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THE ECONOMIC IMPACT OF THE RHODE ISLAND  
FILM COMMISSION

BY

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ABSTRACT

The Rhode Island Film Commission was founded in 1984 with the goal to "increase revenues coming into the state and stimulate economic activity within the state through the film/video industry." Because of a serious state financial crisis the existence of the Commission, at least in its present form, is threatened. A study of the impacts of the Commission was conducted to examine its contributions to the state. The results showed that film industry activities attributable to the Commission generated average annual direct spending in the state of almost \$8 million leading to \$1 million in new wages for state residents. In addition, film industry activities generated \$261 thousand in tax revenues for the state compared to the commission's annual budget of \$164 thousand. Despite the profitability of the Commission to the state government, the significance of sales and wage impacts to the state's economy and other obvious but unmeasured social benefits, the survival of the Commission is still in doubt.

THE ECONOMIC IMPACT OF THE RHODE ISLAND  
FILM COMMISSION

BACKGROUND

THE RHODE ISLAND FILM COMMISSION

The Rhode Island Film Commission (hereafter referred to as the Commission) was founded in 1984 with the goal to "increase revenues coming into the state and stimulate economic activity within the state through the film/video industry. Its activities are focused on the promotion of feature films, TV projects, commercials and industrials, and print (catalogue) projects for the state of Rhode Island. (Henceforth, all potential clients are referred to as film producers.) As stated in the second edition of the Film Commission's Production Manual, free services are offered to the industry (8).

"Provide personalized location scouting services prior to your visit, and during your stay with us.

Provide tape, slides, photographs, and research of sites for filming.

Facilitate access to technical support services.

Provide access to crew, talent, and other professional personnel.

Act as a liaison between local, state, and federal agencies, the private sector, and product companies.

Secure any permits or clearances required for use of public areas; facilitate negotiations with local union representatives.

Arrange with police for traffic and crowd control or barricading of streets.

Provide you with a qualified assistance from the Film Commission to work with your producer and field personnel to ensure the most personal attention for your on-location work."

As reported in various published articles (1, 4, 5), the demands on a film commission are extensive and elaborate and the rewards to the state economy depends crucially on the effectiveness of the state's Film Commission. Rhode Island has already had its share of difficulties adapting to the ways of the industry (10) and the Rhode Island Film Commission has taken a strong position on behalf of the state and its residents (9).

The recent history of the Commission suggests rapid recent growth in activities and impacts on the state. In Fiscal Year 1987 (FY87) the Film Commission budget was \$97 thousand. In that year the Commission spent its efforts overcoming national image problems. It embarked on a major national promotion project as well as a Rhode Island community education project. Because of the nature of the lag of results in image building efforts, location expenditures by film producers (those documented) amounted to about \$37 thousand between July 1986 and June 1987.

In FY88 the Commission's budget was increased to \$109 thousand and a full-time director and 1/2 time assistant director were hired. Measured location expenditures amounted to over \$5 million because of the efforts of the previous year.

The following year (FY89) the Commission's budget was increased to \$166 thousand for supporting the equivalent of three full-time employees. Because of the cyclic nature of the industry, location expenditures were less than those of FY88 (\$1.7 million). The results of FY89 efforts generated the impacts of FY90 and future years.

In FY90 the budget was increased slightly to \$179, still supporting three full-time employees plus some hourly labor. The operation of the Commission involves four telephone lines plus FAX communication. Efforts

were devoted to out-of-state promotion, production assistance and community education. The latter effort emphasized making communities aware of what they were getting into and protecting them from negative impacts by production monitoring.

Over its development the Commission has gained the support of considerable volunteer efforts including the services of its 17 commission members. One of these organized a Speakers' Bureau, another donated its company resources to the production of the Commission's slide show and a third heads Friends of Film in Rhode Island a fund raising and resource support organization. A partial survey of volunteers revealed contributed hours ranging from 10 to 100 per year valued, by their donators, at hourly rates ranging from \$50 to \$500. Other contributions to the Commission were valued at up to \$10,000 per person. Responses to a final question revealed that about half the volunteers who responded to the survey were dedicated to the current structure and staff of the Commission. If the structure or personnel changed, their contribution might cease.

