STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Governor Gina M. Raimondo

Fiscal Year 2019

STATE OF RHODE ISLAND

DEPARTMENT OF REVENUE

Unified Economic Development Report

Office of Revenue Analysis

January 24, 2020

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

The following companies that received tax incentives or benefits as reported by the Division of Taxation in the *Tax Credit and Incentive Report – Fiscal Year 2019* did not comply with Rhode Island General Law as it pertains to the submission to the Tax Administrator of "each full-time equivalent, part-time or seasonal employee's name, social security number, date of hire, and hourly wage as of the immediately preceding July 1" by September 1 of the year immediately following the fiscal year contained in the report. The lack of reporting of this required data may prevent the Office of Revenue Analysis (ORA) from conducting a complete cost-benefit analysis of the tax exemption listed below.

Motion Picture Production Tax Credits:

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

1. IndieWhip, LLC
   275 West Natick Road
   Warwick, RI 02886

2. Assassins Productions, LLC
   2401 Beverly Boulevard
   Los Angeles, CA 90057

3. Vault Production LLC
   214 Main Street
   East Greenwich, RI 02818

Unified Economic Development Report
Fiscal Year 2019

TABLE OF CONTENTS

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Unified Economic Development Report
Fiscal Year 2019

Introduction

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

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

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

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

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

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

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

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

Tax Credits/Tax Benefits Included in the Report

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

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

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

[1] The complete statute covering the Annual Unified Economic Development Report is contained in Appendix A.

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

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

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

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

- **Rhode Island General Laws § 42-64.5-5**. Titled *Jobs Development Act*, Rhode Island General Law § 42-64.5-5 provides for a reduction in the business corporation

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

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

or financial institutions tax rate for each new unit of employment that is added to a company's previously established base employment. A unit of employment consists of 10 new full-time equivalent employees for companies with base employment levels of 100 or less full-time employees or 50 new full-time equivalent employees for companies with base employment of more than 100 full-time employees. For each unit of employment added the qualifying company receives a 0.20 percentage point reduction in the business corporation tax rate up to a maximum reduction of four percentage points for all companies other than telecommunications companies which receive a maximum reduction of one percentage point.[4] Failure to maintain employment levels above the base employment results in the permanent expiration of the rate reduction.

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

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

Effective July 1, 2015, the Jobs Development Act business corporation tax rate reduction is discontinued unless a company has qualified for the rate reduction prior to July 1, 2015. This provision, contained in Rhode Island General Laws § 44-48.3-12, essentially grandfathers in recipients of the tax rate reduction who qualified prior to July 1, 2015 while denying any new companies that might otherwise qualify for the tax rate reduction from being approved for it.

[4] Passage of Article 12 of 14-H-7133 Substitute A as amended, titled "Relating to Making Appropriations for the Support of the State for the Fiscal Year Ending June 30, 2015" changed the rate reduction allowed for each unit of new employment and the maximum rate reduction allowed under Rhode Island General Law § 42-64.5-5 effective for tax years beginning on or after January 1, 2015. For tax years beginning on or after January 1, 2015, the tax rate imposed under Rhode Island General Law § 44-11-2 on the apportioned net income of C-corporations is reduced to 7.0 percent (from the prior law tax rate of 9.0 percent). For all tax years in which the 7.0 percent business corporation tax rate applies (i.e., January 1, 2015 and thereafter), the rate reduction for each new unit of employment allowed under Rhode Island General Law § 42-64.5-5 is reduced to 0.20 percentage points from 0.25 percentage points and the maximum rate reduction allowed is reduced to four percentage points from six percentage points.

- **Rhode Island General Laws § 42-64.3-1**. Titled *Distressed Areas Economic Revitalization Act*, Rhode Island General Law § 42-64.3-1 is commonly referred to as the Enterprise Zone Wage Credit. The Enterprise Zone Wage Credit provides for a tax credit against the business corporation tax (Rhode Island General Law Chapter 44-11), the public service corporation tax (Rhode Island General Law Chapter 44-13 except for § 44-13-13), the taxation of banks (Rhode Island General Law Chapter 44-14), the taxation of insurance companies (Rhode Island General Law Chapter 44-17), or the personal income tax (Rhode Island General Law Chapter 44-30).[5] Only companies located in a designated enterprise zone, as determined by the Rhode Island Enterprise Zone Council (RIEZC), are eligible for the credit. No new Enterprise Zone Wage Credits will be issued on or after July 1, 2015 unless the business has received certification prior to this date.

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

- **Rhode Island General Law § 44-31.2-6.1**. Titled *Motion Picture Production Tax Credits*, Rhode Island General Law § 44-31.2-6.1 provides a motion picture production company a tax credit against the business corporation tax (Rhode Island General Law Chapter 44-11), the taxation of banks (Rhode Island General Law Chapter 44-14), the taxation of insurance companies (Rhode Island General Law Chapter 44-17), or the personal income tax (Rhode Island General Law Chapter 44-30) in an amount of 30% of the state certified production costs incurred directly attributable to activity within the state, provided that the primary locations are within the state of Rhode Island and with a total production budget of $100,000."

  The amount of credit allowed for any single production is capped at $7,000,000 and can be carried forward for not more than three succeeding tax years.

  Motion picture productions must be certified as eligible for a tax credit by the Rhode Island Film and TV Office (RIFTVO). It should be noted that the annual cap on Motion Picture Production Tax Credits to be issued in a given year is combined with the Musical and Theatrical Production Tax Credit program as established by Rhode

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

Island General Law Chapter 44-31.3.[6] The total amount of credits issued in a given year shall not exceed $15,000,000 for both motion pictures and musical and theatrical productions. For tax years beginning after December 31, 2019, the aggregate cap on the amount of motion picture production and musical and theatrical production credits that can be issued in a given year was increased to $20,000,000. No motion picture production tax credits shall be issued on or after July 1, 2027.

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

Data Collected for the Report

In the 2011 session,[7] the General Assembly amended Rhode Island General Law §§ 42-64-10, 42-64.3-6.1, 42-64.5-8, 44-31.2-6.1 and 44-63-3 to require that "on or before September 1 2011, and every September 1 thereafter" the recipients of any tax credits/tax benefits under CommerceRI's Project Status designation, Distressed Areas Economic Revitalization Act, Jobs Development Act, Motion Picture Production Tax Credits, and Incentives for Innovation and Growth provide the tax administrator with an annual report containing "each full-time equivalent, part-time or seasonal employee's name, social security number, date of hire, and hourly wage as of the immediately preceding July 1 and such other information deemed necessary by the tax administrator."[8] The annual reports filed by the recipients of the tax benefits received under these various statutes are the source of the data provided in this report. Calculations included in the report were done by the Office of Revenue Analysis based on this data. The accuracy of the data is the sole responsibility of the recipients of the tax credit/tax benefit and not the Office of Revenue Analysis.

