

STATE OF RHODE ISLAND

Governor Daniel J. McKee



**Economic Development Tax
Incentives Evaluation Act:**

*Evaluation of
New Qualified Jobs Incentive Act 2015*

(R.I. Gen. Laws Chapter 44-48.3)

Tax Years 2019 Through 2021

Office of Revenue Analysis

October 30, 2023

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Executive Summary

This report is an evaluation of the “New Qualified Jobs Incentive Act” (NQJIA) program conducted by the Department of Revenue, Office of Revenue Analysis (ORA) in accordance with Rhode Island General Laws Chapter 44-48.2. The report provides an estimate of the economic and fiscal impacts of this tax incentive for tax years 2019 through 2021. ***ORA found that the NQJIA program breaks even if at least 19.4% of the jobs of the credit recipients are new jobs that exist because of this tax incentive.*** ORA relied primarily on data provided by the Department of Revenue, Division of Taxation (Taxation) and the Rhode Island Commerce Corporation (CommerceRI) to conduct the analysis. The following is a summary of this evaluation:

The Tax Incentive Provision

Under the NQJIA program, a qualifying business may receive a tax credit starting at \$2,500 a year for each new full-time job created. A full-time employee is defined as an employee that works at least 35 hours a week and whose wages are subject to personal income tax withholding. The maximum amount of the tax credit can rise to \$7,500 a year if the business meets certain criteria. Administered by CommerceRI, the program may provide tax credits to eligible businesses for a period of up to 10 years against the taxes imposed by Rhode Island General Laws Chapters 44-11 (business corporation tax), 44-13 (public service corporation tax only as it applies to gross earnings), 44-14 (taxation of banks), 44-17 (taxation of insurance companies), and 44-30 (personal income tax), provided the eligible business awarded the tax credits maintains the full-time jobs in the state for a period 20% longer than that for which the credits were received. For applications approved by CommerceRI prior to July 1, 2019, the period covered by this incentive evaluation, the amounts of tax credits cannot exceed the reasonable W-2 withholding received by the state in that year for each new full-time job created by the recipient. For applications approved after July 1, 2019, the amounts of tax credits cannot exceed 75% of the reasonable W-2 withholding. The sunset date of this program is December 31, 2024.

The Main Goals and Objectives of the Tax Incentive

The stated goals and objectives of the NQJIA program are to:

- Promote the creation of new jobs, attract new business and industry, and stimulate growth in businesses that are prepared to make meaningful investment and foster job creation in Rhode Island.
- Stimulate business expansion and attraction, create well-paying jobs for Rhode Island’s residents, and generate revenues for necessary state and local governmental services.

The Report’s Key Findings

- According to Taxation, a total of 15 companies received the NQJIA tax benefit over tax years 2019 through 2021, with a total of \$2,846,350 and an annual average of \$948,784 in tax credits issued.
- The NQJIA recipients received \$76,660 in additional tax incentives, of which the Rebuild Rhode Island Tax Credit averaged \$76,049, in an average year 2019 through 2021.

- The 15 NQJIA recipient companies added 519 new jobs in Rhode Island in an average tax year 2019 through 2021, with an average total wage paid of \$43,722,918.
- The average total credit amount granted exceeds the average personal income tax (PIT) paid by recipient employees in the first two years. The average total credit amount per job was 109% more than the average PIT paid per job in 2019 and 106% more in 2020. This reversed in tax year 2021, with the average PIT paid per job 117% higher than the average total credit amount per job.
- The evaluation of the NQJIA program was conducted using a combination of actual and projected data. Taxation provided actual data on NQJIA credit amounts received by companies, the number of new jobs they created, and the wages they paid them. Similarly, CommerceRI provided projections for credit amount, jobs, and wages that are expected to be added/maintained by the companies during their commitment period.
- ORA employed a break-even analysis to estimate the minimum percentage of the jobs created by the tax incentive beneficiaries that would have to be new to the Rhode Island economy, and thus, would not exist without the tax incentive, in order for the program to pay for itself and/or break even.¹ ORA estimated these minimum percentages on a net general revenue, gross domestic product, and total employment basis as a means for determining the employment conditions under which the NQJIA program would pay for itself.²
 1. With respect to Rhode Island net general revenues, the NQJIA program breaks even if at least 19.4% of the jobs of the credit recipients are new jobs that exist because of this tax incentive.
 2. With respect to Rhode Island Gross Domestic Product, the NQJIA program breaks even if at least 1.3% of the jobs of the credit recipients are new jobs that exist because of this tax incentive.
 3. With respect to Rhode Island employment, the NQJIA program breaks even if only 1.5% of the jobs of the credit recipients are new jobs that exist because of this tax incentive.
- It should be noted that these breakeven results are heavily dependent on the projections data provided by CommerceRI and any change to this data will change the results.

Overall Assessment and Recommendations

ORA recommends that the NQJIA program be retained at this time. Academic research suggests that a typical economic development tax incentive is equal to approximately 7% of a firm's total compensation. For the NQJIA program that 7% is equivalent to 30% of total jobs directly

¹ Regional Economic Models Incorporated's (REMI) Tax PI model was used to analyze the "New Qualified Jobs Incentive Act" program. This analysis used version 3.0.0 of the REMI Tax-PI model.

² ORA modeled the NQJIA program as a change to employment and compensation in the recipient companies corresponding industries, under the assumption that without the program, the jobs created by the tax incentive beneficiaries would not exist in Rhode Island.

incentivized by this tax incentive, and the program has positive revenue benefits at that 30% threshold. ORA does recommend adjustments be made in accordance with the following recommendations:

- Grow the wage benchmarks against which jobs are measured as opposed to comparing jobs created to a static wage from the beginning of the tax credit commitment period.
- Make the wage requirements for jobs created by the program industry specific to ensure that jobs created are high paying jobs for that industry.
- Improve reporting by aligning targeted industries with accepted industry classifications.

Foreword

The evaluation of the “New Qualified Jobs Incentive Act” program, *Tax Years 2019 through 2021*, was prepared at the request of Matt McCabe, Chief of the Rhode Island Department of Revenue, Office of Revenue Analysis in accordance with Rhode Island General Laws § 44-48.2-4. Madiha Zaffou, *Ph.D.*, Deputy Chief in the Office of Revenue Analysis was project leader for the production and writing of this report, under the guidance of Mr. McCabe. Ms. Zaffou was assisted by Bethany Scanlon, Principal Economic & Policy Analyst, and Anoushka Mohnot, Senior Economic & Policy Analyst, in the Office of Revenue Analysis.

Much of the information needed to complete the analysis contained in this report was provided by the Rhode Island Department of Revenue, Division of Taxation, under the direction of Neena Sinha Savage, State Tax Administrator. The compilation of the data that was provided to the Office of Revenue Analysis was due to the tremendous efforts of Tracy Wunder, Data Analyst III in the Division of Taxation. Tracy was assisted in this task by Donna Dube, Chief Revenue Agent, Forms, Credits and Incentives.

In addition, the Office of Revenue Analysis would like to thank the Rhode Island Commerce Corporation (CommerceRI), under the direction of Elizabeth Tanner, Executive Secretary of Commerce, for providing information pertaining to this tax incentive program.

The Office of Revenue Analysis is appreciative of the efforts made by the Division of Taxation and the Rhode Island Commerce Corporation to provide us with the best information available at the time this report was written.

Part I: Introduction

Pursuant to Rhode Island General Laws (R.I. Gen. Laws) § 44-48.2-4, titled *Rhode Island Economic Development Tax Incentives Evaluation Act of 2013*, the Chief of the Office of Revenue Analysis (ORA) is required to produce a report that contains analyses of economic development tax incentives as listed in R.I. Gen. Laws § 44-48.2-3(1). According to R.I. Gen. Laws § 44-48.2-4(1), the report “[s]hall be completed at least once between July 1, 2014, and June 30, 2017, and no less than once every three (3) years thereafter.”

The additional analysis as required by R.I. Gen. Laws § 44-48.2-4(1) shall include, but not be limited to the following items as indicated in R.I. Gen. Laws § 44-48.2-5(a):

- 1) A baseline assessment of the tax incentive, including, if applicable, the number of aggregate jobs associated with the taxpayers receiving such tax incentive and the aggregate annual revenue that such taxpayers generate for the state through the direct taxes applied to them and through taxes applied to their employees;
- 2) The statutory and programmatic goals and intent of the tax incentive, if said goals and intentions are included in the incentive's enabling statute or legislation;
- 3) The number of taxpayers granted the tax incentive during the previous twelve-month (12) period;
- 4) The value of the tax incentive granted, and ultimately claimed, listed by the North American Industrial Classification System (NAICS) Code associated with the taxpayers receiving such benefit, if such NAICS Code is available;
- 5) An assessment and five-year (5) projection of the potential impact on the state's revenue stream from carry forwards allowed under such tax incentive;
- 6) An estimate of the economic impact of the tax incentive including, but not limited to:
 - i. A cost-benefit comparison of the revenue forgone by allowing the tax incentive compared to tax revenue generated by the taxpayer receiving the credit, including direct taxes applied to them and taxes applied to their employees;
 - ii. An estimate of the number of jobs that were the direct result of the incentive; and
 - iii. A statement by the Chief Executive Officer of the Commerce Corporation, as to whether, in his or her judgment, the statutory and programmatic goals of the tax benefit are being met, with obstacles to such goals identified, if possible;³
- 7) The estimated cost to the state to administer the tax incentive if such information is available;
- 8) An estimate of the extent to which benefits of the tax incentive remained in state or flowed outside the state, if such information is available;

³ Public Law 2023 Chapter 294 § 7 and Chapter 295 § 7 removed the requirement for a statement from the CEO of the Commerce Corporation. ORA intends to voluntarily include these statements in this round of analysis and exclude them going forward.

- 9) In the case of economic development tax incentives where measuring the economic impact is significantly limited due to data constraints, whether any changes in statute would facilitate data collection in a way that would allow for better analysis;
- 10) Whether the effectiveness of the tax incentive could be determined more definitively if the General Assembly were to clarify or modify the tax incentive's goals and intended purpose;
- 11) A recommendation as to whether the tax incentive should be continued, modified, or terminated; the basis for such recommendation; and the expected impact of such recommendation on the state's economy;
- 12) The methodology and assumptions used in carrying out the assessments, projections and analyses required pursuant to subdivisions (1) through (8) of this section.

The current report is one part of a series of reports for each one of the tax credits to be analyzed according to R.I. Gen. Laws § 44-48.2-3(1). This report concerns R.I. Gen. Laws § 44-48.3 entitled “New Qualified Jobs Incentive Act” (NQJIA) and measures the economic impact associated with the tax incentive during tax years 2019 through 2021. This analysis is performed at the micro level using information provided by Taxation. This report is divided into five parts. Part I provides a detailed description of the tax incentive and its statutory programmatic goals and intent. Part II presents some background regarding this tax incentive. Part III presents a description of the data provided and used in the analysis by ORA. Part IV assesses the economic impact generated under the NQJIA program. Part V discusses relevant policy recommendations that could help in the decision process as to whether the tax incentive should be continued, modified, or terminated.

1. Description of the Incentive

The NQJIA program provides a tax credit against the business corporation tax (R.I. Gen. Laws Chapter 44-11), the public service corporation tax (R.I. Gen. Laws Chapter 44-13), the taxation of banks (R.I. Gen. Laws Chapter 44-14), the taxation of insurance companies (R.I. Gen. Laws Chapter 44-17), and the personal income tax (R.I. Gen. Laws Chapter 44-30) to qualifying businesses for each new full-time job created. The minimum number of new full-time jobs required for an applicant to be eligible for this tax credit is:

- At least 10 new full-time jobs for a business operating in a targeted industry that employs at most 100 employees.
- At least 10% of the business’s existing total employment or at least 100 new full-time jobs for a business operating in a targeted industry that employs more than 100 employees.
- At least 20 new full-time jobs for a business operating in a non-targeted industry that employs at most 200 employees.
- At least 10% of the business’s existing total employment or at least 100 new full-time jobs for a business operating in a non-targeted industry that employs more than 200 employees.

Each full-time employee must work at least 35 hours a week and must have wages that are subject to personal income tax withholding. The targeted industries under the program are: Biomedical Innovation; IT/Software; Cyber-Physical Systems; Data Analytics; Defense, Shipbuilding, and

Maritime; Advanced Business Services; Design, Food, and Custom Manufacturing; Transportation, Distribution, and Logistics; and Arts, Education, Hospitality, and Tourism.⁴

Administered primarily by the Rhode Island Commerce Corporation (CommerceRI), the base amount of this tax credit is \$2,500 annually per eligible position; however, the credit can go up to \$7,500 annually per eligible position if the business is located in a Hope Community⁵; or if the business is in a targeted industry; or if the business is located within a transit oriented development area⁶; or if the business is an out-of-state business but relocating one or more of its units to Rhode Island.

For applications approved by CommerceRI prior to July 1, 2019, the amounts of tax credits cannot exceed the reasonable W-2 withholding received by the state in that year for each new full-time job created by the recipient.⁷ If the amount of the tax credit exceeds the business's total tax liability for the year in which the credit is allowed, the excess amount may be carried forward and applied against the taxes imposed for the succeeding four years. In addition, the tax credit can be redeemed for cash in whole or in part for 90% of the value of the tax credit.

When applying for the incentive, a business's Chief Executive Officer or an equivalent officer shall attest under oath that:

- any projected creation of new full-time jobs would not occur, or would not occur in the State of Rhode Island, but for the provision of tax credits under the program;
- the business will create new full-time jobs in an amount equal to or greater than what is required;
- information submitted to the commerce corporation is accurate and complete.

Furthermore, the act includes “claw back” provisions in case a business fails to live up to its job creation promises which may result in CommerceRI revoking any award of tax credits in their entirety and, under certain circumstances, requiring the payment to the state of up to 20% of all tax benefits granted calculated from the date of the incentive agreement entered into by the business and CommerceRI. The program is set to sunset on December 31, 2024. An application form for this program is attached in Appendix A.

2. Statutory and Programmatic Goals and Intent of the Tax Incentive

According to on R.I. Gen. Laws § 44-48.3-2, the general assembly finds and declares that:

- a) Due to long-term and short-term negative economic trends in Rhode Island, businesses in the state have found it difficult to make investments that would stimulate economic activity

⁴ <https://commerceri.com/incentives/tax-credits-and-financing/>

⁵ R.I. Gen. Laws § 44-48.3-3(8) defines a Hope Community as “municipalities with a percentage of families below the poverty level that is greater than the percentage of families below the poverty level for the state as a whole as determined by the United States Census Bureau's most recent American Community Survey.”

⁶ R.I. Gen. Laws § 44-48.3-3(16) defines a transit-oriented development area as “an area in proximity to mass-transit infrastructure including, but not limited to, an airport, rail or intermodal facility that will be further defined by regulation of the commerce corporation in consultation with the Rhode Island department of transportation.”

