ERA Testimony for:

Legislative Budget and Finance Committee (LBFC)

Pennsylvania Film Incentives and Impacts

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FILM INCENTIVES AND ECONOMIC DEVELOPMENT

ERA is a firm that specializes in economic analyses of all sectors, has conducted over 18,000 assignments in our 50-year history and completed more than 60 economic analyses of the film and motion picture sector since 2000. We were retained by the Pennsylvania Legislative Budget and Finance Committee (LBFC) to estimate the scope of economic and fiscal impacts related to the Commonwealth's film tax credit (FTC) program. Over the course of this analysis, ERA profile the use of similar incentive programs elsewhere and the broad economic context for such programs, national industry trends and their implications for the Commonwealth, and estimated economic and fiscal impacts to the Commonwealth of its FTC program.

The use of tax credit programs as an economic development tool is common at federal and state levels in the U.S. Most often such programs are geared towards industrial and manufacturing sectors as such sectors have for local economies high levels of "multiplier impacts" – successive rounds of local spending generated from the initial activity. The motion picture industry also has a high level of multiplier impacts and is in the top 10 percent of industries in the Commonwealth in terms of such impacts. This compares favorably with most industries, including pharmaceutical manufacturing which ranks 127th, whereas the film industry ranks 30th. The Commonwealth currently spends in the order of $300 to $400 million annually on manufacturing and industrial economic development assistance. The FTC program is currently capped at a maximum of $75 million annually – though our analysis indicates that the net cost of the program is closer to $40 million a year.

A strong economic rationale exists in favor of supporting growth in industries which more intensively use the resources and talent needed in the economic activity of the future, thus developing a capacity that is better aligned with more forward-looking economic outcomes. The film industry in particular has some notable positive attributes reviewed in the report including:

- Large ratios of employment wages to the overall costs of production;

- Relatively higher paying jobs as compared to both other industries overall, and similar types of work in other industries;
- Significant potential for local spin-off including new business, technical innovation, and infrastructure;
- Film and media is currently – and likely to remain – one of the core U.S. export markets of the future;
- It is a core component of creative industries, which show a strong statistical relationship to the presence of higher paying, knowledge-intensive jobs such as high technology, and an enhanced potential for retention of young talent;
- It is a relatively clean industry which does not produce significant negative environmental impacts that need to be mitigated;
- And there is a generally recognized link between tourism and media production activities that, while difficult to quantify, is supportive of increased tourism levels.

The number and use of tax credit programs has evolved significantly in recent years. Many U.S. states have enacted similar programs in response to the loss of production activity and the visible success of other places using incentives to attract production (most notably in Canada). Early adopters included programs in the states of New Mexico and Louisiana and the number of state programs has grown from just a small few around 2002 to a current count of 42.

The film industry is well aligned with future economic trends and the Commonwealth could expect to lose significant amounts of production activity statewide without such a credit. In the current economics of the industry and the highly competitive landscape at state levels, the presence of a film tax credit for producers can be considered the price of admission for being considered for such activity. Film tax credits have demonstrated a strong relationship between the credit and levels of production activity in states, and producers locally and nationally indicate that their decision process is highly sensitive to access to credits. For these two reasons, film credits are a vital component of attracting production. What is more, for states that wish to retain the film industry, the costs of redeveloping such a capacity at a future point is likely to be much more costly than supporting and building on current economic capacity.

There are four important opportunities for enhancing economic impact of the industry which deserve note and are reviewed briefly in the body of the report:

- The first: workforce and physical infrastructure development. Workforce is typically the most important consideration when productions make decisions on where to film. For any film with notable budgets of several million dollars or more, producers do not want to take a chance with insufficient labor depth or experience as this can directly and significantly impact total costs to produce. As well, all else being equal, the presence of usable quality infrastructure can be a deciding factor in ultimate production location decisions.

- Also are the links to business development and talent retention programs. While tax credit programs increase the level of employment in a region, it is also important to create strong links to educational and certification programs. Retention of young talent in a region is an important function of such programs, especially given the long term contributions of such residents to future economic development goals and resident tax bases.

- Operational program adjustments can modify tax credit policies in a way that enhances their ultimate economic and fiscal impacts. Once precise economic development goals are defined, credit programs can be tailored to those goals. For example, if increasing employment is the primary goal, greater emphasis on providing a tax credit for Pennsylvania resident employment can be emphasized, and certain types of production such as TV programs and lower budget features of $2-$20 million can often create greater levels of impact given their relatively more intensive use of local resources.

- Finally is the prospect of defining and creating a durable niche. While the current state of competition in the industry necessitates a tax credit as a basis for competition, such incentives should be used with an eye towards defining and developing a defendable market niche. A durable market position can help to 1) support the goal of maintaining workforce, infrastructure, and business capacity through the current competitive realities of the industry, and 2) produce a strong basis for further growth in the industry once the level of competition subsides.

PA Results

The major legislative changes and tax credit availability in Pennsylvania correspond with noticeable increases in productions. Using one of the broadest measures of production activity which includes feature films, television (TV) episodes, made for TV movies, TV series, direct to video movies and live action video games, there have been 922 productions that were released between 2002 and 2008 that took place, all or in part, in Pennsylvania. Films dominate the industry with 615 productions over this time period and growth in productions averaged 33 percent annually from 2002 through 2008.

To perform this economic analysis, ERA uses IMPLAN, a software program common in estimating economic impacts nationwide. Generally speaking there are two core models for evaluating economic impact – IMPLAN which is generally ERA's preferred method, and REMI multipliers. Both are generally accepted as reasonable estimates of a region's economic capacity to handle certain activities and based on the current relationships of economic input-output variables. The core differences in the two models have to do with estimating changes in these underlying variables over time.

In ERA's experience IMPLAN is a suitable model for large economic or geographic areas such as a developed country or state, where incremental demand is unlikely to significantly alter inter-industry relationships. In our experience elsewhere, at the statewide level when IMPLAN and REMI outputs have been estimated for the film industry, the results have been within 5 percent, with IMPLAN producing a slightly more conservative outcome. ERA is aware of the use of IMPLAN in evaluating several state film industries including Louisiana, Connecticut, New York, New Mexico, and Virginia. ERA is aware that Florida and Michigan have used REMI models to estimate such impacts.

The incentive for FY 2007-08 and known ancillary activity is estimated produce a total economic impact of $524.6 million for the Commonwealth. Approximately 3,950 jobs are supported by these projects with $146.4 million in wages.

The program has an estimated $58.2 million cost to the Commonwealth in terms of tax credits. There is an estimated $17.9 million in additional state and local tax revenues to the Commonwealth, bringing the net cost of the program to roughly $40.3 million.

According to our analysis the total industry produces fiscal benefits to the Commonwealth of $62.7 million. While some of this activity would occur without the benefit of the FTC, our analysis on this and other programs leads us to the conclusion that a significant proportion of this activity would be at risk without such a tax credit program – though the exact amount was not quantified for this analysis. Thus, on the whole, the industry could be said to produce a net fiscal gain of $4.5 million ($62.7 minus $58.2 million), though the direct production credits have a net cost of $40.3 million to the Commonwealth.