The Office of Revenue Analysis (ORA) obtained tax credit/tax benefit amounts from the Rhode Island Division of Taxation's *Tax Credit and Incentive Report — Fiscal Year 2019*. Detailed data on "each full-time equivalent, part-time, or seasonal employee's name, social security number, date of hire, and hourly wage as of the immediately preceding July 1" for each tax benefit recipient was also provided to ORA by the Division of Taxation. Any errors of fact or interpretation of the data provided by the Division of Taxation are the sole responsibility of the Office of Revenue Analysis. ORA provided the Rhode Island Executive Office of Health and Human Services (EOHHS) with social security numbers of all employees, by employer, so that EOHHS could determine the extent to which a given tax credit/tax benefit recipient's employees utilized the state's RIte Care and RIte Share health insurance programs.

[6] Although the features of the Musical and Theatrical Tax Credit are similar to that of the Motion Picture Production Tax Credit, an analysis of this program is beyond the scope of the statutory mandate of this report.
[7] See Rhode Island Public Laws 2011, Chapter 151, Article 19, §§ 5 – 8.
[8] In the case of the Jobs Development Act the effective dates of the reporting requirement are "on or before September 1, 2009 and every September 1 thereafter.

Office of Revenue Analysis' Approach to the Report

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

Part I

Required Comprehensive Information

Summary of Part I Findings

The table below lists, by tax credit/tax benefit, the aggregate dollar amounts and the number of recipients of each tax credit or other tax benefit for FY 2019:

Name of Tax Credit/Tax Benefit	Aggregate Dollar Amounts	Number of Recipients
CommerceRI – Project Status	*	*
Incentives for Innovation and Growth	†	†
Jobs Development Act	$ 11,523,177	5
Distressed Areas Economic Revitalization Act*	*	*
Motion Picture Production Tax Credit	$ 3,174,038	3

* The FY 2019 Tax Credit and Incentive report provided by the Division of Taxation shows no recipients of this tax credit. The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011. The awarding of wage credits under the Distressed Areas Economic Revitalization Act was discontinued as of July 1, 2015.

† According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the Incentives for Innovation and Growth tax benefit (RIGL § 44-63) sunset on December 31, 2016.

The table below lists the amounts of tax credits/ tax benefits by geographical area in FY 2019:

Geographical Area (in alphabetical order)	Amount of Tax Credit/ Tax Benefit
East Providence	$ 9,956,752
Middletown	6,083
North Kingstown	2,616
Providence	20,122
Warwick	198,774
Woonsocket	1,537,604
Multiple Locations	2,975,264

The table below lists, by tax credit/tax benefit, an overview of the employee benefits offered and the number of tax credit/tax benefit recipients that offered employee benefits in FY 2019:

Name of Tax Credit/Tax Benefit	Number of Recipients Offering Health Insurance	Number of Recipients Offering Retirement
CommerceRI – Project Status	*	*
Incentives for Innovation and Growth	†	†
Jobs Development Act	5	5
Distressed Areas Economic Revitalization Act	*	*
Motion Picture Production Tax Credit	0	0

* The FY 2019 Tax Credit and Incentive report provided by the Division of Taxation shows no recipients of this tax credit. The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011. The awarding of wage credits under the Distressed Areas Economic Revitalization Act was discontinued as of July 1, 2015.

† According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the Incentives for Innovation and Growth tax benefit (RIGL § 44-63) sunset on December 31, 2016.

The table below lists, by tax credit/tax benefit, the degree to which tax credit/tax benefit recipients met job creation and retention goals in FY 2019:

Name of Tax Credit/Tax Benefit	Percentage of Recipients that Met Job Creation/Retention Goal
CommerceRI – Project Status	*
Incentives for Innovation and Growth †	No Job Creation/ Retention Goal Specified
Jobs Development Act	100.0
Distressed Areas Economic Revitalization Act	*
Motion Picture Production Tax Credit	No Job Creation/ Retention Goal Specified

* The FY 2019 Tax Credit and Incentive report provided by the Division of Taxation shows no recipients of this tax credit. The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011. The awarding of wage credits under the Distressed Areas Economic Revitalization Act was discontinued as of July 1, 2015.

† According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the Incentives for Innovation and Growth tax benefit (RIGL § 44-63) sunset on December 31, 2016.

The table below lists, by tax credit/tax benefit, the degree to which tax credit/tax benefit recipients met wage and benefit goals in FY 2019:

Name of Tax Credit/Tax Benefit	Percentage of Recipients that Met Goals	
	Wage Goal	***Benefit Goal***
CommerceRI – Project Status	*	*
Incentives for Innovation and Growth †	No Wage or Benefit Goals Specified	
Jobs Development Act	100.0	100.0
Distressed Areas Economic Revitalization Act	*	*
Motion Picture Production Tax Credit	No Wage or Benefit Goals Specified	

* The FY 2019 Tax Credit and Incentive report provided by the Division of Taxation shows no recipients of this tax credit. The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011. The awarding of wage credits under the Distressed Areas Economic Revitalization Act was discontinued as of July 1, 2015.

† According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the Incentives for Innovation and Growth tax benefit (RIGL § 44-63) sunset on December 31, 2016.

The table below lists, by tax credit/tax benefit, the extent to which any employees of and/or recipients of tax credits/tax benefits received RIte Care or RIte Share benefits or assistance in FY 2019:

Name of Tax Credit/Tax Benefit	Number of Employees Receiving RIte Care or RIte Share Benefits or Assistance	Cost to State of the Employees Receiving RIte Care or RIte Share Benefits or Assistance
CommerceRI – Project Status	*	*
Incentives for Innovation and Growth	†	†
Jobs Development Act	513	$ 1,509,630
Distressed Areas Economic Revitalization Act	*	*
Motion Picture Production Tax Credit ‡	Unknown	Unknown

* The FY 2019 Tax Credit and Incentive report provided by the Division of Taxation shows no recipients of this tax credit. The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011. The awarding of wage credits under the Distressed Areas Economic Revitalization Act was discontinued as of July 1, 2015.

† According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the Incentives for Innovation and Growth tax benefit (RIGL § 44-63) sunset on December 31, 2016.

‡ All recipients of the MPPTC in FY 2019 failed to provide the required data to the Division of Taxation as mandated by Rhode Island General Law § 44-31.2-6.1(h) and thus no determination of the number of employees employed by MPPTC recipients receiving Rite Care or Rite Share benefits was possible.

The table below lists, by tax credit/tax benefit, the cost to the state and the approving agency for the administration of each tax credit or other tax benefit in FY 2019:

Name of Tax Credit/Tax Benefit	Approving Agency	Cost to Administer Tax Credit/ Tax Benefit *
CommerceRI – Project Status	CommerceRI	$ 0
Incentives for Innovation and Growth	CommerceRI	$ 0
Jobs Development Act	Division of Taxation	$ 7,881
Distressed Areas Economic Revitalization Act	CommerceRI	$ 0
Motion Picture Production Tax Credit	RI FTVO & Division of Taxation	$ 22,897
* The cost to administer the tax credit/tax benefit program include both the direct costs incurred by the approving agency and the indirect costs of awarding and auditing the tax credits/tax benefits that are incurred by the Division of Taxation to the extent that such indirect costs could be determined.		