⁷ For applications approved after July 1, 2019, the amounts of tax credits cannot exceed 75% of the reasonable W-2 withholding.

and create new jobs. This situation has contributed to a rate of unemployment in Rhode Island that is higher than our neighbors and among the highest in the nation. Consequently, a need exists to promote the creation of new jobs, attract new business and industry, and stimulate growth in businesses that are prepared to make meaningful investment and foster job creation in Rhode Island.

- b) Through the establishment of a jobs incentive program, Rhode Island can take steps to stimulate business expansion and attraction, create well-paying jobs for its residents, and generate revenues for necessary state and local governmental services.

Part II: Benchmarking and Background

The benchmarking and background section provides information useful for understanding how the New Qualified Jobs Incentive Act (NQJIA) program functions and the economic environment in which it operates. This section provides some information on the availability of similar tax incentives in neighboring states, as well as discussion of local economic factors that may be related to the program. Where appropriate, this section provides data on Rhode Island, other New England states, and the United States. Data generally are compiled from public sources such as the U.S. Department of Labor, Bureau of Labor Statistics (BLS); U.S. Department of Commerce, Census Bureau; and the U.S. Department of Treasury, Internal Revenue Service.

The federal government offers the Work Opportunity Tax Credit to employers for hiring individuals from certain targeted groups who have consistently faced significant barriers to employment.⁸ In 2010, a limited Job Creation Tax Credit (JCTC) was part of the Hiring Incentives to Restore Employment (HIRE) Act, which allowed employers to take a payroll tax credit equal to the employer portion of the Social Security Tax (which is 6.2% of wages) when they hired certain new employees after February 3, 2010 and before January 1, 2011.⁹ In addition, employers received a general business income tax credit equal to the lesser of \$1,000 or 6.2% of wages paid to the new employee over the 52-week period if the employer continued to employ the new hire for at least 52 weeks. A second JCTC was part of President Obama's 2011 proposed American Jobs Act that would have offered a tax credit of \$4,000 for hiring long-term unemployed workers, defined as those who have been out of work for more than six months, but the legislation was not passed by Congress.

According to a 2016 study by the Federal Reserve Bank of San Francisco¹⁰ nearly half of U.S. states have enacted permanent, broad-based job creation tax credits since 1995, with many of these states located in the eastern United States.¹¹ All states in New England have offered some type of incentive to employers for creating new jobs in the state.

The Employment Cost Index (ECI) is a quarterly economic measure detailing the changes in the costs of labor for businesses in the United States. As is evident from the table below, New England has the highest ECI for total compensation, which includes wages and salaries and benefits (i.e., paid leave, supplementary pay, insurance, retirement and savings and legally required benefits). The higher ECI is largely driven by wages and salaries, which is similarly elevated in New England.

⁸ This tax credit is different from the NQJIA program offered by Rhode Island, which aims to encourage the creation of new jobs without regard to the individuals that may fill those jobs.

⁹ Eligible employees were those who have either been unemployed for at least 60 days prior to hire or worked fewer than 40 hours for another employer during the previous 60 days; earn less than \$106,000 per year; are not related to the employer; and do not displace a current employee.

¹⁰ Chirinko, Robert S., Daniel J. Wilson. 2016. "Job Creation Tax Credits, Fiscal Foresight, and Job Growth: Evidence from U.S. States." Federal Reserve Bank of San Francisco Working Paper 2010-25. <https://www.frbsf.org/economic-research/publications/working-papers/2010/25/>

¹¹ Connecticut, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, North Carolina, Ohio, Pennsylvania, Rhode Island, Tennessee, Vermont, Virginia, and West Virginia.

Employment Cost Index for Private Industry Workers

(December 2022, Not Seasonally Adjusted, December 2005=100)

Area	Total Compensation *	Wages and Salaries only
United States	155.3	157.4
Northeast	157.0	158.1
New England	162.1	165.5
Middle Atlantic	155.2	155.4
South	152.9	155.9
South Atlantic	155.8	159.1
East South Central	152.3	154.2
West South Central	148.2	151.4
Midwest	152.8	154.0
East North Central	151.4	152.4
West North Central	156.2	157.8
West	159.5	162.3
Mountain	157.0	160.1
Pacific	160.6	163.4

Note:

ECI is a quarterly measure of changes in total labor costs and their wage-and-salary and benefits components.

* Includes costs for wages and salaries and benefits.

Source: BLS, Employment Cost Trends

In order to compete on a national scale, and with nearby and lower cost Middle Atlantic states, every New England state has implemented job creation tax credits to help reduce employment costs. The following table contains the name of the tax incentive of the selected comparison program in each state, a legal citation, a brief description of credit features, as well as information on any identified credit cap and carryforward provisions.

New Qualified Jobs Incentive Act TY 2019-2021

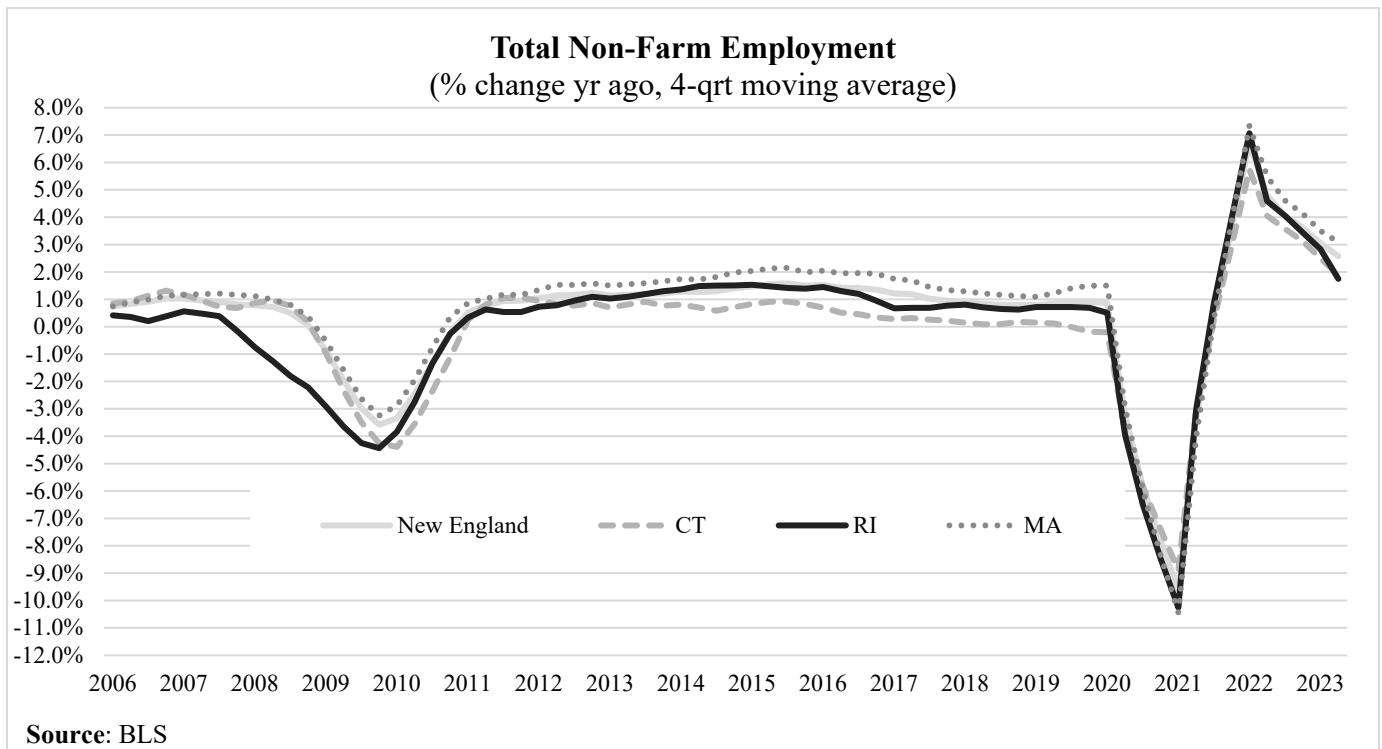
NQJIA in Rhode Island and Selected Comparison States

	Rhode Island	Connecticut	Maine	Massachusetts	New Hampshire	Vermont
Credit Name	New Qualified Jobs Incentive Act	JobsCT Tax Rebate Program	Maine Employment Tax Increment Financing Act	Economic Development Incentive Program Credit	Coos County Job Creation Tax Credit	Vermont Employment Growth Incentive Program
Statutory Reference	R.I. Gen. Laws Chapter 44-48.3	Conn. Gen. Stat. §32-7t	Me. Rev. Stat. Ann tit. 36, chapter 917	Mass. Gen. Laws ch. 63, § 38N and Mass. Gen Laws ch 23A, § 3C	NH Rev Stat § 77-E:3-c	32 V.S.A. chapter 105 § 3325-3342
Credit Features	Eligible businesses that create new full-time jobs in either a targeted industry or non-targeted industry can claim this credit for an eligibility period not to exceed 10 years.	An eligible taxpayer may be allowed a tax rebate equal to 25% of the withholding taxes from net new employees. Employers located in opportunity zones are potentially eligible for 50%.	Qualified businesses are eligible for a reimbursement equal to a percentage of withholding taxes during the first 5 calendar years with a reassessment in the 6 th year.	Businesses designated as certified job creation projects may receive a credit of up to \$5,000 per job created.	Businesses that locate or expand in Coos County may claim a tax credit for newly created jobs with an hourly wage of at least 150% of the state minimum hourly wage.	This incentive provides cash payments to authorized businesses who meet performance requirement. An economic model calculates the revenue benefits and costs to the state to determine the total amount of incentive potentially earned over a period of 9 years.
Cap	From \$2,500 to \$7,500 annually, but shall not exceed 75% of the reasonable W-2 withholding received by RI for each new full-time job created	Up to \$40 million in credits may be issued in a given fiscal year.	Up to \$20 million adjusted from 1996 dollars by CPI in total employment tax increment financing programs may be issued in a given year.	Up to \$5,000 per job created but the maximum credit allowed in a tax year cannot exceed 50% of the tax liability	\$750 per job, per year for newly created jobs with an hourly wage of at least 150% of the state minimum hourly wage or \$1,000 per job, for jobs with an hourly wage of at least 200% of the state minimum hourly wage	The value of each payment is based on the revenue return generated to the state by prospective qualifying jobs, payroll creation, and capital investments
Carryforward	Up to 4 years	Tax rebate is earned in year 3 through 7. Years 8 and 9 are discretionary.	Up to 10 years.	Up to 10 years, but not more than 5 years after the project's certification ends	Up to 5 years	None
Source:	http://webserver.rilin.state.ri.us/Statutes/TIT44/44-48.3/INDEX.HTM	https://www.cga.ct.gov/current/pub/chap_578.htm#sec_32-7t	https://legislature.maine.gov/statutes/36/title36sec6754.html	https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter63/Section38N and https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter23A/Section3C	http://www.gencourt.state.nh.us/rsa/html/V/77-E/77-E-3-c.htm	https://legislature.vermont.gov/statutes/chapter/32/105

Note: Credit characteristics reflects current policy as identified by ORA in September 2023. This table presents a single comparison credit program for each comparison state determined by ORA to be most like the Rhode Island NQJIA.

The table reveals that all comparison states offer some type of credit aimed at reducing the marginal cost of labor to incite job creation that might otherwise take place in other states or on a smaller scale. The longer carryforward terms Massachusetts and Maine reflect the fact that these states are also targeting capital investment. It is also interesting to note that many states include a provision that the value of the credit cannot exceed the tax liability otherwise due as protection against revenue loss.

Rhode Island experienced record-breaking employment in February 2020 with the highest job count on record. But, in March of 2020, the COVID-19 pandemic caused many businesses to shut down or limit in-person activity causing the large negative changes in employment in the chart below. Through March 2023, the state has regained 93.8% of the total jobs lost.



Since the pandemic, job gains have kept pace with the regional average. Rhode Island's unemployment rate as of July 2023 was 2.8%, lower than the national average as well as lower than Massachusetts and Connecticut over the past year. The NQJIA program may help to support stronger job growth in the state by encouraging more hiring in the near-term.

Sturdy employment gains, in addition to a tightening labor market, have translated into stronger wage growth. In Rhode Island, growth in average hourly earnings for all private employees from 2010-2014 outpaced growth in all New England states and was significantly above the national average. Rhode Island average hourly earnings performed very well in the 2015 to 2019 period outpacing earnings growth in the U.S., Massachusetts, New Hampshire, and Vermont (and not far behind growth in Connecticut and Maine). Due to the significant impact the pandemic had on jobs and wages, 2020-2022 is displayed separately. During this period, Rhode Island's growth of

average hourly earnings also performs well, only falling behind Maine of the New England states and is almost equal to that of the U.S.

Growth in Average Hourly Earnings of All Private Employees

(Dollars per Hour, Percent Change)

Time Range	Rhode Island	Massachusetts	Connecticut	New Hampshire	Vermont	Maine	U.S.
2010-2014	10.7%	8.6%	0.3%	5.8%	0.7%	9.6%	8.1%
2015-2019	12.1%	11.7%	13.3%	8.4%	7.7%	12.5%	11.5%
2020-2022	11.0%	9.9%	1.9%	10.1%	9.6%	13.8%	11.3%

Source: BLS

The NQJIA program is designed to give priority to specific targeted industries,¹² and allows a higher credit amount for jobs created in industrial design¹³ and scientific research and development.¹⁴ Many of the targeted industries pay an above average wage, which could help to boost wage growth and attract workers to the state.

The table below shows that industries such as biomedical innovation, and advanced business services garner above average wages compared to the average wages paid in total private employment in Rhode Island. The transportation, distribution and logistics industry, as well as hospitality, arts and tourism, pay a below average wage, but developing these important industries can help to attract new businesses and people to the state by cultivating a more advanced logistical network and expanding local amenities.

¹² “Targeted industry” means any advanced, promising or otherwise prioritized industry identified in the economic development vision and policy promulgated under R.I. Gen. Laws § 42-64.17-1 or, until such time as any such economic development vision and policy is promulgated, as identified by the Corporation from time-to-time and published on the Corporation’s website.

¹³ “Industrial design” means the profession of designing products to optimize the function, value, and appearance for the benefit of the user of the product and/or the manufacturer or creator of the product.

¹⁴ “Scientific research and development” means conducting research and experimental development in the physical, engineering, and life sciences, including but not limited to agriculture, electronics, biology, botany, biotechnology, computers, chemistry, food, fisheries, forests, geology, health, manufacturing, mathematics, medicine, oceanography, pharmacy, physics, veterinary, and other allied subjects.

