

# JOINT OVERSIGHT HEARING

Assembly Committee and Revenue and Taxation

Assembly Committee on Arts, Entertainment, Sports, Tourism and Internet  
Media

OCTOBER 9, 2013

## California Film and Television Tax Credit Economic Impact Study

# Update



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# Film and Television Production



- Production is very lucrative and mobile
  - Cost considerations override most other factors in location decisions
- Competition from other states and nations is designed to induce the indigenous development of an industry cluster
  - Has been successful in luring away production

# California Film Industry



- CA accounts for 12 percent of US employment, but almost 40 percent of employment in this industry
- CA has a deep and well-established industry cluster
  - Almost 92 percent of the goods and services purchased by the industry are sourced within the state
  - It spent \$13 billion on goods and services in CA in 2011, and \$18 billion on wages and salaries

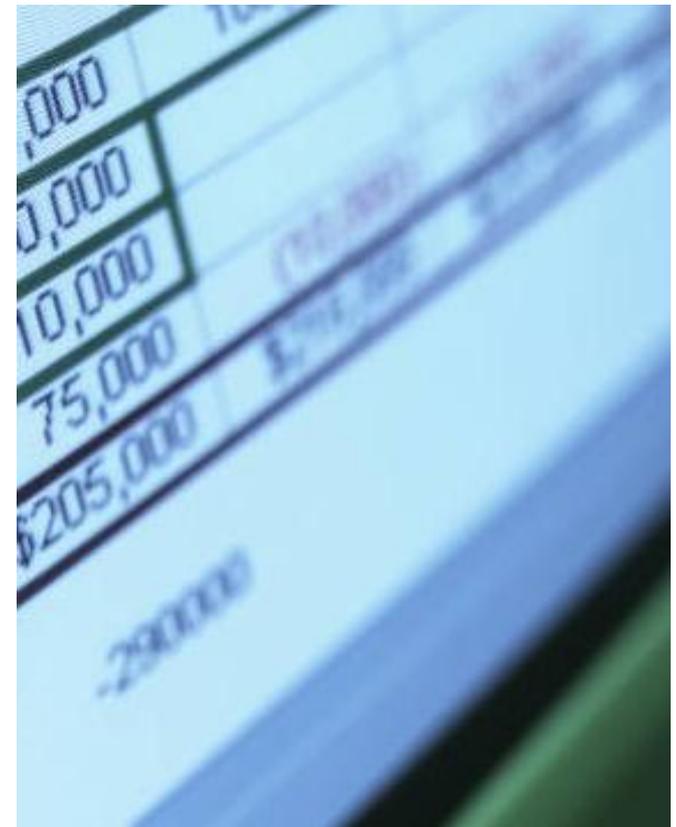
# Tax Credit Programs

- In the face of budget realities, is this a program worth keeping?
- At what cost to the state?
- We expect CA to enjoy stronger impacts from its incentive program
  - CA economy is large
  - Industry is deep and comprehensive
  - Incentives are moderate
  - CA has a progressive income tax



# Outline of Our Approach

- Reviewed a sample of production budgets
- Estimated the economic and fiscal impact of these expenditures
  - Cost benefit analysis
- Ancillary production
- Other considerations
  - Network television series
  - Large budget productions
  - Film-related tourism