Detailed Results of Part I by Tax Credit/Tax Benefit

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

Project Status

In FY 2019, there were no recipients of the sales and use tax exemption granted under CommerceRI *Project Status*. The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011.

Incentives for Innovation and Growth

For FY 2019, no companies took the *Incentives for Innovation and Growth* tax credit against the business corporation tax and/or the personal income tax. According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the *Incentives for Innovation and Growth* tax benefit (Rhode Island General Law § 44-63) sunset on December 31, 2016.

Jobs Development Act

Five companies received a business corporation/financial institutions tax rate reduction under the *Jobs Development Act* in FY 2019. The value of this tax benefit for these corporations was $11,523,177. The geographic distribution of the five recipients of the *Jobs Development Act* tax rate reduction was confined to five communities in the state: East Providence, Providence, North Kingstown, Middletown and Woonsocket. Detailed results by tax credit/tax benefit recipient are contained in *Table III* on page 23.

Base year employment numbers for each tax benefit recipient were deduced from information provided by the Division of Taxation. Information on the total number of employees, wages paid, and benefits offered is derived from the submissions required of the tax benefit recipients.

FY 2019 *Jobs Development Act* recipients reported a total of 253 part-time jobs and 11,978 full-time jobs. ORA determined that, based on the data provided by the five credit recipients, all companies exceeded the job creation and retention goals set forth in statute. With respect to the wage criteria, which requires full-time equivalent active employees to be paid 150 percent or more of the minimum wage in effect at the time of hire for employees hired before July 1, 2009 and 250 percent or more of the minimum wage in effect at the time of hire for employees hired after July 1, 2009, all five companies exceeded the wage goals. The *Jobs Development Act* only requires that health insurance and retirement benefits be offered to full-time equivalent active employees hired after July 1, 2009. ORA found that all five firms met the benefit requirements of the *Jobs Development Act*.

The Rhode Island Executive Office of Health and Human Services (EOHHS) provided ORA with information on utilization of RIte Care and/or RIte Share benefits or assistance in FY 2019 by employees of the five firms that received the *Jobs Development Act* rate reduction and submitted the required data to the Division of Taxation. These data indicated that a total of 513 employees at the five firms were enrolled in RIte Care and/or RIte Share and received a total of $1,509,630 in total benefits or assistance. Detailed results of the utilization of RIte Care and/or RIte Share benefits or assistance for *Jobs Development Act* rate reduction recipients are included in *Table VI* on page 26.

Finally, ORA surveyed the Division of Taxation to ascertain the cost for the administration of the *Jobs Development Act* corporate income tax rate reduction. ORA found that the direct cost incurred by the Division of Taxation in FY 2019 to administer the *Jobs Development Act* corporate income tax rate reduction was $7,881.

Distressed Areas Economic Revitalization Act

In FY 2019, there were no recipients of the *Enterprise Zone Wage Credit*. The awarding of wage credits under the Distressed Areas Economic Revitalization Act was discontinued as of July 1, 2015.

Motion Picture Production Tax Credit

A total of three production companies were awarded *Motion Picture Production Tax Credits* with a total amount received of $3,174,038 in FY 2019. None of the three credit recipients provided the Division of Taxation with the required employee level data. According to information provided by the Rhode Island Film & TV Office, motion picture production activity took place in Cranston, one production; Providence, two productions; Warwick, one production; and Woonsocket, one production.

The *Motion Picture Production Tax Credit* has no employment or wage criteria that must be met in order to receive the credit and thus no assessment of the extent to which recipients of the tax credit attained job creation and retention and wage and benefit goals was conducted.

The Division of Taxation did not receive any wage or employee data from the Motion Picture Production Tax Credit recipients in FY 2019 and thus, ORA did not receive any such data either. Therefore, it is not possible for the Rhode Island Executive Office of Health and Human Services (EOHHS) to provide information on the FY 2019 RIte Care and/or RIte Share benefits or assistance utilization by employees of these companies.

Finally, ORA surveyed the Rhode Island Film & TV Office and the Division of Taxation to ascertain the cost for the administration of the *Motion Picture Production Tax Credit*. ORA found that the total cost to administer the tax credit was $22,897 in FY 2019. The direct cost incurred by the RI Film & TV Office in FY 2019 to administer the *Motion Picture Production Tax Credit* was $15,000 while the indirect costs incurred by the Division of Taxation to administer the tax credit were $7,897 in FY 2019.

Definitions of Table Column Headers

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

Table I through Table V

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

"Amount" (All Tables, Column 2) is the amount of tax credit/tax benefit received by the named recipient as provided by the Division of Taxation in its *Tax Credit and Incentive Report – Fiscal Year 2017.*

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

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

“Reported Full-Time Jobs Created or Retained” to determine whether the regular employee was a full or part-time employee.

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

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

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

“Reported Total Full-Time Equivalent Active Jobs Created or Retained” (*Table III*, Column 5) is the number of full-time equivalent active jobs as calculated by the ORA based on the definition of a full-time equivalent active employee contained in Rhode Island General Law § 42-64.5-2(7). For employees hired prior to July 1, 2009, ORA determined whether an individual employee worked 30 or more hours per week and was paid more than 150 percent of the minimum wage or two or more part-time employees worked 30 or more hours per week and were paid more than 150 percent of the minimum wage. If these conditions were met, then ORA counted these employees as full-time equivalent active employees. For employees hired after June 30, 2009, ORA determined whether an individual employee worked 30 or more hours per week and was paid 250 percent of the minimum wage. If these conditions were met, then ORA counted these employees as full-time equivalent active employees.

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

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

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

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

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

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

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

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

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

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

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

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

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

“Degree to Which Wage and Benefit Goals Were Met Prior to July 1, 2009” (*Table III*, Column 8) is a measure of the extent to which the recipient of the Jobs Development Act rate reduction achieved the wage and benefit goals that were in place for the Act for employees hired prior to July 1, 2009 as defined in Rhode Island General Law § 42-64.5-2(7). The measure is a percentage of the wage and benefit goal for the Jobs Development Act rate reduction that was achieved by the Jobs Development Act recipient. A value of 100 percent means that the specified wage and benefit goal was met exactly by the Jobs Development Act recipient. A value greater than 100 percent means the specified wage and benefit goal was exceeded by the Jobs Development Act recipient of the tax credit/tax benefit. A value less than 100 percent means the specified wage and benefit goal was not met by the Jobs Development Act recipient.

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

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

Table VI

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

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

"Number of Employees Receiving RIte Care or RIte Share Benefits or Assistance" (Column 3) is the number of employees, including their dependents, of a tax credit/tax benefit recipient that received RIte Care or RIte Share premium payments. Employees, or members of their households, that received other Medicaid benefits are not included in this figure.