Rhode Island Employment and Wages by Targeted Industry

(CY 2021)

Industries	Total Employees	Average Annual Pay	Average Weekly Wage
<i><u>All Rhode Island Private Employment</u></i>			
Total Private Employment	404,220	\$60,662	\$1,167
<i><u>New Qualified Jobs, Targeted Industries</u></i>			
Biomedical Innovation	1,045	\$109,017	\$2,096
IT/Software, Cyber-physical Systems, Data Analytics	10,659	\$112,777	\$1,724
Defense Shipbuilding, and Maritime	5,241	\$65,170	\$1,148
Advanced Business Services	19,759	\$108,055	\$1,811
Design, Food and Custom Manufacturing	51,594	\$72,362	\$1,321
Transportation, Distribution, Logistics	11,422	\$45,945	\$818
Education	19,537	\$60,103	\$1,020
Hospitality, Arts, Tourism	11,603	\$33,372	\$597
Total/Average for Targeted Industries	130,860	\$75,850	\$1,317

Source: BLS, Quarterly Census of Employment & Wages.

Note: Total Employment, Annual Pay, and Weekly Wage is based on private employment only.

The targeted industries specified by CommerceRI do not follow the North American Industry Classification System (NAICS). Therefore, ORA made assumptions regarding what NAICS sectors each target industry comprises. Each target industry contains several sectors defined by two-, three-, or four-digit NAICS codes that ORA identified as exemplifying these targeted industries. For example, for Advanced Business Services, ORA assumed it is composed of management and technical consulting services (NAICS code 5416), architectural, engineering and related services (NAICS code 5413), and management of companies and enterprises (NAICS code 5511). A detailed breakout of all targeted industry sectors is provided in Appendix B.

Part III: Report Data Description

The analysis of the New Qualified Jobs Incentive Act (NQJIA) in this report required an analysis of micro-level taxpayer data. ORA has encountered some challenges in the past related to data access. In order to gain access to data while respecting confidentiality concerns, ORA entered into Memoranda of Understanding (MOU) with the Rhode Island Department of Revenue, Division of Taxation (Taxation), Rhode Island Department of Labor and Training (DLT), and Rhode Island Commerce Corporation (CommerceRI). These MOUs sought to preserve the confidentiality of individually identifiable taxpayers consistent with the statutory mandates regarding secrecy and confidentiality of taxpayer information. In this context, ORA relied on data provided by credit recipients to Taxation, to the extent such information were provided, as required by Rhode Island General Law § 44-48.2-5(b). The data provided to ORA consisted of the following:

- Actual tax credit amounts used by credit recipients provided by Taxation for tax years 2019 through 2021;
- Tax credits projections provided by CommerceRI for the entire commitment period of recipient companies;
- NQJIA applications and agreements provided by CommerceRI;
- Withholding tax payment records on file provided by Taxation in each tax year subject to the current analysis; and
- Cost of administration of the tax incentive provided by Taxation and CommerceRI.

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 are unaudited and reported as compiled.

The focus of this report is on the period encompassing tax years 2019 through 2021. Some tables include additional data outside this period when additional years of data were available and where ORA determined these additional data to be informative, timely, and reliable.

1. Number of Taxpayers Granted Tax Incentive

According to Taxation, less than 10 companies received a tax credit under the NQJIA in tax years 2019, 2020, and 2021 with a total value (including refunds) of \$2,846,351 and an average value of \$948,784 during the three tax years. The following table provides a description of the number of recipients of the NQJIA program and the corresponding tax benefit amounts received in each tax year.

NQJIA Recipients
(Tax Years 2019 – 2021)

Tax Year	Tax Credit		Refunds		Total	
	Count	Amount	Count	Amount	Count	Amount
2019	<10	\$100,342	0	\$0	<10	\$100,342
2020	<10	\$254,804	<10	\$974,448	<10	\$1,229,252
2021	10	\$927,219	<10	\$589,538	<10	\$1,516,757
Average	<10	\$427,455	<10	\$521,329	<10	\$948,784
Total					<10	\$2,846,351

Source: Taxation

2. Value of Tax Incentive Granted by NAICS Code

ORA matched each recipient firm to its corresponding industry code according to the North American Industry Classification System (NAICS). The following table depicts the amount of the NQJIA tax benefit received by firms in each industry during tax years 2019 through 2021:

NQJIA Amount by NAICS Industry
(Tax Years 2019 – 2021)

Industry Description (NAICS Code)	Total	Average
Electrical equipment, appliance, and component manufacturing (335)	\$112,286	\$37,429
Food manufacturing (311)	\$57,583	\$19,194
Miscellaneous manufacturing (339)	\$169,135	\$56,378
Professional, scientific, and technical services (54)	\$974,448	\$324,816
Retail trade (44)	\$387,749	\$129,250
Wholesale trade (42)	\$1,145,148	\$381,716
All Industries	\$2,846,351	\$948,784

Source: Taxation

3. Cost of Administration

ORA surveyed Taxation and CommerceRI to ascertain the cost for the administration of the NQJIA. The table below provides information on the cost incurred by both entities during tax years 2019 through 2021 to administer this tax incentive.

NQJIA Cost of Administration

(Tax Years 2019 – 2021)

Cost-Incurring Entity	TY 2019	TY 2020	TY 2021	Total	Average
Taxation	\$1,208	\$3,617	\$5,668	\$10,493	\$3,498
CommerceRI	\$113,560	\$115,565	\$45,424	\$274,549	\$91,516
Total	\$114,768	\$119,182	\$51,092	\$285,042	\$95,014

Source: Taxation and CommerceRI.

4. Number of Aggregate Jobs

Based on wages and employment data submitted by the NQJIA recipients, Taxation compiled the total number of employees for each recipient firm. The following table provides a description of the employment under the NQJIA program in tax years 2019 through 2021 by residency status:

Employees of NQJIA-Beneficiary Firms:

Identified Tax Filings by Residency Status

(Tax Years 2019 – 2021)

Residency	TY 2019	TY 2020	TY 2021	Total
Rhode Island	28	1,953	3,490	5,471
Out of State	22	277	553	852
Total Employees Reported	50	2,230	4,043	6,323

Source: Taxation

Note: The number of jobs reflected in this table represents the total employment level at the NQJIA recipient firms which is the sum of their base employment and the newly added jobs.

5. Direct Taxes Paid by Recipients

Due to statutory confidentiality mandates under R.I. Gen. Laws §§ 44-1-14, 44-19-30, 44-11-21, 44-14-23 and 44-30-95(c) and the risk of disclosure of taxpayer information, Taxation is unable to approve disclosure of information by ORA as required by R.I. Gen. Laws § 44-48.2-5(a)(1) as it pertains to the “the aggregate annual revenue that such taxpayers generate for the state through the direct taxes applied to them.”

6. Direct Taxes Paid by Recipients’ Employees

Taxation provided ORA with data on personal income tax (PIT) paid by the employees of the NQJIA beneficiary firms who filed a personal income tax return in tax years 2019 through 2021. The following table describes the breakdown of this information by taxpayer’s residency status.

PIT Paid by Employees of the NQJIA Recipient Firms

(Tax Years 2019 – 2021)

	TY 2019	TY 2020	TY 2021	Average
<u>RI Residents</u>				
Count of Taxpayers	26	1,813	3,181	1,673
Taxes Paid *	\$55,321	\$1,711,447	\$3,909,136	\$1,891,968
Avg Taxes Paid	\$2,128	\$944	\$1,229	\$1,434
<u>RI Non-Residents</u>				
Count of Taxpayers	21	248	491	253
Taxes Paid ^	\$36,633	\$406,447	\$2,405,549	\$949,543
Avg Taxes Paid	\$1,744	\$1,639	\$4,899	\$2,761
<u>Total</u>				
Count of Taxpayers	47	2,061	3,672	1,927
Taxes Paid	\$91,954	\$2,117,894	\$6,314,685	\$2,841,511
Avg Taxes Paid	\$1,956	\$1,028	\$1,720	\$1,568

Source: Taxation

Note:

* Taxes Paid for RI Residents are calculated by dividing the Federal AGI by wage data for the employees of the credit recipients and applying the calculated ratio to "total tax and contributions" minus "property tax credit" minus "RI earned income credit" minus "lead paint credit."

^ Taxes Paid for Non-Residents are calculating by dividing the Federal AGI by wage data for the employees of the credit recipients and applying the calculated ratio to "total tax and contributions" minus "RI earned income credit."

The Taxes Paid reflects only the amounts paid by employees for which Taxation and was able to identify a tax filing, therefore, the count of taxpayers in this table might be different than the one in the previous table.

7. Additional Data Analysis

- New Qualified Jobs Incentive Act Program Awardee Characteristics

The sections above discuss NQJIA tax credit recipients. However, not all businesses that were awarded the NQJIA tax credit have claimed the credit. According to CommerceRI, a total of 14 businesses had received approval for the receipt of NQJIA tax credits during tax years 2019 through 2021. A complete list of NQJIA awardees is presented below:

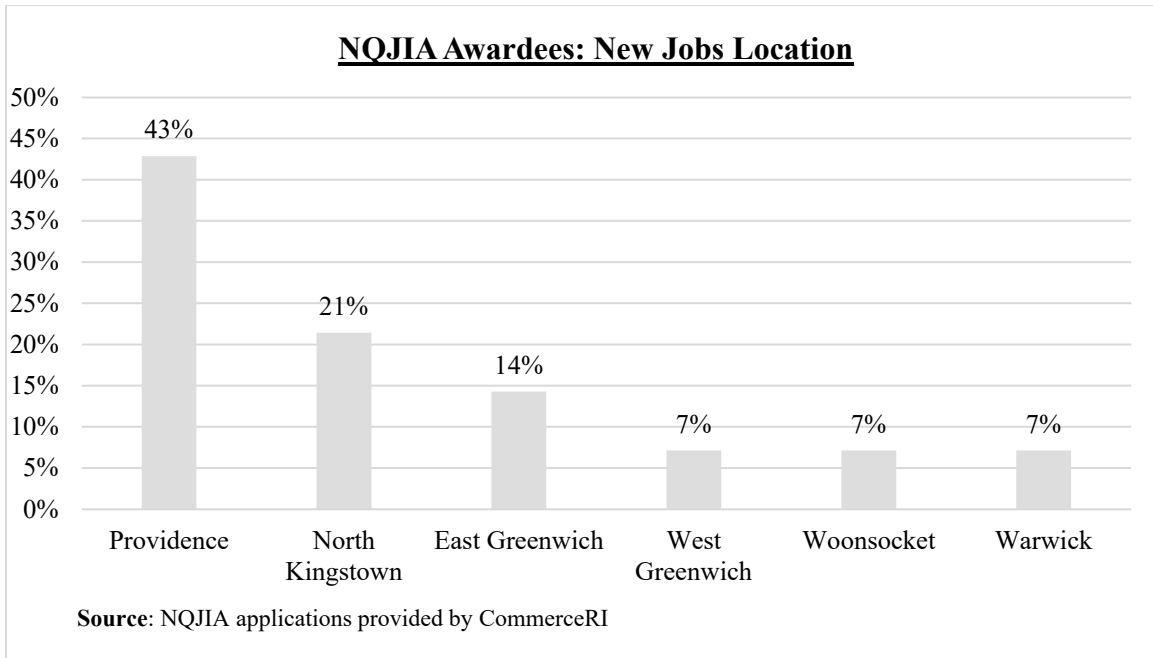
<u>NQJIA New Awardees</u>			
(Tax Years 2019-2021)			
Project Name	Number of Award Years	Total Estimated Tax Credit Amount	Average Annual Projected Jobs
Breeze Airways	10	\$2,918,250	104
Custom & Miller Box	10	\$612,000	39
Flux Marine	10	\$1,857,750	55
Future Foam	10	\$370,500	34
Gotham Greens Holdings, LLC	10	\$880,534	50
Immunex RI Corporation	10	\$6,026,079	143
Infinity Meat Solutions, LLC.	10	\$9,390,749	639
Lexington Lighting Group, LLC	5	\$197,643	22
Ocean State Jobbers, Inc.	10	\$3,313,283	78
Regent	10	\$13,358,250	270
RESH	10	\$735,000	40
Surplus Solutions, LLC	10	\$496,618	16
United Natural Foods, Inc.	10	\$2,912,503	116
Virgin Pulse, Inc.	5	\$2,911,150	46
Average	9	\$3,284,308	118

Source: CommerceRI

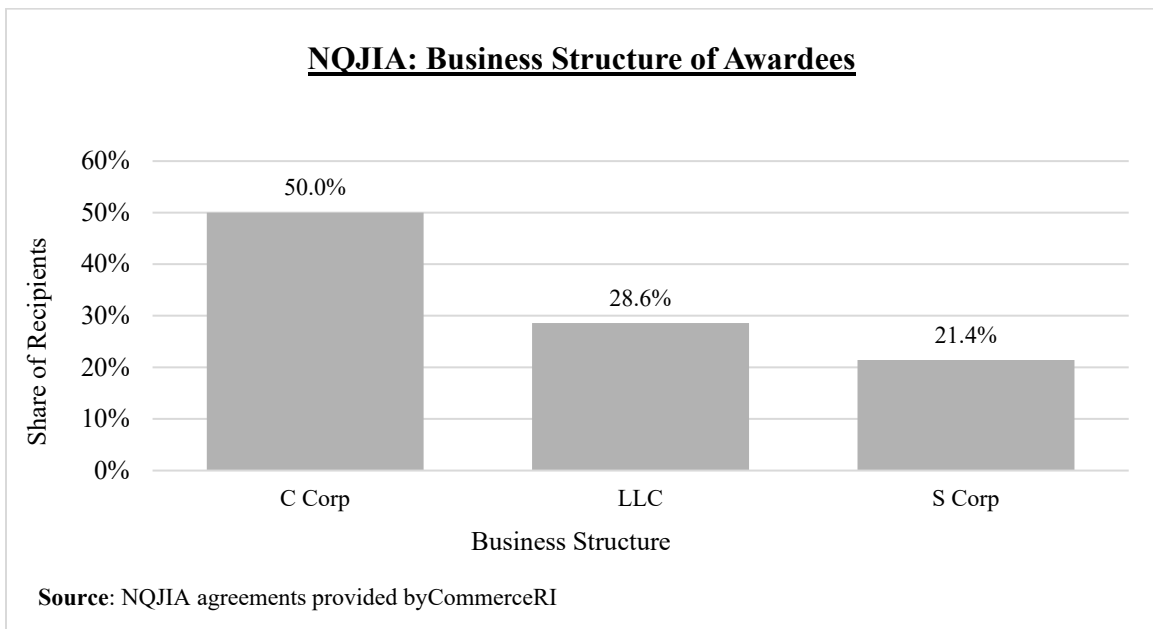
Note: The number of award years represents the time period over which NQJIA firms will be receiving NQJIA benefits.

When businesses apply for the NQJIA program, they must provide details about the company and the job creation/expansion proposed. Based on this information, awardees of the tax benefit can receive a higher tax credit if they meet certain criteria. The base amount of the tax credit is \$2,500 annually per eligible position, however, the credit can go up to \$7,500 annually per eligible position if the business is located in a Hope Community; or if the business is in a targeted industry; or if the business is located within a transit oriented development area; or if the business is an out-of-state business but relocating one or more of its units to Rhode Island. NQJIA tax credits can be received over a period up to 10 years.