In summary, the services currently offered to the film industry by the Commission appear to be essential for the State to be competitive as a location. These services are due in part to the budget provided by the State and in part to the volunteer efforts and contributions by interested Rhode Islanders. The impacts of the film industry on the state fluctuate widely from year to year but substantial long term growth is apparent. It is reasonable to conclude that the largest share of this growth is a result of the activities of the Commission.

#### AN ASSESSMENT OF THE FUTURE

A proposal for restructuring the Rhode Island Film Commission is currently being considered. This proposal will have the effect of reducing its budget to less than 1/3 of its current level and relocating the Commission Office within the Department of Economic Development. It is the purpose of this paper to assess the expected impacts of the film industry on the state over the period FY88 to FY92 with and without reduced funding and restructuring.

Since the data used for this assessment relates specifically to clients of the Film Commission, the growth measured in these can be assumed to be due directly to its activities. In this sense the study is an assessment of the impacts of the Film Commission.

This paper also assesses changes in film industry impacts that might be associated with a change in the structure of and funding for the Commission. In this sense the study is also an assessment of the impacts of that change.

# THE NATURE OF ECONOMIC IMPACT ASSESSMENT

## THE ACCOUNTING STANCE

### 1. Source of the Impacts

The specific source of impacts assessed in this study are those generated by the activities of the Rhode Island Film Commission, its directors, supporters and contributors. In particular this study attempts to assess difference in certain economic measures under the current structure of the Commission and a restructuring plan. These differences include expected changes in expenditures by the State of Rhode Island for its support as well as changes in expenditures by film production companies which may not choose Rhode Island for a location without the services currently provided to it by the Commission staff. Even more obscure differences exist such as changes in the formal and informal education provided to communities by Commission staff and volunteers. However, these changes are beyond the scope of this study.

### 2. Region

The impacts of the Commission stretch beyond State boundaries. It is impossible to conduct business without involving suppliers of goods and services across state lines. However the region of this analysis is limited to the State of Rhode Island and its communities. In some cases positive impacts for one community may be offset by negative impacts in another while the net state impact is zero. This study has not been able to investigate such distributional effects.

### 3. Impact Recipients

Changes in the economy of the state caused by Commission activities cannot be determined by analyzing changes in gross state product or statewide employment. Businesses, state and local government and residents are the major groups that are considered in this assessment. As with differences between regions, it is likely that sub-groups among these will derive different impacts, however that depth of precision is also beyond the scope of this study.

### 4. Base Line

The most difficult problem in any impact assessment is to determine the base line from which to measure impacts. To measure impacts of the film industry we have used the results of the Film Commission's survey over the past three years. Thus, one implicit baseline is the level of film production in the state done independently of the commission. For purposes of this analysis, the base line is assumed to be zero.

To measure the impacts of restructuring the Commission we have used a scenario consistent with the current structure of the Commission with funding to increasing at a rate of 5% per year.

## TYPES OF IMPACTS

Impacts can be organized under a variety of categories according to the purpose of an assessment. A comprehensive list would include economic, social and environmental headings.

### 1. Economic

Economic impacts include changes (increases and/or decreases) in net income (revenues less expenditures) received by one of the aforementioned recipient groups. Government impacts are reflected in any change in the difference between revenues received (usually through taxes) and expenditures made. Economic impacts on businesses are measured in changes in profits and impacts on residents in changes in the difference between wages and expenditures. In this study our measures are restricted to wages paid to Rhode Island residents, expenditures on lodging and expenditures on other goods and services.

### 2. Social

Social impacts are directed almost entirely at residents. The economic valuation of social impacts is difficult but not impossible. A variety of techniques are available for quantifying residential "willingness to pay" to obtain social goods or avoid social bads. In this way social costs can be translated into monetary units for comparison with economic gains. There is evidence that adverse social impacts can be caused by the film industry and that an active Film Commission can prevent them (7, 9). However, the scope of this study did not permit their assessment.

