

**State of Oklahoma  
Incentive Evaluation Commission  
Film Enhancement Rebate Program  
Draft Report**



**November 1, 2016**

**Prepared by**



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# At a Glance: Film Enhancement Rebate Program

Statute: O.S. 68 Section 3621

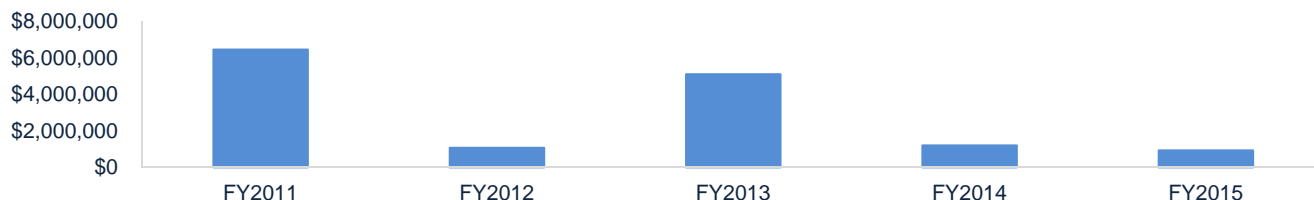
## Program Goals

- Attract Film and Television production to the State
- Generate jobs for Oklahoma residents and investment in Oklahoma businesses
- Enhance the state's image nationwide

## Fiscal Impact

	FY2011	FY2012	FY2013	FY2014	FY2015
<b>Total Rebate Amount</b>	\$6,458,611	\$1,074,309	\$5,110,337	\$1,208,471	\$932,327
<b>Productions</b>	5	4	2	5	6

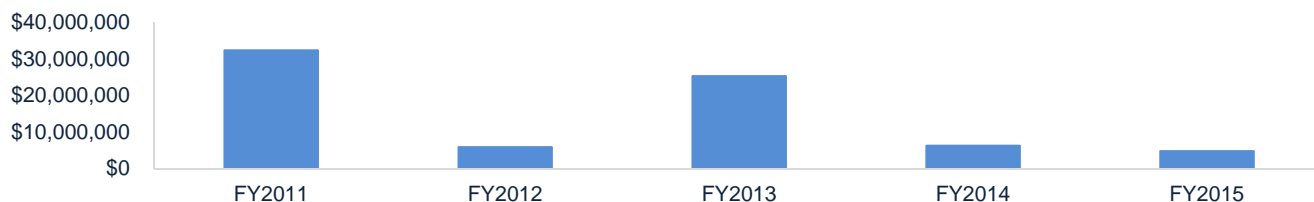
Total Rebate Amount by Year



## Economic Impact

	FY2011	FY2012	FY2013	FY2014	FY2015
<b>Output</b>	\$32,379,595	\$5,864,899	\$25,314,340	\$6,276,561	\$4,788,023
<b>Labor Income</b>	\$13,264,151	\$2,241,966	\$10,175,685	\$2,399,332	\$1,856,675
<b>Employment</b>	838	139	640	149	116
<b>Total Tax Revenue</b>	\$854,711	\$143,417	\$661,607	\$152,457	\$117,622

Economic Output by Year



## Adequate Protections for Future Fiscal Impact?

- Yes, the program has a cap of \$5.0 million per fiscal year. Claims exceeding the cap can be paid in following years.

## Effective Administration?

- Yes, the Oklahoma Film + Music office have established processes that are smooth, fair, and verifiable. A clear and comprehensive set of guidelines is available to applicants.
- Unlike many other state programs, eligible costs are defined narrowly to maximize in-state benefits.

## Achieving its Goals?

- No. There is no evidence that the Oklahoma film industry has strengthened during the time period when the rebate has been available.
- Documented job creation is neither stable nor sustainable absent state support.
- The effect on Oklahoma's image nationwide is unclear, but likely limited.

## Retain, Reconfigure, Repeal?

- Repeal or allow to sunset as scheduled in 2024.

## Changes to Improve Future Evaluation?

Should the State opt to preserve the program, program administrators should supplement existing data reporting practices by retaining the following information shared by rebate recipients: (1) duration of film shoot or employment period; (2) in-state goods and services expenditures by type; and (3) rebate expenditures associated with Oklahoma "expatriates" and Oklahoma Production Service Entities. To the extent possible, administrators should also increase reporting consistency when documenting film productions not receiving state incentives.

# **Executive Summary**

In the early 2000s, film incentives rapidly became one of the more widely adopted types of economic incentives, spurring a subsidy war as states became increasingly aggressive with their offered film incentive packages. Oklahoma's program, approved in 2001 and funded starting in 2005, offers direct rebates for documented in-state expenditures on Oklahoma goods and services, wages and fees. In 2009, the rebate amount was increased from 15 percent to 35 percent, with an additional two percent available for expenditures related to music and recording in Oklahoma. The overall goals of the program, as articulated in State statute, are to attract film and television productions to Oklahoma and thereby provide jobs for state residents, dollars for local businesses, and enhance the state's image. The program has been renewed through FY2024.

### **Program Requirements, Eligibility, and Administration**

With a cap of \$5.0 million per fiscal year, Oklahoma's film incentive program is among the most conservative of all state programs reviewed. Given that Oklahoma lacks the depth and breadth of film support industries available in other states, the program has been narrowed to target lower budget film series or independent films. Required production budgets are among the lowest of all state programs reviewed, and the rebate offers the highest percentage of production expenses and payroll among benchmark states. In addition, Oklahoma offers two loopholes – the Oklahoma expatriate program and the Oklahoma Production Service Entities program – to encourage productions to hire pre-approved out-of-state crew members and businesses for otherwise hard-to-fill positions. As such, despite a narrow definition of eligible costs compared to other states, at least some portion of Oklahoma monies are flowing to non-residents and non-resident businesses.

The administrative processes associated with the rebate program have been designed to ensure that no Oklahoma tax payer dollars are allocated toward ineligible expenses or towards productions that are unlikely to be completed and distributed as planned. Staff at the Oklahoma Film + Music Office have established a calendar and set of requirements to ensure that the process is smooth, fair, and verifiable. Guidelines for eligibility and program administration are set forth clearly and comprehensively in the state statute, the administrative rules, and the guidelines and application instructions that have been prepared for prospective applicants.

The program has considerable reporting and verification requirements; however much of that information cannot be shared with program evaluators, either because it is protected from disclosure due to State confidentiality laws, or because the Oklahoma Film + Music Office does not maintain particular data points in electronic databases so as to streamline information retrieval. Future evaluations would benefit if the Oklahoma Film + Music office were able to report the following information:

- **Duration of the film shoot or employment period.** If such data were readily accessible, program evaluators could convert production employment figures into Full Time Equivalents (FTE), which would allow for a computation of the state cost per FTE position created.
- **Rebate expenditures associated with registered Oklahoma "expatriates" and Oklahoma Production Service Entities,** neither of which are permanently located in Oklahoma.

- **In-state good and services expenditures by type.** Many of the businesses that benefit from motion picture shoots are not film production businesses per se but support companies ranging from food and lodging, to transportation, logistics, and insurance. Some of these sectors may be important targets that merit State support; others may already be thriving components of the local economic base and subsidized support may not be a cost effective use of State resources.
- **Motion picture projects not receiving state subsidies.** If the data were collected and reported using consistent categories, it would be possible to determine how Oklahoma's film industry is evolving over time, particularly compared to peer states, and draw conclusions about whether the rebate has been successful in extending the depth and breadth of the local film industry.

### **The Effects on Oklahoma's Film Industry, In-State Jobs, and National Exposure**

For the time period from FY2011 through FY2015, the State of Oklahoma expended \$14,784,055 and received a return of \$1,929,854, for a return on investment of 13 cents for every dollar expended in rebates. Of the 15 independent film incentive audits or program evaluations reviewed by the project team, all reported negative return on investment for state monies, often cents on the dollar. Regardless of how efficiently film incentives are administered, the return on investment to the state will likely always be negative.

The film industry is highly elastic, with site selection decisions based predominately on a comparison of the incentives available in different states. Film incentive programs are generally considered to be one of the most important factors considered by production companies when deciding on location.

Unfortunately, given the data currently available, it is difficult to demonstrate unequivocally that Oklahoma's film industry has strengthened during the time period when the rebate has been available. Given the strong correlation found in other studies between the existence of competitive incentive programs and film location activity, the inconclusive trends about Oklahoma film production activity raises doubts about the effectiveness of the state's film incentive program.

Film productions that have been leveraging Oklahoma tax rebates have been employing increasingly large numbers of Oklahoma residents. However, due to the temporary nature of film employment, these new jobs are short-term. Absent data on the length of employment, it is not possible to convert these employment numbers into full time equivalents (FTE), which would allow for a comparison of job quality, quantity, and cost across other subsidized industries.

The experience of other states indicates that – even if Oklahoma were to succeed in fostering a robust film and television industry – the resulting job creation would neither be stable nor self-sustaining. The economic impacts of film production are temporary – any prolonged impact necessitates continued production spending and requisite incentive commitments. Unlike manufacturing plants, film production is quite episodic; after a film is produced, more rebate expenditures are needed in subsequent years to retain and attract new activity. In essence, continued funding of this activity creates an industry whose business model is dependent on ongoing state subsidies. This is in contrast to most other economic development business incentives, which aim to provide ongoing benefits.

Some films can be useful promotional devices, a valuable advertisement or marketing tool for a region, especially immediately after released and in cases where the film has lasting popularity. However, the consensus among academic researchers and independent state auditors is that films that lead to notable film tourism are the exception. The effect on tourism, if any, depends on a host of idiosyncratic factors such as the popularity of the film, whether the filming location is shown in an attractive way, and the accessibility of the filming location. The project team was not able to identify any independent film program evaluation that attempted to quantify the value of heightened national exposure or the benefits of film tourism.