An analysis of the geographical distribution of total awardees of the NQJIA tax benefit shows job expansions in six of 39 municipalities. Nearly half of the total awards were for job creations/expansions in and around Providence. This is not particularly surprising given that Providence is the largest city in the state and is also a Hope Community. Thus, the amount of NQJIA credit awarded per job for job creations/expansions located in Providence could be up to three times greater than for those located in, say North Kingstown, all other things equal simply because of location. The chart below shows the distribution of the new added jobs by municipalities:



Details from the NQJIA agreements give a good picture of the corporate structures of the businesses applying for the tax credit and the job creations/expansions they are undertaking. The awardees represent a variety of corporate structures, as shown below:



The NQJIA provides additional funds to businesses that are expanding in Rhode Island from out of state. Despite this enticement, 43% of businesses awarded the incentive already have operations in the state, while 57% of total awardees are out-of-state businesses that are locating new operations in the state.

The NQJIA program offers a similar increase in funding for businesses that are expanding in a Hope Community (municipalities where the family poverty rate exceeds that of the state as a whole). A total of 14.3% of businesses awarded the tax credit are expanding operations in a Hope Community.

The NQJIA is also designed to give priority to specific targeted industries. The vast majority of awardees, 86%, were in targeted industries.

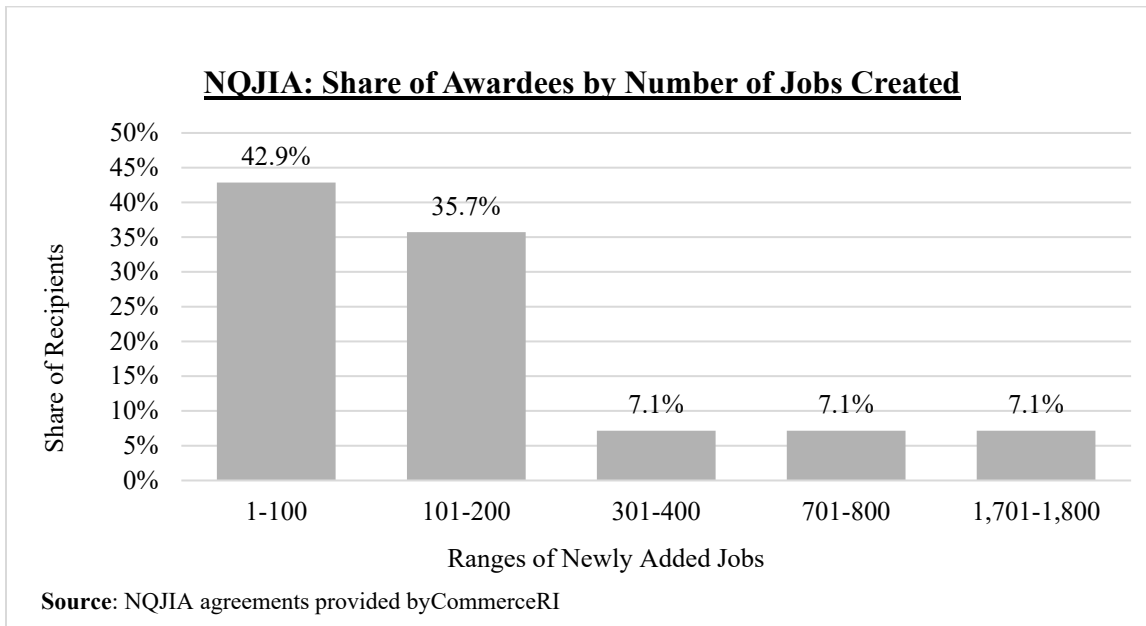
ORA matched NQJIA awardees to their corresponding industry code according to NAICS code. Of all business awarded tax credits, the largest share was in manufacturing, representing half of the recipients.

NQJIA: Share of Recipients by Industry

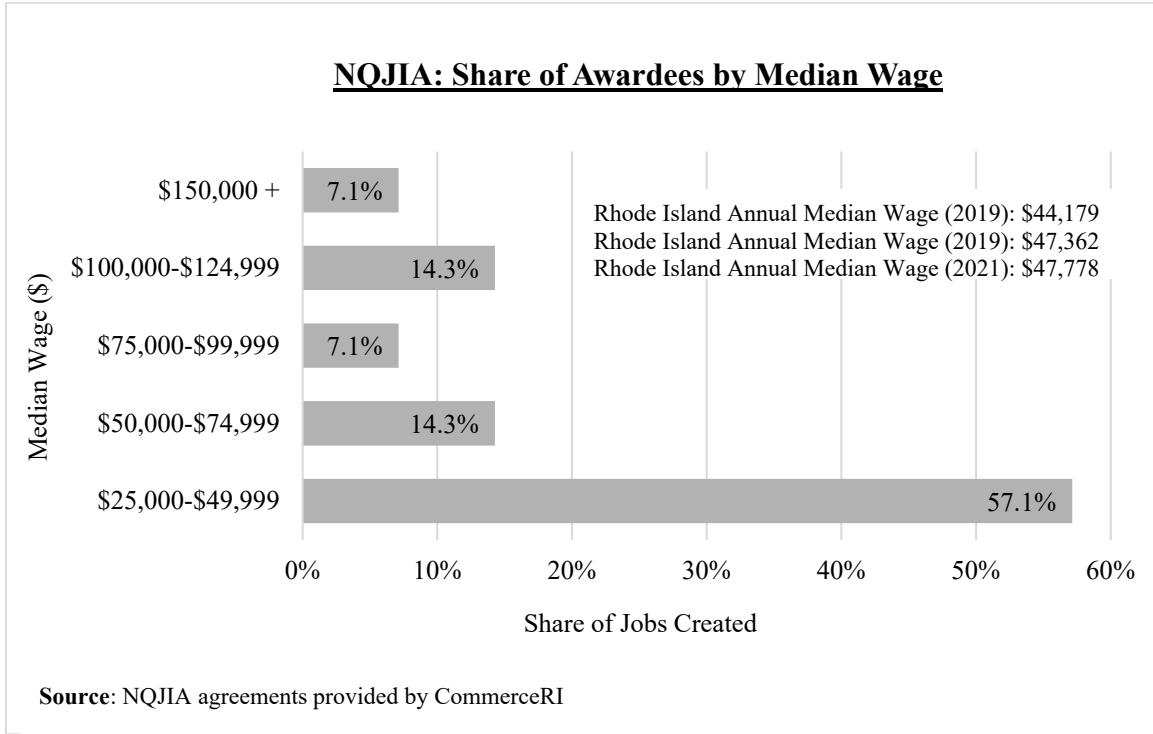
Industry	Share
Manufacturing	50.0%
Wholesale Trade	21.4%
Transportation and Warehousing	14.3%
Agriculture, Forestry, Fishing and Hunting	7.1%
Finance and Insurance	7.1%
Total	100.0%

Source: CommerceRI

The number of jobs created, and the expected median wage of the jobs created differs among awardees. The minimum number of newly created jobs required to receive the incentive varies depending on the current number employees in the state and if the business is in a target industry. A business planning to add fewer than 10 new jobs in Rhode Island is not eligible for the incentive. The following table describes the share of awarded businesses according to the number of jobs they agreed to add:



In addition, businesses applying for the NQJIA tax benefits must report the median wage of the jobs that will be created. Of the awarded projects, 71.4% of businesses plan to offer a median wage of less than \$75,000, with 57.1% of all awarded businesses offering a median wage between \$25,000 and \$50,000 and 14.3% of businesses offering a median wage between \$50,000 and \$75,000. The remaining 28.6% of awarded businesses will create new jobs that pay a median wage above \$75,000.



The median salary, location, and industry all contribute to the overall incentive awarded per newly created job. Using information from the NQJIA agreements provided by CommerceRI, ORA determined that 13 out of 14 businesses that applied and were authorized to receive the NQJIA tax credit were awarded a credit amount of \$7,500 per job. This represents authorized tax credits; actual tax credits are calculated based on W-2 withholdings for eligible individuals in created jobs and may vary from authorized amounts.

- New Qualified Jobs Incentive Act Program Tax Credit Utilizer Characteristics

Using data from Taxation on the *actual* NQJIA credits received and taxes paid by the *new* jobs created that generated these NQJIA tax credit amounts, ORA calculated an average NQJIA credit amount and an average personal income tax (PIT) paid per new job:

Average NQJIA Amount & Average PIT Paid per New Job

(Tax Years 2019 – 2021)

	TY 2019	TY 2020	TY 2021	Average
Count of New Jobs Created	361	471	725	519
Average NQJIA Amount	\$2,607	\$3,013	\$2,609	\$2,743
Average PIT Paid	\$2,387	\$2,838	\$3,048	\$2,758

Source: Taxation

Note: While the NQJIA Amount is tied to withholding, the Average PIT Paid includes all personal income tax liability.

A comparison of the figures presented in the table above shows that the average total credit amount granted exceeds the average PIT paid by recipient employees in the first two years. The average total credit amount per job was 109% more than the average PIT paid per job in 2019 and 106% more in 2020. On the contrary, the average PIT paid per job was 117% higher than the average total credit amount per job in tax year 2021.

Pursuant to R.I. Gen. Laws § 44-48.3-3(6), an eligible job under the NQJIA program must earn no less than the median hourly wage as reported by the U.S. Bureau of Labor Statistics (BLS) for the State of Rhode Island. The rules and regulations implemented by CommerceRI that govern the NQJIA specify that a business with new full-time jobs reporting a median salary in excess of 110% of the existing median hourly wage receives an increase of \$300 per year for each ten percent by which the median salary levels exceeds the existing median hourly wage.¹⁵

ORA analyzed data provided by Taxation on employment and wages paid to the newly added employees by the NQJIA recipients:

¹⁵ Rhode Island Commerce Corporation rules and regulations 870-RICR-30-00-4.13.A.1.a which can be found at https://rules.sos.ri.gov/Regulations/part/870-30-00-4?reg_id=10467

NQJIA-Beneficiary Firms:

Descriptive Statistics: Industry and Wages of Newly Created Jobs

(Tax Years 2019-2021)

Industry Description (NAICS Code)	Tax Year	Number of Jobs	Sum of Wages	Median Wage	% of BLS Median Wage
Electrical equipment, appliance, and component manufacturing (335)	2019	20	\$1,090,106	\$40,267	91%
Miscellaneous manufacturing (339)		13	\$2,123,485	\$94,780	215%
Professional, scientific, and technical services (54)		100	\$10,536,462	\$73,342	166%
Wholesale trade (42)		228	\$14,890,032	\$55,020	125%
Electrical equipment, appliance, and component manufacturing (335)	2020	12	\$651,911	\$57,952	122%
Food manufacturing (311)		43	\$1,666,033	\$29,640	63%
Miscellaneous manufacturing (339)		13	\$1,646,382	\$84,418	178%
Professional, scientific, and technical services (54)		175	\$14,269,790	\$61,957	131%
Wholesale trade (42)		228	\$22,857,442	\$70,959	150%
Electrical equipment, appliance, and component manufacturing (335)	2021	15	\$911,981	\$46,442	97%
Food manufacturing (311)		43	\$1,838,885	\$32,450	68%
Miscellaneous manufacturing (339)		13	\$1,913,973	\$75,698	158%
Professional, scientific, and technical services (54)		152	\$12,948,479	\$72,896	153%
Retail trade (44)		234	\$9,844,362	\$41,512	87%
Wholesale trade (42)		268	\$33,979,433	\$74,478	156%

Source: Taxation & BLS

According to BLS, the hourly median wage for all occupations in Rhode Island was \$21.24, \$22.77, and \$22.97 in tax years 2019, 2020, and 2021 respectively. These hourly figures are the equivalent of an annual figures of \$44,179 in 2019, \$47,36 in 2020, and \$47,778 in 2021.¹⁶

As seen in the chart above, the median wage in some sectors falls below the BLS median wage for that year. The most likely cause of this discrepancy is the fact that agreements between CommerceRI and NQJIA recipients are usually based on a static median wage from the beginning of the commitment period. As wages grow across the state’s economy, the median wage benchmark in those agreements can slip behind the actual median wage in a given year.

In addition, ORA analyzed data provided by Taxation on additional tax incentives received by NQJIA recipients as described in the following table:

¹⁶ ORA calculated these annual figures by assuming a 40-hour work week and 52 weeks in a year.

Additional Tax Incentives Received by NQJIA Recipient Firms

(Average Tax Years 2019-2021)

Tax Incentive	Average NQJ Amount
NQJIA –All Firms	\$948,784
NQJIA– Firms Claiming NQJ and Additional Incentive/s	\$502,134
Other Tax Incentive	Other Incentive Amount
Jobs Development Act Rate Reduction	\$611
Rebuild RI Tax Credit	\$76,049
Average Other Incentives	\$76,660

Source: Taxation

Through the tax years 2019 to 2021, firms received an average NQJIA amount of \$948,784 as tax incentives. The average tax incentive for the firms claiming NQJIA and additional benefits was \$502,134. The average other tax incentives for the three years were \$76,660 of which the Rebuild Rhode Island Tax Credit averaged \$76,049.

Part IV: Evaluation of the Economic Impact of the Tax Credit

This section of the report addresses two major objectives defined in R.I. Gen. Laws § 44-48.2-5: first, to provide a projection of the potential impact of the NQJIA on state revenues from projected future use and carryforward amounts of unused credits; and, second, to produce a breakeven cost-benefit analysis that can determine the net impact on state revenues resulting from the tax incentive.

1. Assessment and Five-Year Projection of Revenue

The NQJIA program has a sunset date of December 31, 2024, meaning that no new credits could be authorized after this date. However, it is anticipated that tax credit usage activity will continue beyond this date as this tax credit is awarded over multiple years. In fact, during their testimony at the May 2023 Revenue Estimating Conference (REC), CommerceRI provided an estimated NQJIA tax credits projections by fiscal year through FY 2034 for all of the program awardees.

ORA adjusted CommerceRI NQJIA projections by including the actual NQJIA amounts provided by Taxation for tax years 2019 through 2021. ORA then used the CommerceRI projections for the remaining years to construct a 5-year projection for NQJIA tax credit amounts that would be assigned in future tax years assuming that the tax year and fiscal year correspond directly to one another (i.e., TY 2022 = FY 2022, TY 2023 = FY 2023, etc.).

The following table provides the distribution of the anticipated amount of the NQJIA tax credits to be issued in each tax year.

<u>NQJIA: Revenue Forgone Projections</u>	
Tax Year	Credit Amount
2019	\$100,342
2020	\$1,229,252
2021	\$1,129,006
2022*	\$1,294,225
2023*	\$3,790,065
2024*	\$2,441,938
2025*	\$5,428,740
2026*	\$7,081,933

Source: ORA calculations based on data provided by Taxation and CommerceRI.