### 3. Environmental

Environmental impacts, while very much like social impacts in many respects, are even more difficult to measure. Like social impacts their influence is felt most strongly by residents. Environmental impacts of the film industry appear to be generally small. After all, it is the quality of the environment, be it natural or man-made, that attracts film production. Again, their assessment is beyond the scope of this study.

## IMPACT MEASUREMENT

The Rhode Island Film Commission as well as commissions in other states have adopted the routine practice of surveying film production companies as to their expenditures in the state (2, 3, 6). These records give the best possible estimates of direct expenditures by the film industry of goods, services, and labor purchased in the state. In addition to the amounts spent by these companies it is important to add expenditures by non-Rhode Island actors, film industry employees and their friends and family who would not have come to the state if it weren't for the production of a film. These measured values form the

basis for evaluating the impacts of the film industry on the state. Fiscal impacts were calculated from these based on tax rates and proportions of expenditures made on different goods and services.

#### ASSESSMENT OF IMPACTS: A BASE LINE SCENARIO

The activities associated with film production are usually spread over three or four years from interest expressed in a location until shooting begins. The economic impacts are approximately distributed 5% in the first year, 5% in the second year, and 90% in the third. During the first two years, especially, the production company is courted and assisted in a variety of ways from location scouting, research and community education and production assistance. To the benefit of the state and its communities the commission also acts to monitor production activities.

According to the feasibility study for the creation of the Film Commission in 1984 the activities of Commission were not expected to pay off for up to ten years. This is the time required for the reputation of a state to grow as a location to film and do business. Based on this scenario we might suggest that the history of the Rhode Island Film Commission is too short to have realized its full potential.

Figure 1 shows the history and forecast of the impacts of the film, print and video industry on the state of Rhode Island for FY88 (1987-88) through FY92 (1991-92). The historic impact estimates are based on surveys conducted by the commission on its clients. The forecasts are based on interest already expressed in future productions in Rhode Island, a long term pattern of growth in film production in the state along with a 3-year cyclical pattern which characterizes the industry. FY88 represented a high point (\$5.1 million) on the cyclical pattern which was followed by a low point (\$1.7 million) in FY89. Based on partial data for the year, FY90 impacts are expected to be only slightly greater than those of FY89 (\$2 million). Based on interest expressed in future productions FY91 impacts are expected to be as high as \$10 million. According to the three year cycle, the high point of FY91 is likely to be followed by a relative low point, estimated to be \$3 million. The FY91 and FY92 estimates are based on the assumption that about 1/6 of the films currently being scouted for locations in the state will be eventually produced in the state.

One-third of the production budgets for major films is usually spent on location. Thus the total production expenditures for films shot in the state are about three times the impacts reported in the Figure.

The overall impacts of the film industry on the state are derived from the above location budget estimates using the following additional assumptions:

1. Wages paid to local labor are assumed to be 20% of the local budget. Industry-wide, 50% of the total population budget goes to wages.
- (6) From the survey of 56 productions in the state over the past 3 years the average percentage was 16.7% for those that responded to the

question. Due to the way accounts are reported this figure may not include services which should be rightly included in wage impacts, thus 20% was used.

2. Hotel expenditures are assumed to be 10% of the location budget. Industry-wide, 20% of the total production budget goes to hotel and eating and drinking sectors. (6) From the survey of 56 productions in the state over the past 3 years the average percentage was 9.2% for those that responded to the question and this is also expected to be an underestimate.

3. State income tax collections are estimated to be 2% of wages, the state average effective rate of personal income for 1986.

4. Employees are assumed to make expenditures for dinner meals not provided by the film company as well as equipment and car rentals, entertainment and shopping. This is assumed to equal to 20% of the total production wages.