The mounting evidence against the economic viability of such programs has prompted 13 states to discontinue their film incentive programs in recent years. Even states with the strongest hubs of film production – including Louisiana and New York -- have acknowledged film incentives' mixed economic effects and have instituted caps and narrowed eligibility to limit potential losses.

### **Recommendation**

Since the credit does not provide sustainable economic development and provides little return on investment to the State of Oklahoma, the project team recommends that the State allow the film enhancement tax rebate to sunset as scheduled in 2024. A more promising use of these incentive monies would be to redirect the funds towards incentives that create permanent and lasting employment rather than temporary jobs.

# Introduction



## Overview

The Oklahoma Incentive Evaluation Commission (the Commission) was established in HB2182, which was enacted and became law in 2015. It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The Film Enhancement Rebate Program is one of the incentives reviewed in 2016 by the Commission with recommendations to the Governor and the State Legislature.

## Introduction

Until the late 20<sup>th</sup> century, film production activities were predominantly located near Los Angeles and New York City, industry hubs with clusters of specialized infrastructure and workforce. In 1998, Canada began to offer generous film subsidies and tax credits designed to attract film production activities, with local hire provisions meant to spark growth in local film crews. When combined with a favorable exchange rate and lower wages, these incentives rapidly changed the location patterns of U.S. film production activities and prompted the development of a strong Canadian base of “below the line” crew members, such as production crew, set designers, and extras. Seeking to emulate Canada’s success, Louisiana and New Mexico approved or modernized their film incentive programs in 2002 and reported immediate benefits: by 2005, both states were among the top ten production locations in the country.

The popularity of film incentives grew rapidly, spurring a subsidy war as states became increasingly aggressive with their offered incentives. By 2010, a total of 43 states offered film incentives. These incentives were highly effective in influencing location decisions: the number of new network dramas filmed in California fell from 79 percent in 2005 to 8 percent in 2012.<sup>1</sup> Film incentive programs are now considered to be one of the most important factors considered by production companies when deciding on location.

Oklahoma’s Compete with Canada Film Act was passed in 2001, allowing for a cash rebate to films that met certain in-state spending requirements. However, it wasn’t until 2005 that the State allocated an annual \$5.0 million to fund the rebate program, having arguably missed an opportunity to become one of the first hubs of film production outside of California. Between 2005 and 2009, the State’s film incentive program provided a direct 15 percent rebate for documented in-state expenditures on Oklahoma goods and services, wages and fees. Qualified expenses include wages and salaries of state residents, cost of construction, wardrobe, photography, sound synchronization, lighting, editing, facility rentals, and other direct costs of production. In 2009, the rebate amount was increased to 35 percent, with an additional two percent available for expenditures related to music and recording in Oklahoma. The additional two percent rebate requires that at least \$20,000 is spent on music created by an Oklahoma resident recorded in Oklahoma, or for the cost of recording in Oklahoma.

The Oklahoma Film + Music Office administers the program, including verification of all eligible expenses. Productions must have a budget of at least \$50,000 and spend at least \$25,000 in-state to qualify for the

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<sup>1</sup> McDonald, A. "Down the Rabbit Hole: The Madness of State Film Incentives as a "Solution" to Runaway Production." University of Pennsylvania Law School Journal of Business Law (2011): 101-81. Available at: [http://www.stoprunaway-production.com/wp-content/uploads/2009/07/McDonald\\_To-Send-toAuthor.pdf](http://www.stoprunaway-production.com/wp-content/uploads/2009/07/McDonald_To-Send-toAuthor.pdf)

rebate. The program has a rolling cap of \$5.0 million per fiscal year; claims exceeding the cap can be paid in following years. The program has been renewed through FY2024.

### **Criteria for Evaluation**

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In this case, the legislative intent as articulated in the statute is to attract film and television productions to the state, in order to:

“provide jobs for Oklahomans and dollars for Oklahoma businesses, [and] also enhance the state’s image nationwide. [...] It is therefore the intent of the Legislature that Oklahoma provide an incentive that will stand out among those of other states and increase film production in this state.”<sup>2</sup>

To assist in a determination of the effectiveness of the program, the Incentive Evaluation Commission has adopted the following criteria:

- Marginal wages and salaries paid to Oklahoma residents by films eligible for the rebate – comparison to period prior to the rebate
- Film-related expenditures in Oklahoma by films eligible for the rebate – comparisons to period prior to the rebate
- Additional identifiable business activity directly or indirectly produced by films eligible for the rebate
- Additional identifiable benefits that accrue to the State by films eligible for the rebate
- Return on investment (economic activity versus rebates paid)

These criteria are discussed throughout the report, to the extent possible given data availability.

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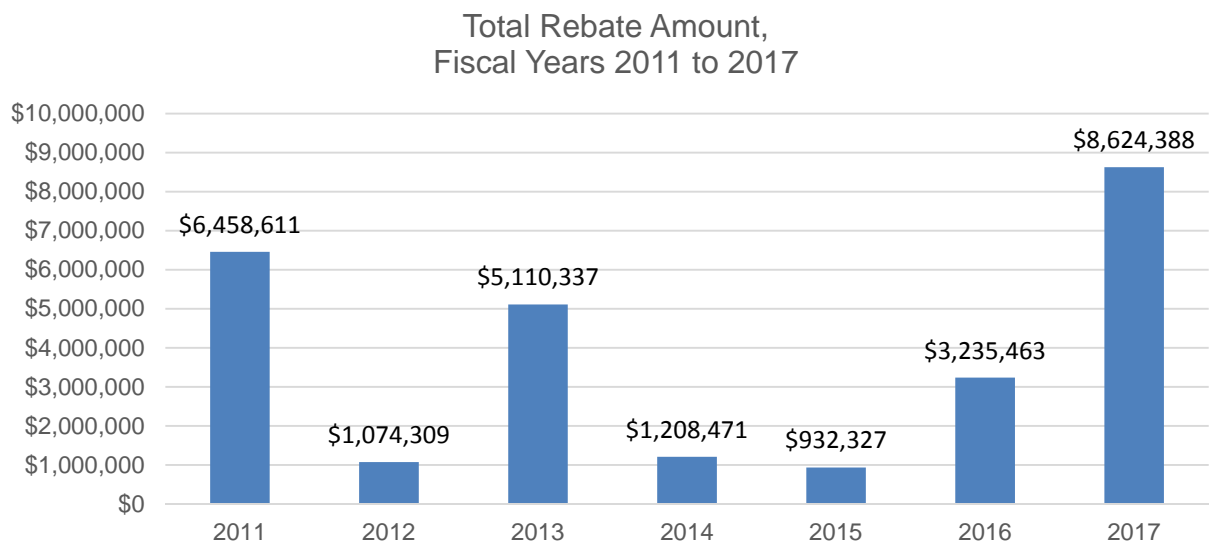
<sup>2</sup> 68. O.S., Section 3621-3626

# **Program Background and Benchmarking**

## Background

Participation in the film rebate program has varied substantially from year to year. In FY 2016, there are 11 productions in the state qualifying for a total rebate amount of over \$3.2 million. The Film + Music Office reported that there are already six productions for FY 2017 that are expected to qualify for a total rebate amount of up to \$8.6 million, including one major film that may qualify for over \$4.3 million in rebates. As noted previously, claims exceeding the \$5.0 million annual cap can be paid in following years, in the order in which the claims are approved.

As illustrated by the following graph, annual rebate levels have varied from year to year, and it is not possible to predict how funding trends will continue beyond FY2017.



Source: Oklahoma Film + Music Office, 2016.

## Benchmarking

As noted in the introduction, most states provide incentives to attract film and video production activity. In 2009, the year Oklahoma's rebate amount was increased from 15 percent to up to 37 percent, 42 states, Puerto Rico and Washington D.C. offered film tax incentives.<sup>3</sup> As competition has increased and states began offering increasingly generous programs, questions have arisen about the impact of film incentives on economic development and state finances, as discussed later in this section. That said, inter-state competition for film productions remains strong.

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is exceedingly rare that any two state incentive programs will be exactly the same.

<sup>3</sup> William Luther, "Movie Production Incentives: Blockbuster Support for Lackluster Policy," Tax Foundation Special Report 173 (January 2010), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1538687](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1538687).

For example, many states offer a suite of film incentives programs in addition to a tax credit or rebate structure. These may include grants, sales and use tax exemptions, lodging exemptions, and an assortment of other offers tailored to attract production companies. These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

The process of creating a comparison group for incentives typically starts with a look at bordering states. This is generally the starting point because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

In this case, the comparison group has been extended beyond the neighboring states to include Louisiana, Massachusetts, Minnesota, Georgia, and Alabama, all states that have a tax rebate program comparable to Oklahoma's, with some important differences. Key differentiating factors in state programs include the amount of rebate (or credit), spending requirements, program caps, and in-state labor requirements.

**Program Caps:** Six of the nine comparison states have annual program caps. Oklahoma's \$5.0 million cap is on par with that of Arkansas, but significantly more conservative than all other caps. The next lowest cap in the group is \$20.0 million in Alabama, and the highest is Louisiana at \$120.0 million.

With an annual cap of \$5.0 million, Oklahoma has narrowed its program to target lower budget film series or independent films. High budget productions with greater market distribution rarely consider Oklahoma for film production.<sup>4</sup> Though not included in this comparison group, the State of Mississippi also targets smaller productions and independent films with an annual program cap twice the size of Oklahoma's.<sup>5</sup>

**Spending Requirements:** Seven of the nine comparison states have production spending requirements of \$100,000 or more. Oklahoma's requirement of a \$50,000 production budget is among the lowest in the comparison group. In conjunction with the state's annual cap, Oklahoma's lower spending requirement makes the program accessible to smaller budgeted productions that would not be eligible to receive incentives in neighboring states.

**Amount of Credit/Rebate:** States in the comparison group provide rebates or tax credits ranging from 20 to 40 percent of production expenses and payroll. With a total rebate of 37 percent, Oklahoma has the second most generous rebate percentage in the comparison group.

