



May 30, 2018

Mr. Red Sanders
President
Red Productions
1075 Foch Street
Fort Worth, Texas 76107

Dear Mr. Sanders,

Thank you for the opportunity to provide consulting services to KCPFI Bryan, LLC. The attached memo highlights TXP's findings related to the economic and tax impact of fully functional studio space, named "Backlot Studios", to rent for various productions. This space can be used to film different productions, photography shoots, and scoring by different media professionals throughout Fort Worth. TXP has organized the analysis and results based on the requirements of the State of Texas Media Production Facilities Development Program.

To assist the City of Fort Worth and State of Texas in reviewing your application, I have summarized the State of Texas Media Production Facilities Development Program. This document is intended to satisfy the requirements of the economic impact analysis.

Please do not hesitate to contact me with any questions or comments.

Best regards,

A handwritten signature in blue ink, appearing to read 'Travis D. James', is written over a light blue horizontal line.

Travis D. James
Vice President



Red Productions New Facility Project Summary

- KCPFII Bryan, LLC is redeveloping and improving 44,000 square feet of existing commercial office space in Fort Worth, Texas.
- The space will be home to multiple tenants working in the movie and video production sector.
- The total cost to redevelop the entire facility is approximately \$3,710,521.
- As part of this project, KCPFII Bryan will offer a fully functional studio space, named “Backlot Studios”, to rent for various productions.
- This space can be used to film different productions, photography shoots, and scoring by different media professionals throughout Fort Worth.
- Backlot Studios will occupy 27.4 percent of the new building space.
- **This analysis is focused only on the proportional Backlot eligible construction and finish out costs which is estimated to be \$1,016,683 (or 27.4 of the total cost of \$3,710,521).**
- Economic activity and spending from tenants using the facilities is not included in this analysis.
- The project will take 6 months to complete.
- Because the project is nonresidential, the majority of the project costs are subject to state and local sales tax.

