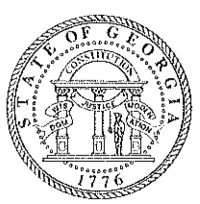

GEORGIA DEPARTMENT OF ECONOMIC DEVELOPMENT

PAT WILSON
COMMISSIONER

December 31, 2019

Department of Audits and Accounts
Performance Audit Division
270 Washington Street., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Dear Ms. McGuire,

This letter contains the Georgia Department of Economic Development's ("GDEcD") responses to the specific findings and recommendations contained within DOAA's impact audit concerning the administration of the Georgia Film Tax Credit. Just like the administrative credit, GDEcD feels the need to respond to the executive summary section titled "what we found" which appears on pages 1-2 of the audit.

As demonstrated in the responses below, GDEcD believes an audit should be neutral, unbiased, and present information in a fair and independent manner. GDEcD does not believe that this audit achieves those goals. Instead, GDEcD believes that this audit presents information that paints an inaccurate picture of the overall impact of the film industry in Georgia. Specifically, GDEcD takes issue with the manner in which DOAA calculated the film industry's net economic impact. DOAA turned the true economic cost of the credit in 2016 (in foregone tax revenue of $667 million) into $1.8 billion by presuming speculative government spending patterns and then netting this figure out from the actual impact. DOAA took the same approach when it determined the net number of jobs the film tax credit program generated. DOAA calculated the direct and indirect and induced industry jobs (totaling 29,000 jobs), and then subtracted 20,200 speculative government jobs that might have been created by the foregone tax revenue to conclude that the net number of jobs is 8,800. GDEcD believes this approach to determine the amount of economic impact and job creation serves to undervalue the film tax credit's impact on the economy.

As demonstrated in greater detail below, GDEcD also takes issue with the way information is presented in the "2016 Key Statistics" figure on the left side of page 1. This figure contains a film tax credit "cost per job" is which GDEcD's consultant has indicated is inaccurate (the specific methodology is found in finding 2 below). The 2016 Key Statistics figure also only presents the state taxes received per $1 in credit, and ignores the value of the local taxes realized. Moreover, GDEcD believes that the value of the credit's benefit that actually accrues to jurisdictions outside of Georgia is overstated because it is based upon data that is four years old and the amount of Georgian residents working on productions has significantly increased since 2016.

GDEcD is aware that DOAA engaged the Center for Business and Economic Research (CBER) at West Georgia to conduct the impact analysis. GDEcD has been advised by the following economists to conduct the 2019 film study and evaluate this audit:

Dr. Alfie Meek
Director of the Center for Economic Development Research (CEDR)
Georgia Tech

Dr. Roger Tutterow
Director of the Econometric Center and Professor of Economics
Kennesaw State University

Dr. Mark Rider
Center for State and Local Finance
Georgia State University

GDEcD's responses to the individual findings follow.

Finding 1: Projects receiving the film tax credit in 2016 had a net impact of $2.8 billion on the state's economy.

GDEcD Response: GDEcD takes issue with how the conclusion above is reached. To calculate the figure above, DOAA took the sum of the total amount of direct and indirect economic output. This figure totaled $4.6 billion. DOAA then subtracted out the decrease in government spending which was the result of the film tax credit. However, rather than just using the $667 million value of the earned tax credit to account for the decrease in government spending (which presents an unbiased overview the impact of the film tax credit), DOAA instead assumed that the $667 million in foregone tax revenue could have been spent by the government on Medicaid and education to generate a $1.8 billion impact and to create 20,200 direct, indirect, and induced government jobs.

The conclusion that the $667 million in foregone tax revenue could be used to generate a $1.8 billion government impact on the Georgia economy and would have created 20,200 additional government jobs relies on the presumptions that: i) the taxpayers that ultimately purchased and used the film tax credit would have been unable to find some other way to lower their tax liabilities; ii) that those same taxpayers would have used all of their purchased credits in 2016 and not carried them forward to future tax years at a discounted value[1]; iii) the state actually had a need to increase government and to spend the $667 million rather than saving it; and iv) that the state would have specifically spent the $667 million on Medicaid and education and would be able to get the federal match for Medicaid. The conclusion also ignores the fact that the taxpayers purchasing the tax credits to offset liability in the state would have more capital that would likely be used which would generate some level of economic activity within Georgia.