* Projected years.

2. “Breakeven” Cost-Benefit Analysis

- *Introduction to the “Breakeven” Cost-Benefit Analysis Methodology*

Pursuant to R.I. Gen. Laws § 44-48.2-5(6), ORA conducted a “breakeven” cost-benefit analysis to measure the fiscal impacts on the state economy resulting from the NQJIA program under a variety of assumptions. To provide additional insight, ORA also produced breakeven analyses with respect to employment and Rhode Island gross domestic product (GDP).

To execute these cost-benefit analyses, ORA utilized Regional Economic Models, Incorporated's (REMI) 70-sector model of the Rhode Island economy via the REMI Tax-PI software platform to produce estimates of the total economic effects of the NQJIA tax credits.¹⁷ The dynamic capabilities of the REMI Tax-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 REMI Tax-PI operationalizes these insights by augmenting REMI's base economic and demographic model, PI+, with a module that allows the user to enter a state's customized budget, in order to run fiscal and economic forecasts. Specifically, for each budget item, one can choose an "Indicator," which is the economic or demographic driver of that budget item (e.g., personal income for personal income tax revenue, or age 5-18 population for K-12 education spending), and a "Policy Variable," which is the economic or demographic change associated with a change to the structure of that budget item (e.g., a change in consumer prices for a change in the sales tax).

The "breakeven" approach developed for this report allows a reader to assume that the NQJIA leveraged various levels of economic activity required of recipient firms to receive a tax credit. This assumption means that some varying portion of the economic activity required of recipient firms to receive a tax incentive would not have occurred in the absence of the tax incentive. Under this assumption, firms made some portion of their long-term production decisions based on the availability of an incentive over time, and removal of that tax benefit in a particular year would undo all such decisions.

- *Modeling Costs*

ORA assumed that the tax incentive is funded by an equivalent reduction in state government spending – that is, when the state government forgoes revenue by allowing a tax credit, there are fewer funds available for other spending priorities. ORA modeled these adjustments based on a comprehensive historical analysis of Rhode Island general fund expenditures for fiscal years 2019 through 2021. ORA compiled all state general fund expenditures and assumed that the level of these expenditures could be adjusted to maintain a balanced general fund budget. The breakdown of general fund expenditures by category is shown in the following table:

¹⁷ Detailed documentation on the REMI Tax-PI v3.0.0 model employed in this analysis is available at: <http://www.remi.com/resources/documentation>

Rhode Island General Fund Expenditures by NAICS

(Average FY 2019-2021)

Industry Description	NAICS Code	Percent of Total
Ambulatory Healthcare Services	621	36.6%
Educational Services	61	30.3%
State Wages	n/a (Entered as “state/local govt. compensation” and “employment”)	24.3%
Local Government Spending	n/a (Entered as “state/local govt. spending”)	3.5%
Social Assistance	624	2.0%
Administrative and Support Services	561	1.8%
Professional, Scientific, and Technical Services	54	1.8%
Repair and Maintenance	811	1.3%
Wholesale Trade	42	1.0%
Remaining Industries		2.3%
Total:		100.0%

Source: ORA analysis of Rhode Island general fund expenditure data.

- Modeling Benefits

To model the benefits of the NQJIA tax credit, ORA examined the intended purpose and goals defined in the program’s governing statute. As stated in R.I. Gen. Laws § 44-48.3-2, the objective of this program is largely focused on the creation of new *well-paid* jobs and the attraction of new businesses and industries that would generate revenues for state and local governmental services. Therefore, these benefits can be captured through the new jobs created by the tax credit recipients and the wages they received. ORA obtained information on the total new jobs created and wages associated with the NQJIA tax credit from Taxation for tax years 2019 through 2021. Similarly, CommerceRI provided ORA with projections on jobs and wages that are expected to be added/maintained by the companies during their commitment period (the entire time period over

which NQJIA firms will be receiving this tax credit). This information was provided by CommerceRI for tax years through 2030.¹⁸

To address the program's objectives, ORA modeled this tax benefit as a commensurate increase in industry employment and compensation. In the REMI model, an "Industry Employment (Exogenous Production)" policy variable affects the industries that provide the goods or services demanded. This policy variable assumes that employment is related to exogeneous sources of demand, thus, the employment loss/gain will not be offset by local firms. In the case of the NQJIA program, this policy variable assumes that the employees of the program's beneficiary firms represent net new jobs to the Rhode Island economy. Hence, the analysis assumes that the availability of the NQJIA tax credit impacted the recipient firms' decisions to undertake major investments in Rhode Island by providing cost savings that tipped the balance in favor of locating a business in Rhode Island vs. some alternative location.

To apply the changes in industry employment and compensation discussed above, 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 jobs and wages benefits associated with the NQJIA tax credit were entered in the REMI Tax PI model starting in calendar year 2019 through 2030.¹⁹ The costs and benefits were summed over tax years 2019 through 2030 to ensure that the analysis included the full extent of the lingering impacts of the NQJIA incentive programs.

- *The "Breakeven" Approach*

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

In this context, ORA conducted a breakeven analysis. This analysis allows for the evaluation of an incentive program's performance under a wide range of assumptions regarding the level of economic activity that would have taken place if the program had not been available. Furthermore, the breakeven analysis specifies the proportion of economic activity associated with the incentive program recipients that one must assume to have been attributable to the incentive program in order for the total benefits to equal its total costs, where benefits and costs are measured as the

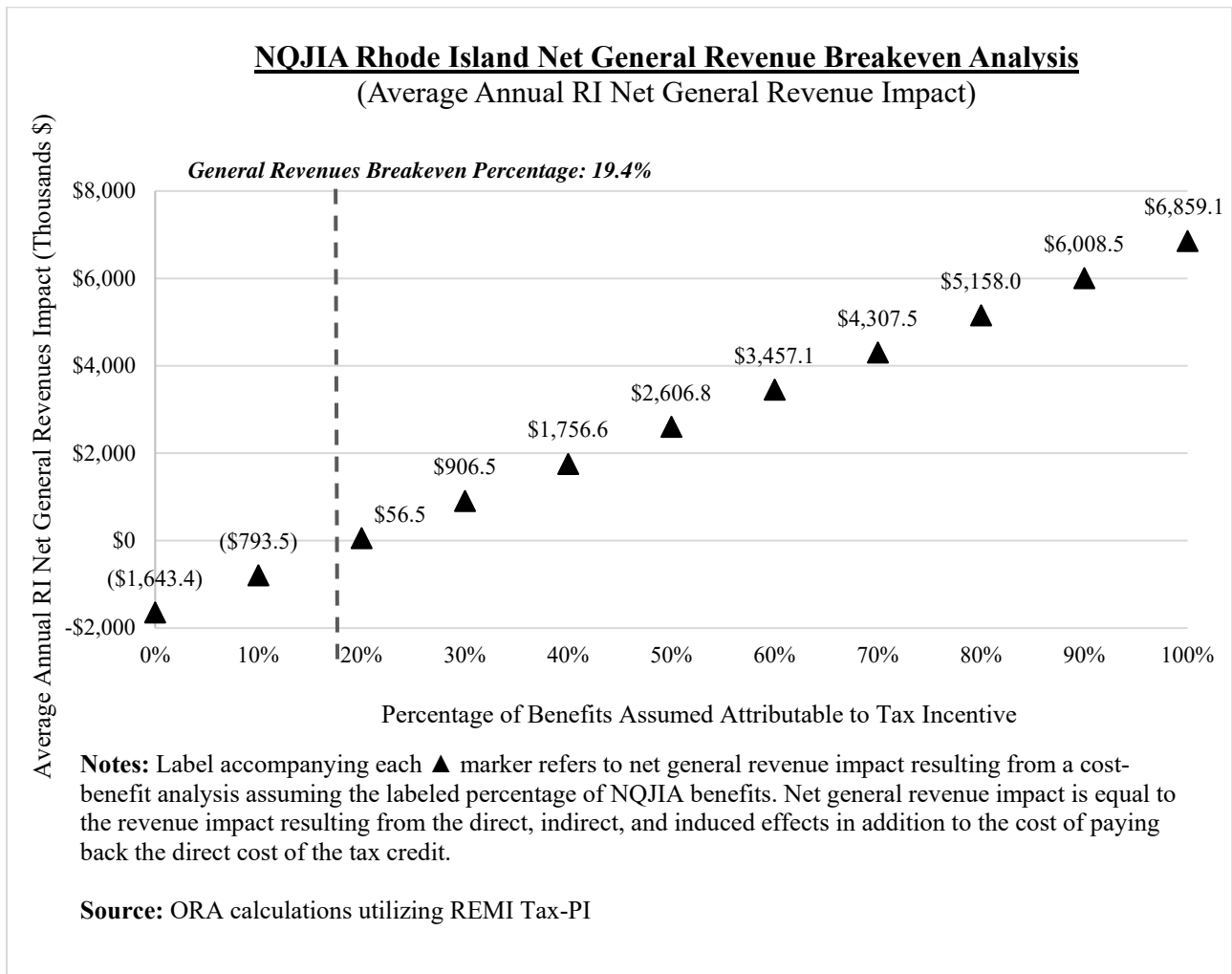
¹⁸ This year represents the last year of NQJIA projections analyzed in this report.

¹⁹ It should be noted that the breakeven results would change if the time horizon of the analysis were to change.

impact on state general revenues (i.e., the condition that must be satisfied for the incentive program to “pay for itself”).

The breakeven percentage should be interpreted as follows: if the reader believes the assumption to be plausible, that at least the amount of economic activity implied by the breakeven percentage can be attributed to the availability of the tax incentive, then one can infer that the incentive has a net positive impact on state general revenues. In the opposite case, if the reader believes that the amount of economic activity attributable to the tax incentive was less than the level implied by the breakeven percentage, then one can infer that the incentive had a net negative impact on state general revenues. Holding other factors equal, a lower breakeven percentage is more desirable than a higher breakeven percentage if the goal of an incentive program is to cost the state as little revenue as possible. A tax incentive program fails to breakeven when the breakeven percentage is greater than 100%. This implies that even if 100% of the economic activity associated with the incentive recipient was assumed to have taken place strictly because of the incentive’s availability, a net negative impact on state general revenues would have resulted.

The following chart provides results of the breakeven analysis with respect to Rhode Island general revenues for an average year 2019 through 2030:



A breakeven percentage of 19.4% can be interpreted to mean that if one assumes that 19.4% or more of the employment associated with NQJIA recipient firms would not have been located in the state if not for the availability of the NQJIA tax credit, then the tax credit “pays for itself” in terms of state general revenues. Using Taxation actual data and CommerceRI projections, the breakeven percentage can also be considered in terms of jobs. If at least 19.4% of the average reported employment of 825 jobs over tax years 2019 through 2030, can be attributed solely to the availability of the tax credit, then this cost-benefit analysis suggests that the credit “pays for itself” in terms of state general revenues.

One of the difficulties in analyzing any economic development tax incentive is determining the extent to which the tax incentive impacts a recipient’s decision to locate jobs in one place vs. another. ORA tested a variety of assumptions regarding the level of activity taking place in Rhode Island that must be attributable to the NQJIA program for the program to generate more in state general revenues than the cost of the incentive. A 2018 report from the W.E. Upjohn Institute for Employment Research suggests that the value of a typical economic development tax incentive in the first year of award is equal to approximately 7% of a firm’s total wages.²⁰ ORA notes that the average compensation of NQJIA recipient’s employees through years 2019-2030 is \$94,000 and that 7% of this average compensation paid is \$6,500 which is the per job incentive amount necessary to impact a firm’s location decision given compensation and tax credit amounts. ORA used this estimated necessary per job incentive amount of \$6,500 to calibrate the portion of the actual employment activity associated with the NQJIA-tax credits that was induced. Dividing the average NQJIA tax credit amount of \$1,610,215 by the \$6,500 necessary per job incentive amount yields 245 jobs located in Rhode Island strictly due to the availability of the NQJIA program. These 245 jobs are equivalent to approximately 30% of the total employment activity that is associated with the NQJIA tax credit (i.e., 245 out of 825 average annual jobs).

²⁰ Bartik, Timothy J. 2018. "Who Benefits from Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/tr18-034>

The following table provides more detailed information regarding the state general revenue impact, with the assumption that 245 of the 825 jobs associated with the NQJIA tax credit beneficiaries, or 30%, were “caused” by the credit based on Bartik’s study:

NQJIA Detailed Net Revenue Impacts
(RI General Net Revenue Impact, Average Year 2019-2030)

Item Description	Amount
Forgone Revenue Due to Credit	\$(1,610,215)
Total General Revenue Generated by Credit	\$2,405,927
<i>General Revenue Generated by Credit by Component</i>	
Personal Income Tax	\$797,359
General Business Taxes	\$303,357
Sales and Use Taxes	\$702,394
Other Taxes	\$37,743
Total Departmental Receipts	\$300,515
Other Sources	\$264,558
Net Change in General Revenue, After Paying for Credit	\$795,713
New Revenues Generated for Every Dollar of Credit	\$1.49

Notes:

This table shows the detailed revenue impact based on the assumption that 30% of the economic activity associated with NQJIA-recipients was “caused” by the availability of the credit.

