Testimony of Jane Saul, Director of the Pennsylvania Film Office
Before the House Tourism Development and Recreation Committee
Pittsburgh, PA
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Introduction

Good Afternoon. It is a pleasure to be here in Pittsburgh today and to present testimony to this committee once again.

Today, I would like to:

- present an update on the status report that I gave to the committee last month in Philadelphia;
- provide a forecast of prospects for FY09-10;
- highlight some of the key findings of the study on the economic impact of the FTC recently released by the Legislative Budget and Finance
- describe the impact of eliminating or reducing the FTC

Status Report on the FTC:

- FY 07-08: Direct spend of **$210 Million** based only on audits received and created an economic impact of **$430 Million**
- FY 07-08: **2,931** Jobs created based only on Economic Impact Reports received
- We have committed **$70,170,409** of the tax credit for FY 08/09 and expect to reach the cap in the next week.

Prospects for FY09-10

Looking forward to FY09-10, we anticipate that demand for FY09-10 will be stronger than ever. The program has a track record of success that continues to grow with each project that is completed. In addition, with each successful project completion, Pennsylvania's reputation as a great place to make movies continues to grow.

Next fiscal year is also going to be a great year for film. We say this with confidence because many of the applicants that submitted FTC applications but will not receive awards due to the cap on the Film Tax Credit will re-apply for tax credits in FY09-10. In addition, work on the Paramount production "The Last Airbender" will continue through FY09-10 and a request for a tax credit in the amount of $17.8 Million of the FY09-10 allocation will be awarded to that project. Just a few more projects of that size would exhaust the entire $75 Million allocation.

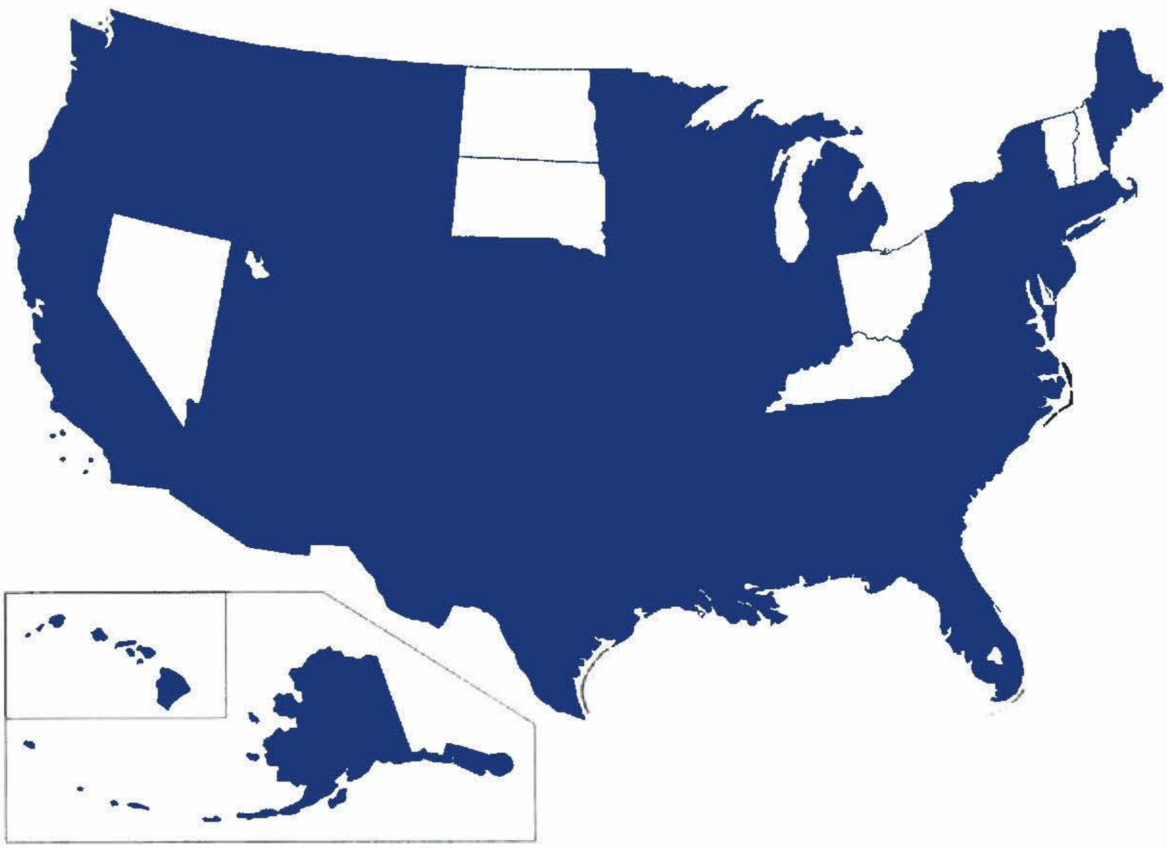
Earlier Mickey Rowley mentioned several of the "top line" findings of the study commissioned by the LBFC on the impact of the Film Tax Credit.

