario II: Tax Policy Response*

Assuming that the credit resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 11 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of \$884,803 and an estimated \$57,335 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in an indeterminate number of direct, indirect, and induced jobs due to failure of credit recipients to comply with data reporting requirements. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of \$8,700,949, and an estimated \$563,821 increase in state general revenues. The following table summarizes the results of this analysis.

<b>FY 2014 Motion Picture Production Tax Credit Leveraged Analysis</b>			
<b>Tax Policy Response Scenario</b>			
<b>Indicator</b>	<b>Benefits Only</b>	<b>Government Spending Only</b>	<b>Simultaneous</b>
Direct Jobs	*	0	*
Indirect Jobs	*	-2	*
Induced Jobs	*	-9	*
<b>Total Jobs</b>	*	<b>-11</b>	*
Total GDP	\$ 9,585,650	\$ (884,803)	\$ 8,700,949
<b>Total Revenue</b>	<b>\$ 621,150</b>	<b>\$ (57,335)</b>	<b>\$ 563,821</b>

\* No estimate of job count possible due to failure of recipients to comply with data reporting requirements.

When interpreting the results of the MPPTC analysis, it should be noted that estimates of compensation, GDP, and state revenue are founded on the assumption that motion picture production compensation flows through to the economies of Rhode Island and commuting regions based on the standard assumptions of the REMI model despite the fact that it is plausible that the employment associated with motion picture productions contains a greater proportion of non-resident employees.

It is clear from the leveraged impact analysis that the provision of the Motion Picture Production Tax credit increased total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive.

## APPENDIX A

### Rhode Island Statute for Unified Economic Development Report

#### TITLE 42

#### State Affairs and Government

#### CHAPTER 42-142

#### Department of Revenue

#### SECTION 42-142-6

**§ 42-142-6. Annual unified economic development report.** – (a) The director of the department of revenue shall, no later than January 15th of each state fiscal year, compile and publish, in printed and electronic form, including on the internet, an annual unified economic development report that shall provide the following comprehensive information regarding the tax credits or other tax benefits conferred pursuant to §§ 42-64-10, 44-63-3, 42-64.5-5, 42-64.3-1, and 44-31.2-6.1 during the preceding fiscal year:

(1) The name of each recipient of any such tax credit or other tax benefit; the dollar amount of each such tax credit or other tax benefit; and summaries of the number of full-time and part-time jobs created or retained; an overview of benefits offered, and the degree to which job creation and retention, wage, and benefit goals and requirements of recipient and related corporations, if any, have been met. The report shall include aggregate dollar amounts of each category of tax credit or other tax benefit; to the extent possible, the amounts of tax credits and other tax benefits by geographical area; the number of recipients within each category of tax credit or retained; overview of benefits offered; and the degree to which job creation and retention, wage and benefit rate goals and requirements have been met within each category of tax credit or other tax benefit;

(2) The cost to the state and the approving agency for each tax credit or other tax benefits conferred pursuant to §§ 42-64-10, 44-63-3, 42-64.5-5, 42-64.3-1, and 44-31.2-6.1 during the preceding fiscal year;

(3) To the extent possible, the amounts of tax credits and other tax benefits by geographical area;

(4) The extent to which any employees of and recipients of any such tax credits or other tax benefits has received RItE Care or RItE Share benefits or assistance; and

(5) To the extent the data exists, a cost-benefit analysis prepared by the office of revenue analysis based upon the collected data under §§ 42-64-10, 44-63-3, 42-64.5-5, 42-64.3-1, and 44-31.2-6.1, and required for the preparation of the unified economic development report. The cost-benefit analysis may include, but shall not be limited to, the cost to the state for the revenue reductions; cost to administer the credit; projected revenues gained from the credit; and other metrics that can be measured along with a baseline assessment of the original intent of the

legislation. The office of revenue analysis shall also indicate the purpose of the credit to the extent that it is provided in the enabling legislation, or note the absence of such information, and any measurable goals established by the granting authority of the credit. Where possible, the analysis shall cover a five-year (5) period projecting the cost and benefits over this period. The office of revenue analysis may utilize outside services or sources for development of the methodology and modeling techniques. The unified economic development report shall include the cost-benefit analysis starting January 15, 2014. The office of revenue analysis shall work in conjunction with Rhode Island commerce corporation as established by chapter 64 of this title.

(b) After the initial report, the division of taxation will perform reviews of each recipient of this tax credit or other tax benefits to ensure the accuracy of the employee data submitted. The division of taxation will include a summary of the reviews performed along with any adjustments, modifications and/or allowable recapture of tax credit amounts and data included on prior year reports.