



April 10, 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 Red Productions. The attached memo highlights TXP's findings related to the economic and tax impact of Red Productions' proposed new location in Fort Worth, Texas. 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

- Red Productions, LLC was created in 2005 to perform all services associated with video - production. These services include development, pre-production, production, post-production, and distribution.
- Red Productions also offers a co-working space called Backlot for full-time freelance creatives in various professions within the media industry to work, meet with clients, and collaborate.
- Currently, Red Productions has 9 full-time Fort Worth employees with an average annual wage of \$44,000.
- Red Productions is contemplating moving its operations to a new location in Fort Worth, Texas.
- The legal entity purchasing and renovating the facility is KCPFII Bryan, LLC. Red Productions is an equity partner in KCPFII Bryan, LLC and is the anchor tenant for the building.
- The partnership will redevelop and improve 44,000 square feet of existing commercial office space. KCPFII Bryan will spend approximately \$4.0 million on this renovation.
- Red Productions will occupy a portion of the first floor of the building.
- The second floor would be leased by the partnership to other creative and video production firms.
- **This analysis is focused only on Red Productions Office Finish Out which is estimated to cost \$0.8 million.**
- Because the project is nonresidential, the majority of the project costs are subject to state and local sales tax.
- Red Productions anticipates adding 15 full-time jobs at an average annual wage of \$48,000 over the next 5 years. Table 1 depicts Red Productions current Fort Worth footprint and projected growth figures based on moving to the new facility.

Table 1: Red Productions Project Summary by Year

	Current Facility	Growth Attributable to New Facility				
	2017	2018	2019	2020	2021	2022
Revenue	\$1,409,000	\$1,878,667	\$2,348,333	\$2,818,000	\$3,287,667	\$3,757,333
Wages	\$396,000	\$540,000	\$684,000	\$828,000	\$972,000	\$1,116,000
Employment	9	12	15	18	21	24

Source: Red Productions



Table 2: Red Productions Office Finish Out Construction Cost Estimate

Component	Cost Estimate*	Component	Cost Estimate*
Dumpsters/Haul Away	\$4,250	Appliances	\$15,000
Framing/Drywall/Insulation	\$82,600	Wall Finishes- Paint	\$50,000
Rough Carpentry	\$2,900	Wall Finishes- Wall Covering	\$45,000
Electrical	\$60,000	Flooring/Tile	\$32,000
Lighting Package	\$60,000	General Labor	\$7,500
Plumbing	\$45,000	Clean Up	\$7,500
Mechanical	\$80,000	Misc	\$5,000
Roofing	\$2,500	Subtotal Categories	\$667,250
Doors/Frames/Hardware	\$70,000	Supervision/Project Management	\$33,600
Glass & Glazing	\$35,000	Contractor Fee	\$42,051
Restroom Accessories	\$8,000	Subtotal	\$742,901
Fire Alarm	\$8,000	Insurance	\$14,858
Fire Protection	\$10,000	Remodel Tax @ 8.25%	\$61,289
Millwork	\$25,000	Grand Total	\$819,048
Countertops	\$12,000		

Source: CG Northern Development, LLC

*These costs exclude sales tax

Figure 1: Building Exterior Rendering



Source: Red Productions



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 Red Productions 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 3: 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 4: 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 5 depicts how Red Productions' construction and renovation-related spending (less contingency) ripples through the Dallas-Fort Worth MSA economy. This spending increases regional economic activity by \$1.7 million, labor income by \$0.5 million, and employment by 11 jobs. This table illustrates how the Red Productions project encourages and promotes regional economic growth in other sectors of the economy.