5. The number of friends and family accompanying the production company are estimated as 30% of the company employees. This is percentage estimated from two film productions in the state. Expenditure impacts on the state are estimated as 15% of local production expenditures. Hotel expenditures are assumed to be 30% of this amount (based on independent visitor surveys.)

6. Room sales are estimated as 75% of hotel expenses, the other 25% includes services and meals provided. This is the average computed from lodging industry data for 1980 and 1985. Accommodations taxes are assumed to be included in room sales estimates.

7. Accommodations tax revenues prior to FY90 are estimated to be 4% of room sales distributed 0.6% to the Tourism Promotion Division of the Department of Economic Department, 0.4% to the Roger Williams Reserve fund, 2.0% to regional tourism councils and 1% to local cities and towns.

8. Accommodations tax revenues in FY90 and thereafter are estimated to be 5% of room sales distributed 1.35% to the Tourism Promotion Division of the Department of Economic Development, 0.3% to the Roger Williams Reserve fund, 2.35% to regional tourism councils and 1% to local cities and towns.

9. Sales and use tax revenues are estimated to be 3.73% of non-wage expenditures by the film company, its employees and friends and family. This is less than the 6% sales and use tax rate because of the non-taxable goods and services purchased. The effective tax rate used has been derived for studies of the fiscal impacts of tourism expenditures for the state.

Direct expenditure and wage impacts of film production in Rhode Island are summarized in Table 1 for FY88 and FY92. Direct expenditures are grouped according to the three major sources: the Rhode Island Film Commission, film company local production, and film company employees, friends and family. The average annual impacts (show in the last column of the table) include \$987 thousand in wages for Rhode Islanders, \$638



thousand in expenditures on lodging and \$6.2 million on other expenditures.

Fiscal impacts of film production are summarized in Table 2. The state government is the beneficiary of state income taxes, a portion of lodging tax receipts and sales tax receipts. The communities and regions are the beneficiaries of the remainder of the lodgings tax receipts. The net impact of the film industry averaged over the five year period is an annual gain to the state of \$97 thousand. Figure 2 shows the pattern impacts over the period.

#### ASSESSMENT OF AN ALTERNATIVE SCENARIO

As an alternative scenario for the future impacts of the film industry in Rhode Island we assume that the Commission budget is reduced to 27% of its current level. Because of the apparent economies of scale in the successful execution of its duties it seems reasonable to assume that a reduction in film production impacts in the state at most 73% of its otherwise anticipated level in FY91. This means that in the short run, the average annual impacts of the film industry are expected to be 27% of in the last column of Tables 1 and 2.

Over the next four years, because of the lost capacity to actively promote, it is expected that the trend will approach a 95% reduction in average locational expenditures and state revenues. In the long term (five years or more) the average impacts are expected to amount to \$49 thousand in wages for Rhode Islanders, \$32 thousand in expenditures on lodging and \$310 thousand in other expenditures. Total state revenues are expected to total \$13 thousand, compared to a Commission budget of approximately \$50,000.

Furthermore, it is expected that there will be social and environmental costs incurred by the communities and regions of the states because of a reduction in community education and production monitoring. While these costs are difficult to measure they are real, will influence long term economic impacts and directly influence quality of life in the state.

#### SUMMARY

This study has attempted to assess the economic impacts of the clients of the Rhode Island Film Commission on the state in terms of direct expenditures and fiscal efforts. The major conclusions of the study are as follows:

1. Film industry clients of the Rhode Island Film Commission spend an average of \$7.9 million in the state of Rhode Island each year (averaged over the past 3 years of data and best expectations for the next 2 years).

2. Film industry clients of the Commission spent an average of \$1

million per year on wages for Rhode Island workers.

3. The net fiscal impacts (revenues less expenditures) of the activities of the Film Commission result in an average gain to state revenues of \$97 thousand per year.