I would like to highlight a few of the study's findings as well, specifically Committee relating to:

- the competitive landscape
- the size and scope of the industry in Pennsylvania; and
- the strategic rationale for maintaining the Film Tax Credit

The Competitive Landscape

The entertainment industry remains vibrant even in these difficult times and that has gotten noticed in every corner of the US (and the world). Just a glance at the map below provides a graphic illustration of the market in which Pennsylvania is competing for a share of the industry's activity and spending in the U.S.



Forty-two states have enacted incentives to attract the film industry and "get a piece of the pie." As anyone who has taken Economics 101 will tell you, over time there will be consolidation in the industry and only a hand full of states will succeed in developing and establish a lasting industry presence.

ERA's careful analysis of the industry in Pennsylvania and key competitive states (CT, IL, LA, MA, MI, NM) demonstrates that despite intense competition from many other states, Pennsylvania is extremely well positioned to succeed in expanding the solid industry foundation currently in place and make it a key segment of the Commonwealth's economy in the future.[1]

As noted in more detail below, the film industry that currently exists in Pennsylvania is expansive and vibrant and the Commonwealth's workforce ranks among the best in the nation. In three of four categories measured by ERA: number of firms, jobs and wages, Pennsylvania ranked 2nd among this cohort of competitors (in each case behind Illinois). In each of those same three categories, Pennsylvania was ranked ahead of Louisiana and New Mexico, states that are most often cited as the benchmarks of success in the development of a stable and vibrant industry of the future.

The Commonwealth is now ranked among the top 5 locations in the nation filming by industry insiders despite the fact that from a production company perspective Pennsylvania does not have the "best" incentive from a in terms of form or percentage.

This is a tribute to the efficacy of the Film Tax Credit, the outstanding customer support provided by the state and regional film offices, an outstanding workforce and the many established businesses that provide the skills, resources and products sought by sophisticated productions.

It took years of dedicated work and investment by public and private parties alike to achieve this competitive position and that competitive advantage will be lost and will quickly shift to another state if the Film Tax Credit is eliminated or reduced.

The Size and Scope of the Industry in Pennsylvania

One of the most interesting findings of the ERA Report is the size and the scope of the film industry that currently exists in Pennsylvania. Not only is the industry larger and more extensive than previously understood but its role in attracting films was also underscored in the Report with the following observation:

> The benefits of an existing film support network, such as the one that currently exists in Pennsylvania . . . to an incoming film industry may ultimately prove to be one of the most important factors in a film incentive competition between states.[2]

In 2007, the most current year for which data is available, the film industry in Pennsylvania consisted of 799 firms that had sales of $1.4 Billion and employed 9,800 people with an average salary of $62,700. Nearly $1.5 Billion in sales; that's amazing !!!

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[1] See Table 11 of ERA Report and accompanying text.

[2] ERA Report, page 11.

How many of us sitting here today knew that or realized that the industry was such a big part of the state's economy?

Even when television broadcasting and cable programming are eliminated from the analysis, the figures are impressive. In that smaller segment, 684 firms employed 3,752 people with an average salary of $52,340; significantly higher than $42,945, the average salary in Pennsylvania. Moreover, compared to national average, from 2002 to 2007, in Pennsylvania the industry:

- created jobs more rapidly (3.3% v. 0.9%; and at a rate of 4.1% for jobs in the production segment)
- increased wages faster (5.7% v. 4.1%)[3]

Unlike other states that are trying to build an industry from the ground up, these entities and skilled workers are an important competitive advantage vis-à-vis other states. Moreover, they serve as the bedrock for a vibrant and dynamic industry in the future.