Table 5: Total Economic Impact of Red Productions Construction & Renovation of New Facility

Sector	Output	Value Add	Earnings	Employment
Agriculture, forestry, fishing, hunting	\$594	\$223	\$149	0
Mining	\$11,886	\$7,578	\$1,932	0
Utilities	\$14,338	\$7,652	\$2,154	0
Construction	\$751,221	\$403,990	\$276,953	5
Durable goods manufacturing	\$134,168	\$50,666	\$27,264	0
Nondurable goods manufacturing	\$67,827	\$21,916	\$11,441	0
Wholesale trade	\$65,450	\$44,351	\$20,355	0
Retail trade	\$97,023	\$63,518	\$34,025	1
Transportation and warehousing	\$44,500	\$21,916	\$13,595	0
Information	\$37,665	\$21,841	\$7,206	0
Finance and insurance	\$85,656	\$44,574	\$23,699	0
Real estate and rental and leasing	\$120,053	\$83,279	\$18,870	1
Professional, scientific, tech. services	\$58,986	\$36,996	\$27,190	0
Management of companies	\$18,052	\$10,846	\$7,503	0
Administrative and waste services	\$28,825	\$18,721	\$13,149	0
Educational services	\$7,726	\$4,755	\$3,640	0
Health care and social assistance	\$62,181	\$37,294	\$28,305	1
Arts, entertainment, and recreation	\$7,355	\$4,235	\$2,749	0
Accommodation	\$7,132	\$4,532	\$2,006	0
Food services and drinking places	\$23,624	\$12,406	\$7,726	0
Other services	\$30,608	\$16,938	\$11,441	0
Households	\$0	\$743	\$743	0
Total Impact	\$1,674,870	\$918,969	\$542,095	11

Source: TXP, Inc.



Economic Impact of Red Productions Annual Operations

Table 6 illustrates how normal business activity at Red Productions ripples through the Dallas-Fort Worth MSA economy. Over the next five years, Red Production's annual impact on the regional economy will more than double. The figures for year 2017 represent the current impact or "baseline" of Red Productions. TXP has removed or "subtracted" this baseline activity so as to focus on the net new economic and tax impact of project.

Table 6: Total Economic Impact of Red Productions Annual Operations (Direct + Indirect + Induced)

Year	Output	Value Add (or GDP)	Earnings	Employment
2017	\$2,596,083	\$1,466,065	\$980,615	20
2018	\$3,374,907	\$1,905,884	\$1,337,202	26
2019	\$4,153,732	\$2,345,703	\$1,693,789	32
2020	\$4,932,557	\$2,785,523	\$2,050,376	37
2021	\$5,711,382	\$3,225,342	\$2,406,964	43
2022	\$6,490,206	\$3,665,161	\$2,763,551	49

Source: TXP, Inc.

State of Texas Tax impact of Impact of Red Productions

Applying the percentage of state tax revenue to GDP (3.36 percent) against new economic activity attributable to Red Productions' expansion project, the state is projected to receive \$252,733 in net new tax revenue over the next five years.

Table 7: State of Texas Estimated Tax Revenue Impact of Red Productions Annual Operations

Phase	Annual Value Add/GDP	Less Existing Activity (2017)	Net Change in Value Add/GDP	Annual Tax Impact (3.36% ratio)
Construction	\$918,969	\$0	\$918,969	\$30,900
2018	\$1,905,884	\$1,466,065	\$439,819	\$14,789
2019	\$2,345,703	\$1,466,065	\$879,639	\$29,578
2020	\$2,785,523	\$1,466,065	\$1,319,458	\$44,367
2021	\$3,225,342	\$1,466,065	\$1,759,277	\$59,155
2022	\$3,665,161	\$1,466,065	\$2,199,097	\$73,944
Total Net New State Tax Revenue				\$252,733

Source: TXP, Inc.



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 Red Production's expansion project, the City of Fort Worth is projected to receive \$81,839 in net new tax revenue over the next five years.

Table 8: City of Fort Worth Estimated Tax Revenue Impact of Red Productions Annual Operations

Phase	Total Annual Wages Impact*	Less Existing Wages (2017)	Net Change in Value Add/GDP	Annual Tax Impact (0.1.39% ratio)
Construction	\$542,095	\$0	\$542,095	\$7,531
2018	\$1,337,202	\$980,615	\$356,587	\$4,954
2019	\$1,693,789	\$980,615	\$713,174	\$9,908
2020	\$2,050,376	\$980,615	\$1,069,762	\$14,862
2021	\$2,406,964	\$980,615	\$1,426,349	\$19,815
2022	\$2,763,551	\$980,615	\$1,782,936	\$24,769
Total Net New City Tax Revenue				\$81,839

Source: TXP, Inc.

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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