"Total Amount of RIte Care or RIte Share Benefits Received" represents only the amount of RIte Care or RIte Share premium payments employees, including members of their households, of a tax credit/tax benefit recipient received during an employee's period of employment with the tax credit/tax benefit recipient. No other Medicaid expenditures that may have been incurred for these employees or members of their households are included.

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

Name of Recipient	Amount	Reported Total Part-Time Jobs	Reported Total Temporary Jobs	Reported Total Full-Time Jobs	Reported Total Full-Time Equivalent Jobs Created or Retained	Required Minimum Number of Full-Time Equivalent Jobs Created or Retained	Degree to Which Full-Time Equivalent Job Creation or Retention Goals Were Met	Reported Number of New Full-Time Equivalent Jobs Created	Required Number of New Full-Time Equivalent Jobs Created	Degree to Which New Full-Time Equivalent Job Creation Goals Were Met	Benefits Offered	Degree to Which Wage and Benefit Goals Were Met	Geographic Location of Project
No Recipients in FY 2019 *													
Totals	**$ -**	**0**	**0**	**0**	**0**	**0**	**n/a**	**0**	**0**	**n/a**	**n/a**	**n/a**	**n/a**

* The awarding of Project Status sales tax rebates was discontinued as of July 1, 2011.

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

Name of Recipient	Amount	Reported Total Part-Time Jobs	Reported Total Full-Time Jobs	Estimated Full-Time and Part-Time Jobs Created or Retained per EDC Analysis	Degree to Which Job Creation or Retention Goals Were Met	Benefits Offered	Degree to Which Wage and Benefit Goals Were Met	Geographic Location of Business
No Recipients in FY 2019 †								
Totals	**$ -**	**0**	**0**	**0**	**n/a**	**n/a**	**n/a**	**n/a**

† According to the FY 2019 Tax Credit and Incentive Report published by the Division of Taxation, the Incentives for Innovation and Growth RIGL § 44-63 was repealed on December 31, 2016.

TABLE III:
JOBS DEVELOPMENT ACT BUSINESS CORPORATION TAX RATE REDUCTION
Rhode Island General Law Section 42-64.5-5
(Administrator: Rhode Island Division of Taxation)

Name of Recipient	Amount	Reported Total Part-Time Jobs[1]	Reported Total Full-Time Jobs[1]	Reported Total Full-Time Equivalent Active Jobs Created or Retained	Required Number of Full-Time Equivalent Active Jobs Created or Retained	Degree to Which Full-Time Equivalent Active Job Creation or Retention Goals Were Met	Benefits Offered	Degree to Which Wage and Benefit Goals Were Met Prior to July 1, 2009	Degree to Which Wage and Benefit Goals Were Met After June 30, 2009	Geographic Location of Corporate Headquarters and/or Qualifying Facility[2]
Citizens Bank, National Association	$ 9,956,752	148	3,339	3,487	2,337	149.2%	Health; Pension	397.8%	262.7%	East Providence
CVS Pharmacy Inc.	$ 1,537,604	0	5,697	5,697	3,430	166.1%	Health; Pension	402.7%	231.8%	Woonsocket
Electric Boat Corporation	$ 2,616	0	2,760	2,760	1,501	183.9%	Health; Pension	352.4%	159.9%	North Kingstown
Rite-Solutions Inc	$ 6,083	105	95	151	104	145.2%	Health; Pension	421.8%	156.1%	Middletown
United Natural Foods, Inc.	$ 20,122	0.0	87	87	200	43.5%	Health; Pension	Qualified for JDA after 7/1/2009	167.3%	Providence
Totals	**$ 11,523,177**	**253**	**11,978**	**12,182**	**7,572**	**160.9%**	**n/a**	**389.9%**	**222.6%**	**n/a**

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

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

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

Name of Recipient	Amount Taken	Reported Total Part-Time Jobs	Reported Total Seasonal Jobs	Reported Total Full-Time Jobs	Employment Benchmark	New Enterprise Jobs Required	New Enterprise Jobs Created	Degree to Which Job Creation or Retention Goals Were Met	Benefits Offered	Degree to Which Wage and Benefit Goals Were Met	Geographic Location of Company or Enterprise Zone
No Recipients in FY 2019 *											
Totals	**$ -**	**0**	**0**	**0**	**0**	**0**	**0**	**n/a**	**n/a**	**n/a**	**n/a**

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

Name of Recipient	Amount	Reported Total Part-Time Jobs	Reported Total Temporary Jobs	Reported Total Full-Time Jobs	Estimated Full-Time and Part-Time Jobs Created or Retained †	Required Number of Full-Time and Part-Time Jobs Created or Retained	Degree to Which Job Creation or Retention Goals Were Met	Benefits Offered †	Degree to Which Wage and Benefit Goals Were Met	Reported Geographic Locations Used by Production †
IndieWhip, LLC	$ 198,774	*	*	*	37	None	No Goals Specified	n/a	No Goals Specified	Warwick
Assassins Productions, LLC	$ 2,519,888	*	*	*	133	None	No Goals Specified	Union Members Only **	No Goals Specified	Providence, Woonsocket
Vault Production, LLC	$ 455,376	*	*	*	166	None	No Goals Specified	Union Members Only ^	No Goals Specified	Cranston, Providence
Totals	**$ 3,174,038**	*****	*****	*****	**336**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

* No data available. No MPPTC recipients submitted RI Form 8201A as required by Rhode Island General Law § 44-31.2-6.1(h).

† Data is from page 1 of the Motion Picture Production Tax Credit Information Request Form as provided by the Rhode Island Film & Television Office. Assassins Productions LLC indicated that all employees hired were full-time.

** The following unions provided benefits to their members: the Motion Picture and TV Production Department of the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts of the United States, Its Territories and Canada (IATSE), the Directors Guild of America (DGA), and the Screen Actors Guild (SAG).and the Screen Actors Guild (SAG).

^ Union members receive benefits through their unions. The MPPTC recipient does not provide benefits directly per industry standard practice.

TABLE VI:
UTILIZATION OF RIte CARE AND RIte SHARE BENEFITS BY TAX INCENTIVE RECIPIENTS
Rhode Island General Law Section 42-142-6(a)(4)

(Administrator: Executive Office of Health and Human Services)

Name of Recipient	Tax Credit / Tax Benefit Program	Number of Full-Time Equivalent Employees Receiving RIte Care or RIte Share Benefits or Assistance^	Total Amount of RIte Care or RIte Share Benefits or Assistance Received
Citizens Bank, National Association	Jobs Development Act Rate Reduction	189	$ 301,132
CVS Pharmacy Inc.	Jobs Development Act Rate Reduction	121	$ 592,207
Electric Boat Corporation	Jobs Development Act Rate Reduction	154	$ 480,453
Rite-Solutions Inc.	Jobs Development Act Rate Reduction	5	$ 9,215
United Natural Foods, Inc.	Jobs Development Act Rate Reduction	44	$ 126,623
Sub-Total	**Jobs Development Act Rate Reduction**	**513**	**$ 1,509,630**
IndieWhip, LLC	Motion Picture Production Tax Credit	*	*
Assassins Productions, LLC	Motion Picture Production Tax Credit	*	*
Vault Production, LLC	Motion Picture Production Tax Credit	*	*
Sub-Total	**Motion Picture Production Tax Credit**	*	*
Grand Total		**513**	**$ 1,509,630**

^ Benefits include only RIte Care and RIte Share permium payments. No other Medicaid expenditures that may have been incurred for these employees are included. Payments are for any member in the same Medicaid case as the employee. Employees are assumed to have been employed by the tax credit / tax benefit recipient from the date of the employee's hire through June 30, 2019. Therefore, only payments made after the date of hire of the worker are included for both the workers and members in the workers' households.