It is notable that, unlike Oklahoma, several states have separate rebate or credit amounts for production expenses versus payroll expenses. For example, Louisiana offers a tax credit of 30 percent of production

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<sup>4</sup> Interview with Tava Sofsky, Director of the Oklahoma Film + Music Office. September 16, 2016.

<sup>5</sup> Source: Joint Legislative Committee on Performance Evaluation and Expenditure Review. December 15, 2015. [An Evaluation of the Effectiveness of the Mississippi Film Office](http://www.peer.state.ms.us/reports/rpt602.pdf). Report to the Mississippi Legislature. Available at: <http://www.peer.state.ms.us/reports/rpt602.pdf>

expenses and a separate payroll tax credit equal to 10 percent of compensation paid directly to state residents.

**In-State Labor Requirements:** Oklahoma's rebate requires payroll to be paid to Oklahoma residents, expatriates, or Oklahoma registered companies. This restriction is rare among comparison programs. The only comparison states with labor restrictions are Colorado, Texas, and Mississippi, which specify only that a certain percentage of the cast and crew must be state residents.

	Oklahoma	Alabama	Arkansas	Colorado	Georgia	Louisiana	Massachusetts	Minnesota	New Mexico	Texas
Rebate Amount	35% with an additional 2% if \$20,000 or more is spent on music in-state	25% of qualified expenditures and 35% of payroll paid to state residents	20% of qualified costs and an additional 10% for payroll paid to state residents	20%	20% tax credit, with an additional 10% for embedding a Georgia promotional logo in the title or credits of the production	Transferrable income tax credit equal to 30% of eligible expenditures. An additional 10% payroll tax credit is offered to based on compensation paid directly to state residents	25% tax credit for production expenses, 25% payroll tax credit	20 to 25%	25% with an additional 5% for television series or pilots if documentation of intention to continue producing the series in New Mexico is provided	5 to 20% of eligible costs. Additional 2.5% for projects locating in economically distressed areas
Qualified Productions	Film, television, commercials	Films, soundtracks, documentaries, television, sound recording, music videos, commercials, and video games	Films, documentaries, television, music videos, video games, commercials	Films, television, commercials, music videos, industrials, documentaries, video games and others	Film, television, commercials, music videos, animation and game development	Films, television, webisodes, documentaries, commercials	Film, television, commercials	Films, documentaries, television, commercials, music videos, internet, and post production	Films, television, commercials, documentaries, video games and post-production	Films, television, commercials, video games, and post-production
Minimum Expenditure	Total production budget of \$50,000, with at least \$25,000 spent in-state	\$500,000 generally. \$50,000 for soundtracks and music videos	\$500,000	\$100,000 for Colorado production companies \$1 million for out-of-state production companies	\$500,000	\$300,000	\$50,000 in-state for payroll credit, 50% of total production cost for expense based credit	\$100,000 for 20% credit, \$1 million or shoot 60% of days outside of the metro area and spend at least \$100,000 for 25% credit	No minimum	\$250,000 for a 5% rebate, over \$1 million for 10% rebate, over \$3.5 million for 20%
Maximum Expenditure	No per project cap	\$20 million	No per project cap	No per project cap	No per project cap	No per project cap	No per project cap	No per project cap	\$2 million annually, per project	No per project cap
Annual Program Cap	\$5 million	\$20 million	\$5 million	Colorado film office requests program funding annually. The program cap for fiscal year 2015 to 2016 is \$3.5 million	No annual cap	\$180 million	No annual cap	No annual cap	\$50 million	\$32 million
In-state Labor Requirement	Only Oklahoma residents, expatriates, or wages paid to companies registered to do business in Oklahoma may be included as qualified payroll	None	None	Cast and crew must be at least 50% state residents	None	None	None	None	None	70% of paid crew and 70% of paid cast, including extras must be state residents

## Evaluations of other State Film Incentives

Prompted by the 2008 recession and increased budgetary pressures, several states have sought to quantify the economic impacts of their film incentive programs. These programs have become increasingly controversial, as most independent return on investment studies conducted by individual state auditing agencies have found a net loss in revenue to the state treasury. The table below summarizes a sample of these independent program evaluations, most of which concluded that states receive less than 50 cents for each dollar spent on film incentives and often significantly less:

State	Company/Organization Reviewing the Program and Date of the Study	Return on Investment of State Film Industry Incentive Program
Alaska*	Legislative Budget & Audit Committee (2012)	\$0.07
Arizona*	Arizona Department of Commerce (2009)	\$0.28
California	Legislative Analyst Office (2014)	\$0.65
Connecticut	Department of Economic and Community Development (2008)	\$0.07
Florida	Florida Office of Economic and Demographic Research (2015)	\$0.43
Louisiana	Louisiana Department of Economic Development (2015)	\$0.23
Maryland	Department of Legislative Services (2015)	\$0.06
Massachusetts	Massachusetts Department of Revenue (2013)	\$0.13
Michigan*	Michigan Senate Fiscal Agency (2010)	\$0.11
Mississippi	Joint Legislative Committee on Performance Evaluation and Expenditure Review (2015)	\$0.49
New Jersey*	New Jersey Economic Development Authority (2011)	\$0.55
New Mexico	Department of Finance & Administration (2014)	\$0.33
North Carolina	North Carolina General Assembly's Fiscal Research Division (2014)	\$0.46
Pennsylvania	Independent Fiscal Office	\$0.14
Rhode Island	Department of Revenue (2008)	\$0.28

\* These states have recently cancelled their incentive programs

Sources: State program evaluations as listed.



Findings from studies commissioned by film industry advocates typically vary from those performed by independent entities because of different analytical assumptions. Studies commissioned by film industry advocates often do not distinguish between resident and nonresident activity, such as employment of out-of-state actors and filmmakers. Some studies account for local revenues while others do not. Additionally, some studies make questionable assumptions when estimating the economic impacts of film tourism. The actual impact of film tourism will depend on several variables, including how many people view the films made in state, the demographics of the audience, whether particular motion pictures include recognizable scenery, and whether the films portray the state in a positive, negative, or neutral light. Obviously, such a study would also have the task of accurately measuring these and other important factors affecting tourism industry, and would have to be able to isolate impacts due to a particular film and/or films on tourism.

The project team is not aware of any published and peer-reviewed study from a non-interested party that measures the direct and indirect impact of the film credit induced tourism. Independent film incentive evaluations typically do not attempt to quantify film tourism or the economic effects of heightened state visibility through film.

In addition to poor return on investment, several program evaluations have concluded that the quality and number of in-state jobs supported by film incentive programs are not cost effective. A 2016 Massachusetts study found that each net new Massachusetts resident FTE job cost the State \$109,762 in film incentive payments.<sup>6</sup> A 2014 North Carolina study found that \$30.0 million in credits created 55 to 70 new jobs with a total payroll of \$2.0 million.<sup>7</sup> In other words, each job cost the State of North Carolina between \$429,000 and \$545,000, but these positions paid an average salary of \$36,000 a year. As a recent Wall Street Journal article noted, “it would be more sensible to give 100 unemployed people briefcases with \$100,000 in cash.”<sup>8</sup>

The jobs created by film incentives are temporary and of short duration, not dissimilar from the construction industry. In many cases, workers on film productions are employed for only a few weeks (or days). As soon as the film production ends, all positive economic impacts generally cease as well. Due to the fierce competition with other states for film productions, it is difficult if not impossible to determine how much funding a state would have to provide each year in order to develop a sustainable film industry that is also cost effective to the state and local governments. Major motion picture studios have advised state entities – including the Oklahoma Film + Music Office – that states with competitive film incentive programs are considered as viable film production options, while those without are not considered at all.

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<sup>6</sup> Commonwealth of Massachusetts, Department of Revenue. April 20, 2016. [Report on the Impact of Massachusetts Film Industry Tax Incentives through Calendar Year 2013](http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2013.pdf). Available at:

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2013.pdf>

<sup>7</sup> Patrick McHugh and Barry Boardman. April 3, 2014. “Preliminary Review of Handfield Film Study.” Memorandum to Representative Rick Catlin. North Carolina General Assembly Legislative Services Office, Fiscal Research Division. Available at: <http://s3.amazonaws.com/site-docs/cjonline/ReviewofHandfieldFilmStudy-RepCatlin.pdf>

<sup>8</sup> Chris Hudson and Donald Bryson. September 18, 2015. “Yelling ‘Cut!’ for MovieMaking Tax Breaks.” Wall Street Journal. Available at: <http://www.wsj.com/articles/yelling-cut-for-moviemaking-tax-breaks-1442613935>

Given the volatility of film industry employment, states with both large and small film incentive programs have concluded that it is not possible to generate an independent, self-sustaining film industry. Several audits of Louisiana’s film programs – one of the largest in the country – have concluded that despite the allocation of over \$1.3 billion in tax incentives since 2003, the industry’s mobility is such that Louisiana’s gains can be sustained only with ongoing subsidies.<sup>9</sup> A 2016 Massachusetts study estimates that only \$12.0 million out of a total of \$277.2 million in production spending would have occurred in the absence of film incentives.<sup>10</sup> A 2015 study produced by the Maryland Department of Legislative Services cited the lack of stable and sustainable job creation as the primary rationale behind its recommendation that the state allow the incentive to sunset.<sup>11</sup>

The inherent mobility of the film industry raises questions about whether Oklahoma’s goal of fostering the State’s relatively small film industry is either achievable or sustainable. Like Oklahoma, the State of Mississippi has designed its film incentive program with the goal of spurring the development of its nascent film industry. As noted earlier, Mississippi has a low minimum expenditure budget requirement identical to that of Oklahoma. A 2015 state evaluation found that the program had had only limited success in creating industry depth and breadth its first decade, and posited that significant coordination with state workforce training entities would be necessary to expand the number and size of film productions that the state would be able to support.<sup>12</sup> Recommended initiatives included:

- Planning and implementing a certification program for local businesses that have demonstrated necessary skills and competence to support the film industry. The Oklahoma Film + Music Office already maintains a similar list.
- The State Workforce Investment Board should partner with the State Film Office to develop, for inclusion in the State’s workforce development plans, a program for educational certification of technical specialists needed in the film industry.
- Developing a plan to coordinate efforts with the existing film studios in the State to enhance their continued use.

