

**Review of
Motion Picture
Competitiveness
Program
Report 10-11**

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STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT AND
REVIEW COMMITTEE

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REPORT SUMMARY

In 2006, the Legislature Enacted the Motion Picture Competitiveness Program

This legislation was in reaction to increased filming outside the United States as well as to other states' enactment of incentive programs. The Legislature enacted the program to maintain Washington's position as a competitive location for filming. Contributors to a fund administered by Washington Filmworks, a non-profit corporation formed pursuant to the legislation, receive a tax credit against their business and occupation tax. The contributions fund payments to production companies that film in Washington. The tax credit is set to expire July 1, 2011. The Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to review the effectiveness of the program (2SSB 6558).

Results: Washington Is Maintaining its Position in the Film Industry

Information from the U.S. Bureau of Labor Statistics demonstrates that Washington's share of film industry employment has remained relatively consistent even as more states are competing for film work. Since Washington enacted its program in 2006, the number of states with tax incentives has grown from 18 to 44.

Additional Results: Tax Revenue, Jobs, Economic Impacts, and Reporting Requirements

Due to weaknesses in reporting requirements, data reported by the production companies regarding the tax revenue and job impacts of the incentive were unreliable. Using other sources, JLARC determined the following impacts:

Sales Tax Revenue

- For the calendar years 2007 through 2009, JLARC estimated \$837,000 in sales tax revenues from expenditures by production companies receiving incentives.

Jobs

- Data obtained from the Employment Security Department shows an increase in film industry jobs in Washington from 2002 through 2008, with a decline in 2009. Between 2002-2009, the average Washington film industry salary was \$3,000 to \$10,000 lower than the average salary for all Washington industries.

- Trade unions paid worker health and retirement benefits in 83 percent of the productions receiving incentive money. Washington Filmworks required production companies in the remaining projects to provide evidence that the company provided benefits.

Economic Impacts

- JLARC estimated that each dollar spent in Washington by the film industry yields \$1.99 of economic activity in the state and local economies. Production companies receiving incentive payments spent \$36 million in Washington since the beginning of the program through 2009, which results in a calculated economic impact of \$72 million. This impact does not include any potential effects from tourism nor does it include the lost economic activity that could result from the loss of state revenues through the tax credit.

Current Reporting Requirements Have Deficiencies

JLARC discovered deficiencies in the reporting requirements for information relating to taxes paid and employment by the production companies. These deficiencies may impair the Legislature's ability to examine the program in the future.

Washington's Program Compared to Other States and British Columbia

Washington's program is unique. Washington and Oregon provide tax credits to taxpayers other than production companies. Only in Washington is the incentive fund administered by a non-profit corporation rather than through the state. Washington's approach may relate to its tax structure and constitutional restrictions.

Incentive payment amounts are based on a number of factors including the production companies' qualifying expenditures, a percentage applied to that amount, and any limits on the total amount of funding available for the incentive program. Because incentive programs use different definitions of qualifying expenditures and percentages, the incentive amount for a specific project could vary among states. In regard to total funding available, Washington's annual limit of \$3.5 million is the fourth smallest in the country. Production companies also may consider factors other than incentives in making filming decisions.

Recommendation 1

Because Washington has maintained its position as a competitive location for filming, the Legislature should continue this preference and reexamine the preference at a later date to determine its ongoing effectiveness in encouraging filming in Washington.

Recommendation 2

If the Legislature desires information on the revenue and economic impacts of the tax credit, it should require more stringent reporting and clarify what entity is responsible for maintaining the information.