TEXAS BUSINESS REVIEW
Bureau of Business Research • IC[2] Institute • The University of Texas at Austin April 2011

Texas TV, Film and Video Game Incentives: Fast Forward to Big Economic Impact

By
James Jarrett
and
Bruce Kellison
Bureau of Business Research, IC[2] Institute, The University of Texas at Austin

Introduction

Filmmakers and television producers have long been attracted to the grit, romance, and aura of Texas. George Stevens' 1956 iconic "Giant," filmed in Marfa and starring Elizabeth Taylor, Rock Hudson, and James Dean, perfectly fit almost every Texas stereotype. The TV series "Friday Night Lights," shot in and around Austin over five seasons, captured the Texas preoccupation with high school football to critical acclaim. And now video game producers are finding that the Lone Star State's low cost of business and abundant high-tech talent are conducive to making successful games like Borderlands, and the Quake series.

But what happens in an age when scenery and an experienced crew base are not enough to convince producers to come to Texas? States today fiercely compete for the big business of moving image productions by offering financial incentives to producers. For better or worse, state economic development incentive programs are a fact of life in the industry, a necessary if not sufficient factor when attracting film, TV, commercials, and video game producers to a region or state. But do incentives make economic sense? What is the economic impact of providing them? Especially in a tough economy, does the Texas Moving Image Incentive Program produce enough economic activity to outweigh its cost?

This article summarizes the findings of an economic impact analysis we performed in late 2010 and early 2011 for the Texas Association of Business that focused on the Incentive Program's impact on the Texas economy, including jobs, fiscal impacts, and direct and indirect spending associated with projects that had received or been approved for moving image incentive funds between September 1, 2007, and December 31, 2010. We found that the $58.1 million spent or encumbered by the Texas Moving Image Incentive Program has produced total economic impact in the state of $1.1 billion and more than 10,000 full-time jobs. When the entire $80 million is spent in 2011, the total impact will have been $1.4 billion and almost 13,000 jobs directly attributable to incentives.

Program Background

Technically, the Texas Moving Image Industry Incentive Program was created in 2005, although appropriations did not begin until the September 1, 2007—August 31, 2009 biennium. Rule-making changes delayed the incentive program's effective start date until March 2008. The initial incentive reimbursement rate, however, was too low and proved uncompetitive compared to incentives offered by other state governments. In the 2009 Legislative session, the program was augmented, and in November 2009, rules were implemented that, among other provisions, created a sliding scale for incentive grant reimbursements for spending over thresholds that vary from $100,000 to $250,000: (1) up to 15% of total in-state spending for film, TV, and visual effects for film and TV; (2) up

When the entire $80 million is spent in 2011, the total impact will have been $1.4 billion and almost 13,000 jobs directly attributable to incentives.

to 25% for wages paid to Texas residents for film, TV, and visual effects projects for film and TV; (3) up to 5% for video games, commercials, and instructional videos.

A production interested in participating in the incentive program must apply to the Texas Film Commission (TFC) before production begins to be *preliminarily* approved for an estimated amount of program funds based on program criteria. The key criteria stipulate that production spending occurs in Texas, including wages paid to Texas-based talent, crews, and vendors. After production is completed, the production submits payroll receipts and other proof of spending to the TFC, which then audits the receipts and releases the approved incentive amount to the production. The production company must demonstrate that it spent its reimbursable production funds in Texas. No funds are provided for non-Texas-based crew, residents, or vendors. And funds are disbursed only after a thorough review by Texas Film Commission staff and then by financial officials in the Governor's Office.

Table 1
Film And Television Incentive Rates In Other States

Florida	Transferable tax credit at 20% rate with 5% bonus for "off-season" projects and 5% bonus for "family friendly" projects.
Georgia	Transferable tax credit at 20% rate plus 10% bonus if "qualified Georgia promotion" peach logo is used.
Louisiana	Transferable tax credit (and partially refundable) at rate of 30% for qualifying local spending, including the payroll of residents and non-residents, and 5% bonus for resident payroll above $1 million.
Michigan	Refundable and transferable tax credit at 40% rate (42% in core communities) with other incentives for infrastructure investment and job training expenditures.
New Mexico	Refundable tax credit at rate of 25%.
New York	Refundable credit at rate of 30% with 10% rate on post-production if 30% rate not exercised.
North Carolina	Refundable tax credit at 25% rate effective January 2011.
Ohio	Refundable tax credit at 35% of resident cast and crew and 25% of other qualifying local spending.
Oklahoma	Cash rebate at 35% rate with 2% bonus for music/recording. Rate between 10% and 25% for construction of film/music facilities.

