Executive Summary

Oklahoma's Film and TV Industry: Growth Prospects and State-Level Incentives

REGIONTRACK
Regional Economic Forecasting and Analysis

RegionTrack Inc. (regiontrack.com) is an Oklahoma City-based economic research firm specializing in regional economic forecasting and analysis.

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I. Introduction

Film and television (TV) production remains a highly unique and desirable industry across the world. Numerous countries and most of the U.S. states have long competed to attract the industry and its often high-wage and high-skill jobs. These efforts reflect, in part, the iconic role film and TV play in America's past and present and the public's growing consumption of digital entertainment services.

The purpose of this report is to assist state policymakers and the public in better understanding the current economic policy issues surrounding the U.S. film and TV industry. This will aid in assessing Oklahoma's potential as a more significant participant in the industry's future growth.

A key underlying economic development theme addressed throughout the report is whether it is feasible to build a significant film and TV industry in Oklahoma? And if so, is it desirable to do so? It is important for policymakers to understand whether evidence suggests that the competitive environment will allow a far larger film and TV industry to be built in Oklahoma. And, if so, under what conditions.

A growing number of studies examine the economic role of the film and TV industry, as well as the contribution of state-level financial incentives. Existing studies provide considerable evidence on the experiences of other states over the past two decades. However, there is little consensus across the range of research on both the estimated economic outcomes and the proper measures of success to use when evaluating the outcomes. This inconsistency in existing research has created an uncertain foundation for making public policy decisions regarding the industry.

This report provides a critical review of findings in existing research and evaluates and reconciles many of the contradictory results. The objective of the review is to provide a clearer set of expectations for economic outcomes from efforts to expand the film and TV sector in the state. The report further provides original empirical research examining state-level economic effects from both the enactment and removal (or reduction) of film and TV incentives at the state level. The original research attempts to fill in the voids of knowledge left by previous research.

Collectively, these efforts are intended to provide a better foundational view of the economic role of the film and TV sector when forming public policy decisions.

U.S. and Global Film and TV Industry

What we label as the film and TV industry throughout the report comprises a range of activities primarily related to production or distribution of films, television shows, and other forms of digital media for delivery through over-the-air broadcast, cable and wireless systems, and online streaming services. The Motion Picture Association (MPA), the industry's largest advocacy group, describes the sector as the Motion Picture and Television industry. We use the descriptor *film and TV* in the remainder of the report for brevity.

California (primarily the Los Angeles area) has long served as the global hub of film and TV production. More recently, the region has been forced to defend its competitive position as other mature as well as upstart filming locales provide lower-cost alternatives. The Los Angeles region now competes with four major production hubs around the globe – Canada, New York, Georgia, and the United Kingdom for U.S.-produced, English-language feature films and television productions.

Several additional U.S. states have large and growing film and TV sectors, including New Mexico, Louisiana, Connecticut, and others. Most states continue to actively recruit the film and TV industry, and Oklahoma is no exception. Currently, 32 U.S. states and the District of Columbia offer financial incentives to the film and TV sector.

Film and TV in Oklahoma. Oklahoma has long had a presence in motion picture production, with the state's current film incentive enacted nearly 20 years ago. The state has consistently attracted a small but steady number of motion pictures to the state for filming.

Oklahoma offers an attractive filming location because of its diversity of physical landscape, relatively mild and sunny weather, its appealing mix of both urban and rural backdrops for filming, and a low-cost operating environment. Despite these factors, the state has never built a substantial set of support industries, and the sector remains a small component of the state economy.

Industry Growth Trends. Recently renewed interest among the U.S. states in attracting the industry is traced to the ongoing surge in production of new digital media content, primarily for streaming of entertainment content to households worldwide.

This represents an important structural shift in the way entertainment content is produced, delivered, and consumed in the U.S. and abroad. Parallel to this trend, the growth in viewership of traditional films has slowed in recent years, with studios now reallocating their efforts to meet faster growing demand for streaming content.

The ongoing COVID-19 pandemic has only accelerated the trend toward the viewing of more streaming content at home and less in-theater viewing of traditional feature films. Despite a shift in the balance of the industry away from its historical roots and toward streaming content, the overall size of the industry continues to grow. This has steadily increased demand for more filming and production locations in the U.S. and internationally.

