Incentivizing the growth of film and TV production in New York:

A REPORT TO THE NEW YORK PRODUCTION ALLIANCE

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This report was undertaken at a time when New York was finishing another record year of film, television and streaming production across the state, with new investments in soundstage and post production facilities underway and the recent launch of a novel work force development fund focused on diversity and workforce readiness for New Yorkers. COVID-19 has in every way altered our world, and the New York production community was not spared. The virus has shuttered New York productions and sidelined its thriving and innovative supply chain, a collection of several thousand local businesses, more than 87 percent of which employ 10 or fewer workers. Film industry suppliers include lumber yards, hardware stores, caterers, equipment rental companies and transportation companies, to name just a few. There are also tens of thousands of workers employed to work in front of and behind the camera that are facing almost one hundred percent unemployment as public health concerns keep the industry from assembling. We brought this paper to a close at a time New Yorkers were beginning to understand the terrible loss this virus is bringing to our communities.

New York State will continue its clear-eyed focus on protecting the public into the foreseeable future. At such time when the state determines New Yorkers can safely return to work; the film industry, its talented workforce and entrepreneurial local suppliers will be an important cog in the wheel of recovery for this state.

When New York executes post-COVID 19 strategies to restore the state to economic prominence, supporting the recovery of film and television production, including preservation of the film tax credits and continued support for education, training and technology can help assure the industry's return to long-term growth and job creation in New York.

Film and television tax credits: rebutting recent criticism

Industry-specific tax incentives are widely used to foster economic development in states and cities throughout the United States and in countries around the world. State and local tax credits aimed at attracting film and television production are offered by 34 U.S. states and many countries. Proponents argue that film and TV tax credits have helped states and cities add high-paying, high-value jobs in a growing industry; critics argue that they cost too much, and mostly subsidize activity that might have occurred anyway.

Michael Thom, an associate professor at the University of Southern California's Price School of Public Policy, recently weighed in on this issue with an article in *State and Local Government Review*. Using data from five states[1] that in 2017 accounted for 77 percent of all state spending on film and TV production tax credits, he concluded that "in most cases, MPI [motion picture incentive] programs had no statistically significant employment impact."[2]

Professor Thom's analysis suffers from a number of flaws that limit its usefulness as a guide to policy decisions about the future of film and TV tax credits. He begins his discussion of tax credits by openly stating his skepticism about whether *any* governmental support for the growth of "creative industries" is justified.

> *For all the benefits of a creative economy, there are drawbacks, among them gentrification, rising housing costs, and higher inequality. Compared to traditional industry clusters, the market for creative labor and capital is more global and competitive. And relative to other industries (e.g., agriculture, manufacturing, and natural resource extraction), those built on intellectual property are less tethered to any one location. Incentives can create jobs more rapidly, but those jobs can just as rapidly leave.*[3]

This assertion, however, is based on an outmoded (and largely erroneous) view of the factors that determine the location of high-value creative industries. Recent work by Harvard's Torben Iversen and David Soskice of the London School of Economics suggests that these industries are more firmly anchored in specific locations than Thom's comments imply. Rather than being footloose, Iverson and Soskice find that high-value, advanced industries are typically embedded in geographically-specific clusters of high-value companies and highly-skilled workers – workers whose skills are both complementary and critical to the industry's success [4]

Moreover, in an era of stagnant or declining demand for many leading commodities, and concerns about environmental degradation, it seems especially strange to suggest that extractive industries provide a sounder and more reliable base for the growth of a state's or a city's economy than do creative industries.

Professor Thom's assertion is further discredited by recent work of OlsbergSPI (a consulting firm that has studied the impact of film and TV production in multiple countries) that documented the

[1] New York, Louisiana, Georgia, Connecticut and Massachusetts
[2] Michael Thom, "Do State Corporate Tax Incentives Create Jobs? Quasi-experimental Evidence from the Entertainment Industry," *State and Local Government Review*, October 2019
[3] Ibid., p. 3
[4] Torben Iversen and David Soskice, *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century* (Princeton: Princeton University Press, 2019) pp. xiii-xiv

close linkages between film and television production and other creative industries. Olsberg found substantial horizontal and vertical integration arising from scripted television (with *47 percent of expenditures affecting other creative industries*) and feature films (with *38 percent of expenditures affecting other creative industries*).[5] Olsberg's findings demonstrate that film and dramatic television are linked to other creative industries in ways that Professor Thom's opening remarks fail to recognize. The work of Iverson and Soskice as well as Olsberg establish that the creative industries create thriving interdependent clusters, which helps tether them to communities they are situated in. As discussed below, this clustering effect is evident in New York.

