LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION
Collectively Advancing Opportunity and Prosperity for All

RESEARCH BRIEF

California Senate Revenue and Taxation Committee

For the Hearing Regarding the Governor's Proposal to Further Expand the

Motion Picture and Television Production Tax Credit

March 26, 2025

For over a century, California has been the heart of the global entertainment industry. The state's film and television production industry has not only shaped popular culture but has also been a driver of economic growth and job creation, behind the bright lights lies a vast network of workers, across all skill levels, and businesses, of all sizes across myriad industries, that rely on the industry's success. The effect of the California Film and Television Tax Credit Program continues to be vital to keeping well-paying entertainment jobs in California. This program is an investment that has a real impact on the wallets of Californians who work in film and television and on those who sell goods and services to them.

The competition for film and TV production remains intense, with California working to maintain its historical industry leadership against aggressive incentive programs in other locations. Competing programs often offer specific advantages California lacks, such as no caps (Georgia, BC), higher rates (Louisiana, BC), or special regional bonuses (New Mexico). The success of Georgia in particular demonstrates how a well-designed, generous incentive program (uncapped 30% transferable credit that includes above-the-line costs and has no sunset provision) can rapidly transform a state into a major production hub.

California Film and Television Tax Credit 2.0 Program: An Economic Impact Study

LAEDC completed its latest study of the California Film and Television Tax Credit Program in March 2022. Using data provided by the California Film Commission, LAEDC estimated the total economic impact resulting from the 169 productions that were allocated Program tax credits as of February 26, 2020. These productions generated a total of $7.4 billion in production spending (including $4.8 billion in qualifying expenditures) and received a total of $915 million in tax credits.

Our methodology for estimating these economic and fiscal impacts involved breaking down spending for each of the 169 productions by category and location. Categories included above- and below-the-line hires, qualified wages, qualified non-wages, and all non-qualified expenditures. Locations refer to whether the production activity took place inside or outside the Los Angeles Zone, and if outside the specific California county in question. We then analyzed this spending using IMPLAN software, an industry standard input-output model that traces inter-industry transactions resulting from an increase in demand in a given region. IMPLAN provided the impacts to output, value added, employment and labor income, separated into their direct, indirect and induced contributions, as well as the state and local taxes generated.

This analysis is what allows us to conclude that for each tax credit dollar allocated:

- Total economic activity (output) in the state will increase by $24.40,
- Labor income (including to the self-employed) will increase by $8.60,
- Total GDP in the state will increase by $16.14, and

- State and local governments will receive initial tax revenue of $1.07.

Beyond the LAEDC ROI Analysis – More Economic Considerations

Other studies underrepresent the impact of the film tax credit in California. Assumptions used by other studies are applying findings from other states to determine the impact or return of the credit in California. For example, Owens and Rennhoff (2020), and Michael Thom (2018) exclude internationally produced films from their analysis. This paints an incomplete picture for California, since the United Kingdom and Canada are two of the State's biggest competitors. Other studies also identify the challenges that exist in evaluating a state's incentive program due to data limitations. ***Not all assumptions are created equal***, a whole host of assumptions are made trying to apply findings from other state programs to California's. For example, while Owens and Rennhoff (2020) do not rigorously measure the benefits and costs of film incentive programs, they confessed "With the caveat that a precise evaluation of a state's movie production incentive program requires detailed financial information that we do not have access to, we nevertheless present a 'back of the envelope' calculation…." Implausibly, this calculation assumes (for every state including California) that every dollar of labor earnings generated from film production results in seven cents of state tax revenue, a statistic borrowed from Louisiana's Legislative Fiscal Office. This calculation, then, omits sales taxes and corporation taxes, and likely undercounts the personal income taxes of California's high-income earners involved in the industry. Rickman and Wang [2020] conclude from their empirical analysis that state film incentives are unlikely to pay for themselves, however their study only focuses on states that were early adopters of film tax credits (Louisiana, New Mexico, North Carolina and Rhode Island) or states that ultimately eliminated their film tax credits (Arizona, Florida, Indiana, Michigan, Vermont, and Wisconsin). These states have limited relevance to California. Indeed, California may be one of the few places where these credits do make sense due to the industry's strong concentration, 100+ year history, fully established infrastructure and supply chains, and a deep skilled talent pool.