Incentive Competition. An international competition to attract the industry was triggered in 1997 as Canada and its provinces expanded their efforts to use financial incentives to encourage U.S. film production companies to leave increasingly high-cost California. Along with Canada, the United Kingdom offers extremely attractive incentives to U.S. production companies and has captured a large share of the global market for U.S. films.

Global competition for film and TV production projects has intensified as dozens of countries now offer attractive incentives to U.S. production companies. Numerous foreign competitors offer a combination of large incentives, lower operating costs, and unique scenery not found in the U.S. They are further aided by increased low-cost global travel and large viewing markets around the world for the finished product

In response to these *runaway* films moving outside the country, numerous U.S. states began offering incentives in the early 2000s to retain this production within the U.S. State-level incentives are now widely used to entice film production companies to shoot locally. Our estimates indicate that 32 states and the District of Columbia currently offer incentives with a total value of nearly $2.8 billion annually. Only five U.S. states have never offered incentives to film and TV production companies.

These incentives have become a key component of the financing model for film productions worldwide. States use a range of incentive types, including cash rebates, tax credits, and grants, with most payouts based on wages paid and purchases made by a production company within the state. Some states incentivize activity that takes place outside the state. Different activities can be incentivized, including traditional filming and production, animation, music, and other dimensions of the process.

Conflicting Research Findings. Continued growth in the total pool of state film and TV incentives has prompted more study of the industry, including spillover economic effects generated by activity in the sector. Studies examining the efficacy of state film and TV incentives have been prepared by several private and public entities including state agencies, legislatures, state auditors, trade groups, consultants, and academics.

These reviews generally examine the degree to which incentives result in an expansion of the film and TV industry itself as well as the amount of compensating economic spillover that accrues to the state more broadly. Existing studies also provide estimates of incremental tax revenue generated by the industry and estimates of return-on-investment (ROI) measured as tax revenue generated relative to the cost of incentives. Several studies further attempt to provide estimates of the cost per job produced by way of incentives.

A motivating factor underlying this report is the lack of agreement within existing research concerning the appropriate data, methodology, geography, and time frame for use in testing the effectiveness of incentives. There is also inconsistency across findings over basic questions concerning the direct economic impact of incentives on film and TV industry hiring and wages as well as the average cost of jobs when financed in whole or in part through incentives. Other debates continue over more technical and empirical aspects of the evaluations such as the definition of the industry, the approach for making benchmark comparisons across states, and the appropriate economic multipliers to use.

Better Public Policy Toward Film and TV Incentives. There is also little consensus in existing research on the proper policy benchmarks to use when measuring the success of a state film incentive program. As a result, the public policy interpretation of existing research has become highly polarized into two competing views of the industry. In short, advocates argue that the film and TV sector is an excellent source of new high-wage and high-skill jobs in a region. Critics argue that it is not a cost-effective use of public funds and that alternative uses may provide a greater economic return. This seemingly irreconcilable dichotomy of views provides an uncertain foundation for policymakers and the public to evaluate the appropriateness of film and TV incentives for a given state or local area.

Our evaluation of existing research and additional empirical work in the report suggests that proponents and critics of the industry can both be right, and wrong. There are numerous costs and benefits to using financial incentives to attract any industry, with the disagreements over policy frequently falling along the line of which costs and which benefits are more important to the evaluator.

Tax Revenue Recovery. Critics of the film and TV sector frequently apply a near litmus test of whether the industry returns enough tax revenue to recover the direct cost of incentives. Any project that does not produce full tax recovery is deemed undesirable, regardless of the range of additional benefits produced.

This single-hurdle approach is one which many incentive-funded economic development efforts cannot clear, including professional sports franchises and other entertainment mediums. Much like film and TV incentives, advocates for professional sports teams point to high public demand for the non-traditional benefit of increased quality of life through added entertainment options.

The basic concern with focusing policy decisions on a single factor like tax recovery is that other desirable outcomes may be overlooked in the process. In addition to high wage, high skill jobs provided by the industry and improved quality of life, economic development officials and other advocates for the industry often cite non-traditional measures of impact such as greater national and international exposure, broader entertainment options, increased tourism, diversification of the job base, attraction of the creative class, and expansion of the arts. These benefits can be highly valued by both policymakers and the public, even when accompanied by less than full tax-cost recovery.

Nevertheless, the concern with policymakers and economic development officials not considering tax recovery is that they tend to create incentive programs that are unnecessarily generous and costly. There is a wide range in both the total amount of incentive payouts and the percentage payout as a share of film and TV industry spending across the states offering incentives.