Beyond this conceptual weakness, Professor Thom narrowly focuses his analysis on one set of data – the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), which provides detailed time series data by industry on number of businesses, jobs and earnings per worker. As valuable as QCEW is for tracking changes in certain types of employment over time, it is limited in several crucial respects. Perhaps most significantly in this case, it includes only wage-and-salary workers – a serious limitation in measuring an industry that has historically employed large numbers of independent contractors, sole proprietors and crew members contracted through employment service companies.[6]

Other limitations include the following:

- QCEW job numbers do not clearly distinguish between full- and part-time employment – they provide only a head count, without taking into account hours worked. A study of New York City's film and television industry conducted in 2015 by the Boston Consulting Group found that the growth in filmed entertainment that occurred between 2011 and 2014 resulted in a significant increase in the number of workers who logged enough hours to make film and television work their primary job.[7] Similarly, from 2004 to 2017, average annual hours worked by members of International Alliance of Theatrical Stage Employees (IATSE) Local 52, the New York film industry craft union, rose from 898 to 1,708.[8] This type of growth is not captured by changes in QCEW job numbers.

- The NAICS code that Professor Thom uses to track film and television production employment (51211) does not include post-production services – a segment of the overall industry that has been growing in New York, and in which average weekly earnings per worker in New York State ($2,050) slightly exceed the average for other film and TV production work ($1,979).[9]

- Focusing as it does on NAICS code 51211, Professor Thom's analysis also neglects the impact of film and television production on employment in other support industries, such as catering, ground transportation and equipment rental, which play an important role in supporting film and TV production.

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[5] Olsberg·SPI, Film and the Creative Economy: How Film and Television Drama Productions Grow the Creative Industries, July 31st, 2017

[6] According to a 2019 report for the New York City Mayor's Office of Media and Entertainment, 52 percent of the City's film and television workers are freelancers (Edelman Intelligence, *Freelancing in New York City 2019*, Mayor's Office of Media and Entertainment, p. 5)

[7] Boston Consulting Group, *The Media and Entertainment in NYC: Trends and Recommendations for the Future*, October 2015, p. 8

[8] Local 52 has more than 3,600 members in New York, New Jersey, Connecticut and Pennsylvania

[9] U.S. Bureau of Labor Statistics, 2018.

Professor Thom's analysis similarly neglects the impact of growing demand for production space on real estate development and construction. Since 2004, development of such space has boomed in New York. Since 2016, Silvercup Studios whose main facility has been in Long Island City since 1918, has opened a 120,000 square-foot facility with 4 stages in the South Bronx; Steiner Studios has opened a new 266,000-square-foot building with six sound stages in the Brooklyn Navy Yard; York Studios completed a 175,000-square-foot facility with five sound stages, offices and support space in the Soundview neighborhood in the Bronx; and Kaufman Astoria Studios is completing a 150,000-square-foot building with two sound stages, other production support facilities and 66,000 square feet of office space. As of November 2019, five other projects totaling nearly 1.2 million square feet (and costing about $780 million) were in various stages of development (Table 1).[10] As we review further below, these projects created 3,303 person-years of direct work in construction and related industries, with $303.0 million in earnings.

Table 1: Development of production space recently completed or under way in the NYC area

Studio/project	Location	Square ft	Completion	Est cost
York Studios	Soundview	175,000	2019	$45 M
Steiner Stages 25-30	Brooklyn Navy Yard	266,000	2019	$102 M
Kaufman Astoria Studios	Astoria	150,000	2020	NA
Lionsgate	Yonkers	180,000	2020	$100 M
Netflix	Bushwick	165,000	2021	$100 M
NYCEDC Made in NY	Sunset Park	100,000	2021	$136 M
Staten Island Stages	Staten Island	80,000	2021	$20 M
Wildflower Studios	Astoria	650,000	2022	$425 M

The limited scope of Professor Thom's analysis, and the limitations of his data, mean that his conclusions about the ineffectiveness of film and television tax credits are unsubstantiated.

