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Executive Summary

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Film Flight: Lost Production and Its Economic Impact on California

Hollywood has always been the heart of the entertainment industry, but today a host of competitors are vying for new film and television productions—and the jobs that go along with them. Rival locations (especially Canada, New York, Georgia, Louisiana, North Carolina, and New Mexico) now offer an attractive combination of lower costs, technical talent, incentives, and infrastructure.

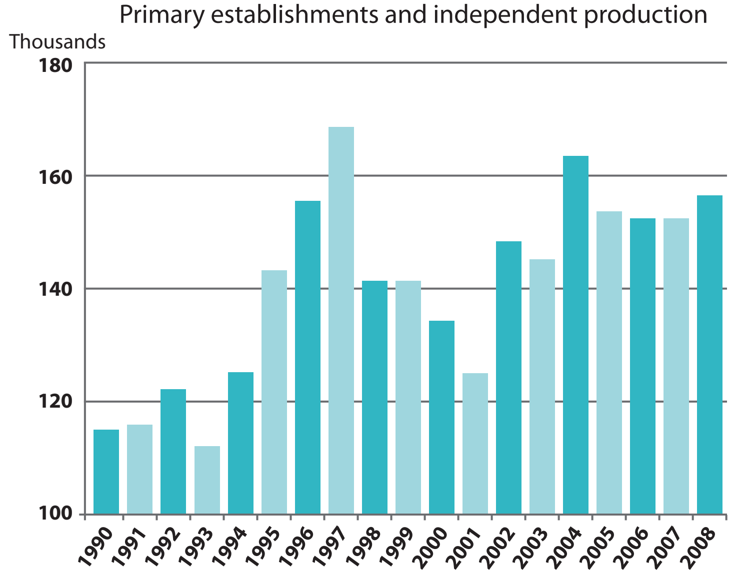
California no longer can afford to rest on its laurels or its storied entertainment industry pedigree. Movie projects can move, and when they do, they take with them millions of dollars in lost local spending. In recent years, according to the California Film Commission, the number of movies either wholly or partially filmed in state has fallen sharply, from 272 in 2000 to 160 in 2008.

Employment in California's movie and video industry (encompassing production, post-production, and independent artists) reached its peak in 1997. But since then, the state's share of North American employment in the industry has declined from 40 percent to 37.4 percent in 2008.

Our research shows that if California had managed to retain the 40 percent share of North American employment it once enjoyed, 10,600 direct jobs would have been preserved here in 2008. Furthermore, those direct jobs would have had broader economic impact, generating an *additional* 25,500 jobs after rippling through other sectors. If the state had maintained its former level of dominance, a total of 36,000 jobs would have been saved, generating $2.4 billion in wages and $4.2 billion in output.

California finally passed a film incentive program in 2009 (though it is more restrictive than other states' programs and specifically excludes big-budget films). Early data from FilmL.A., which coordinates permits for on-location shooting, shows a solid increase in production days in Los Angeles for the first two quarters of 2010. This fledgling rebound is attributable to both the new state incentives and general economic recovery from the slump of 2009. It's a positive sign—but it would be premature to conclude that the battle is won.

California's movie and video industry employment
Primary establishments and independent production



Sources: California Employment Development Department, Moody's Economy.com

Estimated gains in broader economy if California had retained its 1997 share of North American employment

	Direct impact	Indirect impact	Total impact
Employment	10, 606	25,487	36,093
Wages	$970M	$1.43B	$2.40B
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: BLS, BEA, Moody's Economy.com, Milken Institue.

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Recommendations

California has the opportunity to build on this early momentum. The existing incentives could be more effective if they were made permanent and expanded to include big-budget films, which generate greater local spending. To retain and grow film and television production, the state should take the following steps:

- design a balanced and sustainable two-tier film incentive program to maintain competitiveness (with one set of benefits to engage big-budget films, and another set to attract smaller independent productions, including those intended for cable)
- expand the current tax credit for television production to encompass network and premium cable shows
- make tax incentive programs permanent, thus signaling long-term commitment
- consider implementing a new digital media tax credit to attract and retain developers of digital animation, visual effects, and video games
- more effectively track film production data, including how many days of production are spent within the state versus other locations, along with the utilization rates of studio soundstages and similar facilities
- encourage long-term investments in infrastructure by implementing tax credits for building or upgrading studio or post-production space
- improve the ability of local film commissions to expedite the permitting process
- create proactive marketing and outreach strategies
- establish cooperative relationships beyond the state's borders to attract and better facilitate foreign-funded productions

One route to implementing several of these recommendations would be providing the California Film Commission with enhanced staffing and marketing resources. The commission could then take on the task of comprehensive data collection, establishing a clear mechanism for monitoring the health of a crucial industry. Industry data is currently inconsistent and often incomplete, a problem that needs to be corrected, especially if effective policies are to be put in place.

There's no denying this is a tough time to afford targeted or expanded tax breaks—but in this case, California can't afford *not* to. The state can't squander any opportunities to retain and add significant numbers of high-paying jobs. Given the trends over the last decade, the long-term payoff of shoring up a major industry far outweighs the short-term cost to revenues.

If production losses continue, industry professionals will relocate altogether, with increasing consequences for California's revenues and its pool of human capital.

It would be infeasible to match incentives from other locations that provide large upfront cash advances and unsustainably large film credits. However, by providing modestly expanded and more effectively targeted credits that lower the cost of production to a reasonably competitive level, California will position itself to win over producers based on its strengths in human capital and facilities as well as its reputation for excellence.

Even if tradition keeps the headquarters of the main studios and production houses in the state, it will mean very little if the actual production work is done elsewhere. Over the past few decades, California has watched a number of its major industries—including financial services, aerospace, and garment manufacturing—pack up and move to greener pastures. Especially in the current climate, California cannot allow another key industry to slip away.

The Milken Institute is a leading economic think tank based in Santa Monica. Our California Center is dedicated to ensuring the state's long-term prosperity and quality of life. The full "Film Flight" report, by Kevin Klowden, Anusuya Chatterjee, and Candice Flor Hynek, is available for download at **www.milkeninstitute.org.**

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