We at LAEDC are familiar with Michael Thom's studies and have reviewed his methodology and conclusions over the years as we have developed our own reports. Some of the shortcomings of his studies have been documented by Oxford Economics, LAEDC and MPAA. LAEDC would be happy to share our analyses with you (links follow at end of this brief). Some of Thom's issues are methodological: (1) for example, in his nationwide study from 2018, the data Thom used wasn't granular enough to be able to capture changes to employment and wages across the states; and (2) in the same nationwide study, he tried to measure the effect of state-level film incentives while ignoring the fact that film production is global. Omitting the United Kingdom, Canada, New Zealand, and other international locations from his statistical model biases the estimated impacts of film incentives. Other times, his conclusions aren't warranted, particularly for California. In his analyses, Thom doesn't distinguish between the source of runaway production and the destination of runaway production. In other words, we might all agree that tax incentives to increase film production are not a good investment in Indiana or Rhode Island, where there isn't already an established concentration of activity. Incentives in California to retain film production have a different calculus. The California Film and Television Tax Credit Program is not intended to grow the industry here per se, but to stop the bleeding.

Independent analysis show the film credit increases CA spending. Films that received film tax credits increased their spending in California by an average of 966 percent, the number of cast and filmmakers in the state by an average of 388 percent, and the percentage of filming locations in California by 54 percentage points (Alec Workman, "Ready for a close-up: The effect of tax incentives on film production in California."). This corroborating analysis reinforces our point that spillover effects from the film credit can be quantified.

Location decisions are heavily influenced by tax credits in CA. Other relevant California studies suggest that the percentage of production location decisions influenced by film tax credits is very high, ranging from 67 percent to 100 percent: the LAO's 2016 analysis[1] – 67 percent of the number of productions (75 percent of spending); UCLA's Appelbaum, Tilly & Huang (2012)[2] – 92 percent; LAEDC's 2022 analysis – 100 percent; and Workman (2021)[3] – between 81percent and 87 percent. LAEDC assumes that absent the credit these productions would have taken place elsewhere or not at all. Given the competitive nature of film production in the United States and internationally, we believe this assumption is sound, as demonstrated by California's shrinking role as a location for the industry's top-grossing features, California served as the primary filming location for only 11 of the 76 top-grossing features in 2018 (14 percent) despite its production incentives. Since 2016, Georgia has captured twice as many of the top grossing films in the industry. We know from conversations with our industry partners that there are productions not even applying for the California tax credits that would consider filming here if incentives were more competitive. California has dropped to the sixth most preferred place to film in the coming years according to a recent survey of film executives by Prod Pro (www.prodpro.com), we now rank behind Toronto, the UK, Vancouver, Central Europe, and Australia. We try to capture some of this activity as well with our location assumption.

The larger industry represents a significant portion of the state economy. The ROI is only estimated for the productions receiving the credit, the larger industry represents a significant portion of the state and local economy. An estimated 156,273 jobs are directly associated with the Motion Picture and Video Industries in California (in 2023), 18.5 percent of these jobs are contract workers/sole proprietors. The $69.5 billion of direct output (total value) expands to $105.4 billion once you factor indirect (supply chain) and induced (employee household spending) ripple effects in. In terms of California's Gross State Product (GSP), the larger industry directly contributed $45.6 billion to the state economy and the total contribution of the industry, including indirect and induced effects, totaled $68.4 billion. Total fiscal revenue associated with the industry as a whole reached $5.3 billion for state and local governments in 2023.