4. The anticipated long term impact of the proposed restructuring and reduced funding of the Rhode Island Film Commission is fourfold:

Average annual expenditures in the state by the film industry clients will decline by \$7.5 million;

average annual wages paid to Rhode Islanders will decline by \$949 thousand;

the net average differences between tax revenues generated by Film Commission clients and the Film Commission budget will change from its current value of +\$97 thousand to a value of -\$37 thousand; and

the risk of adverse social and environmental impacts of film production in the state will increase.

#### POSTSCRIPT

The Rhode Island Film Commission received budgets from the State of \$166 thousand in 1989 and \$179 thousand in 1990. Facing a \$1 million shortfall in state revenues, the governor proposed to eliminate 1991 funding for 11 commissions and agencies including the Film Commission. The economic impact study estimated that the Commission was responsible for \$7.9 million in visitor spending in the state generating \$261 in state government revenues through sales and income tax receipts. These results were presented to the House Finance Committee, the Senate Majority Leaders and the chief aid to the governor who persuaded a very tough legislature to restore the budget to \$173 thousand. The study was presented to the newly elected governor later in 1990 and earned his endorsement of the future funding of the Commission. However, as the shortfall in state revenues has reached \$2 million in early 1991 (the largest relative deficit among the 50 states) the future of the Commission is again in doubt.