New York State's film and television tax credits

New York State's film and television production tax credits were first enacted in 2004, in an environment of concern relating to the sharp decline in production employment in New York; the State's ability to compete with states and Canadian provinces where costs were lower; and a relatively slow recovery from the recession of 2000-2001. As Figure 1 (below) shows, between 2001 and 2004 average annual film and TV production employment in New York declined by 24.9 percent – a loss of about 10,800 jobs.

[10] Additional studio space has also recently opened or is under construction in Jersey City's Caven Point neighborhood and Harrison. Industry sources cite New Jersey's decision earlier this year to restore film and TV production tax credits that had been repealed under Governor Chris Christie, as helping to attract new investment.

In response to this decline, the Legislature in 2004 established the Empire State Film Production Tax Credit. New York Tax Credit has always been calculated based on local New York crew costs working in areas such as construction, transportation, makeup, costumes, locations and grip and electric roles ('below the line') and excluding the typical "Hollywood" type jobs such as cast, directors, producers and other creative ('above the line') positions. The incentive also applies to supplier costs for goods and services used in qualified New York productions. (In 2018, costs other than wages accounted for about 52 percent of all credit-eligible New York spending – more than $1.2 billion.)[11] In 2008 the credit was increased from 10 percent to 30 percent of qualifying expenditures; and the total value of credits awarded increased to $420 million each year through 2019.

In 2010 eligibility was expanded to include post-production work on feature films or series on which principal filming takes place outside New York State. In 2015 an additional credit of 10 percent was awarded for labor costs incurred in certain upstate counties. In 2017, the program was extended through 2022; and in 2019, through 2024.

New York's film and TV tax credits are notable for being fully "refundable;" if the value of tax credits awarded for a particular production exceeds the producer's New York State tax liability, the State will pay the difference in the form of a refund. Refundability is one of the attributes that has allowed New York to compete with the highly competitive Canadian provinces where the value is not just their tax credits but the generally favorable currency exchange rates, as well as European countries such as France, the United Kingdom, Ireland and Germany that also provide cash rebates to qualified productions.

The next section of the report uses data from several sources (including QCEW) to explore the effects of film and TV tax credits on New York's economy, with a focus on New York jobs.

The growth of film and television production in New York

In the years since the State's tax credit program was established, the industry has experienced strong growth. From 2004 through 2018, statewide wage-and salary employment in film and TV production has risen by 52.3 percent – an increase of more than 17,000 jobs.

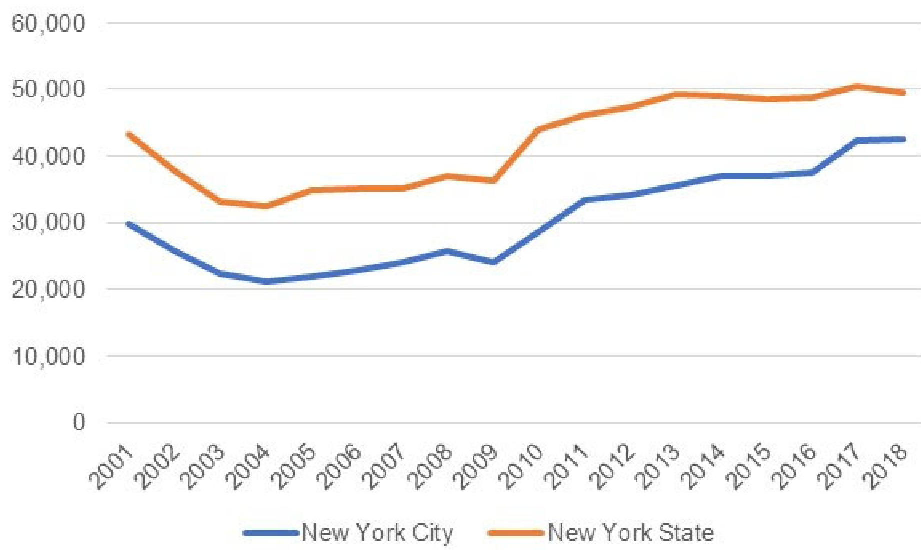
Professor Thom suggests that this upswing might be explained by underlying trends in the state's economy, rather than the impact of tax incentives. But from 2004 through 2018, total private-sector wage-and-salary employment in New York State grew by just 16.9 percent. In other words, *from 2004 through 2018, wage-and-salary employment grew more than three times as fast in film and TV production as it did in New York's private-sector economy as a whole.*[12] Moreover, the margin by which film and TV production outperformed the overall economy is even greater in New York City than it is across New York State. Between 2004 and 2018, private-sector wage-and-salary employment in New York City grew by 31.3 percent, while average annual wage-and-salary employment in film and TV production grew by 100.0 percent – an increase of 21,432 jobs.[13]