* This information is unavailable. No Motion Picture Production Tax Credit recipients provided data to the Division of Taxation as required by Rhode Island General Laws § 44-31.2-6.1(h).

Part II

Cost – Benefit Analysis of the Tax Credits/Tax Benefits

Introduction

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

ORA prepared a cost benefit analysis for two tax incentives that were covered in the first part of this report—the *Jobs Development Act* (JDA) business corporation tax rate reduction and the *Motion Picture Production Company Tax Credits*.[9]

Cost-Benefit Analysis Methodology

ORA analyzed the self-reported firm-level data on employment, wages, and benefits for tax incentive recipients in FY 2019 as detailed in Part I of this report. Using these data, as well as data from the Division of Taxation, CommerceRI, and publicly available historical data on the regional and national economies, the following cost-benefit analysis seeks to evaluate the net economic and fiscal impacts of the covered incentives. Metrics include employment, state gross domestic product (GDP), and state revenue impacts.

To execute the cost-benefit analysis, ORA utilized Regional Economic Models, Incorporated's (REMI) 70-sector model of the Rhode Island economy via the REMI PI+ software platform to produce estimates of the total economic effects of the incentives issued in FY 2019.[10] The dynamic capabilities of the REMI PI+ model allows one to estimate the impacts of exogenous shocks to the state's economy, including changes to public policy, shifts in consumer behavior and demand, and developments in industry.

The FY 2019 cost-benefit analysis necessitated a unique modeling approach. In consultation with REMI, ORA developed a "counterfactual" approach that analyzes the impact on the state's economy if the tax incentive in question had not been in effect in FY 2019. The resulting deviations in economic indicators from historic figures represent the estimated economic impact of each incentive.

Identifying the Scope of Benefits

A fundamental challenge in evaluating economic development incentives is determining the extent to which an incentive 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 the entirety of the firm's economic activity to the incentive. On the other hand, an incentive program may

[9] The Division of Taxation reported no credits issued in FY 2019 for the following tax credits: Project Status, Incentives for Innovation and Growth, and the Enterprise Zone Wage Tax Credit. As a result, no cost-benefit analysis was conducted on these programs.

[10] The REMI model consists of four economic impact methodologies: input-output analysis, computable general equilibrium dynamics, econometric estimation techniques, and economic geography and migration flows. Detailed documentation on the REMI PI+ model is available at: http://www.remi.com/resources/documentation

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

An issue complicating an analyst's ability to neatly define the scope of benefits resulting from a tax incentive program is the fact that not all enabling legislation for tax incentive programs contain provisions requiring that qualifying economic activity would not have occurred without the availability of the tax incentive. Some tax incentive programs are broadly available to all qualifying firms and projects regardless of whether the incentive was an instrumental factor in making the investment, employment, or project possible. For example, *Motion Picture Production Company Tax Credits* are available to all motion picture productions meeting statutory requirements regardless of whether the production company had considered competitive out-of-state alternative locations or would have been unable to engage in production without the credits. The *Jobs Development Act* provides a tax rate reduction of sufficient magnitude that it is plausible that it could influence a firm's production decisions, but there is not an explicit requirement that additional employment would not have occurred in the absence of the rate reduction.

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

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

Firms Receiving Multiple State Tax Incentives in FY 2019 (including firms with multiple subsidiaries/related entities receiving separate incentives)			
Recipient Firm	**Subsidiaries/Related Entities**	**Incentives Awarded**	**Total Credit Awarded**
Citizens Bank, National Association	n/a	JDA, Investment Tax Credit	$ 23,783,096
CVS Pharmacy, Inc.	n/a	JDA, Jobs Training Credit*, Investment Tax Credit	$ 2,498,703
Electric Boat Corp	n/a	JDA, Investment Tax Credit, Jobs Training Credit*	$ 4,777,013
Source: State of Rhode Island Division of Taxation, *FY 2019 Tax Credit and Incentive Report*. * The Jobs Training Credit was eliminated for tax years beginning after December 31, 2017.			

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

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

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

Though these two approaches represent two ends of the continuum on which potential benefits from a tax incentive might fall, it is not appropriate to assume that the average of the two approaches represent the best, unbiased estimate of the impact of an incentive. In any given case, it is possible that the actual impact may fall on one extreme or the other–dependent on the key assumption of whether the recipient would have engaged in the necessary employment, investment, or production in the absence of the tax incentive.

Inputting Costs and Benefits in the REMI Model

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

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

Net Benefits = Benefits – Costs

Where:

Benefits = Direct Positive Economic Effects + Positive "Multiplier" Effects

Costs = Direct Negative Economic Effects + Negative "Multiplier" Effects

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

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

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

Direct benefits are input in the REMI model as policy variables simulating changes in industry sales, exogenous final demand, employment, compensation or wages, and production costs. ORA assigned these benefits to a profile of sectors among the 70 sectors available in the REMI PI+ model in proportion with the amount of each incentive issued to firms in each industry. As an example, under ORA's modeling approach, a hypothetical $5,000,000 tax credit awarded to a pharmaceutical manufacturing firm would be modeled as an adjustment to production costs for the "Chemical Manufacturing" (NAICS Code: 325) industrial sector of $5,000,000.

Modeling Alternative Uses of Tax Credit/Tax Benefit Resources

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

The "Government Expenditure Response" scenario assumes that the tax incentive is funded by an equivalent reduction in state government spending. These adjustments are made based on a comprehensive historical analysis of Rhode Island general fund expenditures for each of the fiscal years within the scope of this analysis. This analysis compiled all state general fund expenditures and assumed that the level of these expenditures could be adjusted to maintain a balanced general fund budget. Certain long-term commitments such as debt/lease payments and preexisting obligations to current retirees were held harmless. The breakdown of general fund expenditures by category for FY 2019 is shown in the table below.