GDEcD believes that a better approach is to simply present (a) the impacts of the film tax credit and to present (b) the impacts if the state had increased spending by the $667 Million in 2016 rather than

[1] As noted in the February 2008 analysis response to Fiscal Note for House Bill 1100 written by David Sjoquist, director of FRC at Georgia State, "[a]ny credits carried over to future years should be discounted, probably at the rate on bonds the state has recently issued."

to attempting to net out the effects. In other words, one can analyze the impact of the tax credit program on the state economy without backing out hypothetical and speculative spending reductions.

Finding 2: Tax revenue generated as a result of the economic activity inspired by the film tax credit offsets only a small portion of the credit.

GDEcD Response: GDEcD takes issue with DOAA's conclusion that the cost per job for the film tax credit was $69,000. DOAA presumably reaches this figure by dividing the $603 million net revenue loss (as shown on Exhibit 22) by the 8,800 net jobs created and reflected in Exhibit 16. However, this approach is inaccurate as it "charges" the Tax Credit for the $566 Million ($667 Million less $101 Million) in net tax review lost while does not charge the "foregone government spending" for the net expenditure ($667 Million less $37 Million). The DOAA analysis assumes the 20,200 jobs created by the government spending of $667 million were "free".

The correct comparison is to view the tax credit as a "negative expenditure" and compare the expenditure per year. Assuming other parts of the analysis are correct, the proper accounting for the "cost per job" is shown below.

Jobs Added per $ of Credit/Expenditure		
	Film Tax Credit	Government Expenditure
Gross Expenditure/Revenue Lost	$667,000,000	$667,000,000
New Revenue Created	$101,000,000	$37,000,000
Net Expenditure/Revenue Lost	$566,000,000	$630,000,000
Output Added	$4,601,000,000	$1,800,000,000
Labor Income Added	$2,284,000,000	$876,000,000
Jobs Added	29,000	20,200
Net Expend/Rev Lost per Job	$19,517	$31,188

One should not interpret these calculations as saying the state should grow the economy by shutting down other state spending and diverting all the funds to tax credit. The reality is that the state engages in many investments that generate zero return tax revenue. For example, education, health care, public safety, and other state government functions do not directly yield any tax revenue, but are nonetheless crucial to the economy. Their importance lies in the large "externalities" associated with having an educated, healthy, and safe populace.

This demonstrates a fundamental problem with some measure of return on economic development programs -- they do not always reflect important intangibles. That said, if one wishes to measure the success a government program strictly by job creation (ignoring externalities), then the approach outlined in Finding 2 and the associated "Cost Per Job" is inappropriate. The mere fact the film tax credit isn't fiscally positive to the state can't be used to determine the credit isn't beneficial.

Moreover, GDEcD believes that that any calculation of tax revenue "ROI" include all taxes that accrue to Georgia – both state and local. To ignore local taxes because "the is the cost of the credit is borne entirely by state taxpayers, and the increased local revenue is unevenly distributed across the

state, since most production activity occurs in metro Atlanta" does not reflect an impartial evaluation of the revenue generated. Presumably a local resident who benefits from increased local taxes also is a state taxpayer. Additionally, as DOAA notes, Film projects, similar to economic development projects, generate taxes at both the state and local levels. DOAA's analysis acknowledges that tax benefits accrue to local governments and reporting the total state and local revenues received is more balanced and would yield higher "ROI" numbers.

Finding 3: The impact of the film tax credit on the state's economy has been significantly overstated, leaving decision makers without accurate information necessary to assess the credit.

Recommendation 1: To ensure decision makers have accurate information, GDEcD should use a reasonable multiplier to estimate economic impact.

GDEcD Response: The Film office has used the 3.57 multiplier for more than 30 years. This figure has historically been referenced as the Federal Reserve Turnover. In 2010, the MPAA commissioned a study of the film tax credit, but the 3.57 multiplier was not evaluated. The study found that Georgia's Film Tax Credit had created "significant economic impact, adding over $800 million annually to the State Gross Product" and that "the Georgia economy and the State fiscal situation would be substantially worse had the state not provided the film tax credit but had instead used the equivalent amount of funds for other purposes."