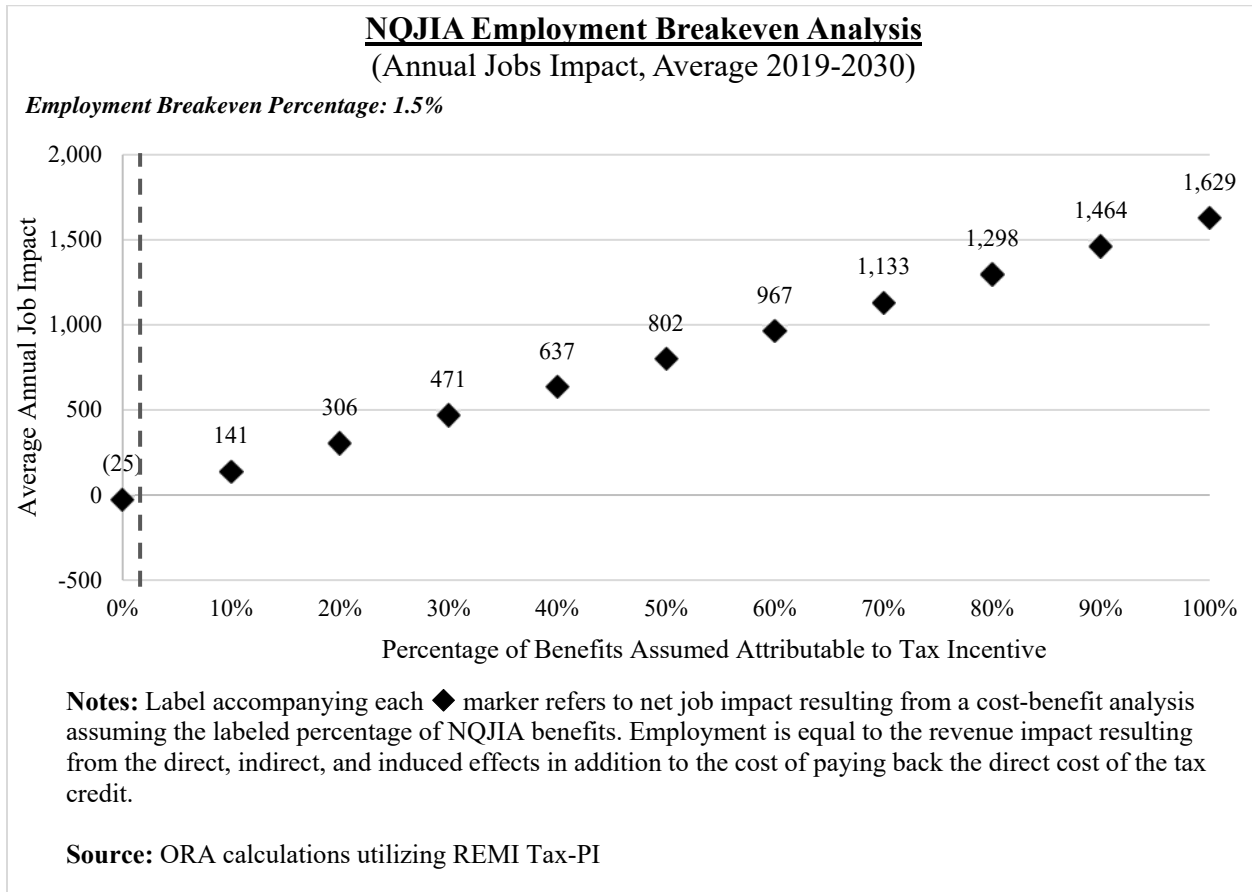
The \$1,610,215 foregone revenue due to credit represent an average NQJIA amount over tax years 2019 through 2030 and hence is different from the actual \$948,783 NQJIA three-year average over tax years 2019 through 2021 presented in tables above.

This table shows the detailed revenue impact under the ORA assumption that 30% of the employment associated with the NQJIA program was “caused” by the tax incentive. This shows that the activity associated with the NQJIA program generated a total \$2,405,927 of state general revenues – however, this figure does not include the \$1,610,215 cost of the tax incentive itself. Therefore, in an average year Rhode Island gives up \$1,610,215 in revenue on the NQJIA program and receives \$2,405,927 of new revenues in return, equal to an average annual net gain of \$795,713 in net general revenue. Expressed another way, for every dollar spent on the NQJIA program the state generates \$1.49 of new revenue. This payback ratio shows that new revenues generated from the NQJIA induced activity exceed the total costs of the NQJIA and add a new net positive revenue amount to the state under the assumption that 30% of the employment at NQJIA beneficiary firms would not exist in Rhode Island if not for the availability of the tax incentive. ORA examined additional possible scenarios varying the percentages of benefits assumed attributable to the tax incentive. Results of these analyses are provided in Appendix C.

The breakeven framework can also be extended to Rhode Island employment and Rhode Island GDP. In these contexts, the breakeven percentage can be interpreted as the percentage of economic activity associated with NQJIA-recipient firms assumed to be attributable to the availability of the tax incentive. With respect to GDP, it is the percentage of economic activity that is necessary to

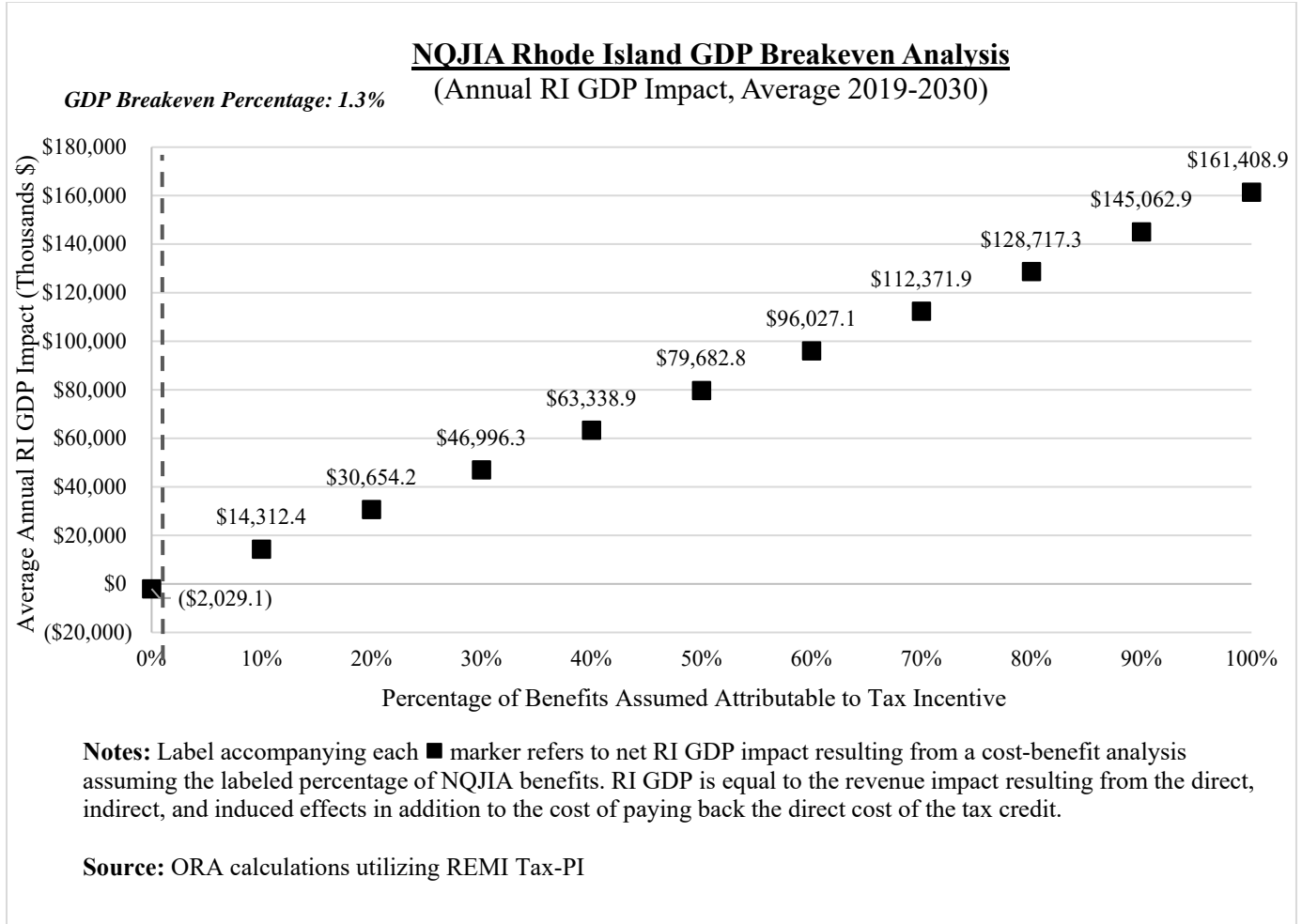
offset the GDP loss resulting in the reduction in government spending necessary to fund the credit. With respect to employment, it is the percentage of economic activity that is necessary to offset the employment loss resulting in the reduction in government spending necessary to fund the tax credit.

The following chart shows the results of a breakeven analysis with respect to employment.



The employment breakeven percentage of 1.5% implies that the NQJIA program has a net positive impact on Rhode Island employment if at least 1.5% of economic activity associated with the NQJIA-recipient firms would not have occurred but for the availability of the tax incentive. A detailed employment breakdown (e.g., direct, indirect, and induced jobs) is provided in Appendix C.

The following chart shows the results of a breakeven analysis with respect to Rhode Island gross domestic product (RI GDP).



The RI GDP breakeven percentage of 1.3% implies that the NQJIA program has a net positive impact on RI GDP if at least 1.3% of economic activity associated with the NQJIA-recipient companies would not have occurred but for the availability of the tax incentive. The results of additional GDP breakeven scenarios in which the input parameters are varied to provide the reader with additional possible breakeven analysis outcomes are provided in Appendix C.

Part V: Discussion and Recommendations

1. Statement by the CEO of the Commerce Corporation

The Secretary of Commerce, who serves as Chief Executive Officer of the Rhode Island Commerce Corporation pursuant to R.I. Gen. Laws 42-64-1.1(b), provided the following statement pursuant to R.I. Gen. Laws § 44-48.2-5(a)(6)(iii):

Statement from the CEO of the Commerce Corporation:

ORA's most recent analysis confirms the effectiveness of the Qualified Jobs Incentive tax credit program in Rhode Island. Compared to the 2021 analysis, ORA's current findings highlight even greater benefits for the state in terms of job creation, state revenue, and GDP growth.

Likely additional benefits, not featured in this report as they are outside the scope of ORA's mandated review, arise from pre-certification job creation and revenue spikes municipalities experience due to the jobs created as a result of this program.

Another noteworthy finding is that since ORA's prior report, the program's administrative cost has dropped significantly. From 2016-2018, administration accounted for 60.7% of the total state cost, due to lag in time between program creation and credit usage. However, between 2019-2021, it's down to just 9.1%.

It's important to highlight that the Qualified Jobs program incorporates robust taxpayer protections. Tax credits are issued only once a job is established and has paid income tax for a full year. If companies miss their job targets, no credits are given, protecting state funds. Other safeguards include capping a company's tax credits to a ten-year maximum and requiring jobs to exist 20% beyond the credit period. Plus, applications for tax credits undergo risk and impact assessments prior to being recommended to the RI Commerce Corporation's (Commerce) Board for approval.

Due to evolving work dynamics, including remote and hybrid work, Commerce is reevaluating the program's structure, taking under consideration ORA's suggestion to change the program's wage requirements and wage benchmark structure.

Encouraging well-paying jobs is core to the Commerce's mission of creating the conditions for businesses to thrive by promoting the state's long-term economic health and prosperity. The Qualified Jobs Incentive Tax Credit Program is a testament to this commitment.

ORA Recommendations

Finding #1: Some NQJIA recipients paid their newly added employees below the statewide median wage. This can happen because even though the commitment period for the incentive is often over 10 years, the median wage benchmark for each recipient is set at the beginning of the period and remains the same over the entire period.

Related Recommendations:

- ORA recommends that the NQJIA agreements impose wage growth minimums for the newly created jobs.
- ORA recommends amending the statute to make the median wage threshold industry specific.

Discussion Supporting Finding #1:

The primary goal of the NQJIA program is to stimulate economic activity in the state through the creation of *well-paying* jobs as defined in the program-governing statute. Furthermore, R.I. Gen. Laws § 44-48.3-3(6) states that the newly added jobs must earn no less than the median hourly wage as reported by the Bureau of Labor Statistics (BLS) for Rhode Island.

The table titled “Descriptive Statistics: Industry and Wages of Newly Created Jobs” in Part III of this report shows that, in each tax year subject to this analysis, one or more companies failed to pay their employees the state median wage for that year as reported by BLS. Given the structure of the recipient agreements, this is not a violation of statute or regulations. However, it would seem contrary of the spirit of the law and goals of the program.

After reviewing the NQJIA agreements provided by CommerceRI, ORA found that there was no specification for wage growth for the newly added employees during the entire commitment period. This is usually a period of 10 years over which NQJIA recipients will be receiving tax benefits annually. Paying the same wage to the newly created jobs over such a long period of time might result in having jobs that are paid less than the state median wage.

Therefore, ORA recommends that the NQJIA agreements impose some mechanism to require wage growth throughout the commitment period. The other option would be to require recipients to meet or exceed the BLS median wage in each year of the commitment period. However, it would likely be administratively easier to establish a wage growth schedule with the initial agreement.

ORA also recommends that the industry-specific median wages be used to construct the wage requirement for each NQJIA applicant to account for the variance in wages across industries and to ensure that jobs created are high-paying jobs for that industry. This will likely require a change to the program’s governing statute.

According to data from Taxation and CommerceRI, both NQJIA recipients operate in several different North American Industry Classification System (NAICS) industries. Based on data from

the Department of Labor and Training (DLT), these industries have different median hourly wages ranging from a low of \$13.84 in the food services & drinking places industry to a high of \$50.54 in the computing infrastructure providers, data processing, web hosting, and related services industry. Across all industries, the median hourly wage in May 2022 was \$25.48.²¹ Therefore, the BLS state median hourly wage specified in the statute might be an easy requirement for companies operating in high paying industries and a difficult one for those operating in the low paying industries.

Finding #2: NQJIA application form does not indicate the Rhode Island median wage, instead program applicants are asked to provide this information.

Related Recommendations:

- ORA recommends that information on the Rhode Island median wage be provided on the program’s application form to avoid any data inconsistency.

Discussion Supporting Finding #2:

As discussed above, an eligible job under the NQJIA program must earn no less than the median hourly wage as reported by the BLS for the State of Rhode Island. Furthermore, CommerceRI rules and regulations indicate that, in addition to the \$2,500 base credit amount, a business can qualify for another \$300 per job created for each 10 percent by which the median salary of the newly created job exceeds the Rhode Island median hourly wage. ORA reviewed the NQJIA applications provided by CommerceRI and found applicants that provided incorrect state median wage information. In fact, the NQJIA application form contains inconsistency and a lack of clarity with respect to the wage information.

First, in the “Tax Credit Amount Worksheet” section, the median Rhode Island wage is an empty field that is left up to the applicant to answer. ORA recommends that this information already be specified on the NQJIA application form in order to ensure data accuracy.

Second, the “Job Creation Information” section of the form requires the applicant to provide an *annual* median wage of the new jobs to be created, while the “Tax Credit Amount Worksheet” section states that the median wage of these jobs should exceed 110% of the median *hourly* wage for RI. To avoid any confusion, ORA recommends that the application form be consistent and make it clear to the applicant whether the median wage is measured on an hourly basis or annual basis.

Last, although the maximum tax credit amount authorized would not vary in the specific cases analyzed, ORA recommends the amendment of R.I. Gen. Laws § 44-48.3-6(c) to incorporate the \$300 bonus that a business can claim if they add jobs that are paid a median wage that is 110%

²¹ The DLT Occupational Employment and Wage Statistics as of May 2022. This data can be accessed at <https://dlt.ri.gov/labor-market-information/data-center/occupational-employment-and-wage-statistics-ows>

higher than the Rhode Island median wage at the time of the application to be consistent with the existing statutorily mandated credits amounts.

Finding #3: The Targeted Industries specified in Attachment 9-1 of the NQJIA application form do not follow the North American Industry Classification System. While this industry breakdown may be suitable for statutory compliance, it is inadequate for an economic analysis.

