



## Film Flight: Lost Production and Its Economic Impact on California

by Kevin Klowden, Anusuya Chatterjee,  
and Candice Flor Hynek



## *Film Flight: Lost Production and Its Economic Impact on California*

Presentation to:  
**Joint California Assembly Oversight Hearing**

Presented by:  
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Director of California Center

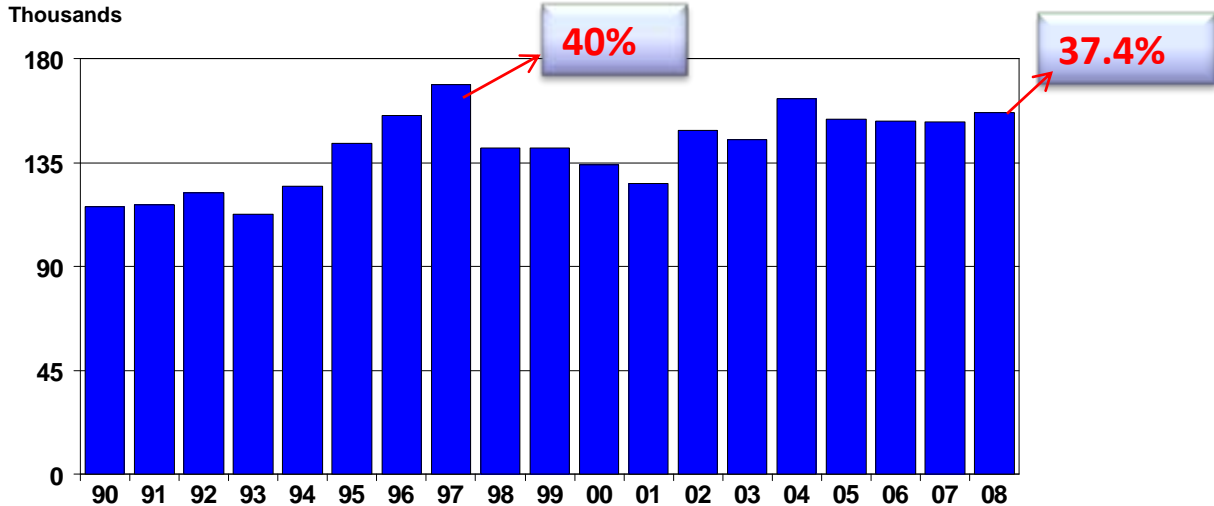
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- The Entertainment industry in California is facing very strong competitors – starting with Canada in the 1990s and increasingly now from other states.
- Film and TV production numbers have declined, but the long-term impact can be measured in terms of the declining employment base in the state, not just the loss of the productions themselves.
- California's tax credit has helped over the past year and a half. The state is making positive progress but there are limits. What has worked? What hasn't? And why?

# California's movie and video industry

Primary establishments and independent production, employment



Sources: California Employment Development Department, Moody's Analytics.



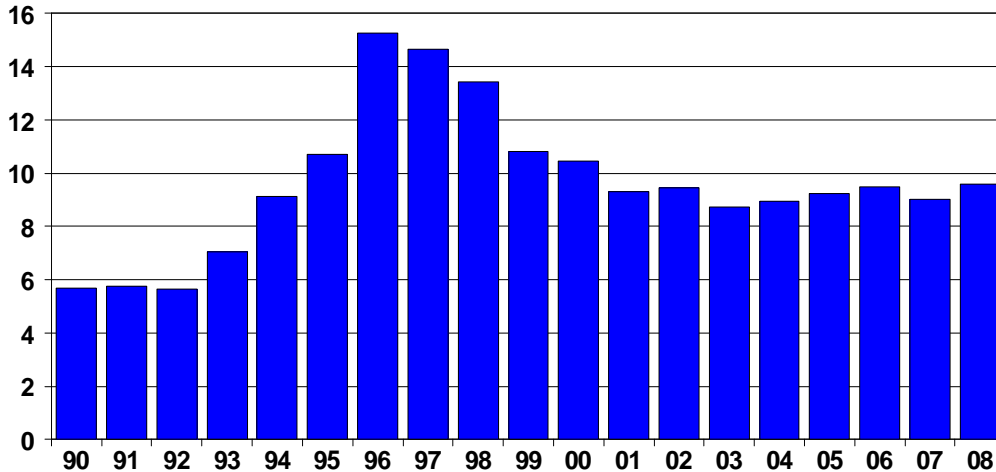
# Post-production in California

## Employment



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Thousands



Sources: California Employment Development Department, Moody's Analytics.



