



Film Flight: Lost Production and Its Economic Impact on California

by Kevin Klowden, Anusuya Chatterjee,
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Presented by:
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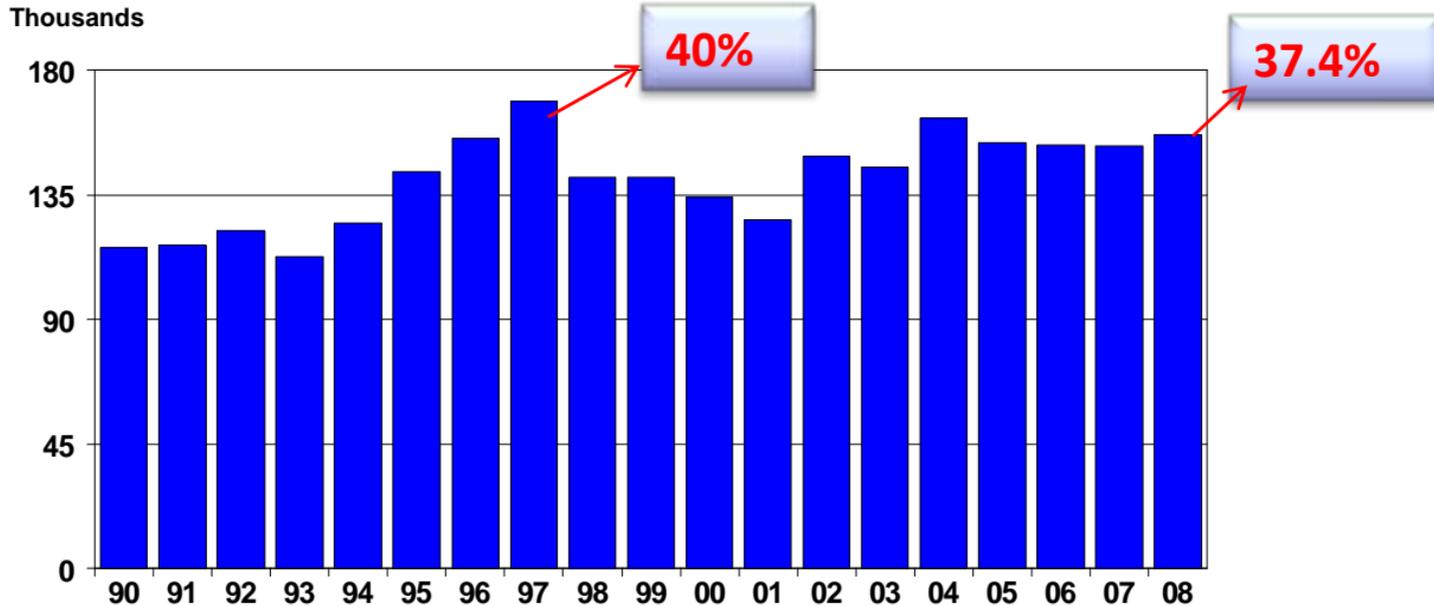
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- The Entertainment industry in California is facing very strong competitors – starting with Canada in the 1990s and increasingly now from other states.
- Film and TV production numbers have declined, but the long-term impact can be measured in terms 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.