Related Recommendations:

- ORA recommends that the industry in which a program awardee operates should be designated based on the North American Industry Classification System in order to help evaluators conduct an economic analysis.

Discussion Supporting Finding #3:

An important part of a tax incentive evaluation is the understanding of the economic environment in which the tax incentive program operates. For each economic impact analysis conducted, ORA usually compiles data on wages and employment from a variety of sources to help provide a reader with a solid context to the analysis. Most of this data, if not all of it, is categorized according to NAICS codes. Looking at the eligibility criteria of the NQJIA, it appears that the program encourages the creation of jobs in certain fields and industries as an extra credit bonus is offered to businesses engaged in one of the business activities mentioned in the “Description of the Incentive” section above. Even though applicants provide their industry and the NAICS codes for the jobs created in sections 1 and 2 of the application, the industry description of the targeted industries in Attachment 9-1 of the application form is not clear enough as it does not indicate specific NAICS-based sectors or codes. Therefore, it is difficult to determine if the industry/NAICS code indicated by a program applicant falls under the targeted industries specified in the application form. ORA recommends that the program’s targeted industries be designated according to the NAICS in order to facilitate economic impact analysis of the tax incentive.

Finding #4: The per job credit cap stated by Rhode Island Commerce Corporation rules and regulations 870-RICR-30-00-4.13(B) is different from the one contained in R.I. Gen. Laws § 44-48.3-6(e).

Related Recommendations:

- ORA recommends that CommerceRI amends its rules and regulations to reflect the per job credit cap provided in the governing statute of the New Qualified Jobs Incentive Act.

Discussion Supporting Finding #4:

R.I. Gen. Laws § 44-48.3-6 (e) states that “for each application approved by the commerce corporation prior to July 1, 2019, the amount of tax credits available to be obtained by the business annually shall not exceed the reasonable W-2 withholding received by the state for each new full-

time job created by a business for applications received by the commerce corporation. For each application approved by the commerce corporation after July 1, 2019, the amount of tax credits available to be obtained by the business annually shall not exceed seventy-five percent (75%) of the reasonable W-2 withholding received by the state for each new full-time job created by a business for applications received by the commerce corporation.” However, under CommerceRI rules and regulations, the “Determination of Tax Credit Amount” section states that the amount of tax credits available to be obtained by the applicant for any year shall not exceed the reasonable W-2 withholding received by the state in that year for each new full-time job created by the applicant regardless of when the application was approved. ORA recommends that CommerceRI amends its rules and regulations to be consistent with what is provided under the program’s governing statute.

2. ORA Conclusion and Overall Recommendation

R.I. Gen. Laws § 44-48.2-5(a) (11) requires the Office of Revenue Analysis to make a recommendation “as to whether the tax incentive should be continued, modified, or terminated.” This analysis finds that the NQJIA has a positive general revenue impact if over 19.4% of jobs associated with the program are actually created because of the tax credit. Academic research suggests that a typical economic development tax incentive is equal to approximately 7% of a firm’s total compensation. For the NQJIA program that 7% is equivalent to 30% of total jobs directly incentivized by this tax incentive, and the program has positive revenue benefits at that 30% threshold. Therefore, ORA recommends that the NQJIA be maintained but also be modified according to the recommendations described in the previous section.

It is important to recognize, however, that the NQJIA program as it is currently constituted conflicts with the good tax policy principal of vertical equity in the treatment of program participants. The conflict with the principle of vertical equity resides in the fact that the program provides tax relief to companies that create new jobs without regard to the financial wherewithal of the company receiving the incentive. Thus, small local businesses receive the same tax incentive amount on a per job basis as large multi-state or multi-national corporations, despite the latter’s substantially higher overall revenues, and thus greater financial capability to pay for its new jobs.

This inequity is tempered somewhat by requiring businesses with more than a specified number of employees to add a greater number of total employees to qualify for the incentive. On the percentage of total jobs required to be added, however, businesses with fewer than 100 or 200 employees face higher employment hurdles than larger businesses. For example, a company in a targeted industry with 25 employees must add 10 new employees, or 40% of its labor force, to qualify for the NQJIA tax credit whereas a company in a targeted industry with 101 employees need only add 10 employees to qualify for the NQJIA tax credit. This criterion clearly favors larger, presumably “wealthier” employers over smaller ones. One possible solution to this latter issue would be to eliminate the criteria that a minimum number of jobs must be added to qualify for the NQJIA tax credits and that a percentage of current total jobs criteria be employed.

As currently configured, there is a risk that once the enhanced NQJIA tax credits are exhausted, firms in favored industries or areas or relocating from out-of-state could significantly reduce

operations in the state unless the higher per job subsidy is maintained. Even though firms approved to receive NQJIA tax credits are required to maintain the agreed upon jobs for 20% longer than the time period over which the tax credits are received, the claw back provisions in R.I. Gen. Laws §§ 44-48.3-5(a)(7) – 44-48.3-5(a)(8) allow for these same firms to reduce agreed upon jobs by up to 20% “in the last tax period prior to the credit amount approval” without losing any future credit amounts or up to 50% without a loss of future credits if the business is operating in the commitment period (which extends beyond the tax credit period).

APPENDICES

Appendix A: New Qualified Jobs Incentive Act Application Form



Rhode Island Qualified Jobs Incentive Tax Credit Application Materials

Rhode Island Qualified Jobs Incentive Tax Credit program details can be found at:
<http://commerceri.com/services/taxes-incentives>

Rhode Island Qualified Jobs Incentive Tax Credit Application Submission Instructions

Please submit four (4) complete hard copies, a complete electronic copy, and a one-time, nonrefundable application fee of \$1,000 in the form of a check made payable to the Rhode Island Commerce Corporation. Applications can be submitted in person or by USPS registered mail to the following address:

**Rhode Island Commerce Corporation
Attn: Investments Team
315 Iron Horse Way, Suite 101
Providence, RI 02908**

Questions on the application process may be submitted to Investments@commerceri.com.

- Read and review the Rules and Regulations, including all eligibility requirements, for the Rhode Island Qualified Jobs Incentive Tax Credit Program before completing this application. All eligibility requirements, including the Application Certification Form, must be met for an application to be considered. The rules and regulations are available online at http://commerceri.com/wp-content/uploads/2015/10/Qualified-Jobs-Incentive_Rules.pdf.
- This application may be updated from time to time. Please ensure the most up-to-date version of the application is used for a response. The up-to-date version is located here: <http://commerceri.com/finance-business/taxes-incentives/qualified-jobs-incentive>.
- The Rhode Island Qualified Jobs Incentive Tax Credit application consists of an application form, a set of required attachments, a certification form, and a nonrefundable \$1,000 application fee. To be considered for a tax credit, all items must be submitted in a single submission, organized as instructed below. Failure to provide required information could result in a delay in the review of, or rejection of, an application.
- The Commerce Corporation reserves the right to require the submission of additional information in connection with any application or to require the revision of an application.
- Applicants approved for tax credits will be required to enter into an incentive agreement with the Corporation in order to receive tax credits. The Corporation may request additional information in the course of negotiating that agreement.
- NOTE: Applicants accounting for the first 500 jobs to receive credits under this program will be automatically eligible for the maximum available annual credit – the lesser of \$7,500 per job or the W-2 withholding of the jobs created.

Rhode Island Qualified Jobs Incentive Tax Credit Application

1. Applicant Information

Business Name _____
Trade Name/DBA _____
Mailing Address _____
City _____ State _____ Zip _____ - _____
Business Phone _____ Website _____
Federal Tax ID # _____ RI Tax ID # (if applicable) _____
Industry _____

Business Structure (select one):

- | | |
|--|--|
| <input type="checkbox"/> C Corporation | <input type="checkbox"/> Limited Liability Corporation |
| <input type="checkbox"/> Limited Partnership | <input type="checkbox"/> S Corporation |
| <input type="checkbox"/> Sole Proprietorship | <input type="checkbox"/> Other: _____ |

Is the applicant registered to do business in Rhode Island with the Secretary of State? Yes No

Primary Contact for Application:

Full Name _____
Job Title _____
Mailing Address _____
City _____ State _____ Zip _____ - _____
Phone _____ Email _____

2. Job Creation Information

Municipality(ies) where new full-time jobs will be located: _____
Number of new full-time jobs created: _____ Date hiring will be completed: _____
5-Digit NAICS Code(s) for the new full-time jobs: _____
Annual median wage of new jobs to be created (must match Attachment 3): _____
Number of years for which tax credit is sought (no more than 10): _____
Commitment period (must be 20% longer than the number of years for which tax credit is sought): _____
Maximum per job credit sought (must match Attachment 9): _____

3. Required Attachments

Please attach to the application form responses to the following prompts. Attach these items in the order provided below. Each attachment should have a cover page that identifies the attachment, e.g., "Attachment 1: Project Summary."

All applicants are advised that any and all records (documents, correspondence, memoranda, etc.), received or maintained by the Commerce Corporation may be a matter of public record and subject to release upon a request from a member of the public under the Rhode Island Access to Public Records Act ("APRA"), R.I. Gen. Laws Section 38-2-1 *et seq.* In response to a request, the Commerce Corporation has the right, in its sole discretion, to redact or withhold information which is exempt from disclosure under APRA, including trade secrets and commercial or financial information which is of a privileged or confidential nature. **The Corporation recommends that any portion of any attachment in the application that contains such information be clearly labeled with the legend "Confidential Information."**

Attachment 1: Project Summary

Provide a summary of the project not to exceed 2 pages in length. The summary should include:

- Description of the business operation that will be adding new jobs.
- Summary information on the jobs to be added, including description of the jobs, details on the anticipated salaries and hire dates, and the length of time the applicant will commit to keeping the jobs in Rhode Island
- Detail on the tax credit requested, on an annual per job basis and aggregate basis, and the numbers of years, not to exceed 10, for which the credit is requested.
- Whether the newly-created jobs are the result of an expansion of existing operations in state or the result of an out-of-state relocation.
- A summary of where the jobs will be located and any construction and/or acquisition necessary.
- A description of any capital investment associated with the creation of the new jobs.

Attachment 2: Operations and Employment Baseline

Provide, for both the applicant and any related companies, (1) a brief description of all existing operations and locations in Rhode Island, and (2) the total number of full-time employees in Rhode Island as of the date of the application, as well as the average monthly total number of full-time employees in the state for each of the preceding 12 months.

A **related company** is any entity controlling, controlled by or under common control with an applicant.

A **full-time employee** is a natural person who is employed in the state by a business for consideration for at least thirty-five (35) hours a week, or who is employed in the state by a professional employer organization pursuant to an employee leasing agreement between the business and the professional employer organization for at least thirty-five (35) hours a week, and whose wages are subject to withholding.

For economically fragile industries, the Corporation may reduce the wage threshold. As of the date of this application, Economically Fragile industries are the following:

- Manufacturing and Logistics (including but not limited to processing, refining, metalworking, packaging, warehousing, shipping, and distribution)
- Seafood (including but not limited to harvesting, growing, and processing)

Attachment 3: Jobs Created

Provide the number of new jobs to be created, the median wage for the new jobs created, and the length of time the applicant will commit to keeping the jobs in Rhode Island, i.e. the commitment period (this commitment period must be at least 20% longer than the period for which tax credits are sought). Include a table with a breaking down the new full-time jobs by classification, title, salary, anticipated hiring date, and location.

The median wage of the new full-time jobs is determined by listing all salaries in ascending order and selecting the value with equal number of salaries above and below its value, or with an average of the two middle values if there is no middle number.

Provide a brief summary of typical employee benefits, such as health care and insurance offerings, that will likely be included in the benefits package to the new full-time employees.

Provide a brief summary of normal company hiring practices that will be used to fill the newly created jobs.

Attachment 4: Site Control

Identify each location housing the new full-time jobs and provide documentary evidence of existing or anticipated control over such location(s), such as proof of ownership, a purchase and sale agreement, a lease, or a letter of intent.

Attachment 5: Federal Procurement (if applicable)

If any of the full-time jobs to be created are related to any actual or likely future federal procurement, provide a description of that federal procurement and indicate which of the full-time jobs to be created are related to that procurement. If none of the jobs to be created are related to any actual or likely future federal procurement, indicate "N/A" (Not Applicable).

Attachment 6: Statement of Need

Provide evidence demonstrating that, without a tax credit, the creation of the new full-time jobs would not occur in this state. Such evidence may include, but is not limited to:

1. A financial analysis, supported by appropriate documentation, showing that the receipt of the requested tax credit is necessary to make the creation of the new full-time jobs feasible in this state, such as a financial analysis using best available data showing that, without the credit, it is not feasible for the applicant to create the new full-time jobs in this state or it is economically more beneficial for the applicant to create the new full-time jobs out of state. Such analysis should take into account the transaction costs of relocating to or from another state.
2. Evidence that the applicant could reasonably and efficiently locate outside of the state, which may, for example, include a proposed lease, proposed purchase and sale agreement, a real estate term sheet, prospective offer or offer letter, a term sheet concerning an out of state facility, or an incentive letter or incentive term sheet from another state.

Attachment 7: Other Incentives

List all federal, state, and local incentives, grants, tax credits or other aid that will or may be received or requested in relation to the creation of the new full-time jobs, and the status of the application for each. This includes, but is not limited to, any incentive sought in relation to the construction, acquisition, lease, or investment in property that facilitates the creation of the new full-time jobs.

Attachment 8: Related Companies

Provide the employer identification or social security numbers for all related companies of the applicant that employ persons in this state, and provide a clear and detailed presentation of the operations of those related companies to assure the Corporation that the new full-time jobs are not being transferred from a related company within the State.

Attachment 9: Tax Credit Amount

Identify the tax credit amount sought, on both an annual per job and aggregate basis, and the number of years, not to exceed 10, for which the credit is sought. The first 500 jobs for which credits are approved are automatically eligible for a credit of \$7,500 (assuming such amount does not exceed the reasonable W-2 withholding for the jobs created). To determine the tax credit amount, the applicant should complete the attached Tax Credit Amount Worksheet (below).

This portion of the application should include the completed Tax Credit Amount Worksheet, a breakdown of the anticipated salaries for the new full-time jobs and provide the estimated reasonable W-2 withholding associated with those salaries, as well as any additional required attachments, as detailed below.

Note that the Tax Credit Amount Worksheet calculates the maximum credit amount theoretically available. The actual credit amount awarded may differ and will depend upon verification that the applicant is eligible for the bonus amounts asserted in the form. Additionally, in all circumstances, the credit will be capped by the reasonable W-2 withholding received by the state in for each new full-time job created.