Impacts are felt beyond Los Angeles. Economic activity and fiscal revenue related to the industry is realized by the state regardless of where the industry activity is concentrated. Tax revenue associated with production spending is deposited into California's coffers and used to fund programs and services statewide. Of the 169 projects that received credits over the five years of Program 2.0, there were 79 engaged in Out-of-Zone production activities across 24 counties in the state. The top four counties by number of credit qualifying projects were Orange, Ventura, San Francisco, and San Diego. The Motion Picture and Video Production (NAICS 5121) industry alone had value added of close to $45.6 billion in 2023, which accounts for 1.2 percent of California's State Product (GSP). When you expand the definition to include the related industries of Radio and Television Broadcasting (NAICS 5151) and Cable and Other Subscription Programming (NAICS 5152), the latter of which includes streaming activity, the three industries combined account for 2.2 percent ($85.9 billion) of the California GSP.

The program's primary function is retention. Unlike other industrial policies, film and television production does not require a subsidy to support it, in fact the industry is so mobile and lucrative that other jurisdictions around the globe have been aggressively trying, and succeeding, to lure this traded industry away from California. The Legislature and Governor originally enacted the Program specifically to retain film production

[1] Weatherford, B. (2016). *California's first film tax credit program.* Legislative Analyst's Office. https://lao.ca.gov/Publications/Report/3502

[2] Appelbaum, L.D., Tilly, C. & Huang, J. (2012). *Economic and production impacts of the 2009 California Film and Television Tax Credit.* UCLA Institute for Research on Labor and Employment. https://escholarship.org/uc/item/0qh4h6jw

[3] Workman, A. (2021). *Ready for a close-up: the effect of tax incentives on film production in California.* Economic Development Quarterly 35.2: pp 125-140

in the State, more so than to grow the industry. As described in the 2009 Budget Act, "[The film credit] is intended to compete with other states and countries that offer subsidies to lure productions away from California (p.12)."[4] The program is not intended to increase the size of the economy overall, the film tax credits are intended to stem the shrinking of the economy that would take place without it in an environment where cost considerations are now the most important consideration in where to locate. Measuring the program's efficacy based on growth is misguided.

Runaway productions cost the state big. At least 157 out of 312 projects (50 percent) that applied for but did not receive Program tax credits between 2015 and 2020 left California to film elsewhere. These runaway productions alone cost the state $7.7 billion in economic activity, 28,000 total jobs, $2.6 billion in labor income, and state and local tax revenues totaling $354.4 million. An additional $4.8 billion would have been added to our California GSP, and the additional tax revenue associated with this lost production would have contributed to the Program's ROI.

Tourist-related "follow-on" economic activity is not included in the standard economic models used (including in this Report) to measure the impact of motion picture production. However, these dollars circulate through the economy and have a significant impact on regional economic activity, generating tax revenues for state and local governments.

The industry supports workers and businesses. California's entertainment sector employs hundreds of thousands of people across the skills spectrum, including actors, directors, screenwriters, costume designers, set builders, and visual effects artists. Beyond the studio lots, the industry supports local economies by generating demand for hotels, catering, security services, and equipment rentals, benefiting businesses in cities and small towns alike. The industry's vast supply chain helps to support businesses of all sizes across a diverse range of industries. Major studios and independent productions alike inject money into communities when they film on location, hiring local crews and utilizing regional businesses.

Other programs come with their own unique set of challenges that should be factored into their return (ROI) calculations including lengthy CEQA delays for affordable housing developments, or even an uncertain mix of industries receiving credits through other programs which could significantly impact their fiscal return due to differing multipliers across the varied industries. In terms of workforce development, the work of Heinrich et al. (2013) is referenced by LAO as demonstrating that education and workforce development could provide a better return on public spending by the State. We are strong advocates of education and workforce development. But this example raises a fundamental question: how would having more educated and skilled workers generate larger economic benefits if, in turn, a major industry leaves the State and takes good-paying jobs with it? As a reminder, the LAO points out in its report that California workers in the motion picture industry earned nearly 60 percent higher than the average of all workers in the state. We don't have to reduce the State of California's options to providing either financial support of an industry or investments in human capital. This does not have to be an either/or choice; the State can (and should) do both.