In 2016, GDEcD contracted with Dr. Roger Tutterow, Director of the Econometric Center and Professor of Economics at Kennesaw State University and Dr. Mark Rider, Professor at the Center for State and Local Finance at Georgia State University to conduct an impact study of the film industry in Georgia. Due to unforeseen issues, they were unable to complete the study in the timeframe needed, so in 2018, GDEcD engaged Dr. Alfred Meek of Georgia Tech to take over the study. GDEcD received the completed Meek study in 2019 which concluded that the multiplier was 2.03 (the Meeks Multiplier) and that the actual economic impact was $8.6 billion in FY17 (the Meeks Impact), rather than $9.5 billion as reported by GDEcD.

Through the commission of the study (which analyzed FY17 rather than 2016), GDEcD also learned that direct spend numbers used from the Certification Applications on the front end may be unreliable, as evidenced by Meek's study which reported a considerably more robust direct spend at $4.2 billion as opposed to the $2.6 billion that GDEcD had reported. GDEcD is willing to use the Meeks Multiplier moving forward.

Recommendation 2: To ensure that reported jobs are related to the film tax credit, GDEcD should avoid including jobs unrelated to production and discuss direct jobs separately from indirect and induced jobs.

GDEcD Response: GDEcD has traditionally used the MPA's annual state profile to update film jobs in the state. When GDEcD reports these numbers, they have always been attributed to the Motion Picture Association, and in the same way--as a total comprised of 'direct, indirect and induced jobs' that are supported by the motion picture industry in the state of Georgia. Contrary to DOAA's suggestion, there has never been an attempt by GDEcD to imply that these jobs are all direct jobs, or that these jobs are all the product of the Film Tax Credit. Use of these figures is intended to demonstrate the large impact that

the film industry as whole has on Georgia's economy both through the number of jobs and the amount of direct and indirect spend which are attributable to the industry.

According to the Georgia Tech study, which excluded non-production related employment such as theatre workers, the film industry supports nearly 51,000 direct and indirect jobs and $2.6 billion in personal income in the State. Moving forward, GDEcD is willing to report both direct and indirect jobs figures using the methodology provided for in the Georgia Tech study, which excludes non-production related employment.

Recommendation 3: To ensure decision makers have information on Georgia residents, GDEcD should collect information on jobs held by Georgia residents and discuss resident and nonresident jobs separately.

GDEcD Response: When GDEcD cites individual project impacts, it is by utilizing the numbers from the Community Spend Reports (CSRs) provided by a production company after a project is wrapped. A version of this form which created in February of 2014 has lines requiring the dollar amount spent on 'Georgia Crew Hires,' 'Georgia Cast Hires,' and 'Georgia Extras Hires.' Although the form did not specifically refer to 'Georgia Residents', it did make the delineation between Georgia vs. Non-Georgia Crew, Cast and Extras.

In October of 2018, this form was amended to the following:

CAST & CREW

Off-Duty Government Personnel: (Police/Fire) $ ____
Security Personnel: $ ____
Georgia Crew Hires: (to include fringes) $ ____
Georgia Cast Hires: (to include fringes) $ ____
Georgia Extras Hires: $ ____
Per Diem Payments Cast & Crew: $ ____
Resident #: ____ Daily Rate Average $ ____ No. of Days Paid: ____
Non-Resident #: ____ Daily Rate Average $ ____ No. of Days Paid: ____
GRAND TOTAL SPENT: $ 0

# of Local Hires
Cast: ____ Security: ____ Off Duty Govt. Personnel: ____
Crew: ____ Extras: ____ Office Personnel: ____

Completed form should be emailed to taxcredit@georgia.org

The current version of the CSR from 2018 specifically lists Georgia crew, cast, and extras, the number of resident versus non-resident hires, the number of 'Local Hires" for cast, crew, security, extras, office personnel, and off-duty government personnel. Therefore, GDEcD is already collecting information on jobs held by Georgia residents compared to jobs held by non-residents.