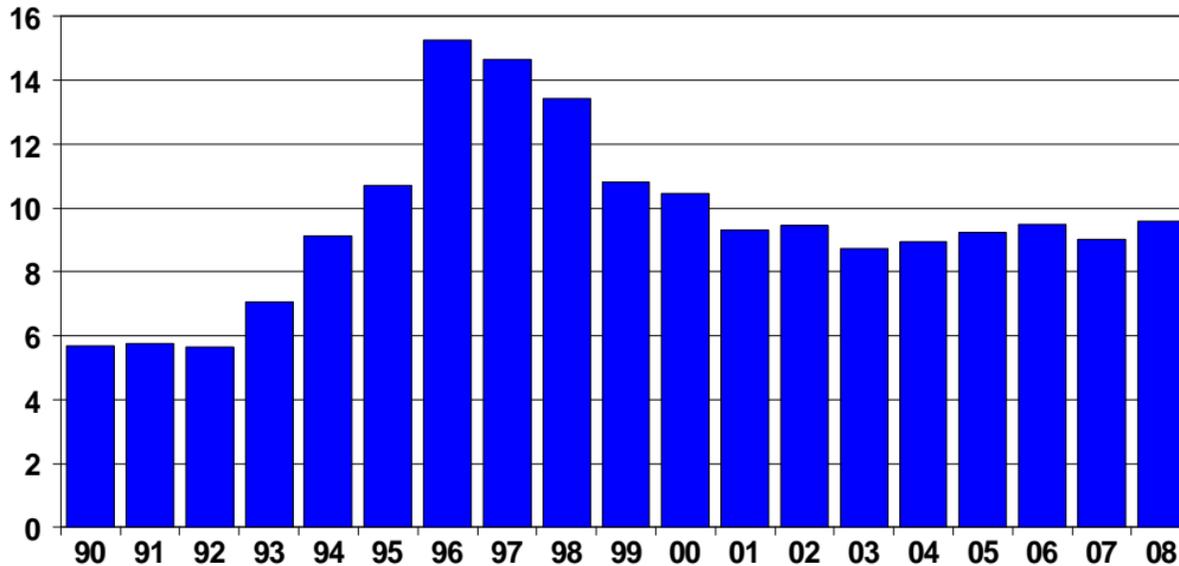
Post-production in California

Employment



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Thousands



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



Estimated gains in broader economy



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

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:

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



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

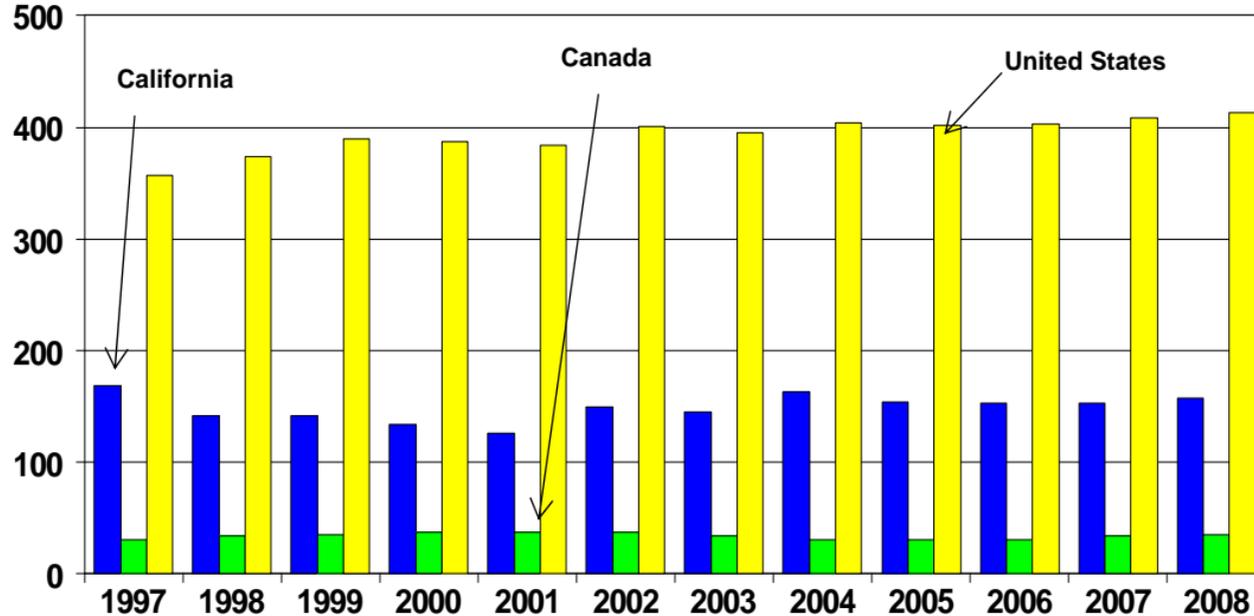
Movie and video industry employment

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