# Approved Productions by Type

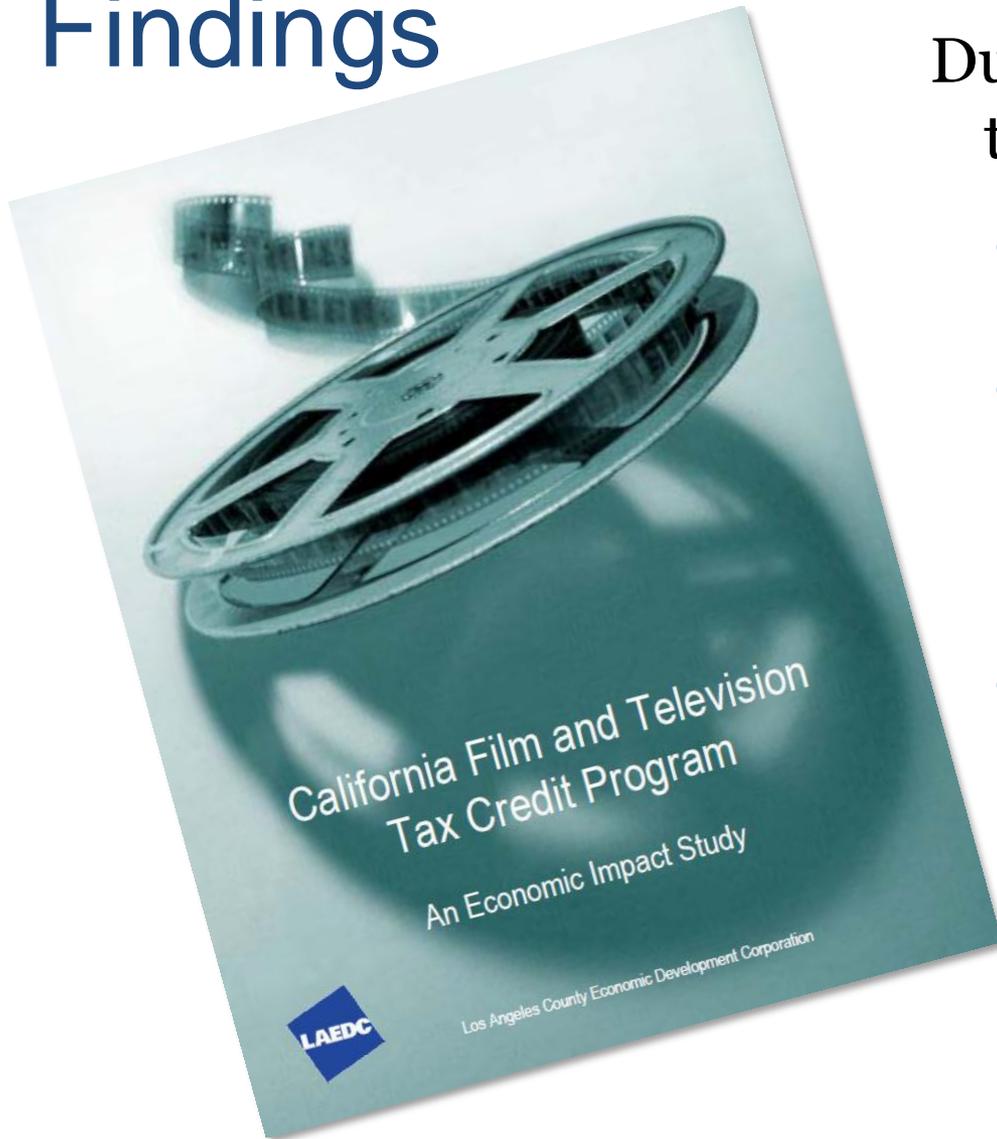
(2009-10 and 2010-11)

Production Type	Number of Projects	Qualifying Expenditures (millions)	Credit Allocation (millions)	% of Total
Feature film	34	\$ 758.7	\$ 152.0	76.5
Movie-of-the-week (MOW)	3	21.9	4.5	2.2
New television series	6	96.9	19.4	9.7
Relocated television series	1	5.4	1.3	0.7
Independent feature films	22	67.8	16.7	8.4
Independent MOW	11	19.7	4.9	2.5
<b>Total</b>	<b>77</b>	<b>\$ 970.3</b>	<b>\$ 198.8</b>	<b>100.0</b>

Source: California Film Commission



# Findings



During the first two years of the program:

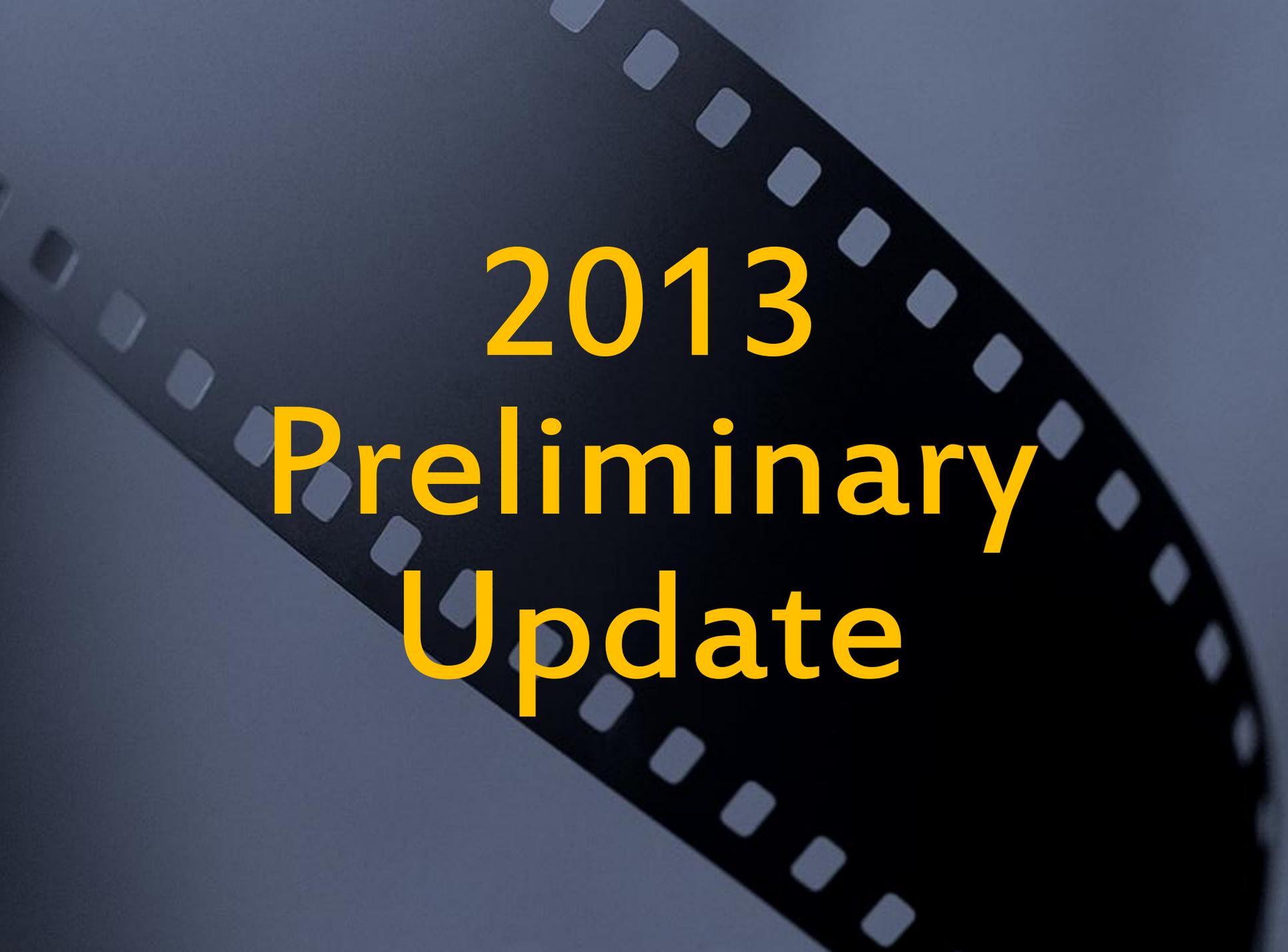
- 77 productions qualified
- Generated 20,000 jobs with \$1.4 billion in labor income
- For every \$1 tax credit allocated, at least \$1.13 in tax revenue will be returned to state and local governments



# Other Impacts

- Ancillary production
  - Availability of talent, supplies and services tends to facilitate additional production activity coincident or related to main production
- Film-related tourism
  - Revenues in the accommodation industry reached \$18 billion (2011)
  - Tourism impacts are not included in our models, but are likely significant



A dark blue background with a diagonal film strip graphic. The film strip is black with white sprocket holes and runs from the top-left towards the bottom-right. The text is centered over the film strip.

**2013  
Preliminary  
Update**

# Tax Credit Program 2013



As of July 2013:

- 128 projects have been closed
- Budgets have been audited
- We now know actual expenditures in California (*\$2.14 billion*)

# Approved Productions by Type

(All Projects to Date)

Production Type	Number of Projects	Qualifying Expenditures (millions)	Credit Allocation (millions)	% of Total
Feature film	31	\$ 670.6	\$ 129.6	51.6
Movie-of-the-week (MOW)	1	15.4	3.1	1.2
New television series	16	267.8	50.8	20.2
Relocated television series	5	67.9	16.7	6.7
Independent feature films	44	177.3	39.8	15.9
Independent MOW	31	46.4	11.0	4.4
<b>Total</b>	<b>128</b>	<b>\$ 1,245.3</b>	<b>\$ 251.1</b>	<b>100.0</b>