FY 2019 Rhode Island General Fund Expenditures			
Industry Description	**NAICS Code**	**Amount**	**Percent of Total**
Ambulatory Healthcare Services [11]	621	$1.21 billion	31.3%
Educational Services	61	$1.16 billion	30.2%
State Wages, Salary, and Other Compensation	n/a (entered as "state/local government compensation" and "employment")	$992.6 million	25.8%
Social Assistance	624	$93.7 million	2.4%
Local Government Spending	n/a (entered as "local government spending")	$129.5 million	3.4%
Professional, Scientific, and Technical Services	54	$59.4 million	1.5%
Administrative and Support Services	561	$55.4 million	1.4%
Wholesale Trade	42	$24.5 million	0.6%
Remaining/Other	19 additional industries and non-residential capital investment	$127.4 million	3.3%
	Total:	**$3.9 billion**	**100.0%** [12]

[11] A vast majority, 98.0 percent or $1.18 billion, of ambulatory healthcare services consists of the state general fund portion of Medicaid payments made via the Medicaid Management Information System (MMIS). This represents the state's required contribution in order to receive matching funds according to the Federal Medical Assistance Percentage (FMAP). This analysis assumes that some marginal adjustment to the Medicaid appropriation amount is possible through policy changes, especially considering changes on the relatively small order of magnitude necessary to fund an individual tax incentive.

The following table summarizes Rhode Island state government employment in FY 2019:

FY 2019 State Wages and Salary Detail	
Full Time Equivalent (FTE) Positions Count (all fund sources)	13,422
Total Compensation Cost Per FTE (all fund sources)	$112,817

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

The "Tax Policy Response" scenario assumes that the tax incentive is funded by broad-based tax increase. This broad-based tax increase is input in the REMI model as an adjustment to production costs and is distributed across industries in proportion with each industry's total value added to the Rhode Island economy. Value added roughly corresponds to a firm's business profits, so this approach provides an efficient method for distributing the impact of a broad-based tax increase in proportion with the taxes paid by each industry. For example, the Construction industry (NAICS Code: 23) had total value added in calendar year 2019 of $2.3 billion out of total value added for all private, non-farm Rhode Island industries of $49.9 billion. This implies that the construction industry's value added as a percentage of the total value added of all Rhode Island industries is 4.6 percent. This percentage is used to yield the adjustment to production costs for the Construction industry.

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

Calculation of Fiscal Impacts

Fiscal impact estimates were calculated outside of the REMI model as derived from the ratio of Rhode Island state general revenues to Rhode Island GDP in each year covered by this analysis. For example, in FY 2019 Rhode Island GDP, was $62.1 billion. FY 2019 total general revenues were $4.025 billion. Thus, in FY 2019, general revenues were 6.49 percent of FY 2019 Rhode Island GDP. ORA used this percentage to estimate the amount of general revenues that result from changes in Rhode Island GDP associated with each tax incentive analyzed.

[12] Total may not sum precisely due to rounding.

Definition of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Modeling the Tax Incentives in REMI

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

FY 2019 Jobs Development Act Business Corporation Tax Rate Reduction*	
Industry (NAICS Code)	**Amount Received**
Management of Companies and Enterprises (55)	$ 1,557,726
Miscellaneous Manufacturing (339)	$ 2,626
Monetary authorities - central bank; Credit intermediation and related activities; Funds, trusts, & other financial vehicles (521)	$ 9,956,752
Professional, Scientific, and Technical Services (54)	$ 6,083
Total Included in CBA Analysis	**$ 11,523,177**
* All JDA recipient firms provided data to the Division of Taxation as required by Rhode Island General Law 42-64.5-8.	

FY 2019 Motion Picture Production Tax Credit*	
Industry (NAICS Code)	**Amount Received**
Motion Picture and Sound Recording (512)	$ 3,174,038
Total Included in *Modified* CBA Analysis	**$ 3,174,038**
* No MPPTC recipient firms provided data to the Division of Taxation as required by Rhode Island General Laws 44-31.2-6.1(h).	

The Marginal Impact Analysis of the FY 2019 Tax Incentives / Benefits

Key Assumptions

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

Results

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

Jobs Development Act

The *Jobs Development Act* (JDA) provides for a reduction in the business corporation or financial institutions tax rate for each new unit of employment that is added within an initial three-year measurement period to a company's previously established base employment.[13] In FY 2019, five firms in four industries received a total reduction in tax liability of $11,523,177.

Benefits

ORA modeled the $11,523,177 reduction in tax liability for the five recipients of the JDA tax rate reduction as a commensurate adjustment to industry-specific production costs. This approach results in an aggregate increase of 58 jobs. Additionally, the rate reduction generates an aggregate increase in state GDP of $7,059,757 and an estimated $457,987 increase in state general revenues.

Alternative Scenario I: Government Expenditure Response

Under the assumption that the JDA rate reduction resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 129 jobs. Additionally, the reduction in government spending generates a decrease in state GDP of $10,926,979 and an estimated $708,865 decrease in state general revenues.

[13] See Section 1 for a more detailed explanation of the rate reduction.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate decrease of 72 jobs. Direct, indirect, and induced economic effects generate an aggregate net decrease in state GDP of $3,866,261, and an estimated $250,816 decrease in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Jobs Development Act Rate Reduction Marginal Analysis			
Government Spending Response Scenario			
Indicator	**Benefits Only**	**Government Spending Only**	**Simultaneous**
Direct Jobs	0	-22	-22
Indirect Jobs	13	-15	-3
Induced Jobs	45	-92	-47
Total Jobs	**58**	**-129**	**-72**
Total GDP	$ 7,059,757	$ (10,926,979)	$ (3,866,261)
Total Revenue	**$ 457,987**	**$ (708,865)**	**$ (250,816)**

Alternative Scenario II: Tax Policy Response

Under the assumption that the JDA tax rate reduction resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 59 jobs. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of $5,524,282 and an estimated $358,376 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate decrease of one job. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of $1,536,783 and an estimated $99,696 increase in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Jobs Development Act Rate Reduction Marginal Analysis			
Tax Policy Response Scenario			
Indicator	**Benefits Only**	**Tax Increase Only**	**Simultaneous**
Direct Jobs	0	0	0
Indirect Jobs	13	-9	4
Induced Jobs	45	-50	-5
Total Jobs	**58**	**-59**	**-1**
Total GDP	$ 7,059,757	$ (5,524,282)	$ 1,536,783
Total Revenue	**$ 457,987**	**$ (358,376)**	**$ 99,696**

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

Motion Picture Production Tax Credit

The *Motion Picture Production Tax Credits* (MPPTC) provide for a transferable credit equal to 30 percent of the qualifying in-state expenditures of an eligible motion picture production.[14] This analysis reports on the economic and fiscal impacts of the credits *issued* in 2019. However, credits issued in 2019 were for production spending that occurred as far back as 2015. The significant time difference between the year in which the economic activity occurred which generated the credit and the year in which the credit is issued is unique to the MPPTC among tax credits/tax benefits included in the report. The allowance of MPPTC recipients to carry forward unused credit amounts for up to three years further expands the time delay between production spending and credit redemption.