If Mississippi is struggling to grow its film industry without additionally supporting the industry’s workforce development pipeline, it likely that Oklahoma would also be limited in its ability to grow significantly absent such investments. Given the volatility of film industry employment, it is not clear that generating a long-term pipeline for film industry jobs is the most beneficial use of workforce training

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<sup>9</sup> See annual or repeating evaluations of Louisiana’s film incentive programs produced by the Legislative Fiscal Office, the Louisiana Economic Development Agency, and the Legislative Audit Office.

<sup>10</sup> Commonwealth of Massachusetts, Department of Revenue. April 20, 2016. Report on the Impact of Massachusetts Film Industry Tax Incentives through Calendar Year 2013. Available at: <http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2013.pdf>

<sup>11</sup> Department of Legislative Services, Office of Policy Analysis. Sept 2015. Evaluation of the Maryland Film Production Activity Tax Credit. Annapolis, MD.

<sup>12</sup> Source: Joint Legislative Committee on Performance Evaluation and Expenditure Review. December 15, 2015. An Evaluation of the Effectiveness of the Mississippi Film Office. Report to the Mississippi Legislature. Available at: <http://www.peer.state.ms.us/reports/rpt602.pdf>

resources. There is real concern that such an investment might be preparing Oklahoma residents for jobs that fail to materialize in the future.

One of the strengths of Oklahoma's film rebate program is that eligible costs are defined narrowly, excluding wages paid to out-of-state residents and out-of-state businesses (with a few exceptions outlined in the administrative processes section). Given the administrative burdens required to document and verify these in-state expenditures, few state incentives mandate these in-state labor requirements. Other policy tools are more typical, such as local hire preferences, minimum local hire requirements, or more favorable rebates for locally paid wages. The disadvantage of these approaches is that film production companies have little incentive to minimize the "leakage" of incentive monies out of state. Payments to in-state residents have much higher "multiplier" effects than payments to non-residents, as a significantly higher proportion of income earned by residents is spent on local businesses, which in turn generates additional local economic activity. Payments made to non-residents – especially workers who spend only a short time in the state on film projects – will be spent almost entirely elsewhere, likely in the state or states where the worker regularly resides. This is particularly true of wages paid to highly-compensated actors, directors, producers, writers and their staff, whose local expenses – including in-state travel, food, lodging, entertainment, and ancillary expenses – are already included in the film production budget, thereby reducing the amount of income that such highly compensated non-residents need to spend in while in state for film shoots.

Given that many film production workers live in other states and may be on location only for a matter of weeks, there are high costs associated with film incentive program designs that fail to confine qualified expenditures to in-state costs and resident wages. Before Governor Snyder discontinued Michigan's film incentive program, nearly half of the spending that qualified for the film tax credit in the 2009 fiscal year "effectively left Michigan and did not contribute to the State's economic activity."<sup>13</sup> Likewise, prior to the termination of the Alaska film incentive, up to 84 percent of wages at qualifying productions went to non-residents.<sup>14</sup> A 2009 study commissioned by the Massachusetts Department of Revenue found that 84 percent all compensation paid to individuals employed in Massachusetts-based productions between 2006 and 2008 flowed to out-of-state workers, and that the state subsidized approximately \$116.3 million on wages paid to non-residents.<sup>15</sup>

This uncertainty regarding the program's economic viability has prompted several states to either cut back or cancel their film industry incentive programs in recent years. Thirteen states -- Alaska, Arizona, Arkansas, Idaho, Indiana, Iowa, Kansas, Maine, Michigan, Missouri, New Jersey, Washington, and Wisconsin -- have cancelled their film industry incentive programs since the beginning of the 2008

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<sup>13</sup> David Zin. September 2010. "Film Incentives in Michigan." Issue Paper: Papers Examining Critical Issues facing the Michigan Legislature. Senate Fiscal Agency. Available at: <http://www.senate.michigan.gov/sfa/publications/issues/film incentives/film incentives.pdf>

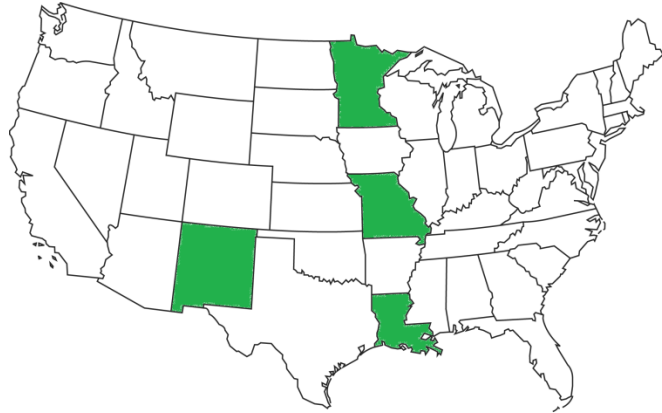
<sup>14</sup> Northern Economics Inc. June 2012. Economic Analysis of the Alaska Film Production Incentive Program. Prepared for the Division of Legislative Audit. Available at: [http://www.akleg.gov/basis/get\\_documents.asp?session=28&docid=3336](http://www.akleg.gov/basis/get_documents.asp?session=28&docid=3336)

<sup>15</sup> Commonwealth of Massachusetts, Department of Revenue. April 20, 2016. Report on the Impact of Massachusetts Film Industry Tax Incentives through Calendar Year 2013. Available at: <http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2013.pdf>

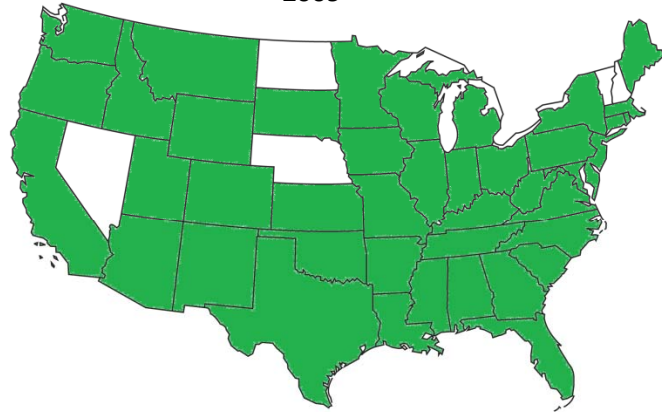
recession. Notably, both New Mexico and Louisiana, the two states that first issued highly leveraged film incentive programs, have acknowledged the mixed economic effects of the film incentive and have instituted a cap on their programs to limit potential losses. The following illustrations identify states with film incentives (shaded in green):

## States with Film Incentives, 2002, 2009, and 2016

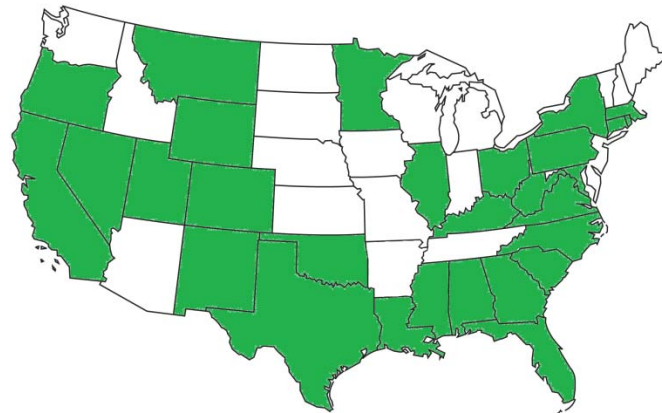
2002



2009



2016



Adapted from: *Department of Legislative Services, Office of Policy Analysis. Sept 2015. Evaluation of the Maryland Film Production Activity Tax Credit. Annapolis, MD.*

# Fiscal Impact

For this evaluation, fiscal impact is considered to be the directly attributable impact of the rebate on State revenues and expenditures. The evaluation does not quantify revenue and expenditure impacts on local governments. Possible local government revenues are not included because there is far less attenuation from these local impacts for a discussion of a state incentive program – for a variety of reasons (including the impact of local decision making outside the state’s control on local revenues and expenditures and the widely divergent impacts throughout the state).

The following table identifies the claimed and potentially claimed rebates for this program, both historic and anticipated. The production company submitted the counts of state residents employed and their aggregate wage expenditures (salary + benefits), along with documentation to support the qualified total direct in-state expenditures (wages + goods and services). These are not estimates but exact figures verified by the third party reviewer and approved by the Oklahoma Film + Music Office. FY2017 figures include projects that have been pre-certified for the amounts listed; the production company may choose to delay or cancel these projects. The rebate amounts are listed by the fiscal year in which they were approved, not by the year of payment. Between FY2005 and FY2010, the Oklahoma Film + Music Office used a different calculation methodology to determine the qualified total direct in-state spend; as a result, the older data is not directly comparable to the more recent figures.