Source: Adapted from data provided by the Texas Film Commission

Industry Responses

While the enhancements in April 2009 were significant, the Texas incentive program still was less industry-friendly than most other state film programs. The program requirements were more restrictive, processing of reimbursements had more oversight, and incentive reimbursement rates were less generous than the rates of programs in other states (Tables 1 and 2 show the rates for film and for video games in competing states). Because of these factors, it was unclear if the April

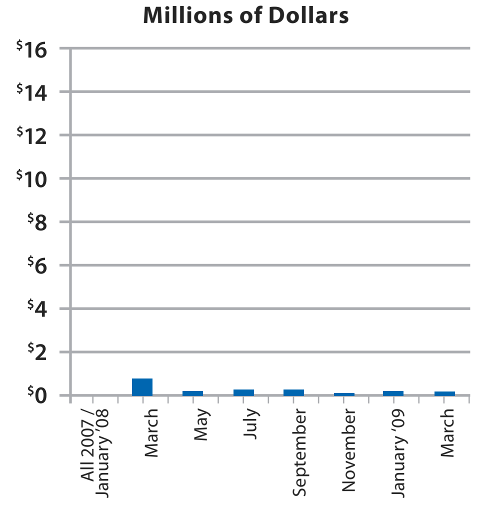
Table 2
Video Game Incentive Rates In Other Jurisdictions

Florida	20% tax credit (5% additional cash rebate if deemed "family friendly")
Georgia	20% tax credit (10% additional by including a Georgia promotional logo)
Louisiana	25% tax credit for expenditures (additional 10% based on labor costs for state residents)
North Carolina	15% tax credit for salaries—became effective January 1, 2011.
Rhode Island	25% tax credit
Nova Scotia	50% tax credit for labor costs (60% if located outside of Halifax)
Ontario	Several tax credits (40% tax credit of qualifying labor expenditures and 50% of other expenditures); export fund for digital media industry
Quebec	30% tax credit for labor

Source: Adapted from data provided by the Texas Film Commission

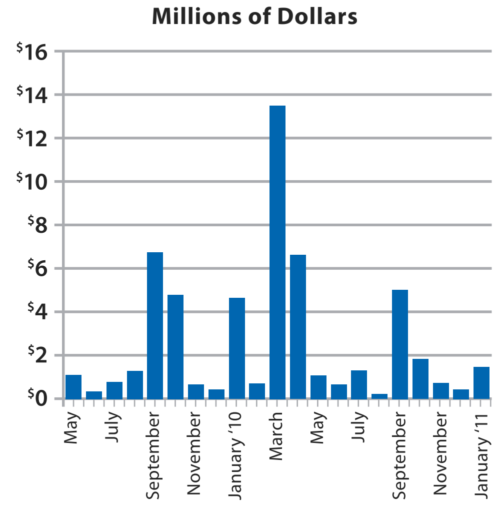
... the program since April 2009 has drawn substantially more productions to Texas ...

Graph 1
Texas Film Commission Monthly Encumbrances September 2007 — April 2009



Source: Adapted from data provided by the Texas Film Commission

Graph 2
Texas Film Commission Monthly Encumbrances May 2009 — January 2011



Source: Adapted from data provided by the Texas Film Commission

2009 improvements would actually result in more film, television, and video game productions in Texas.

Graph 1 shows the monthly TFC encumbrance amounts (in millions of dollars) under the initial incentives. Graph 2 exhibits the monthly TFC encumbrances after the April 2009 program improvements.

The encumbrance amounts in the two graphs clearly illustrate that the program since April 2009 has drawn substantially more productions to Texas and has proven effective.