ORA considered several options for modeling the impact of the incentive given the unique lag between the economic activity that generated the credit and the issuance of the credit and selected the modeling approach which introduced the least error and provided for the most easily interpretable presentation of results. The selected modeling approach shifted all costs and benefits associated with credits issued in 2019 into 2019, even though the production expenses may have been incurred several years prior and credit redemption may not happen until several years following.[15] This approach allows ORA to estimate economic indicators without introducing error as a result of excessive shifting of the model backwards in time, or excessive forecasting forward in time. As a secondary support for this method, modeling the effects of a single year allows for comparison of results from the analysis of the MPPTC to analyses of the other incentives in this report, despite differences in credit structure.

In FY 2019, three firms received a total reduction in tax liability of $3,174,038. This reduction in tax liability is associated with $12,963,169 in total project spending directly tied to the credit.

Benefits

ORA modeled the reduction in tax liability for the three recipients of the credit as an adjustment to production costs in the motion picture and sound recording industry of $3,174,038–the amount of the MPPTC issued in FY 2019. This approach results in a direct, indirect, and induced increase of 24 jobs. Additionally, the tax credit generates an aggregate increase in state GDP of $1,805,863 and an estimated $117,152 increase in state general revenues from taxes.

Alternative Scenario I: Government Expenditure Response

Under the assumption that the credit resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 36 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced

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[14] See Section 1 for a more detailed explanation of the rate reduction.

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

decrease in state GDP of $3,025,342 and an estimated $196,263 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a direct, indirect, and induced decrease of 11 jobs, and an aggregate net decrease in state GDP of $1,219,452, and an estimated $79,109 decrease in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Motion Picture Production Tax Credit Marginal Analysis			
Government Spending Response Scenario			
Indicator	**Benefits Only**	**Government Spending Only**	**Simultaneous**
Direct Jobs	0	-6	-6
Indirect Jobs	3	-4	-1
Induced Jobs	21	-25	-4
Total Jobs	**24**	**-36**	**-11**
Total GDP	$ 1,805,863	$ (3,025,342)	$ (1,219,452)
Total Revenue	**$ 117,152**	**$ (196,263)**	**$ (79,109)**

Alternative Scenario II: Tax Policy Response

Under the assumption that the credit resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in in a direct, indirect, and induced decrease of 16 jobs. Additionally, the broad-based tax increase generates a direct, indirect, and induced decrease in state GDP of $1,511,664 and an estimated $98,066 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a direct, indirect, and induced increase of eight jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of $294,351, and an estimated $19,095 increase in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Motion Picture Production Tax Credit Marginal Analysis			
Tax Policy Response Scenario			
Indicator	**Benefits Only**	**Tax Increase Only**	**Simultaneous**
Direct Jobs	0	0	0
Indirect Jobs	3	-2	1
Induced Jobs	21	-14	8
Total Jobs	**24**	**-16**	**8**
Total GDP	$ 1,805,863	$ (1,511,664)	$ 294,351
Total Revenue	**$ 117,152**	**$ (98,066)**	**$ 19,095**

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

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

The Leveraged Impact Analysis of the FY 2019 Tax Incentives/Benefits

Key Assumptions

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

Results

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

Jobs Development Act

Benefits

ORA modeled the $11,523,177 reduction in tax liability for the five recipients of the JDA tax rate reduction as an adjustment to industry-specific employment and compensation. Employment and compensation inputs were calculated according to minimum employment requirements specified in governing statute. This approach results in an aggregate increase of 4,560 jobs. Additionally, the rate reduction generates an aggregate increase in state GDP of $686,884,271 and an estimated $44,560,208 increase in state general revenues.

Alternative Scenario I: Government Expenditure Response

Under the assumption that the JDA tax rate reduction resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 129 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of $10,926,979 and an estimated $708,865 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 4,430 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of $675,964,696 and an estimated $43,851,823 increase in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Jobs Development Act Rate Reduction Leveraged Analysis			
Government Spending Response Scenario			
Indicator	**Benefits Only**	**Government Spending Only**	**Simultaneous**
Direct Jobs	2,210	-22	2,188
Indirect Jobs	1,010	-15	994
Induced Jobs	1,340	-92	1,248
Total Jobs	**4,560**	**-129**	**4,430**
Total GDP	$ 686,884,271	$ (10,926,979)	$ 675,964,696
Total Revenue	**$ 44,560,208**	**$ (708,865)**	**$ 43,851,823**

Alternative Scenario II: Tax Policy Response

Under the assumption that the JDA rate reduction resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 59 jobs. Additionally, the increase in taxes generates a direct, indirect, and induced decrease in state GDP of $5,524,282 and an estimated $358,376 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 4,501 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of $681,389,190, and an estimated $44,203,726 increase in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Jobs Development Act Rate Reduction Leveraged Analysis			
Tax Policy Response Scenario			
Indicator	**Benefits Only**	**Tax Increase Only**	**Simultaneous**
Direct Jobs	2,210	0	2,210
Indirect Jobs	1,010	-9	1,001
Induced Jobs	1,340	-50	1,290
Total Jobs	**4,560**	**-59**	**4,501**
Total GDP	$ 686,884,271	$ (5,524,282)	$ 681,389,190
Total Revenue	**$ 44,560,208**	**$ (358,376)**	**$ 44,203,726**

It is clear from the leveraged impact analysis that the provision of the *Jobs Development Act* tax rate reduction increased total jobs, total GDP, and total revenue relative to alternative uses of the resources expended on the incentive. The large magnitude of the direct, indirect, and induced economic impacts of the JDA rate reduction should be considered in the context of the assumptions underlying the leveraged analysis methodology. The leveraged analysis counts as a benefit the entirety of the wages paid by firms needed to earn the JDA tax rate reduction. Though it may not be plausible that a firm would completely exit the Rhode Island economy if it were to lose a single year of a JDA tax rate reduction, it should be noted that JDA recipient firms are among the state's largest employers, paying their workers well above the state's median and average wage. The inclusion of the leveraged analysis in this report provides a contrast to the marginal analysis.

Motion Picture Production Tax Credit

The amount of *Motion Picture Production Tax Credit* issued in 2019 leveraged total eligible motion picture production expenditures of $12,963,169. Motion picture production company-level expenditure data was available for all three recipients of the MPPTC. ORA analyzed directly impacted industries as the industries in which direct film industry spending occurred, allocated as shown in the following table.