However, generally speaking, GDEcD does not distinguish between jobs held by Georgia residents from those held by non-residents. For example, in the instance of a company that is located near the state border, GDEcD does not distinguish between jobs held by Georgia residents from those held by non-residents. A job is a job. The amended CSR reflects this approach in that it seeks to capture the grand total spend for all personnel working on a particular project because all of these jobs (regardless of whether they are held by a resident or a non-resident) are subject to Georgia payroll and income taxes.

Nonresident contributions to the state economy have a substantial positive impact (while utilizing fewer services than residents) and their effects should be understood and incorporated into the report as currently their impact is merely a subtraction from the impact.

Additionally, because this audit uses data that is several years old, it likely does not capture the growth of the Georgia screen sector and its relationship to the economy which has rapidly outpaced the information from this period, including: 1) the proliferation of workers relocating to Georgia from across the country and around the world; 2) the rapid development of skill sets of GA residents (credit in part to the GA Film Academy) who have advanced up the respective production departments to meet the burgeoning demand for skilled workforce; and 3) it does not consider that nonresident hires spend wages or income in Georgia. However, according to Russell Hinton, director of DOAA in 2008, in the Film Tax Credit fiscal note and in relation to non-resident labor expenditures, Hinton stated "[f]or both above the line and below the line non-resident labor expenditures, the assumption is that 10 percent of those expenditures would be based in Georgia for items such as entertainment and restaurant meals. This 10 percent is based on data from the Bureau of Labor Statistics Consumer Expenditure Survey." Despite this statement from its prior director, DOAA mainly ignores the impact of the expenditure of nonresident wages in this audit.

In summation, GDEcD is already capturing information on jobs held by Georgia residents in comparison to those held by non-residents. However, GDEcD states that it intends to continue to include nonresident in both project impacts and its performance measures as these jobs are in Georgia, are subject to paying Georgia taxes, and have an impact on the Georgia economy.

Finding 4: A significant portion of the credit's benefits accrue to other states.

Recommendation 4: The General Assembly should consider changing the credit's provisions to reduce the credits allowed for out-of-state workers and service providers.

GDEcD Response: As an initial matter, DOAA's conclusions seem to ignore the history and evolution of the Film Tax Credit in Georgia. The General Assembly passed HB 539 in 2005. This bill allowed film tax credits of varying amounts based on which counties a production shot in, and whether or not their employees were Georgia residents or nonresidents. After carefully reviewing the 2005 film tax credit, the Georgia legislature made significant changes in 2008, raising the percentages of tax credits earned and omitting the higher or lower tax credits based on whether or not the labor was a Georgia resident. This revision to the law demonstrates an intent to incentivize wages paid to Georgia residents the same as those paid to non-residents. In stating that the General Assembly should consider changing the credit's provisions to reduce the credits for out of state works and service providers, DOAA is substituting its own judgement for more than a decade of conscious policy decisions by the Georgia Assembly and multiple Governors' offices.

In this finding, DOAA notes three categories where it claims that benefits accrue to other states: 1) out of state production companies; 2) nonresident workers; and 3) out of state vendors.

With respect to out of state production companies, DOAA states that just 12% of the credits awarded in 2016 went to companies with permanent Georgia locations, while the remaining 88% went to companies based in other states. This conclusion demonstrates exactly why the film tax credit is needed—the parent companies of the production companies that undertake productions are mostly located

outside of Georgia. The film industry is inherently mobile, and production companies can undertake productions wherever it makes the most sense to do so. The goal of the film tax credit is to incentivize productions to shoot in Georgia. This results in job creation within the state, and as DOAA notes, the establishment of a significant number of studios within Georgia to accommodate the productions.[2]

Second, with respect to nonresident workers, GDEcD states that it is not a production company's preference to bring in labor from out of state as it costs more in housing and per diem. Admittedly, some out of state labor has been necessitated by the rapid increase in productions. The Georgia Film Academy with more than 4,000 Georgians on the waitlist is addressing the crew shortage so that more productions can utilize a greater percentage of Georgia resident labor. As DOAA notes in its audit, an estimated 79% of all direct production jobs were held by Georgia residents in 2016. GDEcD suspects that the percentage of Georgians filling direct production jobs is even higher now in 2020 due to there being more experienced Georgians to fill these positions.