Professor Thom also claims that the growth of film and TV production employment in New York and other states that offer tax credits could be due at least in part to underlying trends in film and

[11] ESD fil tax credit quarterly report
[12] Bureau of Labor Statistics, QCEW; Appleseed calculations
[13] Ibid.

TV production nationwide. But between 2004 and 2018, U.S. wage-and-salary employment in this industry grew by only 14.8 percent. In fact, *during this period New York City by itself accounted for 64.9 percent of total nationwide growth in wage-and-salary jobs in film and TV production*.[14]

Figure 1: Average annual private employment in motion picture and video production, distribution and postproduction and other related industries in New York City and New York State, 2001 – 2018



Source: QCEW, BLS

Moreover, as noted above, a substantial segment of the industry's workforce are not wage-and-salary workers. A study for the Mayor's Office of Media and Entertainment found that more than half of all film and TV production workers in New York City are freelancers.[15] "Freelancer" is a broad term that takes in several ways of working. Some freelancers are paid as part-time or temporary wage-and-salary employees Some are paid through temporary staffing contractors, in which case they are typically counted as employees of the contractor rather than the studio or production company.. Some operate as independent contractors; some split their time between wage-and-salary jobs and short-term contract work; and some shift back and forth between these roles depending on the opportunities that are available.

The inability of QCEW data alone to fully capture the industry's freelance workforce is compounded by the growth of the "on-demand economy" in recent years. Research conducted by Engine Insights for Met Life found that in 2018 approximately 30 million U.S. workers relied on "gig work" as their primary source of income; another 15 million who were employed in regular full-time jobs supplemented their incomes with gig work. Engine Insights estimates that 45 percent of all gig workers operate as independent contractors.[16]

[14] Ibid.
[15] Edelman Intelligence, op. cit. p. 5
[16] Engine Insights broadly defines gig workers as including those who work on fixed-term contracts; those who are employed by clients on a project-by-project basis; those who are hired and paid through online

Even without counting the "freelancers" and independent contractors noted above, QCEW data, as well as other data collected by New York State's Empire State Development Corporation, reinforced by data on on-demand workers, and analyses conducted by other economists all clearly show that the growth of film and TV production employment in New York since 2004 has substantially exceeded that which could be expected based on either the industry's growth nationwide, or the overall rate of job growth in New York.

Based on interviews with industry participants, the Boston Consulting Group (BCG) study cited above identifies several reasons for the growth of film and TV production activity in New York City, including the New York film tax credit.[17]

- Surging demand for filmed programs – from traditional broadcasters, from cable networks and from most recently from video streaming services
- Tax credits that help offset the higher costs frequently associated with filming in New York
- New York's concentration of "below the line" (BTL) workers – highly skilled and experienced crew members – and its extensive (and still expanding) film and TV production infrastructure
- The concentration of "above the line" (ATL) talent (lead actors, directors and other creative professionals) in the New York area. This allows production companies to avoid the extra costs (transportation, lodging, etc.) that are in some cases associated with bringing in talent from outside the area.

Other factors can be cited as well.

- Educational programs that provide a steady stream of professional and technical talent, including film programs at NYU, Columbia, Brooklyn College and the New York Film Academy.
- New York's strength in a series of overlapping creative industry sectors – theater, music, new media, etc. – that can share human, intellectual and other resources (and employment opportunities) with film and TV production.