TAX CREDIT AMOUNT WORKSHEET

<i>Base Credit Amount</i>	\$2,500
<p><i>Salary</i></p> <p>A bonus is available if the median wage of the newly-created jobs exceeds 110% of the median hourly wage for Rhode Island, as most recently reported by the United States Bureau of Labor Statistics. To claim a bonus based on this criterion, please fill in the information below:</p> <p>(A) Median wage of newly created jobs: _____</p> <p>(B) Median R.I. wage: _____</p> <p>(C) Subtract (B) from (A), and divide the result by (B): _____</p> <p>(D) Multiply (C) times 10 and eliminate any decimals: _____</p> <p>(E) Multiply (D) times \$300: _____</p> <p>(F) Enter the result in line (E) in the cell to the right.</p>	
<p><i>Targeted Industry – If Claiming, Complete Attachment 9-1</i></p> <p>Are the full time jobs in a targeted industry (see below, under Attachment 9-1, for a list of targeted industries)?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>If yes, enter \$5,000 in the cell to the right.</p>	
<p><i>Hope Community</i></p> <p>Are the full time jobs located in a hope community (for applications submitted prior to December 2015, those are Central Falls, Pawtucket, Providence, West Warwick, and Woonsocket)?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>If yes, enter \$1,000 in the cell to the right.</p>	
<p><i>Out-of-State Relocation</i></p> <p>Are the new full-time jobs created by virtue of an out-of-state business relocating a business unit or units to the state?</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>If yes, enter \$5,000 in the cell to the right.</p>	
<p><i>Number of Jobs Created</i></p> <p>If the number of new full-time jobs created is</p> <p><input type="checkbox"/> between 10 and 49, inclusive, enter 0 in the cell to the right;</p>	

<input type="checkbox"/> between 50 and 100, inclusive, enter \$3,000 in the cell to the right; <input type="checkbox"/> between 101 and 249, inclusive, enter \$4,000 in the cell to the right; <input type="checkbox"/> 250 or greater, enter \$5,000 in the cell to the right.	
<p>Job Location – If Claiming, Complete Attachment 9-2</p> <p>The new jobs are located (select no more than one)</p> <input type="checkbox"/> within one-half mile of T.F. Green Airport, Quonset Business Park, or a passenger rail station, enter \$4,000 in the cell to the right <input type="checkbox"/> within a transit oriented development area, enter \$1,000 in the cell to the right.	
<p>Capital Investment – If Claiming, Complete Attachment 9-3</p> <p>If the applicant is creating 25 or more new full-time jobs at a location where the applicant has made or will be making a capital investment of \$5,000,000 or more in connection with the creation of new full-time jobs at that location, a bonus is available in an amount determined by the following formula”</p> <p>(A) Total capital investment: _____ (B) Divide (A) by \$5,000,000: _____ (C) Multiply (B) by \$1,000: _____ (D) Enter the result in line (D) in the cell to the right.</p>	
<p>I-195 Land</p> <p>If the new full-time jobs are created on land that, as of July 1, 2015, was owned by the I-195 Redevelopment District Commission, enter \$5,000 in the cell to the right.</p>	
<p>Academic Mission – If Claiming, Complete Attachment 9-4</p> <p>For new full-time jobs that align with the academic mission of a college or university in the state, enter \$2,500 in the cell to the right.</p>	
<p>Scientific Research and Development or Industrial Design -- If Claiming, Complete Attachment 9-5</p> <p>If the new full-time jobs are in the fields scientific research and development or industrial design, enter \$5,000 in the cell to the right.</p>	
<p>Total</p> <p>Sum the entries in the right-hand column.</p>	
<p>Maximum Credit Eligibility</p> <p>If the preceding total is less than \$7,500, enter that in the cell to the right. If the total is \$7,500 or greater, enter \$7,500 in the cell to the right.</p>	

Attachment 9-1: Targeted Industry

As of the date of this application, targeted industries are the following:

- Biomedical Innovation
- IT/Software, Cyber-Physical Systems, and Data Analytics
- Defense Shipbuilding and Maritime
- Advanced Business Services
- Design, Food, and Custom Manufacturing
- Transportation, Distribution, and Logistics
- Arts, Education, Hospitality, and Tourism

If seeking to qualify for an additional credit amount under this criterion, describe the project's impact on the targeted industry, both at the project site and its potential to enhance the industry's presence, efficiency, and output in the state.

Attachment 9-2: Transit Oriented Development Area

If claiming a bonus because the jobs are located within one-half mile of T.F. Green Airport, Quonset Business Park, or a passenger rail station, provide a map of the project location and a description of how the project relates to or enhances transit oriented development within the area.

If claiming a bonus because the jobs are located in a proposed transit oriented development area, provide a demonstration that the area in which the project is located satisfies the transit oriented development criteria. Under this program, transit oriented development can take one of two forms:

- 1) Public-transit oriented development is development that is in close proximity to, compatible with, and supportive of public transit;
- 2) Freight-transit oriented development is development in an area with ready access to freight rail, air, and/or marine transportation where manufacturing, warehousing, distribution, and freight forwarding operations are or could be located.

A project can qualify for additional tax credits if it is located in either a public-transit or freight-transit oriented development area. An applicant can demonstrate qualification for this additional tax credit as follows:

Public-transit oriented development area

If the applicant is proposing a new designation of a public-transit oriented development area, it should include in the application the following:

- A map delineating the public-transit oriented development area and identifying the public transit within the area and the zoning in the area. A description of the rationale for the area's boundaries should also be included.
- Evidence of the municipality's commitment to transit oriented development in the proposed area, in the form of zoning ordinances, planning documents, etc. This evidence should reflect planning for compact, mixed-use, pedestrian-friendly, transit-supportive or -related development.
- List and describe the following:
 - The modes of public transit that currently serve the area.
 - Existing or planned infrastructure to make the area more conducive to pedestrian and bicycle transport.
 - Existing and/or planned public amenities at the transit facility that were initiated by the municipality, e.g. parks, civic spaces, public art, memorials, tourist information booths, wayfinding signage.
- A description of how the project will enhance transit oriented development within the area.
- Identify and describe additional real estate development within the proposed area, beyond the project site, where transit oriented development – i.e., compact, mixed-use, pedestrian-friendly, transit-supportive or -related development – has occurred or is planned. For planned projects, provide a brief statement of the project status.

Freight-transit oriented transit development area

Alternatively, if the project has a freight component, the applicant can satisfy this criterion by demonstrating that the project is an area with ready access to freight rail, air, and/or marine transportation where manufacturing, warehousing,

distribution, and freight forwarding operations are or could be located. An applicant seeking to make this demonstration should include:

- A map delineating the proposed or existing freight-transit oriented development area. A description of the rationale for the area's boundaries should also be included.
- List and describe the following:
 - The modes of freight transit that currently serve the area, and any steps taken to integrate these modes.
 - Existing or planned infrastructure to make the area more conducive to freight transit.
- A description of how the project will enhance freight-transit oriented development within the area.

Attachment 9-3: Capital Investment

To claim a bonus on the basis of a capital investment, provide a detailed discussion of the capital investment being made, including a description of the project, the project timeline, and a sources and uses breakdown.

Attachment 9-4: Academic Mission

To claim a bonus based on academic mission, provide an explanation of how the new jobs will align with a Rhode Island college or university's mission. Examples that would demonstrate such alignment include, but are not limited to:

- A technology transfer from the college or university to the business
- Funding scholarships or facilities or experiential learning opportunities
- Hiring a significant number of school graduates

Vague, open-ended, or merely aspirational objectives will not satisfy this criterion.

Attachment 9-5: Scientific Research and Development or Industrial Design

To claim a bonus based on scientific research and development or industrial design, describe how the jobs created satisfy the definitions of these fields. Scientific Research and Development means conducting research and experimental development in the physical, engineering, and life sciences, including but not limited to agriculture, electronics, biology, botany, biotechnology, computers, chemistry, food, fisheries, forests, geology, health, manufacturing, mathematics, medicine, oceanography, pharmacy, physics, veterinary, and other allied subjects. Industrial Design means the profession of designing products to optimize the function, value, and appearance for the benefit of the user of the product and/or the manufacturer or creator of the product.

Attachment 10: Conflict of Interest Disclosures

Provide (1) the full name and address of each individual who is an owner, partner, or investor, or otherwise holds an interest in an applicant, either individually or through one or more other entities (except that individuals having an interest in an applicant by virtue solely of ownership in a publicly-traded corporation need not be listed); (2) a complete list of each entity holding an interest in the applicant; and (3) a complete list of each officer, director, or manager of the applicant.

4. Application Certification Form

The undersigned is the chief executive officer or equivalent officer of the applicant with the authority to bind the company for the proposed Rhode Island Qualified Jobs Incentive Tax Credit.

I certify that:

- I have reviewed the information contained in this application and confirm that the statements made in this application in its entirety including all attachments, appendices, etc. are true, accurate and complete to the best of my knowledge.
- The creation of the new full-time jobs for which a tax credit is sought would not occur, or would not occur in Rhode Island, but for the provision of tax credits under the Rhode Island Qualified Jobs Incentive Act.
- The applicant will create new full-time jobs in an amount equal to or greater than the number of new full-time jobs for which a tax credit is sought in this application.
- The applicant is neither a person subject to the Rhode Island Code of Ethics nor a person within the scope of R.I.G.L. § 36-14-5(h).
- The applicant has not been convicted of bribery or attempting to bribe a public official or employee of the Rhode Island Commerce Corporation or of the State, has not been disqualified from an awarded contract with Rhode Island Commerce Corporation or the State, and has never defaulted on work awarded by the Rhode Island Commerce Corporation or the State.
- By signing below, I authorize the Rhode Island Commerce Corporation and the Rhode Island Division of Taxation to share information concerning the applicant for the purpose of verifying any information the Commerce Corporation deems relevant to this application.
- By signing below, I authorize the Rhode Island Department of Labor and Training to share information concerning the applicant with the Rhode Island Commerce Corporation for the purpose of verifying any information the Commerce Corporation deems relevant to this application.

Name of Certifying Officer: _____

Title: _____

Signature of Certifying Officer: _____

Date Signed: _____

STATE OF _____
COUNTY OF _____

On _____ before me appeared the above-named certifying officer for the applicant known by me to be the individual executing this document and he/she swore under oath that the foregoing was true and accurate to the best of his/her knowledge and belief.

NOTARY

Appendix B: Breakdown of Targeted Industries by Specific NAICS Codes

Rhode Island Employment and Wages by Target Industry (TY 2021)

Target Industry	NAICS code	Industry	Total Employees	Average Annual Pay	Average Weekly Wage
Biomedical innovation	5417	Scientific research and development services	1,045	\$109,017	\$2,096
	5415	Computer systems design and related services	8,638	\$107,206	\$2,062
IT/software, cyber-physical systems, data	5112	Software publishers	784	\$144,737	\$2,783
	5182	Data processing, hosting and related services	599	\$134,423	\$2,585
	5191	Web search portals and internet publishing	638	\$64,741	\$1,245
Defense, shipbuilding, and maritime	3366	Ship and boat building	5,241	\$65,170	\$1,253
	5416	Management and technical consulting services	3,250	\$99,400	\$1,912
Advanced business services	5413	Architectural, engineering, and related services	4,200	\$83,508	\$1,606
	5511	Management of companies and enterprises	12,309	\$141,256	\$2,716
	5414	Specialized design services	497	\$71,284	\$1,371
	3399	Other miscellaneous manufacturing	3,108	\$61,236	\$1,178
	3345	Electronic instrument manufacturing	2,814	\$86,787	\$1,669
	3391	Medical equipment and supplies manufacturing	1,471	\$64,502	\$1,240
Design, food and custom manufacturing	3359	Other electrical equipment and component mfg.	550	\$74,560	\$1,434
	3252	Resins & synthetic rubbers	304	\$66,138	\$1,272
	3344	Semiconductors	707	\$75,172	\$1,446
	3254	Pharmaceuticals	1,320	\$116,717	\$2,245
	3259	Miscellaneous chemicals	567	\$82,092	\$1,579
	3279	Stone & mineral products	430	\$72,216	\$1,389
	722	Food services and drinking places	39,826	\$25,282	\$486
Transportation, distribution, logistics	48-49	Transportation and warehousing	11,422	\$45,945	\$884
Education	61	Educational services	19,537	\$60,103	\$1,156
	71	Arts, entertainment, and recreation	6,610	\$31,811	\$612
Hospitality, arts, tourism	721	Accommodation	4,993	\$34,933	\$672
Total/Average			130,860	\$79,927	\$1,537

Source: BLS, Quarterly Census of Employment & Wages

Note: Total Employment, Annual Pay and Weekly Wage is based on private employment only.

Appendix C: Additional Breakeven Scenarios

The following table presents a sensitivity analysis of the New Qualified Jobs Incentive Act (NQJIA). ORA ran different economic scenarios across which the input parameters are being varied accordingly to provide the reader with additional possible breakeven analysis outcomes.

<u>NQJIA</u>											
<u>Detailed Economic & Revenue Impacts (Average Year 2019-2030)</u>											
<i>Policy Variable Percentage Assumed</i>											
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
<i>Economic & Revenue Impacts Calculated</i>											
Total Employment	1,629	1,464	1,298	1,133	967	802	637	471	306	141	(25)
Gov Employment	113	100	87	75	62	49	37	24	12	(1)	(14)
Private Non-Farm Employment	1,516	1,364	1,211	1,058	905	753	600	447	294	142	(11)
Direct Employment	825	742	660	577	495	412	330	247	165	82	-
Indirect Employment	306	275	244	213	182	151	120	89	58	27	(4)
Induced Employment	386	347	307	268	229	189	150	111	71	32	(7)
Total GDP (\$000)	\$161,409	\$145,063	\$128,717	\$112,372	\$96,027	\$79,683	\$63,339	\$46,996	\$30,654	\$14,312	(\$2,029)
Generated Revenues by Component (\$000)											
<i>Personal Income Tax</i>	\$2,764	\$2,483	\$2,202	\$1,921	\$1,640	\$1,359	\$1,078	\$797	\$516	\$236	-\$45
<i>General Business Taxes</i>	\$1,037	\$932	\$827	\$722	\$618	\$513	\$408	\$303	\$199	\$94	-\$11
<i>Sales and Use Taxes</i>	\$2,447	\$2,198	\$1,949	\$1,699	\$1,450	\$1,201	\$952	\$702	\$453	\$204	-\$45
<i>Other Taxes</i>	\$131	\$118	\$104	\$91	\$78	\$64	\$51	\$38	\$24	\$11	-\$2
<i>Total Departmental Receipts</i>	\$1,053	\$945	\$838	\$730	\$623	\$515	\$408	\$301	\$193	\$86	-\$22
<i>Other Sources</i>	\$927	\$832	\$737	\$643	\$548	\$454	\$359	\$265	\$170	\$75	-\$19
Cost of Incentive (\$000)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)
Total Net Revenues (\$000)*	\$6,748	\$5,898	\$5,047	\$4,197	\$3,346	\$2,496	\$1,646	\$796	(\$54)	(\$904)	(\$1,754)

Source: ORA calculations based on historical Rhode Island revenue amounts and REMI Tax-PI simulations.

Note: The total net revenues represent the difference between the sum of generated revenues and the cost of the tax incentive.