# Estimated gains in broader economy



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	<b>Direct impact</b>	<b>Indirect impact</b>	<b>Total impact</b>
<b>Employment</b>	<b>10,606</b>	<b>25,487</b>	<b>36,093</b>
<b>Wages</b>	<b>\$970M</b>	<b>\$1.43B</b>	<b>\$2.4B</b>
<b>Real output</b>	<b>\$1.58B</b>	<b>\$2.63B</b>	<b>\$4.21B</b>
<b>Wages per employee</b>	<b>\$91,893</b>	<b>\$56,000</b>	<b>\$66,547</b>
<b>Real output per employee</b>	<b>\$148,782</b>	<b>\$103,100</b>	<b>\$116,524</b>

Sources: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Moody's Analytics, Milken Institute.



## **In July 2009, the following tax incentive package went into effect:**

- \$100 million tax credit per year till FY 2013-2014
- Tax credits can only start from January 2011
- 20% nonrefundable, transferable tax credit for films with budgets of \$75 million or less
- No tax credits for TV series filming in California
- However, 25% for independent films and TV series relocating to California
- Funding was frontloaded into first two years, resulting in funding ending after FY2012-2013



## Program year 2009-2010 impact is as follows:

- \$176 million tax credits allocated to 70 projects
- Estimated direct spending by the 70 projects is \$1.2 billion
  - \$453 million in direct qualified wages (excludes any wages for actors, writers, directors and producers)
  - \$430 million in qualified non-wage expenditures
  - \$346 million in non-qualified production expenditures
- 18,200 crew and 4000 cast members have been or will be hired (An additional 113,000 individuals will receive daily employment as background players)



**Program year 2010-2011 impact is as follows:**

- \$121 million tax credits allocated to 43 projects
- Estimated direct spending by the 43 projects is \$969 million
  - \$275 million in direct qualified wages (excludes any wages for actors, writers, directors and producers)
  - \$315 million in qualified non-wage expenditures
  - \$379 million in non-qualified production expenditures
- 7,500 crew and 2100 cast members have been or will be hired (An additional 59,000 individuals will receive daily employment as background players)





**\$300 million in tax credits have been allocated(reserved) resulting in:**

- Total aggregate direct spending by Program projects: \$2.2 billion
- Total wages paid/to be paid by Program projects: \$728 million
- Broader economic impact:
  - Total output: \$6.5 billion
  - Total Full Time Equivalent jobs generated by Program projects: 40,996
  - Total earnings generated by Program projects: \$1.8 billion

## Successful states and countries adopt and implement innovative policies



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- Ensure the improvement and growth of local infrastructure and labor forces.
- Provide easy access to the production establishment.
- Support the provision of permits.
- Provide security.
- Gain the cooperation and support of local communities and businesses by offering incentives, communicating the benefits, and addressing community concerns.
- Create agreements or partnerships with other countries.



## **Incentives:**

- New York state film credit was raised from 10% to 30% in 2008
- Annual funding of \$420 million through 2014
- Up to \$7 million on post-production credit
- 30% fully refundable tax credit for qualified expenses
- Up to 5% tax credit on investment in construction and upgrades of film production facilities

## **New York City's "Made in NY" incentives:**

- 5% New York city refundable tax credit
- Marketing credit (1% of production cost for projects with at least 75% of production work completed in the city)



In 2007, 30% film credit led to \$940 million of film spending that resulted in:

<b>Economic impact</b>	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>
<b>Production value (US\$ billions)</b>	<b>1.7</b>	<b>2.2</b>	<b>3.9</b>
<b>Income (US\$ billions)</b>	<b>0.8</b>	<b>1.2</b>	<b>2.0</b>
<b>Employment (Thousands)</b>	<b>7.0</b>	<b>12.5</b>	<b>19.5</b>



## **Current Incentives:**

- 40% transferable tax rebate on filming and other media production
- Rises to 42% if done in core communities
- 40% wage rebate for above-the-line workers and Michigan below-the-line workers
- 30% wage rebate for below-the-line non-Michigan workers
- 25% infrastructure investment tax credit
- 50% refundable business tax credit for OTJ training for Michigan below-the-line workers

## **Proposed Changes:**

- Reduction to \$25 million cap from existing \$60 million
- Tax rebates are proposed to be eliminated



### **Incentives:**

- 25% tax rebate on film production costs
- 0% interest film investment loans for up to \$15 million per project (both features and TV productions)
- 50% reimbursement of wages for OTJ training of residents for below-the-line crew positions

### **Proposed Changes:**

- \$ 50 million cap on total funding per year from no cap.