From a period of sharp decline in the early 2000s, New York has solidified its position as one of the world's leading centers of film and TV production. In its 2015 report, BCG noted that:

> *New York City is one of only three cities in the world (along with LA and London) with a film community large enough to enable a production to be made without needing any roles to be brought in from outside – cast, ATL or BTL.*[18]

Industry participants credit the State's tax credit program with giving New York's film and TV production industry the time and support it needed to evolve into a more competitive – and more sustainable – center of production activity.

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platforms; and those who are hired and paid informally. Met Life, *The Gig Economy: Opportunities, Challenges and Employer Strategies*, 2019 p. 2

[17] Boston Consulting Group, *op. cit*., p

[18] Ibid., p. 4

As shown below in Table 2, data published by Empire State Development indicate that in 2018 nearly $3.357 billion was spent in New York State on tax credit-eligible film and TV production activity,[19] of which $2.428 billion (72.3 percent) was determined by Empire State Development to be eligible for tax credits.

In the aggregate, below-the-line workers performed a total of nearly 25.385 million hours of tax credit-eligible work in New York in 2018, earning wages and salaries of nearly $1.157 billion in 2018 – an average of about $45.47 per hour.

Credits awarded for 2018 totaled nearly $729.0 million – roughly equivalent to 21.7 percent of total tax credit-eligible spending on film and TV production in New York State.

Table 2: Tax credit-eligible activity and tax credits awarded, 2018

Total NYS production spending	$3,356,741,421
Tax-credit-qualified spending	$2,428,043,519
Total credit-eligible hires	223,434
Total credit-eligible hours worked	25,384,729
Full-time-equivalent jobs[20]	15,110
Total credit-eligible wages	$1,156,778,346
Average wage per credit-eligible hour	$45.57

Sources: Empire State Development, film tax credit quarterly reports; Appleseed calculations

Empire State Development also reports on post-production activity that is supported by State tax credits. As shown in Table 3, in 2018 post-production spending totaling $95.7 million was deemed eligible for such credits. This spending directly supported 378 FTE jobs, with $34.7 million in tax credit-eligible wages.[21]

Table 3: Tax credit-eligible post-production activity and tax credits awarded, 2018

Total NYS post-production spending	$95,701,018
Tax-credit-qualified spending	$113,262
Total credit-eligible hires	1.516
Total credit-eligible hours worked	635,302
Full-time-equivalent jobs	378
Total credit-eligible wages	$34,725,792
Average wage per credit-eligible hour	$54.66

Sources: Empire State Development, film tax credit quarterly reports; Appleseed calculations

[19] For comparison purposes, production expenditures in 2004 were $600 million; by 2011 such spending had grown to more than $1.9 billion.
[20] Defined for purposes of this analysis as 1,680 hours (48 weeks at 35 hours/week).
[21] ESD film tax credit quarterly reports; Appleseed calculations

The impact of investment in film and TV production facilities

The continued growth of film and TV production in New York has stimulated (and at the same time has been made possible by) increased investment in production facilities. As shown in Table 1, projects now under way in Brooklyn and Queens, on Staten Island and in Yonkers are expected to add nearly 1.2 million square feet to New York's supply of production space by 2022, at a total cost of more than $780 million.

Using IMPLAN – a modeling tool commonly used in economic impact studies – we estimate that from 2019 through 2022 these projects will directly support 3,303 person-years of work in construction and related industries, with $303.0 million in earnings. Taking into account indirect and induced effects, we estimate that through 2022 these investments will directly and indirectly account for:

- 6,078 person-years throughout the State, with $490.2 million in earnings;
- $705.4 million in value-added; and
- Nearly $1.245 billion in output.

Table 3: Impact of investment in new production facilities, 2019-2022 (employment in person-years, wages, value added and output in millions of 2020 dollars)

	Employment	Wages	Value Added	Output
Direct impact	3,303	$303.0	$389.3	$747.8
Indirect effects	1,187	$86.9	$138.9	$220.7
Induced effects	1,588	$100.3	$177.2	$276.3
TOTAL	**6,078**	**$490.2**	**$705.4**	**$1,244.8**

Over a four-year period, 3,303 person-years of work equates to an average of 826 FTE jobs each year in construction and related industries, with an annual average of $75.75 million in wages. Taking into account indirect and induced effects, an investment of $780 million over four years will support an average of 1,519 FTE jobs each year, with approximately $122.5 million per year in wages.