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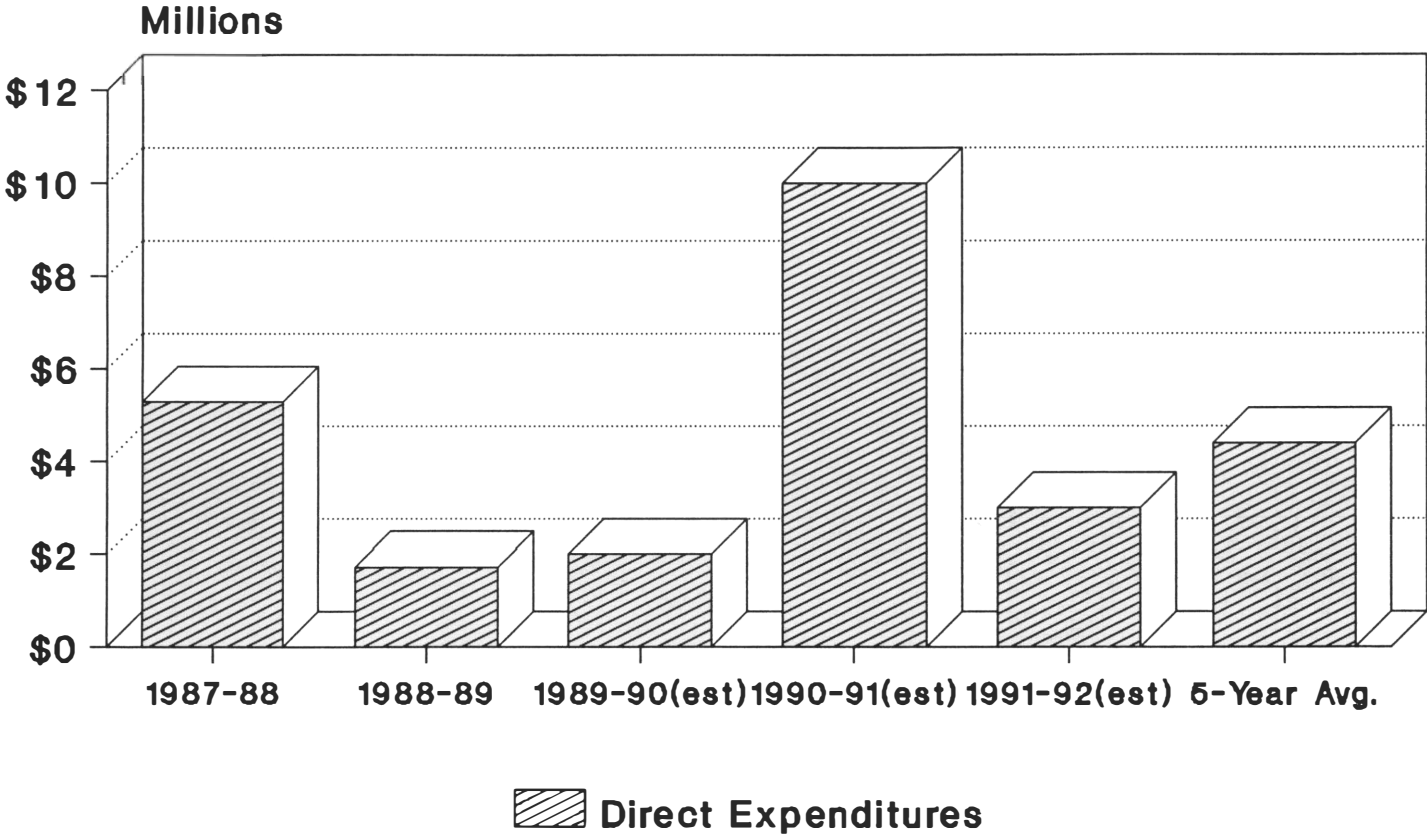
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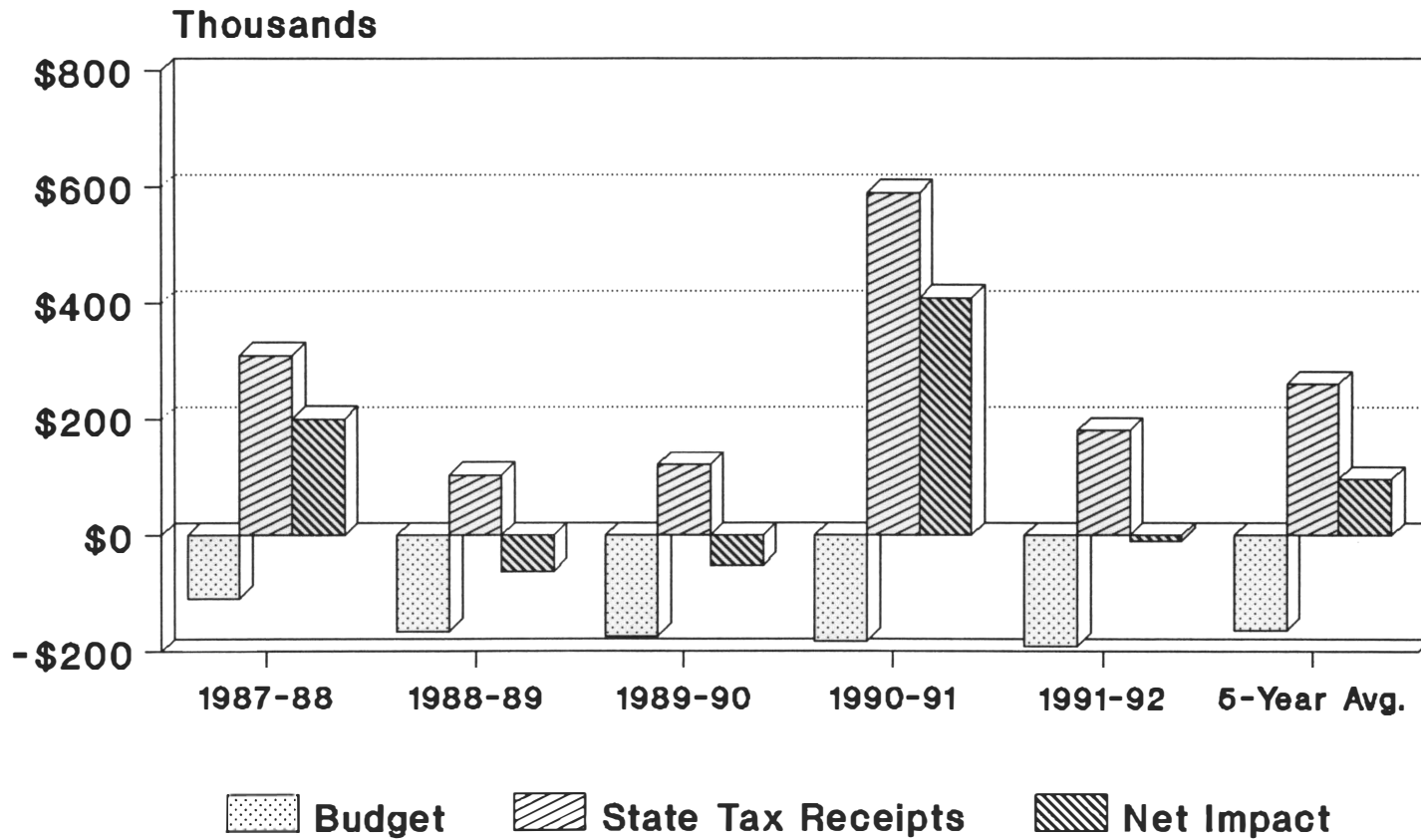
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# Figure 1. Film Industry in Rhode Island