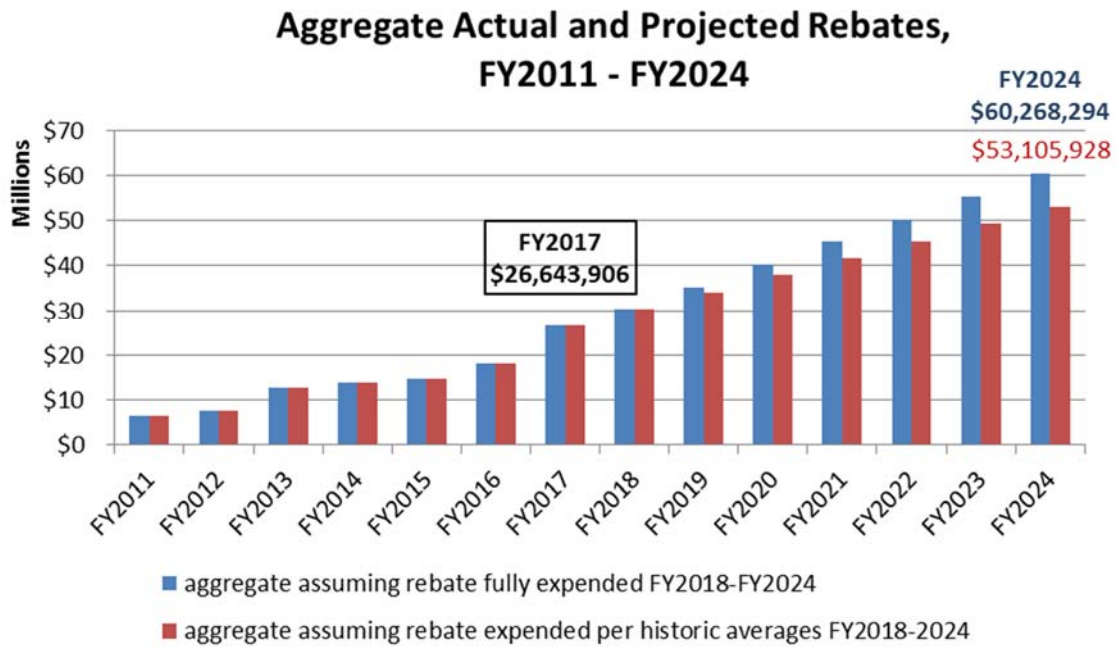
Year	No. of Films	No. of TV spots	OK Jobs Created (a)	OK Wage Expenditure	Qualified Total Direct OK spend	Rebate Amount
FY2011	5	0	1,256	\$7,111,321	\$17,561,167	\$6,458,611
FY2012	4	0	295	\$1,707,934	\$2,929,042	\$1,074,309
FY2013	2	0	461	\$8,319,712	\$13,811,723	\$5,110,337
FY2014	4	1	348	\$1,395,427	\$3,301,395	\$1,208,471
FY2015	6	0	668	\$1,113,761	\$2,641,325	\$932,327
FY2016	8	3	1,420	\$4,567,314	\$8,979,466	\$3,235,463
FY2017	6	0	1,806	\$11,823,784	\$23,330,798	\$8,624,388
<b>Total</b>	<b>35</b>	<b>4</b>	<b>6,254</b>	<b>\$36,039,253</b>	<b>\$72,554,916</b>	<b>\$26,643,908</b>

(a) data reflect temporary jobs, not FTEs  
*Source: Oklahoma Film + Music Office, 2016.*

The costs of program administration are included in the Oklahoma Office of Film + Music budget for general administration. The above table does not include any indirect costs.

With the \$5.0 million rebate cap in place, the maximum fiscal impact of this program between FY2018 and program expiration in FY2024 would be an additional \$31,375,612, assuming all the preapproved FY2017 projects receive the full amount of the rebate for which they have been qualified. If, on the other hand, future program usage aligns with historical averages (\$3,806,272 per year), the FY2018-FY2024 state fiscal impact would be closer to an additional \$23,019,520. The graph below illustrates how these

two projected expenditure patterns would affect the program’s aggregate fiscal impact from FY2011 through its sunset date in FY2024.



Source: Oklahoma Film + Music Office 2016; PFM 2016.

There is, of course, some additional revenue that would be generated from the economic activity associated with this rebate, as discussed in the following chapter.



# **Economic Impact**

## Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are “Output” which describes total economic activity and is generally equivalent to a firm’s gross sales; “Value Added” which equals gross output of an industry or a sector less its intermediate inputs; “Labor Income” which corresponds to wages and benefits; and “Employment” which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced.

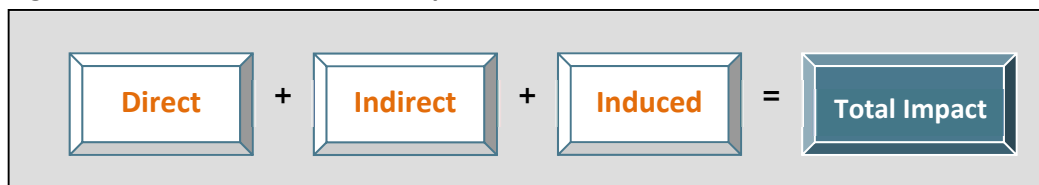
**Direct effects** are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

**Indirect effects** are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

**Induced effects** are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor’s stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

**Figure X: The Flow of Economic Impacts**



For this analysis, the project team used the IMPLAN online economic impact model with the dataset for the State of Oklahoma (2014 Model).

### State of Oklahoma Tax Revenue Estimate Methodology

To provide an “order of magnitude” estimate for state tax revenue attributable to the incentive being evaluated, the project team focused on the ratio of state government tax collections to Oklahoma Gross Domestic Product (GDP). Two datasets were used to derive the ratio: 1) U.S. Department of Commerce Bureau of Economic Analysis GDP estimates by state;<sup>16</sup> and 2) the Oklahoma Tax Commission’s *Annual Report of the Oklahoma Tax Commission* reports.<sup>17</sup> Over the past ten years, the state tax revenue as a percent of state GDP was 5.5 percent.

**State of Oklahoma Tax Revenue as a Percent of State GDP**

Year	Oklahoma Tax Revenue*	Oklahoma GDP	Ratio
2005-06	\$8,435,214,025	\$136,804,000,000	6.2%
2006-07	\$8,685,842,682	\$144,171,000,000	6.0%
2007-08	\$9,008,981,280	\$155,015,000,000	5.8%
2008-09	\$8,783,165,581	\$143,380,000,000	6.1%
2009-10	\$7,774,910,000	\$151,318,000,000	5.1%
2010-11	\$8,367,871,162	\$165,278,000,000	5.1%
2011-12	\$8,998,362,975	\$173,911,000,000	5.2%
2012-13	\$9,175,334,979	\$182,447,000,000	5.0%
2013-14	\$9,550,183,790	\$190,171,000,000	5.0%
2014-15	\$9,778,654,182	\$180,425,000,000	5.4%
<b>Average</b>	<b>\$8,855,852,065</b>	<b>\$162,292,000,000</b>	<b>5.5%</b>

Source: U.S. Department of Commerce Bureau of Economic Analysis and Oklahoma Tax Commission

\* Gross collections from state-levied taxes, licenses and fees, exclusive of city/county sales and use taxes and county lodging taxes

The value added of an industry, also referred to as gross domestic product (GDP)-by-industry, is the contribution of a private industry or government sector to overall GDP. The components of value added consist of compensation of employees, taxes on production and imports less subsidies, and gross operating surplus. Changes in value added components such as employee compensation have a direct impact on taxes such as income and sales tax. Other tax revenues such as alcoholic beverage and cigarette taxes are also positively correlated to changes in income.

Because of the highly correlated relationship between changes in the GDP by industry and most taxes collected by the state, the ratio of government tax collections to Oklahoma GDP forms the evaluation basis of the fiscal implications of different incentive programs offered by the State. The broader the basis of taxation (i.e., income and sales taxes) the stronger the correlation; with certain taxes on specific activity, such as the gross production (severance) tax, there may be some variation in the ratio year-to-

<sup>16</sup> <http://www.bea.gov/regional/>

<sup>17</sup> [https://www.ok.gov/tax/Forms\\_&\\_Publications/Publications/Annual\\_Reports/index.html](https://www.ok.gov/tax/Forms_&_Publications/Publications/Annual_Reports/index.html)

year, although these fluctuations tend to smooth out over a period of several years. This ratio approach is somewhat standard practice, and is consistent with what IMPLAN and other economic modeling software programs use to estimate changes in tax revenue.

### **Data Collection, Model Inputs, and Other Issues**

The project team performed the following steps to derive the economic and tax revenue impact:

1. The project team collected existing data and studies from State of Oklahoma agencies including the Oklahoma Tax Commission and Oklahoma Department of Commerce.
2. The project team collected and analyzed studies performed or commissioned by other organizations such as the Oklahoma Film + Music Office and the Economic Research & Policy Institute at Oklahoma City University.
3. Data on the Oklahoma Film Enhancement Rebate Program was obtained from the Oklahoma Film + Music Office for fiscal years 2011 to 2017.
4. IMPLAN sector 492 Independent Artists, Writers, and Performers was used to model the economic impact.
5. The Oklahoma Film Enhancement Rebate Program offers a rebate of 35 to 37 percent on qualified Oklahoma expenditures to film and television productions.
6. **Total expenditures (also referred to as “economic activity”) are not the same as tax revenue generated by the public sector.** It is common, but not accurate, in film economic impact studies to compare economic activity against the incentives offered. This comparison does not provide any insights into if the public sector is making a net profit or loss on the incentive program.
7. For example, \$100 in retail sales (economic activity) might generate \$8 in new sales tax revenue (assuming an 8 percent sales tax rate). If an incentive program for retailers rebated 50 percent of economic activity or sales, the public sector would rebate \$50. Under this scenario, the public sector has a net loss of \$42 on the incentive program ( $\$50 - \$8$ )
8. Media exposure and advertising value are benefits usually claimed by film and television production incentive programs above and beyond the economic impact results. While it is true that some productions might generate additional media exposure for the community, it is not possible to place an economic value on the exposure other than not having to purchase a similar level of exposure (ex. TV or radio commercials). For example, the viewers watching a video produced in Oklahoma might not be the target market for the region’s tourism assets. If these

viewers do not come to Oklahoma and spend money, then it is difficult to monetize the value of this media exposure.