### **Incentives:**

- 30% film production tax credit that is refundable, transferable and permanent
- 5% labor tax credit if a Louisiana resident is hired



## **Incentives:**

- 25% refundable film production tax credit
- \$20 million per project cap
- No Corporate Income tax on incentives





## **Federal tax credit:**

- 16% refundable tax credit on labor-based filming costs

## **Provincial tax credits:** in addition to federal tax credit

- 33% refundable tax credit on labor-based filming costs
- 17.5% tax credit on digital animation or visual effects labor-based costs
- 6% additional credit on qualifying BC “regional” labor (outside Vancouver area)
- 6% additional credit on qualifying BC “distant location” labor



# It's not too late



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- Make the tax incentive program permanent.
- Expand the current tax credit to target television production
- Expand the incentive cap to levels comparable to New York, then remove the \$75 million limit on film budgets in order to capture larger expenditures.
- Consider implementing a new digital infrastructure tax credit
- Authorize funding to more effectively track film production data

- Entertainment industry in California today is facing host of very strong competitors.
- California no longer can afford to rest on its laurels or its storied entertainment industry pedigree.
- It's imperative that policymakers understand what's at stake and take decisive steps to retain an industry that serves as a vital source of jobs and revenue.
- The real story is not the studios or the movies themselves- it's the workers and jobs moving out of state, both temporarily and permanently.



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## *California Center*

The California Center is dedicated to measuring, evaluating and analyzing the state's economic, demographic and social conditions and trends. We propose innovative ideas that will help ensure California's long-term prosperity and help business and government leaders maintain the state's leadership in key industries while improving the quality of life for its residents.

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# Extra Slides

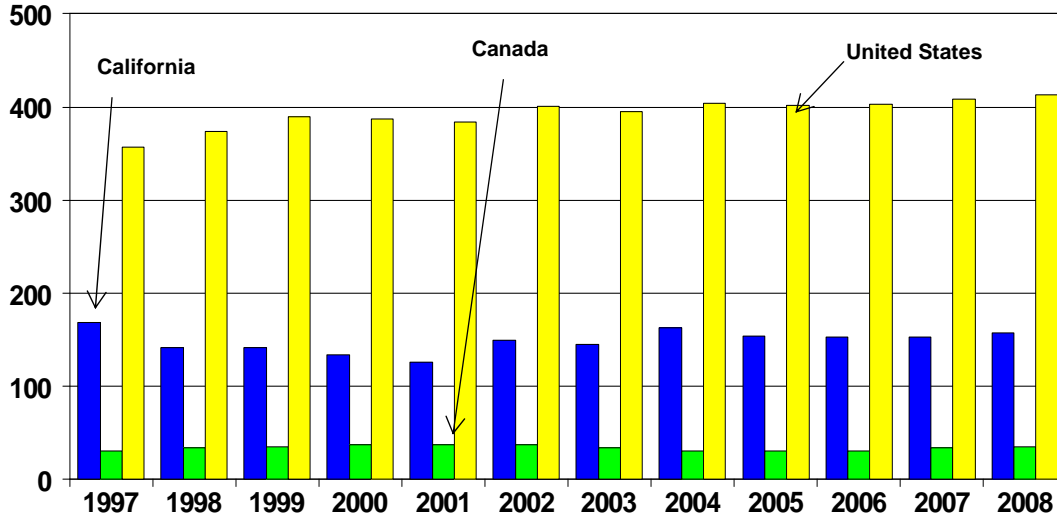
# Movie and video industry employment

*Primary establishments and independent production*



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Thousands



Sources: California Employment Development Department, Moody's Analytics.



### **Incentives:**

- 20% tax credit for filming, post-production work, and video game development and animation (min. \$500,000 in expenditure in a single year)
- Additional 10% tax credit for including Georgia logo in final project



## **Incentives:**

- 25% tax credit on labor-based filming costs
- 20% tax credit on digital animation or visual effects labor-based costs





## **Incentives:**

- 25% tax credit on all qualified production costs
- 20% tax credit for animation and visual effects production



**Qualified British films must have one of the following:**

- co-production bilateral treaty with U.K. country
- include producer who is a member of the European Convention on Cinematographic Co-production
- have some British element

**Incentives:**

- 25% cash rebate of qualified film expenditures with total production expenditures of as much as £20 million
- Reduced to 20% if expenditures exceed £20 million



### **Incentives:**

- 20% cash (financial aid) grant on qualified production expenditures incurred in Germany
- Project cap of € 4 million per film