Third, with respect to out of state vendors, GDEcD states that the conclusions that DOAA reaches with alleged ineligible out of state expenditures have not been quantified, but nonetheless would largely be prevented by requiring mandatory audits for all Film Tax Credit projects. GDEcD supports this requirement.

Finding 5: Most states with a film incentive have program caps to limit the fiscal risk to the state.

Recommendation 5: To reduce the fiscal risk to the state, the General Assembly should consider options for capping the film tax credit.

GDEcD Response: DOAA reports that "Georgia has the largest film incentive in any state, and New York has the second largest. In 2017, Georgia's credit was more than twice New York's cap of $420 million." This statement leads the reader to believe that Georgia has given away twice the incentives of other markets, which is untrue. New York's cap is a 'rolling cap,' which means that they can utilize incentive money from future years, and the legislature has historically re-funded the program. In 2018, New York committed to a refundable credit of $837 million, and Georgia committed to $870 million in tax credits, a difference of $33 million.

Also, DOAA gives a comparison of Georgia's tax credit to other U.S. states. Georgia is not only a competitor in a domestic market, but an international one, and Georgia is not an outlier in the shape and size of its production incentive program compared to its competition. The following chart outlines the programs and impacts of the markets most aligned to be Georgia's competition.

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[2] GDEcD notes that while DOAA argues in the Impact Audit that the vast majority of credits earned went to companies without permanent Georgia locations, DOAA's Administrative Audit questions GDEcD's decisions to certify projects undertaken by Georgia companies who according to DOAA "likely would have filmed in Georgia without the credit".

LEADING GLOBAL PRODUCTION INCENTIVES
Stability and Funding Drives Jobs & Investment

JURISDICTION	INCENTIVE	ECONOMIC IMPACT
NEW YORK	**RATE:** 30% refundable credit **ELIGIBLE EXPENSES:** Excludes actor, producer & director salaries **FUNDING:** $420M/Year Rolling Cap, **$837MM Committed in 2018**, Sunset 2022	**GROWTH:** Annual production exceeds $3.9B/year, a five-fold increase since the program's inception in 2004. **INFRASTRUCTURE:** More than $600M in currently planned infrastructure investment and more than 2.5M square feet of studio space across the state. **NOTABLE PROJECTS:** Lady Bird, Spotlight, The Marvelous Ms. Maisel, The Blacklist, Billions.
GEORGIA	**RATE:** 30% transferable credit **ELIGIBLE EXPENSES:** Includes actor, producer & director salaries **FUNDING:** No Annual Cap, **$870MM Committed in 2018** Permanent	**GROWTH:** Annual production exceeds $2.9B/year. In 2007, the year before the incentive was passed, production was $93M. **INFRASTRUCTURE:** Over 2.3MM ft of soundstage space with $400MM in new studio investment in process from 2018 - 2021. **NOTABLE PROJECTS:** Avengers: Infinity War, Spider Man: Homecoming, The Walking Dead, I, Tonya.
ONTARIO	**RATE:** 21.5% of goods and services and 35% of labor refundable credit *(includes Canadian labor credit)* **ELIGIBLE EXPENSES:** Excludes nonresident actor, producer & director salaries **FUNDING:** No Annual Cap, **$427MM*(Provincial)*/ $165MM*(Federal)* Committed in 2018**, Permanent	**GROWTH:** Annual production exceeds $2.84B/year, up 10% from previous year. **INFRASTRUCTURE:** Over 2.2M ft of soundstage space, with 1.8MM in additional space under construction or in planning phase. **NOTABLE PROJECTS:** The Handmaid's Tale, Star Trek: Discovery, Suits, IT: Chapter 2.
BRITISH COLUMBIA	**RATE:** 41% of labor refundable credit *(includes Canadian labor credit)* **ELIGIBLE EXPENSES:** Excludes nonresident actor, producer & director salaries **FUNDING:** No Annual Cap, **$607MM *(Provincial)*/ $244MM *(Federal)* Committed in 2018**, Permanent	**GROWTH:** Annual production exceeds $3.8B/year up from $1.2B in 2012. **INFRASTRUCTURE:** Over 3.5M ft of soundstage space. Plans underway for at least another 600,000 ft. **NOTABLE PROJECTS:** Star Trek Beyond, Deadpool 2, The Man in the High Castle, War for the Planet of the Apes.
UNITED KINGDOM	**RATE:** 25% refundable credit **ELIGIBLE EXPENSES:** Includes actor, producer & director salaries **FUNDING:** No Annual Cap, **$1.08bn Committed in 2018**, Permanent	**GROWTH:** Annual production exceeds $4B/year, up 11% from previous year. **INFRASTRUCTURE:** More than £850M of studio infrastructure under development and currently more than 3M square feet of stage space. **NOTABLE PROJECTS:** Star Wars: The Last Jedi, Mission Impossible: 6, Aladdin, Game of Thrones, Dumbo.