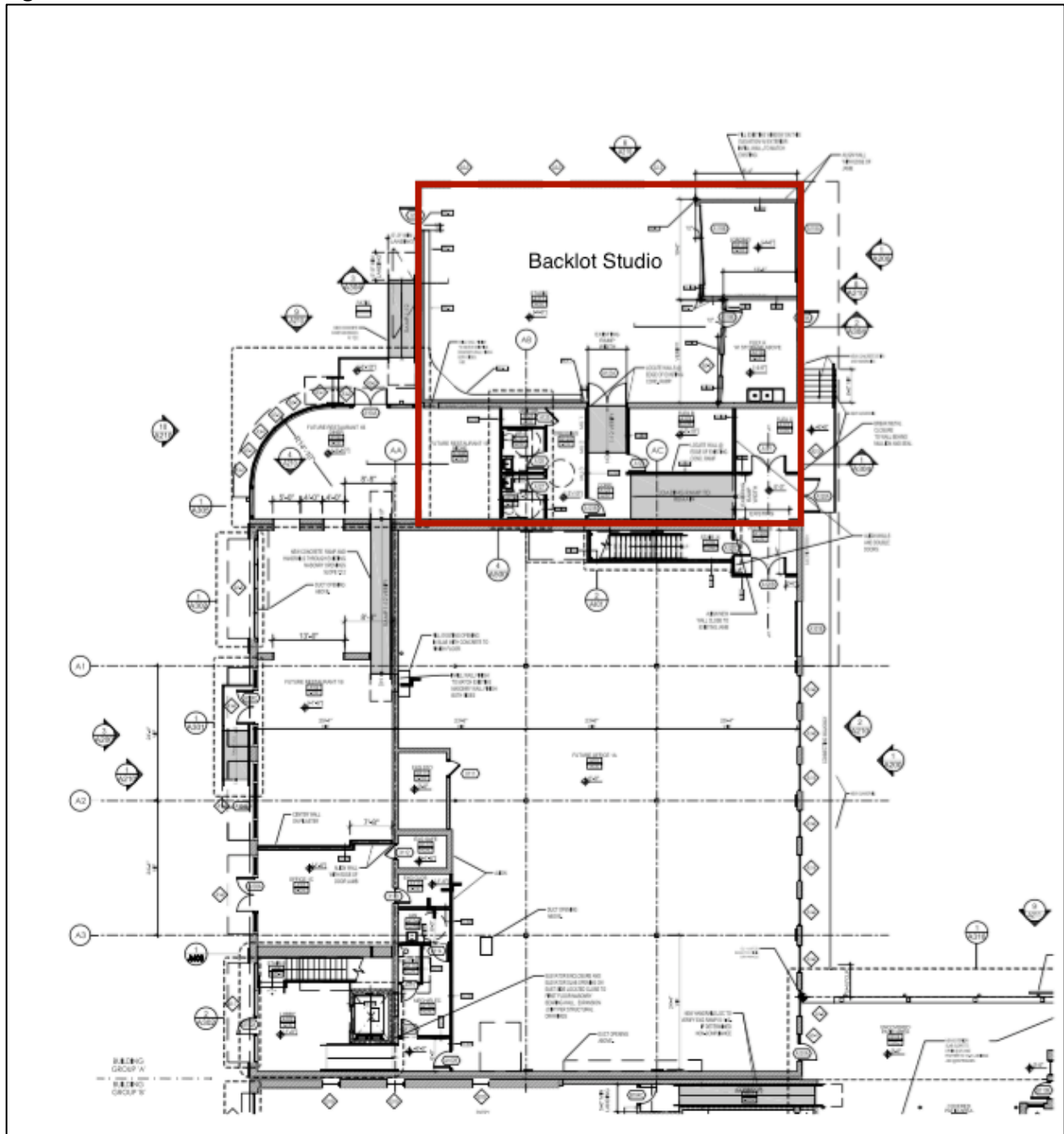
Figure 1: Building Exterior Rendering



Source: Red Productions



Figure 2: Backlot Studio Site Plan



Source: Red Productions



Table 1: Red Productions Office Finish Out Construction Cost Estimate

Component	Cost Estimate*	Component	Cost Estimate*
General Conditions	\$93,650	Fire Caulk(AL)	\$10,000
Temp Fence & Silt Fence	\$8,000	Doors/Frames	\$33,800
Temp Fall Protection	\$15,500	Overhead Doors	\$19,500
Testing(AL)	\$5,000	Entrance/Storefront	\$319,229
Landscaping (AL)	\$10,000	Hardware(AL)	\$15,000
Bollards at Plaza	\$4,000	Stucco	\$19,687
Site Utilities	\$12,000	Cyc Wall (AL)	\$15,500
Demolition	\$8,220	Drywall	\$92,950
Finish Grade	\$4,000	Flooring	\$6,850
Retaining Wall	\$39,000	Painting	\$62,500
Pavement Markings	\$3,000	Skylights	\$2,500
Concrete	\$314,651	Toilet Accessories	\$2,500
Masonry(AL)	\$152,950	Elevator	\$97,500
Structural & Misc Steel	\$233,472	HVAC	\$472,500
Shoring	\$35,000	Plumbing	\$314,650
Rough Carpentry	\$92,000	Fire Sprinkling	\$82,100
Finish Carpentry	\$9,100	Electrical/Fire Alarm	\$486,476
Insulation	\$8,500	Fee	\$262,870
Prefinished Panels	\$12,500	Demo	\$161,782
Roofing	\$103,500	Total	\$3,710,521
Awning	\$44,384		x 27.4% of Backlot Space
Gutters/Downspouts	\$12,700	Total Eligible Spending	\$1,016,682
Sealants	\$11,500		

Source: RJM Contractors

*These costs exclude sales tax



Media Production Development Zone Act Overview

The Media Production Facilities Development Program¹ encourages the construction and renovation of media production facilities—including soundstages, animation facilities and game studios—by granting a sales and use tax exemption that covers their construction or renovation costs. Enacted by the State of Texas in 2009, the program is also known as the Media Production Development Zone Act (MPDZA). The Texas Film Commission administers the incentive program.