**Annual Economic Impact of Film Industry Qualified Oklahoma Direct Spending**

Year		Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue
<b>FY 2011</b>	Direct Effect	\$16,674,115	\$8,127,553	\$7,986,226	698	
	Indirect Effect	\$7,796,193	\$4,187,088	\$2,832,715	80	
	Induced Effect	\$7,909,288	\$4,320,041	\$2,445,209	60	
	Total Effect	\$32,379,595	\$16,634,682	\$13,264,151	838	\$854,711
<b>FY 2012</b>	Direct Effect	\$3,084,866	\$1,327,427	\$1,304,345	114	
	Indirect Effect	\$1,442,368	\$774,650	\$524,079	15	
	Induced Effect	\$1,337,665	\$730,619	\$413,543	10	
	Total Effect	\$5,864,899	\$2,832,695	\$2,241,966	139	\$143,417
<b>FY 2013</b>	Direct Effect	\$13,114,061	\$6,179,069	\$6,071,624	531	
	Indirect Effect	\$6,131,645	\$3,293,112	\$2,227,908	63	
	Induced Effect	\$6,068,634	\$3,314,664	\$1,876,153	46	
	Total Effect	\$25,314,340	\$12,786,845	\$10,175,685	640	\$661,607
<b>FY 2014</b>	Direct Effect	\$3,301,395	\$1,420,600	\$1,395,898	122	
	Indirect Effect	\$1,543,609	\$829,023	\$560,864	16	
	Induced Effect	\$1,431,557	\$781,901	\$442,570	11	
	Total Effect	\$6,276,561	\$3,031,524	\$2,399,332	149	\$152,457
<b>FY 2015</b>	Direct Effect	\$2,507,820	\$1,107,455	\$1,088,198	95	
	Indirect Effect	\$1,172,563	\$629,746	\$426,046	12	
	Induced Effect	\$1,107,640	\$604,984	\$342,431	8	
	Total Effect	\$4,788,023	\$2,342,185	\$1,856,675	116	\$117,622

Source: TXP, Inc.

# **Technical and Administrative Issues**

## Overview

The Oklahoma Film Enhancement Rebate Program is administered by the Oklahoma Film + Music Office and the Oklahoma Tax Commission. Guidelines for eligibility and program administration are set forth clearly and comprehensively in the state statute, the administrative rules, and the guidelines and application instructions that have been prepared by the Film + Music Office for prospective applicants.<sup>18</sup> The essential components to overall program administration are summarized below:

1. **Eligibility.** Eligible film and television productions as well as commercials with a national broadcast reach must have a minimum overall budget of \$50,000 and spend at least \$25,000 in Oklahoma. Certain obscenity restrictions apply.
2. **Determining the Rebate.** The program offers a 35 percent to 37 percent cash rebate on Oklahoma expenditures. The base rebate of 35 percent is increased to 37 percent if a production company spends a minimum of \$20,000 for music created by an Oklahoma resident that is recorded in Oklahoma. Other qualifying expenditures may occur during scouting, production, or post-production and generally aim to encompass most major costs associated with production activity in Oklahoma. Eligible expenses may include lodging, building rentals, food expenses, equipment rental/purchase, studio rentals, permit fees, materials rental/purchase (including wardrobe and accessories), per diem, vehicle rentals, overnight courier service, airline tickets, contracted services, insurance, and wages paid to Oklahoma residents or Oklahoma expatriates<sup>19</sup> registered as such with the Oklahoma Film + Music Office. No more than 25 percent of the total Oklahoma qualifying spend can be compromised of aggregate Above-The-Line personnel wages.<sup>20</sup>

The production must retain the services of an independent certified public accountant based in Oklahoma to serve as a third party reviewer.

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<sup>18</sup> Administrative Rules are contained in Title 725, Chapter 35. A copy of the guidelines and instructions for application can be found here:

<https://www.ok.gov/oklahomafilm/documents/Oklahoma%20Film%20Enhancement%20Rebate%20Guidelines%20January%2016%202015%20revision.pdf>

<sup>19</sup> An individual registered as an "Oklahoma expatriate" with the Oklahoma Film + Music Office counts as qualifying "in-state crew" for the purposes of determining in-state wages and salary. Eligible individuals are Oklahoma below-the-line crew not currently residing in Oklahoma. The expatriate roster is made available to producers in an effort to supplement Oklahoma's existing crew base. In exchange for utilizing a crew member from the expatriate roster as a qualifying local expenditure, the production must accept assignment of an intern provided by an Oklahoma institute of higher learning, to be assigned to the expatriate or other appropriate personnel.

<sup>20</sup> Above the Line cast and crew members include the Director, Producer, Writer, and Principal Cast. Below the Line crew include technical crew members such as department heads, such as Production Manager, Production Accountant, Production Designer, Costume Designer, Director of Photography, Editor, Casting Director, Art Director, First Assistant Director, Key Grip, Gaffer, Construction Coordinator, Transportation Coordinator, Extras Coordinator, etc

3. **Pre-Qualification.** At least 60 days but no more than 180 days prior to the start of pre-production, applicants must submit information on the project and production company, a breakdown of estimated Oklahoma expenditures, and a full production budget. Upon review of these materials, the Oklahoma Film + Music Office will issue written notice of either conditional prequalification or disapproval.

In addition, 60 days prior to the start of principal photography, the production must show proof that 50 percent of the production budget is in place, followed by proof of 100 percent of production budget 30 days later. Acceptable documentation could include a signed letter of intent from Production Financiers, executed equity investor agreements, letter from production entity bank stating the funds available for production, etc.

At the 30 day mark, productions must submit revised production budgets, script, shooting schedules, crew list tagged for resident and non-resident with full contact information, cast list tagged for resident and non-resident hires, payroll agreement, and location list.

At the 10 day mark, the producers and the Oklahoma Film + Music Office will develop a joint press release announcing the production in Oklahoma.

If principal photography is delayed twice, the production is moved to the back of the eligibility queue; if delayed three times, prequalification is null and void and the production cannot reapply until the following fiscal year. There may be no more than one application per fiscal year per specific production (based on production title, script, and budget).

4. **Final Rebate Review.** Prior to final approval of the rebate, the third party reviewer must submit final budget totals for overall expenditures and Oklahoma expenditures, along with verification of crew members' residency status, logs that demonstrate at least three unsuccessful attempts to rent or purchase items from Oklahoma vendors, supporting expenditure documentation, final cast, crew, and extras list with local hires annotated, final vendor list, final location list, signed contracts, deal memos, or vouchers for all weekly and daily cast and crew, daily production reports for all filming days, final shooting schedule, final payroll report, DVD of final released film or TV spot, and a film poster if available.

The final rebate amount will not exceed the rebate pre-qualification amount. Within 30 days of all requirements being met, the Oklahoma Film + Music Office will request the rebate payment of the Oklahoma Tax Commission, which will issue the payment.

5. **Reporting.** The Oklahoma Film + Music office is the source of all data associated with the rebate program.



## Summary

The administrative processes associated with the rebate program have been designed to ensure that no Oklahoma tax payer dollars are allocated toward ineligible expenses or towards productions that are unlikely to be completed and distributed as planned. Staff at the Oklahoma Film + Music Office have established a calendar and set of requirements to ensure that the process is smooth, fair, and verifiable.

While there are significant data available to the program administrators, much of that information cannot be disclosed to program evaluators, either because it is protected from disclosure due to State confidentiality laws, or because the Oklahoma Film + Music Office does not maintain particular data points in electronic databases so as to streamline information retrieval. In a few cases, the inaccessibility of such data hinders an analysis of economic impacts. Specifically:

- **Duration of the film shoot or employment period.** If such data were readily accessible, program evaluators could convert production employment figures into Full Time Equivalents (FTE), which would allow for a computation of the state cost per FTE position created. Without this information, it is difficult to directly compare the number of jobs created and the associated payroll with the jobs and payroll amounts created by other state incentives.
- **Rebate expenditures associated with registered Oklahoma “expatriates” and Oklahoma Production Service Entities,**<sup>21</sup> neither of which are permanently located in Oklahoma. As described earlier in this evaluation, payments made non-residents (even former Oklahoma residents) and out-of-state vendors will have a significantly smaller multiplier effect on the State economy than wages paid to residents and payments made to local businesses. Given the acknowledged limits of the Oklahoma industry base, it is important to understand how significant these expatriate and Oklahoma Production Service Entities payments are as a proportion of the total Oklahoma direct spend.
- **In-state good and services expenditures by type.** As noted elsewhere in this report, many of the businesses that benefit from motion picture shoots are not film production businesses per se but are support companies ranging from food and lodging, to transportation, logistics, and insurance. Some of these sectors may be important targets that merit State support; others may already be thriving components of the local economic base and subsidized support may not be a cost effective use of State resources. In order to understand how film productions actually affect Oklahoma’s economy by sector, it is important to consider these expenditures by type. For example, annual audits produced by the State of Massachusetts include detail on 22 categories

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<sup>21</sup> As with the expatriate program, the designation of “Oklahoma Production Services Entities” are an acknowledgment that certain equipment and services are not readily available from the state’s nascent film industry. In an effort to grow local support service companies while still being able to meet the needs of incoming productions, the Film + Music Office allows incoming productions to contract with pre-approved local vendors to procure specific equipment, raw stock, and expendables not readily available in the state, and count those purchases and rentals as in-state expenditures for the purpose of the rebate. These pre-approved vendors must be established within the state, with state income tax liability, and charge state and local sales taxes. Production companies must first document at least three unsuccessful attempts to rent or purchase the needed product from an Oklahoma vendor.

of non-wage spending categories, each of which has a separate multiplier effect on the state economy.<sup>22</sup>

- **Motion picture projects not receiving state subsidies.** To the extent possible, a critical data point for evaluation is the quantity of investment associated with film productions not receiving state incentives, whether due to ineligibility or other reasons. The Film + Music Office maintains data on all feature films, short films, student films, live television productions, industrials, recorded television, documentaries and commercials. Unfortunately, because the Office changed how it grouped these categories twice in the past ten years, the information is not directly comparable as a time series dataset. If the data were collected and reported using consistent categories, it would be possible to determine how Oklahoma's film industry is evolving over time, particularly compared to peer states, and draw conclusions about whether the rebate has been successful in extending the depth and breadth of the local film industry.