The Strategic Rationale for the FTC

In these difficult times, when we are in the midst of a national recession and the legislature is presented with tough budget choices, many have asked whether it makes sense to continue the Film Tax Credit and, as you well know, several bills are pending in the House and the Senate that would eliminate or curtail the Film Tax Credit and eliminate funding for the Pennsylvania Film Office.

I urge you to vigorously reject any effort to eliminate or curtail the Film Tax Credit and to eliminate funding for the Film Office which administers that program. As you saw and heard in Philadelphia, and will hear again today, the film tax credit program works and should be continued for the following reasons.

First, it creates jobs and increases economic activity. No matter how you look at it, there is no question that this program creates jobs in Pennsylvania. No jobs, no tax credit; it's right there in the statute and it really is that simple.

In addition, the jobs that are created by the Film Tax Credit are not low-skilled, minimum wage jobs. According to ERA, they tend to pay higher wages than comparable employment using the same skills.

> "Employment of [the] local workforce is particularly noteworthy since film production/crew jobs tend to pay higher wages than comparable employment using the same skills. [A] greens man . . . or a costume designer working of a film production can earn nearly double their regular earnings [than] . . in a non-production-related-job.[4]"

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[3] See Tables 9 and 10 of ERA Report and accompanying text.

[4] ERA Report page 9.

It may be tempting to brush this off as "economist speak" but let me show you an example of how it works in practice using "My Bloody Valentine" a feature film shot right here in Pittsburgh last year.

That project spent 30 days in pre-production and 39 days in production in Pennsylvania. During that time, the production company employed over 220 Pennsylvania residents and paid them a total of $1.974 Million (let's call it $2.0 Million) in wages and salaries. These Pennsylvanians worked in a variety of capacities, from management to tradesmen and entry-level workers, including the following:

- Art Dept. Coordinator and Assistant Art Director
- Assistant to the Producer, Production Coordinator, Assistant Production Office Coordinator and Production Assistants (22)
- Electricians, lighting technicians and rigging electricians (28)
- Scenic artists, set decorators, set dressers and set assistants (28)
- Drivers, including large vehicles (26)
- Grips (15)
- Property man (13)
- Construction coordinator, construction foreman, carpenters and painter (14)
- Sound and special effects specialists (6)
- Location Manager, Assistant Location Manager and staff (6)
- Make-up and hair stylists (4)
- Buyers, boom operators, wardrobe coordinators, costumers, etc. etc.

A second reason to maintain the Film Tax Credit is that it is one of the few economic development programs that is virtually "risk free" to the Commonwealth.

No tax credit is issued unless and until an audit demonstrates that the jobs and spending have occurred. There is no issue of claw backs or failure to meet the conditions of the program. Any production that fails to spend the amount provided in the application will see the tax credit decreased by a proportionate amount. Should the production fail to meet the statutory requirements, no tax credit will be issued.

This is not theoretical matter. The Film Office actively monitors projects that receive Film Tax Credit awards and has already determined that three productions that received tax credits in FY07-08 have not met the program requirements and will not receive tax credits.

In addition to being "risk-free" to the Commonwealth, the Film Tax Credit has other characteristics that make it attractive as an economic development tool. As ERA pointed out:

> "[F]ilm production is also an export industry that primarily generates money from outside a region. Film productions generate new money without draining infrastructure and local resources."

Fiscal Impact of the Film Tax Credit

Through careful analysis the ERA Report put to rest once and for all the issue of whether the Film Tax Credit has a positive impact on the Commonwealth's treasury. The following facts clearly emerged:

- The Film Tax Credit is a key driver of industry activity and ancillary activity in the Commonwealth
- As a whole, the film industry in Pennsylvania contributed $62.7 Million to the treasury in 2007
- In isolation, the Film Tax Credit has a negative impact on the treasury which is spread over several years; however, when all ancillary activity in the Commonwealth's is taken into account, production activity generated by the Film Tax Credit in FY2007-08 enabled the industry to add $4.5 Million positive impact on the Commonwealth's coffers

Implications of Eliminating or Reducing the Film Tax Credit

Having discussed the many benefits of the Film Tax Credit, I would like to turn your attention to the impact of eliminating or reducing the Film Tax Credit. I must warn you, it is not a pretty picture

The most reliable economic models tell us that if the Film Tax Credit is eliminated, Pennsylvania will lose $300 Million in direct spending; over $615 million in economic activity and 4,200 jobs.