To be eligible for the sales and use tax exemption on the construction or renovation of a media production facility:

- The applicant must own (or lease for four years) the land/building where the project is located
- The proposed facility must be used exclusively for the creation of moving images projects.
- Acceptable media production facilities include:
 - Soundstage
 - Motion capture studio
 - Animation facility
 - Game facility
 - Sound studio
 - Scoring stage
 - Editing facility
 - Production office

Each application will need to provide the following documentation to support and justify the request:

- Specific and detailed description of the project
- Site plan for proposed media production location
- Floor plan for the proposed media production facility
- An itemized budget for project
- A schedule of media production equipment to be bought, rented, or leased
- An economic impact analysis
- A financial statement and background information on requestor

A MPDZA exemption cannot be granted unless the Texas Comptroller of Public Accounts certifies that the project will have a positive impact on state revenue. The Comptroller makes this determination, in part, by reviewing the economic impact analysis.

¹ <http://gov.texas.gov/film/programs/mpdza>



Economic Impact of Methodology

An economy can be measured in a number of ways. Four of the most common are “**Output**” which describes total economic activity and is equivalent to a firm’s gross sales, “**Value Added**” which equals gross output of an industry or a sector less its intermediate inputs, “**Labor Income**” which corresponds to wages and benefits, and “**Employment**” which refers to permanent jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced.

Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor’s stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent by them in the local economy.

The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in output is produced in all other sectors.

For this project, TXP used Dallas-Fort Worth MSA RIMS II multipliers (2007 U.S. Benchmark I-O data and 2015 Regional Data).



Tax Revenue Impact Methodology

To provide an “order of magnitude” estimate for tax revenue attributable to the Backlot Studios project, TXP focused on the ratio of government tax collections to gross domestic product (GDP) and wages. Four datasets were used to derive the ratio: 1) U.S. Department of Commerce Bureau of Economic Analysis GDP estimates by state and metropolitan area; 2) the U.S. Census Bureau State Government Tax Collections² (STC) report; 3) Texas Workforce Commission Tarrant County Quarterly Employment and Wages (QCEW)³; and 4) City of Fort Worth⁴ budget documents. A brief description of the STC data collection methodology follows:

In this survey, “taxes” are defined as all compulsory contributions exacted by a government for public purposes, except employer and employee assessments for retirement and social insurance purposes, which are classified as insurance trust revenue. Outside the scope of this collection are data on the unemployment compensation “taxes” imposed by each of the state governments. However, all receipts from licenses and compulsory fees, including those that are imposed for regulatory purposes, as well as those designated to provide revenue are included.

Over the past five years, the state tax revenue as a percent of state GDP was 3.36 percent.

Table 2: State of Texas Tax Revenue as a Percent of State GDP

	2012	2013	2014	2015	2016
Tax Revenue (\$M)	\$48,597	\$51,714	\$55,261	\$55,086	\$52,132
GDP (\$M)	\$1,437,893	\$1,536,472	\$1,614,127	\$1,611,189	\$1,616,801
Tax Rev as % GDP	3.38%	3.37%	3.42%	3.42%	3.22%

Source: TXP, Inc.

Note: 2017 GDP data is not available

Over the past five years, City of Fort Worth total general fund tax revenue as a percent of Tarrant County wages was 1.39 percent.

Table 3: City of Fort Worth General Fund Tax Revenue as a Percent of Tarrant County Wages

	FY2012	FY2013	FY2014	FY2015	FY2016
Tax Revenue (\$M)	\$553.7	\$552.1	\$581.5	\$586.0	\$618.2
Wages (\$M)	\$37,944.56	\$39,477.34	\$41,887.51	\$44,288.41	\$44,892.68
Tax Rev as % Wages	1.46%	1.40%	1.39%	1.32%	1.38%

Source: TXP, Inc.

² <http://www.census.gov/govs/statetax/>

³ <http://www.tracer2.com/cgi/dataAnalysis/AreaSelection.asp?tableName=Industry>

⁴ <http://fortworthtexas.gov/finance/>



Economic Impact of Red Productions Construction & Renovation of Facility

Table 4 depicts how Backlot Studios' construction and renovation-related spending (less contingency) ripples through the Dallas-Fort Worth MSA economy. This spending increases regional economic activity by \$2.2 million, labor income by \$0.7 million, and employment by 15 jobs. This table illustrates how the Backlot Studios project encourages and promotes regional economic growth in other sectors of the economy.