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<sup>22</sup> Examples include: Fringe benefits/taxes; production and professional services; hotel/motel; costumes/clothing/props; location fees; cameras/film; food/restaurant/catering; set lighting/electrical; special effects; private security/police details; set construction; mobile dressing rooms; transportation/moving services; parking, fuel, and auto repair; computer/telecom equipment; local travel/car rental; office rent/supplies; cleaning and repair; producer/director fees; other lodging; extras; miscellaneous.

# Outcomes

## **Outcomes**

From the prior discussion, the following have been identified as key issues for evaluation:

1. What has been the impact of the rebate on identified goals?
2. How does Oklahoma's experience compare to the nation as a whole and other states?
3. How should the identified costs be weighed against the benefits (both quantitative and qualitative)?

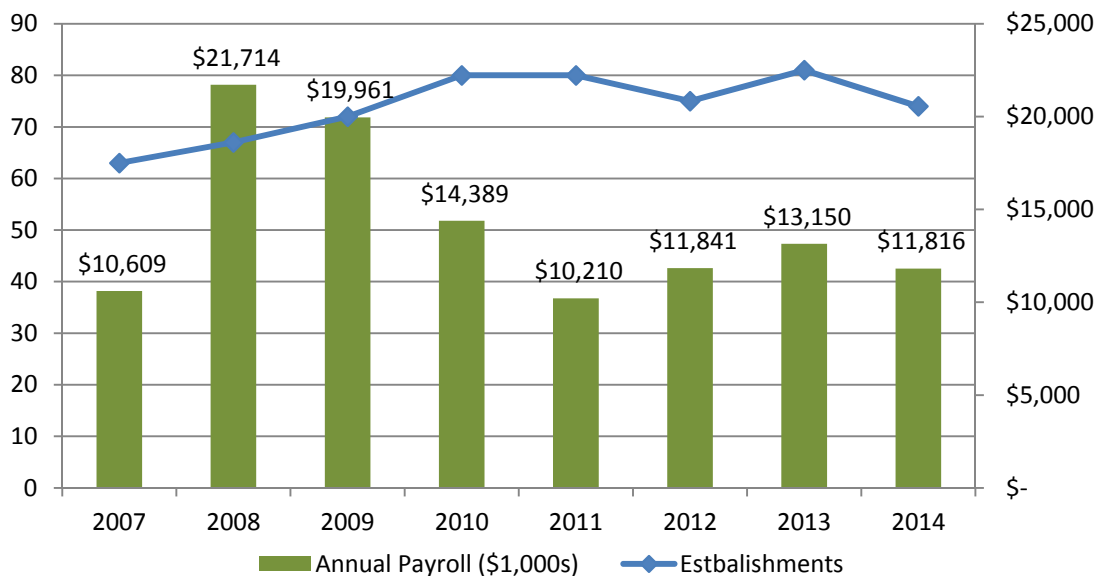
### **Impact on Identified Goals: Oklahoma Film Industry**

One of the stated goals of the Film Enhancement Rebate Program is to increase film production in Oklahoma. As other studies have shown, the film industry is highly elastic, with site selection decisions based predominately on a comparison of the incentives available in different states. Film incentive programs are generally considered to be one of the most important factors considered by production companies when deciding on location.

Unfortunately, given the data currently available, it is difficult to demonstrate unequivocally that Oklahoma's film industry has strengthened during the time period when the rebate has been available. Given the strong correlation found in other studies between the existence of competitive incentive programs and film location activity, the inconclusive trends about Oklahoma film production activity raises doubts about the attractiveness of the state's film incentive program.

According to the U.S. Census County Business Patterns (CBP) data, the number of Oklahoma businesses classified as part of the Motion Picture and Video Production industry (NAICS code 512110) appears to have increased from 63 (in 2007) to a height of 81 (in 2013). Annual payroll activity during the same time period indicates a surge in film production activity in 2008 and 2009 - which may explain the increased in the number of businesses - followed by a return to what appears to be a natural equilibrium of \$11.0 million to \$13.0 million in direct annual payroll.

## OK Motion Picture and Video Production Industry Trends, 2007-2014



*Source: U.S. Census, County Business Patterns, 2007-2014*

Though the number of paid employees is not available in each year due to confidentiality reasons (further confirming that Oklahoma’s film industry remains small), the years where data is available evoke a similar trend to the payroll data. From a height of 418 employees in 2008, the Oklahoma Film industry has contracted to 217 employees in 2014 (-92.6 percent). By comparison, a similar analysis conducted by the Massachusetts Department of Revenue reported a net positive growth of 1,503 jobs following the implementation of the state’s film incentive program (+34 percent).<sup>23</sup> In other words, while there appears to have been modest growth in the number of film production businesses located in Oklahoma, the film rebate program does not appear to have succeeded in growing the number of jobs or payroll associated with those businesses.

It is worth noting that, while the Census County Business Patterns (CBP) data is useful for analyzing year over year trends, it likely undercounts the total number of businesses and jobs affected by film production activity. The data captures only the number of employees on payroll during the week of March 12st, a disadvantage when studying an industry that relies on a large number of temporary workers for short term production schedules at other points during the year. The CBP figures also count only businesses that work directly and exclusively in film production; other businesses likely to experience economic benefits -- such as caterers and logistics -- are not included in the dataset.

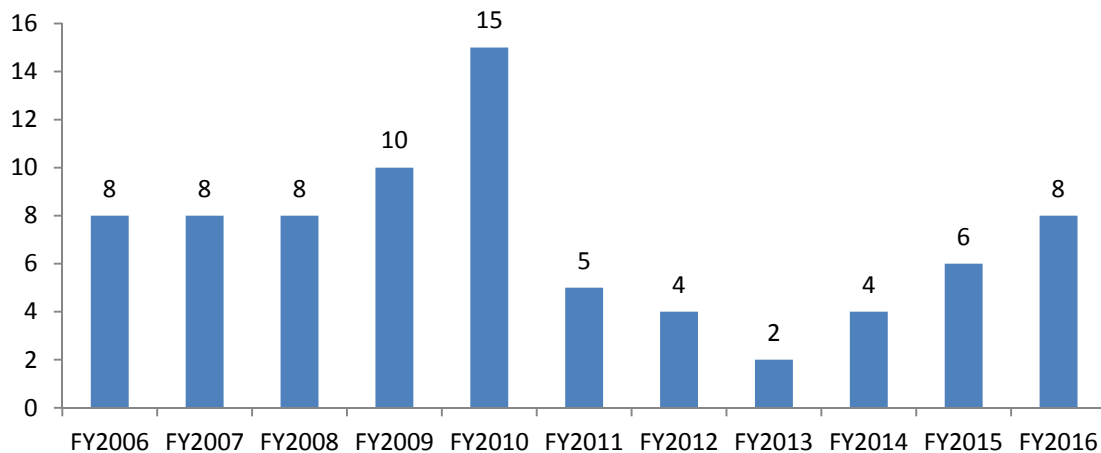
The Oklahoma Film + Music Office collects data on the number of films and other productions produced in state. Unfortunately, the office modified its data reporting methodology in FY2009 and again in

<sup>23</sup> Commonwealth of Massachusetts, Department of Revenue. April 20, 2016. [Report on the Impact of Massachusetts Film Industry Tax Incentives through Calendar Year 2013](http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2013.pdf). Available at: <http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2013.pdf>

FY2012, precluding any granular time series data analysis. According to aggregated data collected by the office, the number of productions almost doubled from 772 in 2006 to 1,510 in 2014. However, over 70 percent of these productions are commercials, live television, industrial, or new media – all types of productions that likely generate little net new in-state job creation activity or business investments.

The graph below displays only the Oklahoma Film + Music Office counts of full length film productions, as these types of productions are likely to have lead a national site selection process and therefore are most likely to determine their filming location based on the availability of state film incentives. The number of full-length films that located production activities in Oklahoma – including those that did not receive any state rebates -- oscillates between a high of 15 in FY2010 and a low of two in FY2011, with recent trends approximating the 10-year average of seven film productions per year.

### Number of Feature Films Produced in OK



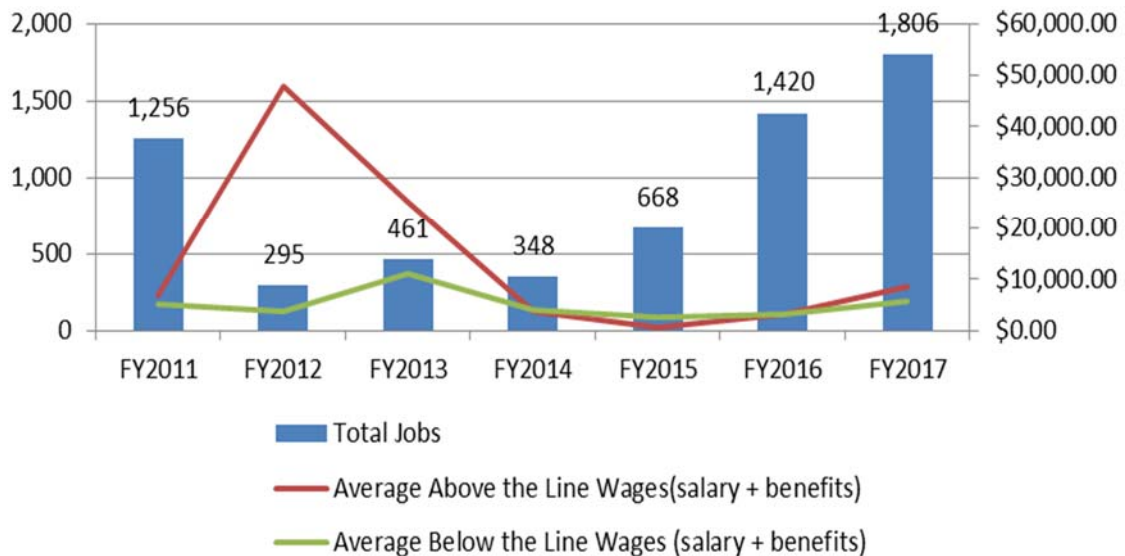
Source: Oklahoma Film + Music Office, 2016.