There are also critics who oppose most any use of publicly funded financial incentives, regardless of the level of cost recovery. These detractors commonly feel that most forms of state incentives are a poor use of taxpayer funds, arguing that much of the incentivized activity would likely locate within the state without incentives or that it leads to crony capitalism or distortions in the marketplace. However, existing research consistently finds that the film and TV industry is unlikely to thrive in many states in the current environment without incentives.

While critics generally concede that the film and TV industry can create significant amounts of new jobs and wages, they often counter that the gains reported in economic impact evaluations of the programs are exaggerated. Other criticisms note problems associated with the design and implementation of incentive programs that limit their effectiveness. These include payments for spending that occur outside the state (including wages to nonresidents), payments for salary of high wage cast members, lack of audit oversight, poor recordkeeping, lack of transparency, and other concerns. All these concerns can be validated to some degree in existing research on film incentives.

The full report examines these issues in detail in the evaluation of nonacademic (mostly economic impact) studies as well as the growing body of academic research on film and TV industry incentives.

Structure of the Report

The full report provides a detailed evaluation of the industry through the following tasks:

1. Examine Oklahoma's past and present experience with the film and TV industry, including the use of incentives to attract the industry;
2. Evaluate the use of state-level film and TV incentives across the states;
3. Examine the size and geography of the U.S. film and TV industry and assess current growth trends;
4. Review and critique existing research on state film and TV incentives produced by both academic and non-academic researchers and discuss what can be learned by policymakers from these works;
5. Perform additional empirical tests evaluating the economic impacts of the introduction and elimination of state film and TV incentives;
6. Examine cases of localized economic impact related to film and TV incentives, including the potential impact of the development of a certified sound stage and studio in Oklahoma; and
7. Distill key results that emerge from the above tasks and discuss the overall policy conclusions reached within the report.

Summary of Policy Findings

Our review of existing research on film and TV incentives and additional empirical research on the topic suggest several policy conclusions for development of Oklahoma's film and TV industry. These findings provide insight into the underlying questions of the viability of growth in the Oklahoma film and TV industry and the efficacy of using incentives to grow the sector.

1. **Current growth patterns and shifts in consumer viewing behavior suggest that the U.S. film and TV production sector will continue to grow in coming years**. Streaming is expected to be a faster growing segment than traditional filmmaking in the future. Spending on TV shows is now growing at a far faster pace than traditional films.
2. **Film and TV industry jobs in the U.S. remain attractive to states because they are often high-skill and high-wage relative to many other industries.** Film and TV jobs paid average annual wages of $106,300 in 2019 based on QCEW data for the four core NAICS sectors comprising the industry. This is 80% higher than the $59,219 average across all industry sectors in the U.S.
3. **Film and TV jobs generally offer significant diversity to the workforce and populace in most states.** These performance arts-related jobs tend to attract the creative class and bring demographic diversity. In Oklahoma, the industry would also bring significant diversification to the state's heavily oil and gas dependent economic cycle.
4. **The availability of incentives is often the single most important factor for production companies in choosing a shooting locale**. Production companies and their investors have come to expect access to state incentives for most projects. The industry is highly mobile and will relocate to regions where incentives are available, including numerous international destinations.
5. **A distinct shaking out period has been underway the past decade among states offering film and TV incentives**. Twelve states have ended their incentive programs or allowed them to expire in recent years. Nine of these states offered very small incentive pools, and half were eliminated following the 2007-09 national recession.
6. **Despite fewer states offering incentives, the total pool of state-level film and TV incentives in the U.S. continues to grow**. Several states, including Oklahoma, have expanded, or enhanced their programs in recent years. The current incentive pool offered by U.S. states has reached a record of nearly $2.8 billion. Policymakers in many states continue to view film and TV jobs as highly desirable and a viable tool for economic development and diversification.
7. **The use of incentives can translate into greatly increased economic activity in a state's film and TV sector**. States outside the traditional markets of California and New York have developed sizeable film and TV sectors the past decade using incentives to spur growth. Prime examples are Georgia and New Mexico. Both California and New York view incentives as necessary to maintain the size of the industry.
8. **The Oklahoma Legislature's stated goal of creating an incentive "that will stand out among those of other states" is not being achieved through the current base incentive.** While the state offers an attractive 35%/37% percentage payout per project, the relatively small $8 million annual cap on the program inhibits it from being

competitive given a $2.8 billion annual pool across all states. Relative to the size of the state, Oklahoma currently offers $2.02 per capita in incentives versus $8.39 across the U.S. and $10.87 in those states that offer incentives. It is also less than 20% of the per capita incentive in industry leading California.