Even a cutback would have a devastating impact on jobs and businesses. For each $1 Million decrease in the FTC allocation Pennsylvania will lose $4 Million in direct spending, over $8 Million in economic activity and 42 jobs and over $260,000.

Also, just as positive impacts ripple through the economy, so do the negative. Earlier I noted that according to ERA, the film industry is more than a $1.5 Billion industry in Pennsylvania. More importantly, as number 30 in the list of 422 industries in the Commonwealth, it is among the top 10% of industries with the highest multiplier effects in the Commonwealth, many of which benefit from targeted economic development incentives supported by the Commonwealth.

Buried in Appendix C of the ERA Report was telling information about how intertwined the film industry is in the fabric of the Commonwealth's economy. According to the report,

> "nearly 70 percent of each dollar spent by a Pennsylvania company involved in . . . motion pictures or videos is distributed among other companies . . . and the remaining share is spent on wages, proprietary income, other property income and indirect businesses."

As a result, not only will the elimination or reduction of the Film Tax Credit will have a devastating impact on the industry, it will also have a devastating effect on the Commonwealth's economy and its future.

In addition, if the Film Tax Credit is cut or eliminated, in addition to losing jobs and economic activity, Pennsylvania will lose its competitive position and the future that it represents for Pennsylvania residents, businesses and communities. As ERA noted, "the costs of redeveloping such a capacity at a future point is likely to be much more costly than supporting and building on current economic capacity.[5]"

We are all well aware that Pennsylvania has the third oldest population in the United States and that we are fighting a battle against brain drain. The entertainment industry represents one of the most attractive industries of the future and is particularly appealing to young people. This is yet another reason that any effort to scale back or eliminate the Film Tax Credit should be vigorously opposed by those who care about Pennsylvania's future.

Currently, at least 60 institutions in Pennsylvania currently offer programs geared to the industry. If we want the graduates of these institutions to stay in Pennsylvania, some of whom are the best and the brightest in the country, we must foster the industry that will hire them and keep them here. Not only is this true for new graduates, but it is also true for experienced workers who have lost jobs in other industries (carpenters, electricians, drivers, landscapers, hair dressers, etc. etc.) and can use their skills in the film industry. Moreover, according to the study recently completed by ERA for the Legislative Budget and Finance Committee, skilled workers who move to the film industry are likely to increase their wages!

Chairman Kirkland, Chairman Barrar and members of the Committee, I cannot say it any more plainly than this --- it would be unfair and irresponsible to eliminate or cut such a program at a time when Pennsylvania's citizens, employers and communities are looking for help that will enable them to create jobs and inject significant amounts of spending into their businesses and communities.

Finally, I wish to bring to your attention to two costs that are often overlooked but which is certain to occur if the Film Tax Credit is reduced or eliminated, namely: the loss of revenues that will occur when the productions move to states with attractive incentives; and the cost of unemployment compensation that will be payable to Pennsylvania residents who will lost their jobs if the Film Tax Credit is cut.

If the Film Tax Credit is eliminated, the Commonwealth will lose at least $19.6 Million in tax revenues that would have been paid as a result of the economic activity generated by the program.

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[5] ERA Report page 2.

In addition, the Commonwealth will be obligated to pay unemployment compensation to workers who lose their jobs as a result of the shift of production activity to states with more competitive incentives. These obligations are not inconsequential and will have an immediate negative impact on the Commonwealth's treasury.

Distinguished members of the committee, it has been my pleasure to testify before you today.

I would now like to turn the microphone over to Dawn Keezer, Director of the Pittsburgh Film Office who will speak about the impact of the Film Tax Credit in the ten counties of Southwestern PA covered by her office.