As with the CBP data, the data maintained by the State do not unequivocally demonstrate a correlation between the existence of the film rebate and an increase in film production activity in Oklahoma.

### Impact on Identified Goals: Direct Employment of In-State Residents

The film rebate program is unusual, in that the high level of precision associated with applicant data submissions generates specific and documented counts of the number of Oklahoma jobs created by the productions, along with the wages paid for this temporary in-state work. As depicted by the following chart, the film productions that have been leveraging Oklahoma tax rebates have been employing increasingly large numbers of Oklahoma residents.

## Total Jobs and Average Wages for Films supported by OK Tax Rebates, FY2011-FY2017



Source: Oklahoma Film + Music Office, 2016.

Due to the temporary nature of film employment, it is important to specify that “total jobs” refers to the total number of individuals employed, not to the number of full time equivalent jobs that have been created. The difference between the two figures is likely substantial; for example, a 2010 Michigan evaluation found that the 2,350 workers that film productions hired in 2008 and the 3,867 workers hired in 2009 translated into 216 and 355.5 full-time equivalents, respectively.<sup>24</sup> Using a metric such as FTEs can facilitate an apples-to-apples comparison to other economic development programs for which a greater proportion of the jobs may be ongoing, rather than temporary. Unfortunately, given data availability constraints, it is not possible to convert these “total jobs” into FTEs and comment on the overall trends in direct industry employment or compare the remuneration levels to that of other occupations supported by state incentives.

With the exception of FY2012, which included an abnormally small sample size of Above the Line cast and crew, average wages (salary + benefits) paid to Oklahoma residents are relatively modest regardless of position. On average, Above the Line hires are paid \$8,020 per film production and Below the Line hires are paid \$5,271. These payments reflect the short-term nature of film employment periods.

### Impact on Identified Goals: Nationwide Exposure and Film Tourism

Per state statute, one of the goals of the program is to enhance the state’s image nationwide, presumably with the goal of increasing the state’s appeal to potential visitors. Images of and positive associations with locales as presented in films and television programs are argued to be a useful

<sup>24</sup> David Zin. September 2010. “Film Incentives in Michigan.” Issue Paper: Papers Examining Critical Issues facing the Michigan Legislature. Senate Fiscal Agency. Available at: <http://www.senate.michigan.gov/sfa/publications/issues/film incentives/film incentives.pdf>

promotional device, a valuable advertisement or marketing tool for the region. Films can raise awareness, form images, develop expectations, and aid in making decisions on visiting a location. There has been some anecdotal evidence of films increasing tourism in a particular location, and there is general consensus that films have the potential to promote tourism, especially after a film is initially released and if the film proves to have lasting popularity.

However, while some films can have a positive effect on tourism, not every production can be assumed to create an economic impact from tourism. The physical site must be a prominent feature that is favorably shown, as an essential “character” or component of the show. While there are a few individual prominent exceptions, most productions fail to satisfy these criteria. It is common for productions to film in one location even though the film plot places the action in a different location. To cite just one example, many viewers are unaware that the television show *House of Cards* is filmed in Maryland, because the show depicts its plotline as taking place in Washington D.C. Even in a 2012 study commissioned by the Motion Picture Association of America, Ernst and Young authors acknowledged that “a film that is a commercial success but portrays locations in a state as being in another jurisdiction will not generate positive tourism impacts.” Additionally, Ernst and Young note that “a film that prominently features a state’s tourism assets but is not widely viewed will have a limited tourism impact.”<sup>25</sup> Again, while there are a few notable productions that do satisfy all of the above criteria, most state programs do not generate enough of the exceptions to have a material effect on state tourism trends.

There is limited academic research on the direct impacts of film tourism, and the project team was not able to identify an independent film program evaluation that attempts to measure its impact. The tourism benefits generated by any particular film largely depend on a host of idiosyncratic factors such as the popularity of the film, whether the filming location is shown in an attractive way, and the accessibility of the filming location. There is no way to extrapolate from evidence about any specific film to an average expectation of film-based tourism. Some out-of-state tourists may visit filming locations, but if they were attracted to Oklahoma for other reasons, it would be inaccurate to attribute their tourist spending solely to film production activity. Moreover, much of the income spent on visiting filming locations by Oklahoma residents would likely have been spent on other recreational activities in the State. Given the challenges in determining the motivational factors behind tourism, the Federal Reserve Bank of Boston reports that “attributing tourism spending to a film credit is difficult, if not impossible.”<sup>26</sup>

It should be acknowledged that, while the economic benefits associated with film tourism are likely insubstantial, a positive, widely viewed depiction of the state will promote civic pride and through association make the areas more attractive places to live and work.

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<sup>25</sup> Ernst & Young. 2012. Evaluating the effectiveness of state film tax credit programs: issues that need to be considered. Prepared for the Motion Picture Association of America. Available at: [https://pmcdeadline2.files.wordpress.com/2012/05/motion-picture-assoc-film-credit-study\\_\\_120510071748.pdf](https://pmcdeadline2.files.wordpress.com/2012/05/motion-picture-assoc-film-credit-study__120510071748.pdf)

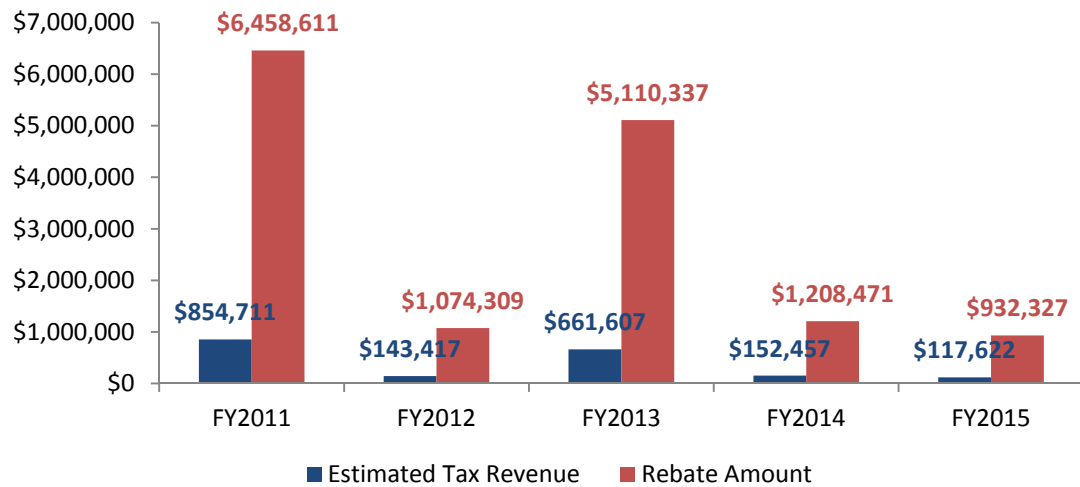
<sup>26</sup> Jennifer Weiner. April 2, 2009. Memorandum. “Ernst & Young Analyses of New Mexico and New York Film Tax Credits.” New England Public Policy Center. Prepared on behalf of the Federal Reserve Bank of Boston.



## Cost Benefit Analysis

The costs of providing the Film Enhancement Rebate have been modest relative to other states and are capped at \$5.0 million per year. However, the positive economic impacts generated by the rebate do not approach the level of the tax incentive. The following chart summarizes the quantitative components of the cost benefit analysis.

### Total Approved Rebates vs Estimated State Tax Revenue



Source: Oklahoma Film + Music Office, 2016; TXP 2016

In aggregate, for the time period from FY2011 through FY2015, the state expended \$14,784,055 and received a return of \$1,929,854. In other words, the program's return on investment is approximately 13 cents for every dollar expended in rebates, placing Oklahoma's program on par with that of most other states.

Of course, these are aggregate impacts; there likely are counties in the State where the economic activity (such as the lease revenue and sales) are important for the local economy during the brief period in which the in-state filming activities take place. However, when viewed from the perspective of the State as a whole, this is not the case.

# Recommendation

The goals of Oklahoma’s film rebate program, as articulated in the state statute, are to (1) attract film and television productions to the state, in order to (2) provide jobs for Oklahomans and dollars for Oklahoma businesses and (3) enhance the state’s image nationwide.

Even if the rebate program were to succeed in materially strengthening Oklahoma’s film and television industry – a goal which does not appear to have materialized yet, based on available data – evaluations conducted by other states indicate that any resulting job creation will be neither stable nor sustainable. The economic impacts of film production are temporary – any prolonged impact necessitates continued production spending and requisite incentive commitments. Substantial film production incentives by other countries and most states have further encouraged “runaway production,” the industry term for film production flight. Unlike manufacturing plants, film production tends to be quite episodic, so that attracting production is a year-by-year endeavor. After a film is produced, more rebate expenditures are needed in subsequent years to retain and attract new activity. In essence, continued funding of this activity creates an industry whose business model is dependent on ongoing state subsidies. This is in contrast to most other economic development business incentives, which aim to provide ongoing benefits.

Most if not all independent audits of state film incentive programs have concluded that film incentive programs result in a net loss in revenue to the state treasury. The mounting evidence against the economic viability of such programs has prompted 13 states to discontinue their film incentive programs in recent years. Even states with the strongest hubs of film production – including Louisiana and New York -- have acknowledged film incentives’ mixed economic effects and have instituted caps and narrowed eligibility to limit potential losses.

Since the credit does not provide sustainable economic development and provides little return on investment to the State, the project team recommends that the State allow the film enhancement tax rebate to sunset as scheduled in 2024. A more promising use of these incentive monies would be to redirect the funds towards incentives that create permanent and lasting employment rather than temporary jobs.