



A Limited Liability Partnership



January 17, 2017

The Honorable Marvin L. Abney
Chairperson of the House Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

The Honorable Senator Daniel DaPonte
Chairperson of the Senate Committee on
Finance
Rhode Island State House
82 Smith Street
Providence, RI 02903

Dear Mr. Chairpersons,

Pursuant to R.I. Gen. Laws § 42-64-10(e), please find enclosed an economic impact analysis, conducted pursuant to R.I. Gen. Laws § 42-64-10(a), in relation to a tax credit agreement between the Rhode Island Commerce Corporation and Lexington Lighting Group, LLC under the Rhode Island Qualified Jobs Incentive Act of 2015.

Should you have any questions or concerns, please contact undersigned at 401-272-1400.

Very truly yours,

Christopher J. Fragomeni, Esq.

cc: Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor
Scott R. Jensen, Department of Labor and Training
Neena S. Savage, Division of Taxation

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Rhode Island Commerce Corporation Qualified Jobs Incentive Tax Credits – Economic Impact Analysis

Lexington Lighting Group LLC Application

Introduction

The Rhode Island Commerce Corporation (the "Corporation") may issue Qualified Jobs Incentive tax credits to Lexington Lighting Group, LLC (the "Company"). The credits would be issued in connection with the Company's decision to relocate 20 manufacturing, engineering, and managerial jobs from Massachusetts to leased space in East Providence; and to add four full-time employees by 2021, for a total of 24. Manufacturing operations to be moved to East Providence would include the production of standardized LED lighting for commercial and institutional use, and custom-designed decorative LED lighting for residential customers.

The full-time jobs to be relocated or created would range from operating technicians to engineers and managers, with median annual earnings of approximately \$45,500. The Company would also hire temporary workers as needed.

The total value of the requested Qualified Jobs Incentive Tax Credits would be \$219,225 over five years.

Jobs Analysis

Construction

Based on information provided by the Company, we assume for purposes of this analysis that its relocation to an existing building in East Providence will not entail any significant spending on tenant improvements or other construction.

Annual operations

Upon relocating from Massachusetts, the Company would employ 20 full-time workers in East Providence, with plans to increase this total to 24 by 2021. Based on data provided by the Company, we estimate that in 2017 the Company's operations in East Providence would directly and indirectly account for:

- 25 full-time equivalent jobs in Rhode Island;
- Approximately \$1.4 million in annual earnings (in 2017 dollars);
- \$4.7 million in annual State-wide economic output;¹ and
- An increase of \$2.2 million in Rhode Island's annual GDP.

These impacts are summarized below in Table 1. The project's *direct impact* is the impact of the Company direct operations – the number of people it employs, the wages it pays, etc. Its *indirect impact* is the effect of spending by the Company's in-state suppliers and contractors. In addition to the impacts cited above, the Company would in 2017 generate a projected gross increase of \$85,000 in taxes paid to the State. These taxes would include approximately:

¹ Output is a measure of the total sales by Rhode Island companies (including the "sale" of labor by Rhode Island households) generated by the project.

- \$54,000 in state personal income taxes paid by workers employed at the Company's new location in East Providence, or whose jobs are indirectly attributable to that facility's operations;
- \$24,000 in state sales taxes paid on those workers' taxable household spending; and
- \$7,000 in state business corporation taxes.

Table 1: Direct and indirect impact of annual operations, year 1 (employment in FTE; income, value-added and output in thousands of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	20	\$1,046	\$1,596	\$3,700
Indirect Effect	5	\$399	\$597	\$1,020
Total Effect	25	\$1,445	\$2,193	\$4,720

As of 2021 the Company's operations in East Providence would directly and indirectly account for:

- 31 full-time equivalent jobs in Rhode Island;
- Approximately \$1.8 million in annual earnings (in 2017 dollars);
- \$5.8 million in annual State-wide economic output;² and
- An increase of \$2.7 million in Rhode Island's annual GDP.

These impacts are summarized below in Table 2.

In addition to the impacts cited in Table 2, the Company would by 2021 generate \$104,000 in taxes paid to the State. These taxes would include approximately:

- \$66,000 in state personal income taxes paid by workers employed at the Company's new location in East Providence, or whose jobs are indirectly attributable to that facility's operations;
- \$29,000 in state sales taxes paid on those workers' taxable household spending; and
- \$9,000 in state business corporation taxes.

Table 2: Direct and indirect impact of annual operations, years 5 and 6 (employment in FTE; income, value-added and output in thousands of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	24	\$1,281	\$1,955	\$4,532
Indirect Effect	7	\$488	\$731	\$1,250
Total Effect	31	\$1,769	\$2,686	\$5,782

Benefits

The Company provides health insurance coverage for its employees, and pays 75 percent of its cost.

² Output is a measure of the total sales by Rhode Island companies (including the "sale" of labor by Rhode Island households) generated by the project.

Hiring

The Company advertises job openings on various job boards. Applicants are pre-screened via telephone, followed by face-to-face interviews.

Impact

The state fiscal impact of the requested tax credits is \$219,225 in foregone state revenue. The direct and indirect economic and fiscal benefits of the proposed project include an estimated \$2.7 million increase in Rhode Island's annual GDP starting as of 2021; and a gross increase of approximately \$581,000 in personal income, sales and business corporation tax revenues directly and indirectly generated by the Company during a six-year commitment period.

In addition to the economic and tax revenue impacts cited above, the Company's decision to relocate from Massachusetts to East Providence will reinforce the state's efforts to maintain and grow its manufacturing sector.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. Any risk that employment (and associated tax revenues) might not reach the level assumed in this analysis (24 employees by 2021) is mitigated by the fact that Qualified Jobs Incentive tax credits will be based on actual employment and wages.