

Comments on an Expanded Film and TV Industry Incentive in Oklahoma

Our recent research on state-level film and TV industry incentives suggests that an effective incentive in Oklahoma should have the following goals:

1. Support the buildout of a sustainable base of film and TV production activity in the state;
2. Provide a net increase in jobs and wages earned in the state;
3. Provide a range of net benefits above the costs of the incentive;
4. Provide the production volume needed to support a full-service film studio in the state; and
5. Foster the development of key personnel to work in the industry on a near full-time basis.

The experiences of other states in offering film and TV industry incentives suggest that a well-designed incentive would include the following characteristics:

1. *A fixed annual cap on total incentive payouts.* A fixed cap provides ongoing fiscal stability and predictability for the state.
2. *An annual cap of sufficient size to generate the scale needed to support full-service infrastructure for the industry.* A common cause of failure in many states offering film and TV incentives is believed to be the use of an insufficiently large pool of funds. An incentive that does not provide enough cap to support a production studio and multiple full-time production crews in the state is unlikely to be sustained. The minimum cap needed to attain these goals is estimated at \$50 million based on typical payout rates.
3. *A film and TV incentive should avoid excessively high percentage payout rates.* There is little evidence that Oklahoma will benefit from having among the highest incentive rates among the states. A competitive rate is all that is necessary to attract film industry activity. Currently, a competitive base rate begins just above 20% given California's average rate just below 20%.
4. *The incentive should favor cash payments over tax credits.* Cash payouts provide ongoing cost predictability to the state. Experiences in Georgia and Iowa illustrate the pitfalls of using complex tax credit-based approaches.
6. *Incentive payments should generally apply only to spending that takes place in-state and cover only wages that are subject to state income tax.* This practice should be exempted only when the payout is for long-term industry build, workforce development, or other targeted efforts to address the state's deficiencies. Exceptions should also be temporary.
7. *Payout rates should rise above the base rate only when the expected economic benefits rise commensurately.* Incrementally higher incentive payout rates should be provided only for circumstances that produce greater economic benefits such as multi-project deals, use of in-state studio facilities, "Filmed in Oklahoma" name attribution, use of in-state talent, and shoots in rural or economically distressed areas.

Our research on the expected economic returns from state film and TV incentives suggests that an expanded incentive in Oklahoma that follows the above guidelines would have the following expectations:

1. Film and TV incentives tend to generate substantial new economic activity in states where a properly designed incentive is offered.
2. The jobs associated with film and TV production tend to have well above average wage rates.
3. Reasonable film and TV incentives are likely to pass a cost-benefit analysis given the high average wages paid to workers.
4. Large film and TV incentives are unlikely to provide full tax recovery. It is important to note that less than full tax recovery is not specific to film and TV incentives but is typical of many, if not most, state expenditures. The size of the incentive payout largely determines the rate of tax recovery.

5. The public tends to view film and TV industry activity as a highly desirable lifestyle and entertainment amenity.
6. Film and TV industry activity tends to bring added social and demographic diversity to many regions.

For a more detailed analysis, please refer to our recent research report on state-level film and TV incentives:

Mark C. Snead, Dan Rickman, and Amy A. Jones. "Oklahoma's Film and TV Industry: Growth Prospects and State-Level Incentives. July 2020." The report is available online at: <https://www.regiontrack.com/www/wp-content/uploads/OK-Film-Full-Report-RegionTrack-July-2020.pdf>