Costs and Benefits — Program Efficiency

Based on data provided by the Texas Film Commission, 6,519 full-time equivalent (FTE) jobs can be attributed to the film, TV, video, and TV commercial projects that have been awarded program incentives since 2007. With $58.1 million granted and encumbered as of December 31, 2010, the average cost per FTE for a direct job has been $8,916. Because the moving image industry is comprised of sectors with projects that span from a few weeks to a few months to years (in the case of some video game productions and episodic TV series), producers applying to the Incentive Program report the number of "crew jobs" and the number of "work days." To standardize the data across industry segments, TFC converts crew jobs to FTE positions based on the number of days that crew worked, and the average length of the workday for that industry segment. It then divides by 2000 hours (the average hours worked per year in an 8-hour day). It is important to understand, then, that 6,519 FTEs significantly underestimates the number of people whose part-time or full-time employment is directly affected by productions brought to Texas because of the incentive program.

It is instructive to compare this average cost per direct job with the costs in other states. Because there are substantial differences in the incentive programs—how the incentives are computed, when they are paid, the degree to which data are audited, and how full-time equivalent (FTE) employees are derived—and because of different methodological assumptions by different research teams, one must be cautious with such comparisons. Nevertheless, despite all the limitations of comparative analysis, gross comparisons can be useful.

... for every dollar of the $58.1 million the Texas Film Commission had paid or encumbered as of December 31, 2010, $18.72 in private sector economic activity had been generated within the State of Texas.

TABLE 3
Cost Per Direct Job—Texas and Other States
(total incentives provided, divided by direct jobs on full-time equivalent basis)

Texas	**$8,916**
New Mexico II *(Ernst & Young)*	$21,216
New York *(Ernst & Young)*	$26,227
Pennsylvania	$27,927
Louisiana	$34,773
New Mexico I *(NMSU)*	$43,210
Massachusetts	$45,434
Michigan	$100,000+

Based on the data in Table 3, it is apparent that the Texas program is extremely efficient compared to programs elsewhere. The cost per direct job is less than half that of all other states and one-fourth the cost per direct job in Louisiana.

A similar comparison (not shown because of space limitations here but available in our full report) reaches a similar conclusion regarding the cost per all jobs (direct moving image jobs and jobs indirectly attributable to these direct jobs). Texas again has the lowest cost among the states analyzed. The Texas incentive program cost is about 35% less than that calculated by one of the two New Mexico studies, and slightly more than one-third the cost in Louisiana.

Economic and Fiscal Benefits

To determine more precisely the economic and fiscal benefits of the Texas Moving Image Industry Incentive Program, the research team used the input-output economic modeling tool IMPLAN to analyze economic impacts in the State of Texas. The IMPLAN software incorporated data (expenditures, jobs, etc.) from the TFC and from publically available secondary data on labor, wages, and output. The main input data from the TFC were (1) $598.3 million in direct moving production spending in Texas associated with the Texas Moving Image Industry Incentive Program from June 26, 2007 through December 31, 2010; and (2) A total of 6,519 full-time equivalent (FTE) Texas residents over the four years based on paid out or preliminarily-approved applications. This direct spending in the State of Texas multiplies through other industries in the supply chain, ranging from real estate and wholesale trade, to food services and health care. IMPLAN captured this economic activity by using economic multipliers, social accounting matrices, and trade flow data unique to the State of Texas. The model then produced results expressed in terms of direct, indirect, and induced impacts on output, employment, and wages.

Based on $58.1 million paid to producers or encumbered by TFC to be paid when productions wrapped, as of December 31, 2010, total economic benefits from the moving image industry incentive program were approximately $1.1 billion in direct, indirect, and induced economic activity in Texas from 2007 through 2010. This can be interpreted another way: for every dollar of the $58.1 million the Texas Film Commission had paid or encumbered as of December 31, 2010, $18.72 in private sector economic activity had been generated within the State of Texas. Note that these economic benefits do not include projects that did not apply for incentive funds, usually because they were too small to qualify, but that were attracted to Texas because of the existing industry infrastructure resulting from projects that did apply for incentives. Nor do the economic benefit calculations include additional spending from increased tourism at those locales where major productions have occurred, or the value of new infrastructure such as studios that have been developed since the incentive program has been in effect.

This $1.1 billion has led to 10,383 Texas FTE jobs (an average of 2,596 per year), garnering an estimated $370.9 million in income over the four years. What is more, when the full incentive amount of

... this program hit its stride for the first time in 2010. The economic development potential of the film, television, animation, commercial, and video game industry segments is quite exceptional, if given time to mature and build upon recent industry growth enabled by the incentive program.