Table 4: Total Economic Impact of Red Productions Construction & Renovation of New Facility

Sector	Output	Value Add	Earnings	Employment
Agriculture, forestry, fishing, hunting	\$813	\$305	\$203	0.0
Mining	\$16,267	\$10,370	\$2,643	0.0
Utilities	\$19,622	\$10,472	\$2,948	0.0
Construction	\$1,028,070	\$552,872	\$379,019	6.2
Durable goods manufacturing	\$183,613	\$69,338	\$37,312	0.7
Nondurable goods manufacturing	\$92,823	\$29,992	\$15,657	0.3
Wholesale trade	\$89,570	\$60,696	\$27,857	0.4
Retail trade	\$132,779	\$86,926	\$46,564	1.6
Transportation and warehousing	\$60,899	\$29,992	\$18,605	0.4
Information	\$51,546	\$29,890	\$9,862	0.1
Finance and insurance	\$117,224	\$61,001	\$32,432	0.6
Real estate and rental and leasing	\$164,296	\$113,970	\$25,824	1.0
Professional, scientific, tech. services	\$80,725	\$50,631	\$37,211	0.5
Management of companies	\$24,705	\$14,844	\$10,268	0.1
Administrative and waste services	\$39,447	\$25,620	\$17,995	0.5
Educational services	\$10,574	\$6,507	\$4,982	0.2
Health care and social assistance	\$85,096	\$51,037	\$38,736	0.8
Arts, entertainment, and recreation	\$10,065	\$5,795	\$3,762	0.2
Accommodation	\$9,760	\$6,202	\$2,745	0.1
Food services and drinking places	\$32,331	\$16,979	\$10,574	0.5
Other services	\$41,887	\$23,180	\$15,657	0.4
Households	\$0	\$1,017	\$1,017	0.1
Total Impact	\$2,292,111	\$1,257,637	\$741,873	14.7

Source: TXP, Inc.



State of Texas Tax impact of Impact of Backlot Studios Construction and Finish Out Spending

Applying the percentage of state tax revenue to GDP (3.36 percent) against new economic activity attributable to the Backlot Studios construction and renovation project, the state is projected to receive \$42,287.88 in new tax revenue.

$$\begin{aligned} &= \$1,257,637 \text{ Construction-related Value-Added (or GDP)} \times 3.36\% \\ &= \$42,287.88 \end{aligned}$$

City of Fort Worth Tax Impact of Impact of Red Productions

Applying the percentage of city general fund tax revenue⁵ to regional wages (1.39 percent) against new economic activity attributable to the Backlot Studios construction and renovation project, the City of Fort Worth is projected to receive \$10,306.39 in new tax revenue.

$$\begin{aligned} &= \$741,873 \text{ Construction-related Wages} \times 1.39\% \\ &= \$10,306.39 \end{aligned}$$

⁵ Property, sales, utility transfer, and other tax revenue



About TXP, Inc.

TXP is an economic analysis and public policy consulting firm founded in 1987 in Austin, Texas. Since then, TXP has grown into a team of professionals whose diverse backgrounds allow us to craft customized solutions to client problems. Our clients have discovered that TXP is the firm to hire when there is not an immediate, obvious, or simple solution to their economic or public policy challenge. Our reputation for having the right people to analyze issues from a variety of perspectives has made TXP the firm to call first for professionals in the public sector and business arenas. In addition to drawing on the expertise of our firm members, we regularly partner with urban planning, engineering, and public policy firms — as well as Ph.D.s in varying disciplines — to put together teams uniquely suited to our clients' needs.

TXP has worked with a wide range of not-for-profits and private sector clients to provide illumination through analytical support, always with a strategic view of the big picture. Members of TXP are involved in the community and understand the challenges faced by an increasingly complex world, as heightened media attention and an ever more diverse set of stakeholders shine a brighter spotlight on public decision-making and public policy.

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