Source: Rhode Island Film Commission

## Figure 2. Film Commission Fiscal Impacts



Source: See Text

Table 1. Direct Expenditures Related to the Film Industry (Thousands of Dollars)

	FY88	FY89	FY90	FY91 (est)	FY92 (est)	5-Year Average
<u>Rhode Island Film Commission</u>						
Rhode Island Wages	71	108	113	118	124	107
Other Expenses	<u>38</u>	<u>58</u>	<u>61</u>	<u>64</u>	<u>67</u>	<u>58</u>
Total	\$109	\$166	\$174	\$182	\$191	\$164
<u>Film Production Companies</u>						
Rhode Island Wages	1,057	345	400	2,000	600	880
Hotel/Lodging	528	173	200	1,000	300	440
Other Expenses	<u>3,699</u>	<u>1,209</u>	<u>1,400</u>	<u>7,000</u>	<u>2,100</u>	<u>3,082</u>
Total	\$5,285	\$1,727	\$2,000	\$10,000	\$3,000	\$4,402
<u>Employee, Friends and Family</u>						
Hotel/Lodging	238	78	90	450	135	198
Other Expenses	<u>3,726</u>	<u>1,217</u>	<u>1,410</u>	<u>7,050</u>	<u>2,115</u>	<u>3,104</u>
Total	\$3,964	\$1,295	\$1,500	\$7,500	\$2,250	\$3,302
<u>Grand Total</u>						
Rhode Island Wages	1,128	453	513	2,118	724	987
Hotel/Lodging	766	250	290	1,450	435	638
Other Expenses	<u>7,463</u>	<u>2,484</u>	<u>2,871</u>	<u>14,114</u>	<u>4,282</u>	<u>6,243</u>
Total	\$9,357	\$3,187	\$3,674	\$17,682	\$5,441	\$7,868

Table 2. Fiscal Impacts related to the Film Industry (Thousands of Dollars)

	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u> (est)	<u>FY92</u> (est)	<u>5-Year</u> <u>Average</u>
<u>State Impacts</u>						
Income Tax Revenues	23	9	10	40	14	19
Lodgings Tax Revenues*	6	2	4	18	5	7
Sales and Use Tax	<u>282</u>	<u>94</u>	<u>108</u>	<u>533</u>	<u>162</u>	<u>236</u>
Total Revenues	\$310	\$104	\$122	\$591	\$181	\$261
Film Commission Budget	<u>\$109</u>	<u>\$166</u>	<u>\$174</u>	<u>\$182</u>	<u>\$191</u>	<u>\$164</u>
Difference	\$201	-\$61	-\$52	\$409	-\$11	\$97
<u>Community/ Regional Impacts</u>						
Lodgings Tax Revenues*	\$17	\$6	\$7	\$36	\$11	\$16

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\* State portion includes those received by the Department of Economic Development and the Roger Williams Reserve fund. Community/Regional portion includes those received by Regional tourism councils and the cities/towns.