



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 1, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 147 (LC 34 5010)

Dear Chairman Powell:

The bill would provide an income tax credit for qualifying production companies that employ Georgia veterans. The income tax credit is valued at five percent of the salary of each veteran employed during the production. To qualify for the credit, the veteran must have served on active duty for at least two years and must have been honorably discharged. The bill does not state an effective date.

Georgia State University's Fiscal Research Center (FRC) estimates that the bill will result in state revenue loss of \$3.3 million to \$12.2 million in FY 2019 (Table 1), assuming that it is the first full fiscal year impacted by the bill. The revenue loss would be between \$9.9 million and \$36.4 million in fiscal year 2022. The estimates are based on continued employment growth in Georgia's film and video production industry, which has been rapid over the last three years. Details of FRC's analysis are contained in the appendix.

Table 1. State Revenue Loss from LC 34 5010

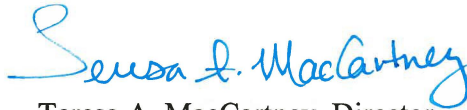
(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Loss Estimate	\$3.5	\$12.2	\$21.2	\$29.0	\$36.4
Low Loss Estimate	\$1.0	\$3.3	\$5.8	\$7.9	\$9.9

The Department of Revenue estimated that the income tax credit will result in approximately \$30,000 in additional agency costs. These include approximately \$25,000 to update IT systems and \$5,000 for form changes, policy updates, and training.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney".

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/jb

Analysis by the Fiscal Research Center

The following summarizes the facts and assumptions used in the above estimates:

- According to data from the Bureau of Labor Statistics (BLS), the veteran labor force in Georgia equaled approximately 384,000 or 8 percent of the total labor force in the state in calendar year (CY) 2015.
- Critical to the estimate is the size of the employment figure. The standard data source of the Quarterly Census of Wages and Employment from the BLS is not sufficient because it is designed to capture the employment that occurs specifically within the motion picture industry. In practice, film productions employ individuals associated with a wide variety of industries. Therefore, considering employment only associated with a singular NAICs code is too limiting for this analysis.
 - We use two alternative sources of information for film industry employment in Georgia. Data from the Motion Picture Association of America (MPAA) indicates that film production employment in Georgia in CY 2014 equaled 25,708.¹ This is the basis for the High estimate provided in Table 1. It is considered an upper bound on the estimate because the MPAA employment figure is likely to include individuals who are considered contract or “1099” workers. Because the legislation refers specifically to wages paid, it is assumed that the additional 5 percent credit only applies to individuals hired as employees and not to contract workers. In addition, this figure may also include individuals who are not residents of Georgia.
 - Because we do not have the underlying source data to verify the MPAA figure, we developed an alternative employment figure using the BLS Direct Requirements table for the Motion Picture and Sound Recording Industry. The Direct Requirements table is one of 4 tables produced by the BLS illustrating the interaction of inputs and outputs between industries. Specifically, the Direct Requirements table shows the share of inputs from other industries required to produce a \$1 of a given industry. This information is applied to Georgia using statewide employment figures from the Bureau of Economic Analysis (BEA). This alternative strategy produces an estimated employment figure of 13,956 for CY 2015. This estimate is likely to exclude contract workers and is more likely to be restricted to individuals who are residents of Georgia. This estimate forms the basis of the Low estimate presented in Table 1.
- In line with the estimated share of veterans in the labor force, this estimate assumes veterans account for 8 percent of film production employment.
- Information on the distribution of average annual wages for the various occupations associated with film production is available from BLS. The average annual wage across all occupations in 2015 equaled \$58,080 for this industry. After adjusting the data to account

¹ <http://www.mpa.org/creating-jobs/#map>.

for the \$100,000 cap on wages per individual, the average annual wage subject to the 5 percent credit equaled \$48,209.

- Employment growth in Georgia’s film and video production industry has been rapid over the last three years, averaging 37 percent per year between 2012 and 2015, based on QCEW data. Employment grew 99 percent between 2014 and 2015 and based on the first two quarters of 2016, employment is on pace to grow another 16 percent for 2016. Based on these historical rates, we assume an average annual growth rate of employment of 23.6 percent over the analysis period.
- Based on the Congressional Budget Office forecast of the Employer Cost Index reported in the January 2017 Budget and Economic Outlook: 2017 to 2027, we assume wages increase at an average annual rate of 3.1 percent over the CY 2017- CY 2022 period.
- Lastly, the estimate is adjusted to account for the timing of the utilization of the tax credits. It is assumed in the estimate that credits earned in the year of production will be used over the next four years. Although, the credit can be sold and in some cases used against withholding, the experience of the credit utilization to date indicates that these credits are used over several years. Specifically, the estimate assumes that no credits will be used in the year of production, 40 percent of credits earned will be used in the year following the year of production, 45 percent will be used in the second year after production, 10 percent will be used in the third year after production, and 5 percent will be used in the fourth year after production. If the credits are used at a faster rate than reflected in this assumption, the revenue loss will be greater over the analysis period.
- Table 2 presents estimates of veteran employment and wages in Georgia’s film industry through FY 2022.

Table 2. Estimates of Veteran Employment and Wages in Georgia’s Film Industry

<i>(\$ in millions)</i>	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
High Estimate:						
Employment	6,768	8,799	11,439	13,726	15,099	16,609
Wages	\$351	\$471	\$632	\$782	\$887	\$1,006
Low Estimate:						
Employment	1,846	2,399	3,119	3,743	4,117	4,529
Wages	\$96	\$128	\$172	\$213	\$242	\$274