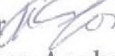


# REPORT OF THE CHIEF LEGISLATIVE ANALYST

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DATE: October 19, 2012

TO: Honorable Members of the Jobs and Business Development Committee

FROM: Gerry F. Miller   
Chief Legislative Analyst

Assignment No: 12-10-0841

SUBJECT: Municipal Film Incentives

## SUMMARY

In May 2012, the City Council approved a report of the Jobs and Business Development Committee instructing the Chief Legislative Analyst (CLA) to evaluate incentives for film, television, and commercial productions in other local governments around the nation. A subsequent Motion (Garcetti-Krekorian) further instructed the CLA to evaluate potential incentives for the video game and digital media industry.

The Council and Mayor have adopted a series of incentives since 2004 that seek to improve City services for the entertainment industry and reduce, waive, or eliminate taxes and fees on this industry. In 2010, the City Council requested that the City Attorney prepare an ordinance to provide an additional incentive involving a rebate of sales taxes paid by film productions that locate in the City. The ordinance is still pending.

Several local jurisdictions around the nation provide incentives to film, television, and commercial productions. The City of Los Angeles currently provides several of the same incentives. Additional research by the City Administrative Officer (CAO) should be conducted on fees for service paid by the entertainment industry in order to determine whether additional fee-based incentives could be developed.

Finally, tax reforms in 2010 were implemented that move video game and digital media businesses to the lowest tax rates. Additional research is needed to determine whether the sales tax rebate initiative could be an effective tool to attract these businesses, as well as research into other industry-specific factors where the City could provide assistance.

## RECOMMENDATIONS

That the City Council:

1. Request that the City Attorney to report on status of an ordinance to establish a Sales Tax Refund program, as requested on October 26, 2010 (CF 08-1783-S6);
2. Instruct the City Administrative Officer to survey all City departments to identify all revenues generated by fees and service charges to the film and television

industry as part of the annual Fees for Service study, with an analysis of opportunities to extend incentives to the film and television industry; and

3. Instruct the CAO, CLA, and Office of Finance to report back in 30 days with recommendations concerning incentives for the video game industry and other digital media productions.

## **BACKGROUND**

The City of Los Angeles has adopted two types of incentives to assist the film and television production industry: actions that streamline City services to the industry and actions that reduce, waive, or eliminate fees and taxes on film, television, and commercial production activity.

Incentives approved by the Council and Mayor beginning in late 2004 include:

- Reduced business tax rates for entertainment productions
- Adjusted film production tax base
- Implemented tax breaks for entertainment creative talent
- Eliminated fees to film at most City facilities
- Created marketing program at FilmLA
- Prepared guide to Downtown Los Angeles parking lots
- Allowed film parking at DWP facilities
- Reduced or waived parking fees at City parking lots
- Established City Film Task Force
- Streamlined road closure procedures
- Established departmental film liaisons
- Implemented real-time permit approval at Public Works
- Installed film power nodes at City Hall, John Ferraro Building, and Griffith Park Old Zoo

To date, the City has not provided any incentive program that provides a grant of General Fund revenues. Efforts have focused on the reduction, waiver, or elimination of fees, taxes, and costs associated with City services.

### **City of Los Angeles Sales Tax Incentive**

In October 2010, the Office of Finance (Finance) reported on a Council action (CF 08-1783) requesting analysis of options to refund a portion of the sales tax generated by film and television productions that occur in the City. In October 2010, Finance recommended that a one percent (1%) local sales/use tax refund be issued for production purchases or expenditures made in the City of Los Angeles for filming within the City limits. The City Council later approved an action (CF 08-1783-S6) requesting that the City Attorney prepare and present an ordinance. The City Attorney continues to work on that ordinance.

### **Other Municipal Entertainment Industry Incentives**

Incentives to attract film, television, and commercial productions are typically provided by national governments or by individual States within the United States. A small number of

municipal or local jurisdictions provide additional incentives as a complement to other, larger governmental incentives offered in their area.

#### **San Francisco, California**

Qualifying productions are eligible for a refund of all payroll tax and city fees up to \$600,000 per production.

The San Francisco payroll tax is comparable to the Los Angeles business tax. Since the Los Angeles business tax reforms apply to all film, television and commercial productions, it provides benefits to a broader range of production activity compared to the San Francisco incentive which limits benefits to “qualified” productions.

The City Administrative Officer (CAO) in the past conducted a survey of departmental fees charged to the film industry in an effort to develop an understanding of the costs incurred by filming in the City. A new survey, associated with the annual Fee for Service study, could produce new information to inform further discussions of incentives such as a refund of City fees. Once current data are collected, the CAO and CLA should review and evaluate the data to determine whether additional incentives could be developed.

#### **Santa Clarita, California**

The city of Santa Clarita offers a refund of basic film permit fees for productions that film at least four consecutive weeks in approved locations, obtain four permits in a year, or are approved to participate in the California Film & Television Tax Credit Program. The incentive is not a grant of Santa Clarita General Fund revenues, but rather a waiver of fees charged.

Such an incentive would not be an effective tool in the City because the City of Los Angeles does not charge a film permit fee.

#### **Jefferson Parish, Louisiana**

Jefferson Parish, Louisiana, provides a cash rebate equivalent to up to 3% of lodging, payroll for residents, and all other local spending. The rebate is capped at \$100,000 per project for new productions by a production company that has not previously received Jefferson Parish incentives and \$115,000 per project cap for subsequent productions (must bring project within 12 months of prior project). A \$10,000 increase to the per project cap is available for productions having a production office and leasing a sound stage in Jefferson Parish. The total amount of funds provided in this incentive program vary from year to year.

An incentive program of this nature would require the allocation of City General Fund revenues. The City Council and Mayor would identify an amount of General Fund revenue available to fund incentives for the year. If Council were to pursue such a program, it might consider such factors as a limit on the total amount of incentive funding provided to each production, the types of productions that would be eligible for the incentive, and factors that affect the amount of incentive offered such as the total number

of jobs created, percentage of production occurring in the City, or receipt of State Tax Incentives. Such criteria would ensure that the City is providing benefits that address the “runaway production” issue.

**Shreveport/Bossier, Louisiana**

The community of Shreveport/Bossier, Louisiana has implemented a film incentive program that rebates 2.5% of sales tax for purchases in the city of Shreveport and 1.5% of sales tax for purchases in Caddo Parish. The amount of incentive is capped at \$150,000 and \$20,000 respectively, with additional incentives if local production companies participate in the production.


The Sales Tax Incentive referenced earlier in this report would be comparable to the Shreveport/Bossier incentive.

**Incentives for Video Game and Digital Media Productions**

On October 16, 2016, Council adopted Motion (Garcetti-Krekorian, CF 12-0002-S27) instructing the CLA to also include analysis of incentives that might be appropriate for video game and digital media productions.

In 2010, the City Council adopted an ordinance to move multimedia businesses to the lowest tax class in the City’s Business Tax program. This effort was designed to create incentives for emerging multimedia businesses by moving them from the highest tax classification to the lowest. Video game and other digital media production businesses would generally qualify under the new multimedia business tax classification.

With regard to other incentives, additional research is needed at this point to understand the unique needs of this industry and the types of incentives that would be meaningful to attract and retain more of these businesses. For example, a version of the Sales Tax incentive described earlier may be appropriate based on specific criteria that would need to be developed. For example, incentives may be better targeted to address the infrastructure needs of this industry segment, rather than the impacts of taxes and fees.

  
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John Wickham  
Analyst