The impact of State tax credits on non-subsidized productions

While New York's film and TV tax credits are allowing New York to keep pace with national and global competition, not all spending in New York State on film and TV production is subsidized. This is because some types of production (e.g. documentary films and reality TV programs) are by law not eligible to take the credit; and among those that are eligible, credits do not apply (as noted previously) to the above-the-line portion of their total spending. Comparing the data on tax credit-eligible wages paid in 2018 that is shown in Table 2 ($1.157 billion) with total film and TV production industry wages paid in New York in the same year ($5.097 billion[22]) highlights the scale of non-subsidized production activity in New York.

This disparity does not mean, however, that productions that do not directly receive tax credits do not benefit from their existence. To the extent that State tax credits have incentivized the development of a larger and more stable industry workforce and a more extensive film and TV production infrastructure, some of the benefits of those credits are shared across the entire industry, helping the entire sector to flourish.

The industry 'clustering' effect has been reported by economists evaluating the New York film production tax credit program, including by HR&A in a 2012 report for Empire State Development[23]and by Camoin Associates in their 2017 report[24]. HR&A determined that in 2011 there were more than 8,180 non-qualified production positions in New York attributable to the industry cluster supported by the New York film tax credit. In California, the Los Angeles Development Corporation similarly determined in 2011 that what their economist described as 'Ancillary Production' facilitated by the local availability of talent, suppliers and services generated more than $100 million of additional economic activity and 1,270 additional jobs in the California economy for every $1 billion of tax credit eligible production spending[25].

Film and TV-induced tourism

The popularity of New York-based films and television shows becomes a factor in motivating visits to New York by residents of other states and countries. Some come to New York for the experience of being part of the studio audience for shows such as the Tonight Show and Saturday Night Live. Others come to see locations made famous by popular TV series and films. A New York City-based company called On Location Tours, for example, conducts bus and walking tours of sites associated with Sex and the City, Gossip Girl, The Sopranos, Seinfeld and multiple superhero films. It also conducts guided walking tours of famous film sites in Central Park – in English, Spanish, French, German and Chinese. [26]

A recent study conducted by HR&A and supported by survey data estimates that in 2017, 6.5 percent of all non-resident, domestic, overnight visitors to New York State were motivated at least in part by the desire to visit sites associated with favorite TV shows and films. HR&A estimates that these visitors spent nearly $2.6 billion during their time in the state, and that spending directly and indirectly supported more than 34,000 jobs in New York.[27]

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[22] Bureau of Labor Statistics, QCEW

[23] HR&A, *Economic and Fiscal Impacts of the New York State Film Production Tax Credit*, December 3, 2012

[24] Camoin Associates, *Economic Impact of the Film Industry in New York State – 2015 & 2016*, January 2107

[25] LAEDC, *California Film and Television Tax Credit Program, An Economic Impact Study*, 2011.

[26] www.onlinetours.com

[27] HR&A, *New York Film-Induced Tourism: Economic Impact*, November 2018

Conclusion: The value of film and TV production tax credits

Given the growth of film and TV production in New York since 2004, it is clear that Professor Thom's conclusion that film and TV tax credits have had no effect on employment is not consistent with New York's experience.

While State tax credits are a major contributor to the industry's growth in New York, several factors have contributed as well. As the industry has continued to develop, those other factors – the depth and diversity of New York's human, physical and financial resources, the continuing development of its production infrastructure, and its status as one of just a few global centers of film and TV production – have served to reinforce the State's competitiveness.

Having achieved this status, New York can nevertheless not afford to take it for granted. The gradual erosion of competitive advantage can eventually (and sometimes quite suddenly) lead to large losses. New York needs to keep working to sustain – and build on – its strengths.

As the State considers strategies to further strengthen film and television production, it should recognize that investments in education, training and technology can also help assure the industry's continued long-term growth. These other investments should be made while maintaining a clear vision and understanding that Tax credits will continue to play a central role in offsetting New York's production cost disadvantages.