Source: California Film Commission



# Approved Productions by CA Spend

(All Projects to Date)

Qualifying Expenditures	Number of Projects	% of Total	Total Credit Allocation (millions)	% of Total
\$0 to \$2 million	22	17.2	\$ 5.4	2.2
\$2 million to \$5 million	34	26.6	12.6	5.0
\$5 million to \$10 million	13	10.2	14.9	5.9
\$10 million to \$20 million	19	14.8	34.4	13.7
\$20 million to \$40 million	22	17.2	70.6	28.1
Over \$40 million	18	14.1	113.1	45.0
<b>Total</b>	<b>128</b>	<b>100.0</b>	<b>\$ 251.1</b>	<b>100.0</b>

Source: California Film Commission



# Economic Impact of Approved Productions (All Projects to Date)

Direct Impact	
California expenditures (\$ millions)	\$ 2,247
Credit allocations (\$ millions)	251
Total Economic Impact	
Output (\$ millions)	\$ 4,204
Employment (jobs)	25,600
Labor income (\$ millions)	\$ 1,942
State and local taxes (\$ millions)	\$ 278
<b>ROI</b>	<b>1.11</b>

Source: California Film Commission; Estimates by LAEDC; \$2012



# Conclusions

- 128 productions have received tax credit allocations
- Productions often spend more than they originally anticipate – *allocations are based on initial estimates*
- For every tax credit dollar allocated under the program to date, *at least \$1.16 in tax revenue* will be returned to state and local governments
- Additional impacts from film-related tourism may be significant

# Factors to Consider



- The overriding factor influencing the return is the proportion of the budget that is above-the-line – *because this is free-riding spending*
- Spending often exceeds original estimates on which the allocations are based
- Not all tax credit allocations are realized

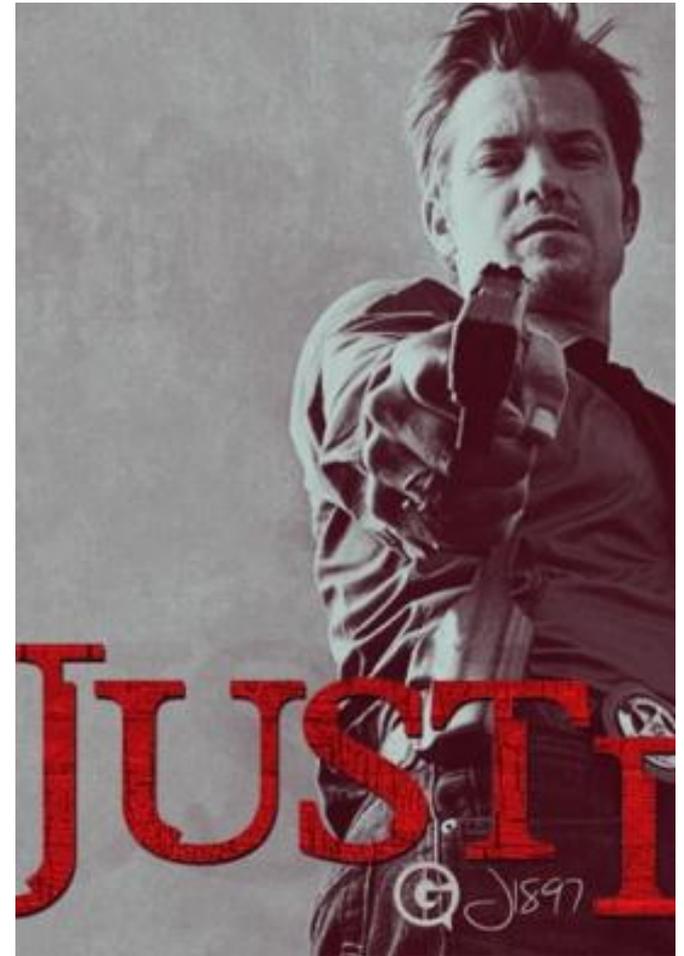
# Big Budget Films

- Larger productions have larger impacts
  - If the program were to cap the credits but allow the productions to qualify, this may encourage some productions to stay in CA



# Television Series

- Many television series are long-running
  - Local businesses will benefit over time



# Thank You

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<http://laedc.org/economic-research-analysis/laedc-reports/>

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**LAEDC**