CONNECTICUT VOICES FOR CHILDREN

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Testimony Concerning:
HB 5585, An Act Concerning Digital and Film Media
HB 5509, An Act Concerning the Development of a Film Industry Curriculum
HB 5510, An Act Creating a Skilled Workforce for Connecticut's Film Industry

Shelley Geballe, JD, MPH
Higher Education and Employment Advancement Committee & Commerce Committee
February 26, 2008

Dear Senators LeBeau and Hartley, Representatives Berger and Willis, and distinguished Members of both Committees:

I am President of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth and families. Since 1997, CT Voices' work has included a focus on the state budget, looking not only at expenditures for the benefit of children and families, but also at how state revenues are collected, and what revenues the state decides not to collect through tax expenditures (tax credits, exemptions, deductions and rate increases that preferentially benefit a subset of taxpayers otherwise liable for a tax).

Earlier this month, CT Voices released a report that looked at Connecticut's business tax credits and was surprised to learn, in the course of researching that report, that the three "film" tax credits, together, are projected to result in a $116 million revenue loss next year, or more than a third the total revenue loss from *all* business tax credits. Given the size of the state's current, and relatively recent, investment in this industry through transferable tax credits (only one of which is capped), we began to look more closely at the "film" tax credits, and are releasing the first part of our report today. This report includes analysis of data in a report from the Connecticut Commission on Culture and Tourism to the Office of Policy and Management that I requested, and that OPM provided. An executive summary of this report is attached to this testimony. The full report is on our website, www.ctkidslink.org.

Based on my research, I strongly support the proposed requirement in Raised Bill 5585, section 1(b)(1) that the Commission provide monthly reports about the three film tax credits to the Commerce Committee. I urge, however, that the bill be amended to require reports, also, to the Finance, Revenue and Bonding Committee, given that the two uncapped credits can result in a continuing decline in corporate business and insurance premium tax revenues about which this Committee should be apprised.

I also support the proposals in each of the three raised bills to increase training opportunities for those interested in a career in the film and digital media industries. As Kevin Segalla, President of the Connecticut Film Center, LLC, testified before you last year:[1]

> *The film industry has really specialized positions in it. Being that Connecticut has not had the industry here, we haven't developed the workforce. Up to now we've really been bringing in a large majority of our crews from New York City, where they are living now.*

Having a better-trained Connecticut workforce will keep more of Connecticut's investment in the entertainment industry *in* Connecticut.

However, I would strongly urge you also mandate a truly *independent* evaluation of the state's huge investment in the entertainment industry through these tax credits. As our report shows, these credits are resulting in an accelerating reduction in business tax revenues. Indeed:

- The FY 09 revenue loss projected by the Office of Fiscal Analysis through the three credits ($116 million) is equal to one-third of the total corporation business tax revenues OFA projects in FY 09 ($722.0 million). It also is double Connecticut's investment through tax credits in historic rehabilitation (both housing and mixed use); more than five times greater than the state's total investment through tax credits in research and development and research and experimentation; and more than ten times greater than Connecticut's investment in job creation tax credits.

- The projected $116 million FY 09 revenue loss from these entertainment-related tax credits also: is more than three times greater than the total FY 09 budget of the Department of Economic and Community Development; exceeds, by $21 million, the total FY 09 bond funding commitment to the Connecticut State University System's 2020 infrastructure project; is more than eleven times greater than the $10 million appropriated in FY 09 for grants for stem cell research; and is more than five times greater than the $21.5 million FY 09 funding increase approved last Session to expand school readiness to 4,100 additional children.

Further, the tax credits may not be as well-targeted as intended, or as is fiscally-responsible. For example, Connecticut is underwriting 30% of the costs of producing commercials and infomercials, and appears to be subsidizing some pre-existing activity by Connecticut companies as well.

With a slowing economy, the erosion of state revenues should be a concern of all. In addition, it is clear that *other* industries -- like nano-technology, "green" technologies, and biotechnology -- also could benefit from some state support. So it seems imperative that there be an *independent* evaluation of these tax credits. Such a review should include, among other things, an *independent* analysis of the extent to which the tax credits actually are "paying for themselves," ways in which the credits could be better targeted (e.g., to avoid subsidizing activity not originally targeted and providing more incentive than is needed to induce the desired response),[2] the most strategic ways to limit in *some* way the state's current open-ended financial exposure, and a candid assessment of the opportunity cost of the three tax credits.

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[1] Testimony of Kevin Segalla to the Commerce Committee on HB 6500, An Act Expanding Connecticut's Film Industry (March 7, 2007).

[2] Saas, *Hollywood East? Film Tax Credits in New England* (New England Public Policy Center at the Federal Reserve Bank of Boston, October 2006), p.4.