Imposing a cap of any sort serves to drive down investment, which may be the ultimate objective. However, the General Assembly should understand and appreciate the risks associated with imposing caps. Caps can be per project, or the amount of annual credits available within a state, or both. Each type of cap contains distinct risks.

For example, if a per project cap is imposed, only productions that fit under the cap will consider Georgia a viable filming location. Per project caps can serve to eliminate any higher-budgeted films and TV shows, which hire the most local labor at better salary rates, buy more local goods, use local production facilities, and stay longer in the region. Per project caps also drive away scripted television series which are the cornerstone of stable employment for the screen-based industries and generally entail projects spanning multiple years with the most impact in direct spend, job numbers and film tourism draws.

Annual caps on the other hand can have the unintended impact of creating a feast or famine market for productions at the beginning and end of each year. This could have an unintended impact on infrastructure and jobs within Georgia. For example, at the beginning of the year, there could be a high amount of productions occurring, which could result in over permitting and filming within high demand neighborhoods, and cast, crew, vendor, and sound stage shortages. This would likely be followed (once the cap had been reached) by high levels of unemployment for out-of-work cast and crew, and would impact third-party vendors who rely heavily on the film industry as customers.

GDEcD states that it is in large part the lack of a cap that has led to the tremendous success of the Film Tax Credit. The General Assembly's continued support of the film tax credit has created a predictable marketplace where individuals and institutions alike have made investments. No market has seen the kind of bricks and mortar investment in the film industry that Georgia has seen, and Georgia's stability in the film industry has helped to create it.

Finding 6: Limited information has been available to decision makers and the general public regarding the film tax credit.

Recommendation 6: The General Assembly should consider requiring periodic, objective evaluations of the film tax credit program.

GDEcD Response: GDEcD would welcome thorough, unbiased evaluations of Georgia's film and interactive entertainment industries. For a state that has driven an increase in industry investment from less than $100M in 2007 to $2.9B in FY19, there should be off model adjustments made from IMPLAN to better evaluate the clustering impacts of creative industries. Using a one size fits all approach for an industry within Georgia that has seen unprecedented growth likely results in an under reporting of the industry's impact on Georgia's economy. The scale and sophistication of the relationship between the state and this industry merit further consideration to provide a coherent set of conclusions to inform state officials.

Recommendation 7: The General Assembly should consider amending state law to require DOR to disclose the production company, production name, and credit amount for each project receiving the credit.

GDEcD Response: Transparency in government is always an important issue. In Georgia, the General Assembly has historically chosen to keep taxpayer information confidential and out of the public

view. This includes not disclosing what companies pursue the film tax credit and any credit amounts they may earn through this program.

In its report, DOAA notes that information regarding REBA and EDGE Grant Programs are made public. However, it's important to note that these are grant programs, not tax credit programs, and the General Assembly decided to require the specifics regarding these grant programs be made public. These grant programs are different from tax credits. They are typically used to close a deal with an economic development prospect. They serve to provide financial grants to public entities to be used to ultimately benefit an economic prospect in return for that prospect contractually committing to certain job and investment requirements. If the prospect does not meet a certain level of job and investment creation, it may be required to repay the grant amount to the state.

One of the key reasons for transparency is to allow decisions makers to evaluate the efficiency and impact that a program has on the state budget and economy. However, this evaluation can likely be accomplished by using currently available aggregated tax data on a particular tax program.

In summary, we appreciate the opportunity to respond to this audit.

Sincerely,

Padgett Wilson
Commissioner