A significant conclusion from the spending profile of MPPTC recipient projects issued in FY 2019 is the high proportion of labor costs and low proportion of capital investment. According to the standard industry assumptions included in the REMI model based on US Bureau of Economic Analysis (BEA) input-output data, one dollar of motion picture and sound recording industry output consists of 39 cents of intermediate inputs, 22 cents of labor, 39 cents on capital investment, and one cent on fuel. In comparison, one dollar of certified spending on FY 2019 MPPTC recipient projects consists of 11 cents of intermediate inputs, 17 cents on capital investment, 72 cents of labor, and an insignificant amount of spending on fuel.[16] The small amount of capital investment can be explained by the fact that many of the MPPTC recipient firms are short-term entities incorporated by out-of-state production firms for the time period of the production and lacking a substantial physical presence in the state. These firms do not make typical capital investments such as owning or renting real estate for offices and production space. Furthermore, to the extent that firms with a significant, long-term physical presence in Rhode Island do take advantage of the MPPTC, these firms' capital investments would not be associated with a single motion picture production and therefore would not be eligible to be considered certified production expenses for the purposes of the MPPTC. In this way, the MPPTC is not well-designed to promote capital investment. In addition, the disproportionate presence of labor does not necessarily diminish the benefits of the MPPTC, but it does present administrative challenges.

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

FY 2019 Motion Picture Production Tax Credit ***Breakdown of Actual Qualified Production Expenses***	
Industry (NAICS Code)	**Amount of Leveraged Production Spending**
Accommodation (721)	$ 532,963
Couriers and Messengers (492)	$ 20,495
Food services and drinking places (722)	$ 311,949
Professional, scientific, and technical services (54)	$ 16,090
Rental and leasing services; Lessors of nonfinancial intangible assets (532, 533)	$ 2,172,907
Repair and maintenance (811)	$ 67,214
Telecommunications (517)	$ 4,236
Waste Management and Remediation Services (562)	$ 4,558
Wholesale trade (42)	$ 488,623
Compensation [17]	$ 9,344,134
Total	**$ 12,963,169**

Labor compensation by MPPTC recipient projects would be most impactful to the Rhode Island economy if it were paid to Rhode Island residents, whose households would then recirculate the increase in income throughout the economy. However, there is no requirement in the MPPTC that certified production expenses on labor be confined to Rhode Island resident employees. While the Division of Taxation does require MPPTC recipients to file form RI-8201A, which requires firms to provide a list of employees, compensation, and state of residency among other requirements, after completion of the project, there is significant non-compliance with this requirement. For example, all three recipient firms in FY 2019 failed to complete this basic requirement. Even with greater compliance, the compensation structures provided to motion picture and sound recordings industry employees make this requirement challenging to administer. For example, it is quite common for highly-compensated “above-the-line” actors, producers, and directors to be paid through out-of-state “loan-out” companies. Short-term staffing needs may be met by Rhode Island staffing agencies, but these firms may then employ out-of-state workers. Finally, the definition of “employee” itself requires careful consideration as well because the short-term nature of motion picture projects results in many individuals to be engaged as 1099 contractors rather than W-2 employees. Compensation earned by individuals from a Rhode Island source for services performed in the state is subject to Rhode Island personal income tax, but this tax revenue along with its indirect and induced economic impacts are the only significant economic benefits of labor performed by out-of-state individuals in the state for only the short duration of a motion picture production.

[17] For purposes of entering compensation into the REMI model, all compensation is assumed to be associated with the “Motion pictures and sound recording industry (NAICS Code 512).” The amount spent on compensation is reported in the schedule of certified production expenses provided by each recipient firm.

Benefits

ORA modeled the production activity that generated the credit as an adjustment to motion picture and sound recording (NAICS 512) industry sales of $12,963,169 – the amount of certified motion picture production spending associated with credits issued in FY 2019. This approach counts the entire production as a benefit, implying that the production company would have not engaged in the production at all or located in an out-of-state geographic location had the MPPTC not been available. Additionally, the standard industry assumptions regarding intermediate inputs and labor were nullified and replaced with the actual reported spending on intermediate inputs and compensation as depicted in the table above. This adjustment was made so that the model results would more accurately reflect actual production spending. As in the marginal analysis, the modeling approach employed in the leveraged analysis allows compensation and employment to flow through to the economies of Rhode Island and its commuting regions according to the standard assumptions built into the REMI model. To the extent that actual employment on MPPTC productions flowed through to non-resident employees in greater proportion than the standard assumption, the estimate produced by this approach may overstate the induced economic activity resulting from the MPPTC.

This approach results in a net aggregate increase of 268 jobs. Additionally, the credit generates an aggregate increase in state GDP of $20,867,398 and an estimated $1,353,730 increase in state general revenues.

Alternative Scenario I: Government Expenditure Response

Under the assumption that the credit resulted in a decrease in other government expenditures in order to maintain a balanced budget, ORA modeled a commensurate adjustment to general revenue expenditures. This approach results in a direct, indirect, and induced decrease of 36 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of $3,025,342 and an estimated $196,263 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the incentive results in a net aggregate increase of 232 jobs. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of $17,842,184, and an estimated $1,157,475 increase in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Motion Picture Production Tax Credit Leveraged Analysis			
Government Spending Response Scenario			
Indicator	**Benefits Only**	**Government Spending Only**	**Simultaneous**
Direct Jobs	208	-6	202
Indirect Jobs	12	-4	8
Induced Jobs	48	-25	22
Total Jobs	**268**	**-36**	**232**
Total GDP	$ 20,867,398	$ (3,025,342)	$ 17,842,184
Total Revenue	**$ 1,353,730**	**$ (196,263)**	**$ 1,157,475**

Alternative Scenario II: Tax Policy Response

Under the assumption that the credit resulted in a broad-based tax increase in order to maintain a balanced budget, ORA modeled an increase in industry production costs by value added. This approach results in a direct, indirect, and induced decrease of 16 jobs. Additionally, the reduction in government spending generates a direct, indirect, and induced decrease in state GDP of $1,511,664 and an estimated $98,066 decrease in state general revenues.

Modeling the simultaneous interaction of benefits and costs, the tax incentive results in a net aggregate increase of 251. Direct, indirect, and induced economic effects generate an aggregate net increase in state GDP of $19,356,000, and an estimated $1,255,681 increase in state general revenues. The following table summarizes the results of this analysis.

FY 2019 Motion Picture Production Tax Credit Leveraged Analysis			
Tax Policy Response Scenario			
Indicator	**Benefits Only**	**Tax Increase Only**	**Simultaneous**
Direct Jobs	208	0	208
Indirect Jobs	12	-2	9
Induced Jobs	48	-14	34
Total Jobs	**268**	**-16**	**251**
Total GDP	$ 20,867,398	$ (1,511,664)	$ 19,356,000
Total Revenue	**$ 1,353,730**	**$ (98,066)**	**$ 1,255,681**

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

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

APPENDIX A

Rhode Island Statute for Unified Economic Development Report

TITLE 42

State Affairs and Government

CHAPTER 42-142

Department of Revenue

SECTION 42-142-6

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

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

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

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

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

(5) To the extent the data exists, a cost-benefit analysis prepared by the office of revenue analysis based upon the collected data under §§ 42-64-10, 44-63-3, 42-64.5-5, 42-64-3.1, and 44-31.2-6.1, and required for the preparation of the unified economic development report. The cost-benefit analysis may include, but shall not be limited to, the cost to the state for the revenue reductions; cost to administer the credit; projected revenues gained from the credit; and other

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

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