9. **The high percentage payout of 35%/37% in Oklahoma is well above the rate offered by most major competitors except Georgia.** Using such a high payout rate may be unnecessary and limits the number of productions that can be incentivized. This may also sharply reduce the spillover economic effects and share of tax recovery.
10. **Oklahoma's lack of filming infrastructure limits the prospective growth of the industry in Oklahoma**. The presence of certified sound stages and resident filming locations remain a key component of the growth process for the film and TV industry in a state. Both Georgia and New Mexico have built numerous sound stages across each state to accommodate the growth. Attracting a resident TV show to Oklahoma is highly unlikely until a suitable permanent filming facility that meets modern industry standards is constructed in the state.
11. **State film incentive programs likely need to exceed some threshold to be effective.** Larger incentive programs more likely lead to required business services, infrastructure investment, and educational programs that create clustering of activity.
12. **Oklahoma is unlikely to build a more substantial and nationally competitive film and TV sector without a larger incentive pool**. Oklahoma's historical practice of offering only small incentives is unlikely to provide a meaningful boost to the industry in the state. Recent changes in the law allowing the Governor to use the quick closing fund for film and TV productions will help but leaves uncertainty for production companies.
13. **The ability to provide film and TV incentives is far greater in high population states with larger state spending power.** To reach the average per capita incentive ($8.39) offered across the states, Oklahoma would need to offer approximately $33 million in annual incentives. This would match the per capita expenditure by industry leader California.
14. **The historical support of consumer entertainment in Oklahoma suggests that a more extensive film program could receive substantial public support in the state.** Several state lawmakers and policymakers have expressed their support for the film incentive in Oklahoma. The history of voters in Oklahoma, and Oklahoma City in particular, suggest that various forms of entertainment are highly valued. For example, large financial incentives at the state and local level support the presence of the Oklahoma City Thunder in Oklahoma City.
15. **Existing research and our own research findings suggest that the film and TV industry tends to shrink in size in states that eliminate or cap their incentives.** The reductions in employment and wages in the Motion Picture and Video Production sector following the elimination of incentives suggests that a cluster effect is not sufficiently strong to offset the continual need for some amount of film incentives once the industry is established in the state to maintain the size attained.
16. **Relatively large and consistent incentives over the long-run are needed to build a meaningful business base**. Uncertainty in the availability of incentives would cause

those in control of projects to not consider Oklahoma as a viable long-term production location.

17. **Increasing the state incentive is unlikely to expand the film and TV industry without the presence of a modern production facility in the state**. A larger incentive pool and the presence of a sound stage are closely intertwined in the process of expanding the sector in Oklahoma. Expanding the state incentive without the needed infrastructure would hamper potential growth in the film and TV sector.
18. **Economic growth effects from the use of incentives are far more likely to be observed and measurable in small regions rather than at the state level.** A key concern with existing studies of state film and TV incentives is that they often seek to identify statewide economic effects. However, film and TV industry activity is far too small in most states to detect a boost to statewide economic activity. Pronounced economic impacts are highly visible at the local level. The Pioneer Woman TV production in Pawhuska, Oklahoma is an example of this activity contributing to the revitalization of a rural Oklahoma town.
19. **The issue of states using film incentives is more nuanced than typically is recognized in most existing studies.** Several states with large incentive programs appear to have been successful in creating a large film and TV presence in the state. Other states, such as Oklahoma with a $5 million cap during the period of analysis did not appear to be more successful than states without incentive programs.
20. **There is little reason to expect film and TV incentives to recoup sufficient tax revenue to offset the direct cost of incentives**. Using traditional measures of tax recovery are unlikely to produce a positive outcome. Most studies suggest a far less than one-to-one recovery of expenditures through added tax revenue. However, the return to tax revenue is not as small as suggested in many studies and likely higher than that from other incentives or reductions in taxes. Oklahoma's high payout rate of 35%/37% also possibly contributes to less tax recovery from the incentive pool.
21. **The use of a simple litmus test of tax revenue recovery to evaluate state film incentives ignores significant additional benefits that can be derived from a larger film and TV sector.** There are numerous economic development reasons beyond the traditional measures of jobs, wages, and tax revenue recovery for using incentives to support the film and TV industry, including lifestyle amenities and improved quality of life. States may adopt incentives for intangible reasons, consistent with public support for professional sports and other forms of entertainment.
22. **Our estimated net revenue costs per job associated with state film incentives for Louisiana and New Mexico compare favorably to those of other export-based sectors.** Bartik (2019a) reports an average cost of $24 thousand of state job and investment tax credits per direct job created across the U.S. in 2015 (for which at most 25 percent of the jobs created occur because of the incentives). This estimated cost greatly exceeds our cost estimate for film and TV-related jobs in Louisiana and New Mexico.
23. **Successful state film incentive programs likely pass a benefit-cost analysis**. Based on an average estimate that incentives induce 12 percent of all location or expansion of export sectors across the nation, Bartik (2019b) estimates that incentives generally pass a