$80 million is spent, the IMPLAN model projects that total economic activity will increase to $1.4 billion and full-time equivalent employment will expand to 12,930 jobs (8,062 direct and 4,858 indirect).

Fiscal benefits associated with Texas' moving image industry production range from sales and use taxes to property taxes. Given the stratified tax environment (federal, state, local, special districts, and school districts), the amounts vary by level of government. (No federal revenues were estimated in this analysis.) From 2007 to 2010, an estimated $39.9 million in state and sub-state tax revenue was generated by the direct and indirect spending associated with moving image industry productions and the Texas residents they hired. When the total appropriation is finally expended in 2011, tax benefits rise from $39.9 million to $51.1 million.

Conclusions

The Texas Moving Image Industry Incentive Program is conservatively structured. Other states not only are much more generous than Texas in terms of their legislative appropriations (some have unlimited appropriations) and their incentive rates, but they pay for out-of-state actors and production crews. The Texas program pays only after producers have proven that they have spent their production dollars in Texas, on Texas-based crew, talent, and vendors. Despite these limitations, the Moving Image Industry Incentive Program has been both effective and efficient in achieving its legislative mandate.

But there is room for improvement. Interviews we conducted with individuals knowledgeable about the incentives, including video game company executives, senior officers at film and television companies, owners and managers of studios, executives at vendors and other industry businesses, as well as university filmmakers, identified numerous possible program enhancements. These included policy responses if other states alter their incentive programs; expansion of incentives to new categories, such as infrastructure (e.g. studios); preferential treatment for producers and companies who commit, and fulfill their commitments, to a set number of productions in future years; studying the feasibility of an even lower threshold for spending that would enable new industry segments to be covered, e.g. faith-based shows that traditionally have very low budgets; approaches that might leverage local funding and/or provide new sources of funds to supplement state funding; and examining mid-stream and milestone payment alternatives for smaller companies.

The overall results to date have been especially remarkable because the Moving Image Industry Incentive Program is very young. Having functioned as a truly competitive program only since late April 2009, this program hit its stride for the first time in 2010. The economic development potential of the film, television, animation, commercial, and video game industry segments is quite exceptional, if given time to mature and build upon recent industry growth enabled by the incentive program. We believe the Texas Moving Image Incentive Program should be continued, especially to enable Texas to compete with other states' incentives. Withdrawing support now would produce severe, immediate economic consequences and possibly irreparable damage for the next 10 years and beyond. Incentives are a necessary, if not sufficient, element of building a moving image industry in Texas.

Footnotes

1 Slightly higher incentive rates apply for projects in underutilized or economically distressed areas.

2 From Entertainment Partners, "Basic Overview of U.S. and International Production Incentives." Data current as of December 20, 2010.

3 See James E. Jarrett and Bruce Kellison, "Texas Moving Image Industry Incentive Program: The Economic Benefits From Incentives", Bureau of Business Research, IC^2 Institute, The University of Texas at Austin, April 2011 (www.ic2.utexas.edu/miiip).

Texas Business Review is published six times a year (February, April, June, August, October, and December) by the Bureau of Business Research, IC^2 Institute, The University of Texas at Austin. Subscriptions are available free upon request. Views expressed in this newsletter are those of the authors and do not necessarily reflect the position of the Bureau of Business Research.

Research and service activities of the Bureau of Business Research focus on strategies to make Texas industries more nationally and globally competitive. The Bureau is policy oriented and dedicated to public service. Offices are located at 2815 San Gabriel, Austin, Texas 78705.

IC^2 Institute Director:
John Sibley Butler
john.butler@mccombs.utexas.edu

TBR Editor:
Bruce Kellison
bkellison@ic2.utexas.edu

TBR Managing Editor:
Margaret Cotrofeld
margaret@ic2.utexas.edu

Sales Office:
(512) 475-7813
(512) 475-8901 fax

www.ic2.utexas.edu/bbr

The University of Texas at Austin
BUREAU OF BUSINESS RESEARCH
IC^2 Institute
1 University Station A0300
Austin, Texas 78712

NONPROFIT
ORG.
U.S. Postage
PAID
Austin, Texas
Permit No. 391