What would happen to the broader economy in California if the Program ceased to exist? The industry contributes billions of dollars to California's economy each year through direct spending, tourism, and tax revenue. What would be the economic loss if film and television production leaves the State and takes good-paying jobs with it? The LAO points out in its most recent report that California workers in the motion picture industry earned a weekly wage of over $2,700 on average in 2023, 60 percent higher than the average of all

[4] M.C. (2009). 2009 Budget Act. California Department of Finance. https://dof.ca.gov/wp-content/uploads/sites/352/budget/publications/2009-10/Budget_Agreement_Full-Package-w.pdf

workers in the state. These earnings put motion picture workers on par with workers in sectors like banking, engineering, and advertising. What would happen to the broader economy in California if the Program ceased to exist? How much would the economy shrink, how many job losses will occur, and how much labor income would disappear if other states and nations could poach California's film productions at will with their continuing incentives?

LAEDC has a Long History Studying Film and Television Production

The Los Angeles Economic Development Corporation (LAEDC), through its Institute for Applied Economics, has been analyzing runaway production since 2005 and the impact of the California Film and Television Tax Credit since the credit's inception in 2009.

- *What is the Cost of Runaway Production: Jobs, Wages, Economic Output and State Tax Revenue at Risk When Motion Picture Productions Leave California.* (released August 2005)
- *California Film and Television Tax Credit Program: An Economic Impact Study.* Analysis of the first 77 of 110 approved productions. (released 2011) https://laedc.org/reports/CAFilmCreditFINAL_R.pdf
- *California Film and Television Tax Credit Program: Assessing its Impact.* Analysis of the 1.0 Program and suggestions for restructuring the 2.0 credit program. (released March 2014) https://laedc.org/research/reports/california-film-television-tax-credit-program-economic-impact-study-2014/
- *California Film and Television Tax Credit Program 2.0: An Economic Impact Study.* Analysis of the 2.0 Program. (released March 2022) https://laedc.org/research/reports/ca-film-tv-tax-credit-program-2-0/

LAEDC's Response to LAO's Review of the California Film and Tax Credit 2.0 Program:

- *Responding to the Legislative Analyst's Office Review of the California Film and Television Tax Credit 2.0 Program* (released March 2023) https://laedc.org/research/reports/ca-film-tv-tax-credit-program-2-0/

Critiques on Michael Thom's Film Tax Credit Studies

- **LAEDC:** *Comments on Lights, Camera, but No Action? Tax and Economic Development Lessons From State Motion Picture Incentive Programs, a paper by Michael Thom* (released Jan 2017) https://laedc.org/lights-camera-no-action-paper-michael-thom/
- **Oxford Economics:** *Lights, Camera, but No Action? A Critical Assessment of the Methodological Approach* (released March 2017) https://www.oxfordeconomics.com/resource/lights-camera-but-no-action/
- **LAEDC:** *Potential Issues with "Do State Corporate Tax Incentives Create Jobs? Quasi-experimental Evidence from the Entertainment Industry"* (released November 2019) https://laedc.org/wp-content/uploads/2020/08/LAEDC_Thom-Methodology-Memo_20191113a.pdf

---

About the Los Angeles County Economic Development Corporation – The non-profit Los Angeles County Economic Development Corporation champions equitable economic growth across the LA region. Collaborating with community, government, business and education partners to inform and advance our data-driven and evidence-based approach, we endeavor to achieve a reimagined regional economy – growing, equitable, sustainable, and resilient -that provides a healthy and high standard of living for all. LAEDC staff and members represent the diversity of Los Angeles County and act as trusted conveners, thought partners, valued service providers, regional stewards, and catalysts for transformational change.