benefit-cost analysis. With much higher incentive-induced effects in the film and television industry and a higher than average multiplier, the benefits of a well-designed state film-incentive program would far exceed the costs. The primary benefits come in the form of increased earnings of state residents. These broader benefits are not captured if using a simple litmus test of tax revenue recovery.

24. **Evaluation of state incentive programs requires careful consideration of the multipliers used in the analysis.** Studies understate the potential spillover effects of the film and TV industry if they use multipliers based on the structure of the state economy with a small film and TV sector that has fewer linkages to other sectors in the state economy and lower wages.
25. **Full tax revenue recovery for film and TV incentives only appears possible if there is large film-induced tourist spending or increased quality of life.** The potential effects on tourism and quality of life typically are ignored because of the difficulty in measuring them.
26. **Some significant tourism effects are reported with hit TV shows tied to the region where filmed.** A local example is the transformative effects of the Pioneer Woman TV show on Pawhuska, Oklahoma. New Mexico reports that the hit show *Breaking Bad* has generated a multi-year stream of domestic and international tourists. Successfully measuring tourism effects in Oklahoma would require an ongoing effort to track this activity.
27. **Results in the report shed considerable light on the potential economic contribution of a newly constructed sound stage and production facility in Oklahoma.** Estimates suggest an initial $100 million in direct annual spending would be associated with a fully operational production facility with two sound stages and a resident TV show. Spending would include $50.5 million in wages and the remaining $49.5 million for purchases of other goods and services across the state. Based on multiplier effects, the $100 million in annual in-state film spending supports estimated total output of $180.3 million along with 2,155 total jobs and $110.1 million in wages. Estimated annual tax revenue from film spending totals $11.89 million. Assuming the full $100 million in in-state film spending receives an incentive at the base 35% rate, estimated tax revenue returned to the state equals 34.0% of the $35 million in expected incentives.
28. **Existing research often ignores the benefits from non-qualified spending on productions receiving a state incentive.** In California, non-qualified spending is one-third of total spending for projects receiving a state incentive. These expenditures are often excluded because of lack of data and a focus on evaluating only the incentive rather than total film and TV activity. If Oklahoma, were to match the 33% share in California, the estimated economic impacts of a new production facility in the state would be approximately 50% higher.
29. **It would likely require an expansion of the current state incentive program to fully support a new production facility in the state.** A roughly $33 million annual incentive program would place the state at the national average of incentive spending per capita ($8.39) and equal the incentive spending per capita by industry leader California.

30. **Oklahoma offers a highly competitive percentage payout of 35%/37% but a relatively modest total state pool of $8 million given the competitive landscape.** The rate of incentive payout is extremely high, possibly far too high, relative to most competing states, particularly California's average rate of just less than 20%. An unintended consequence of a payout ratio that is too high is a reduction in the effective leverage of the incentive pool which, in turn, lowers the potential size of the economic and tax impact.
31. **Our evaluation of existing research and additional empirical work in the report suggests that proponents and critics of the industry can both be right, and wrong.** There are numerous costs and benefits to using financial incentives to attract any industry, with the disagreements over policy frequently falling along the line of which costs and which benefits are more important to the evaluator.
32. **Overall, an unequivocal answer on the costs and benefits of film incentives to a state's citizens cannot be provided solely by a standard economic impact study.** But use of best practices in economic impact analysis, supplemented with additional analysis, can provide the breadth of information needed in formulating state film incentive policy.