

# Agenda Report

**TO:** City Council June 28, 1999

**THROUGH:** Legislative Committee

**FROM:** City Manager

**SUBJECT:** Advocacy of the City of Pasadena's position regarding the efforts of the California Film Commission Production Incentives Committee to prevent runaway production as well as any State legislation such as AB 484 and AB 358 that will assist with these efforts

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Support the California Film Commission's Production Incentives Committee's efforts to prevent runaway production.
2. Support any legislation that will provide State production incentives that make California competitive with Canada and other countries.
3. Support AB 484 (Kuehl) *Income and bank and corporation taxes: credit: motion picture and television production* and AB 358 (Wildman) *Income and bank and corporation taxes: credit: qualified television programs and motion pictures*.
4. Adopt the attached resolution of the City Council of the City of Pasadena to support the efforts of the California Film Commission's Production Incentives Committee and AB 484 and AB 358 that are currently being presented to the State Senate's Revenue and Taxation Committee.
5. Authorize the Mayor to send letters to the appropriate officials stating Pasadena's position.

## **BACKGROUND:**

Canada and other countries are offering incredible incentives to lure production away from California. Many producers are finding that it doesn't make sense to stay home any more. The resulting loss in jobs and stagnation in the local film economy is devastating. **Annually, Pasadena residents receive at least \$500 million in payroll and vendor payments from film production alone.** This figure is from a 1996 Motion Picture Association of America (MPAA) audit. The MPAA conducted an industry wide audit of payroll services and film production companies. The cooperation of these companies allowed the MPAA to cull payroll/vendor figures by zip code. The \$500 million dollar figure represents the total payroll and vendor dollars generated solely from film production employment and paid directly to Pasadeneans.

The film employment of many Pasadena residents is being threatened by runaway production. Many Southern California government officials are noticing a significant drop in film production activity this year and are fielding calls from out of work industry professionals in their area. On April 14, 1999, the Entertainment Industry Development Corporation (EIDC) reported a decline of 21% in feature production this year in the Los Angeles County area. Pasadena is mirroring a similar production loss. Two hundred and forty three (243) film permits were applied for from January through May of 1998. One hundred and ninety six (196) were applied for during this same period of 1999. This demonstrates a 20% loss in one year (a year in which Canada enacted its tax incentive packages which are detailed below).

### **What does Canada have to offer?**

- The Canadian dollar costs 66 cents U.S. This can represent savings of up to 25 – 30% of a production budget.
- Canadian personnel cost up to 15% less than their U.S. counterparts. The Canadian Immigration Service does not allow very many U.S. crewmembers into their Country. Loss of production to Canada hurts the film industry payroll of local California cities.
- In 1998, Canada started offering a national tax credit of 11% of all Canadian payroll. Combined with a provincial tax credit of an additional 11% (up to 36% in Manitoba), this results in a huge savings in payroll costs. These tax credits also apply to outside vendor invoices.

The California Film Commission has created a Production Incentives Committee to investigate actions, which could be taken to bring back the business lost to Canada and other countries. The Committee will be investigating several options including tax incentives. Ariel Penn, the City's Filming and Special Events Manager, was requested to participate on this committee with several industry leaders.

In addition, organizations such as Film US and the Film and Television Action Committee (FTAC) were created in the last year to actively challenge this production loss

and to retain jobs in California and the United States. FTAC's membership generated over 3,500 letters recently to support both the Kuehl and Wildman bills.

Both AB 484 (Kuehl) and AB358 (Wildman) create incentives for filmmakers to stay home. These bills were introduced and passed the State Assembly this year on a fast track. AB 484 authorizes a tax credit of 10% of the qualified cost of the qualified property, defined in general, as any production labor contract in the development, production and distribution of a motion picture or television production. AB 358 allows a credit against the net tax in an amount equal to 10 percent of the total qualified wages and salaries paid to employees and contractors retained by the taxpayer during the taxable year.

In coming months, legislation will be drafted that must meet the approval of the State Senate and the Governor. Strong support is necessary to ensure that these incentive packages will be drafted with enough effectiveness and potency to bring back the production, jobs and taxes lost to other countries over the last couple of years.

While some state and federal legislators are concerned about granting tax incentives to an industry that is perceived as financially successful or may be concerned about granting a significant percentage on par with Canada, it is critical that some incentive be offered if U.S. production is to be recaptured. Some parts of this indigenous industry have been almost completely lost to Vancouver (i.e. television movies of the week). There are very few television movies of the week shot in the United States anymore. Many television series have also completely relocated to Canada. Commercial producers are starting to shoot in Canada as well. Commercial production comprises over 80% of the volume that comes through the Pasadena Film Office. These companies and productions will only come back to America if government offers competitive incentives that meet the economic challenge.

A statement of support from the City Council of the City of Pasadena will send a message to Sacramento to take effective action immediately to bring back lost production. It will also establish the model for Federal legislators who are intently watching California's actions as a guide for their future efforts.

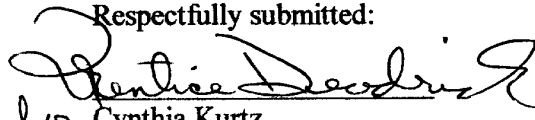
#### **BILL STATUS:**

AB 484 (Kuehl) and AB 358 (Wildman) both passed the State Assembly and have now been referred to the State Senate Revenue and Taxation Committees.

#### **FISCAL IMPACT:**

Supporting any incentive package to lure back runaway production to California will only enhance the state and city's tax base and will maintain Pasadena's \$500 million dollar payroll. Since 40% of the California budget is reserved for the state's educational system, any new incentive package to bring back lost production will increase the state's budget for education.

Respectfully submitted:

  
for Cynthia Kurtz  
City Manager

Prepared by:



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Ariel Penn

Filming & Special Events Manager

Approved by:



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Darrell L. Lewis

Director of Planning & Permitting