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Roll The Credits? | Movie Studio Plan Hinges On Tax Incentive Debate

BY **GREG BORDONARO**

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HBJ PHOTO/GREG BORDONARO

Hal Katersky, owner of Pacifica Ventures

Hal Katersky has a simple business plan for his California-based real estate development company. He scours the country for states with tax-friendly incentives for the film industry and builds state-of-the-art studios in them to lure Hollywood films and TV shows.

He started two years ago in New Mexico, where his company, Pacifica Ventures, developed Albuquerque Studios, a \$74 million facility that recently played host to major Hollywood productions including "Terminator: Salvation," and the Emmy-award winning drama series "Breaking Bad." The company is preparing for the opening of a similar studio in Philadelphia, and Katersky is "98 percent" sure that it will break ground this summer on Connecticut Studios in South Windsor at a former drive-in movie theater. The \$65 million project aims to build eight sound stages, four office buildings, a prescreening and visitor center, as well as retail and hotel space.

"We decided to concentrate all of our efforts on where we saw the entertainment industry moving, which was to the incentivized states," Katersky said in a recent interview. "There will be four or five states that capture most of the business and I believe Connecticut will be one of them. The tax incentives here are good and it's a place where production companies want to come."

Katersky said his company, along with its partner, Rhode Island-based Halden Acquisition Group, has agreements with the state and town of South Windsor to build the studio near Interstate 291 and Route 5 and has accepted a \$5 million loan from the Department of Economic and Community Development. Now they are in the implementation stage, "spending significant amounts" of their own money doing engineering and preparing a site plan.

If all goes well, he said, they hope to break ground by the end of the summer and start filming next year.

The biggest obstacle is securing the state's film production, infrastructure and digital animation tax credits, which Gov. M. Jodi Rell has proposed to cap at \$30 million to help close a growing budget deficit.

The cap would kill the project entirely because the studio would be unable to attract filmmakers without offering enough of a financial incentive, Katersky said.

That political debate was ratcheted up last week when the liberal advocacy group Connecticut Voices for Children released a scathing report that attacks the production credit as more costly than it's worth.

Long-time supporters of the film tax credit, including former Democratic House Speaker James Amann, discredited the report, saying it didn't paint a true picture of the tax credits' economic impact.

Rich Harris, a spokesman for Rell, said the governor will be flexible with the tax credit, but that "whether there is a cap or some kind of limitation to it remains to be seen. It's all part of the budget negotiations," he said.

State Sen. Gary LeBeau, the Democratic co-chairman of the legislature's commerce committee, said capping the tax credit would kill the industry in the state precisely at a time when it's about to deliver its biggest payoff.

"The South Windsor studio will be the fruits of our labor," LeBeau said. "This is exactly what we hoped for when we created the tax credits. We were always aiming for studios, not just location filming because that's where you get the big money."

Katersky, a New England native, said once the studio is built it will mean "jobs, jobs, jobs," for Connecticut.

He estimates that 1,650 union-related production jobs will be created per year, paying an average salary of \$68,200 and generating about \$112 million in payroll revenue for the state.

There will also be 500 to 600 union jobs during the construction period, and 65 full-time studio facility jobs paying an average salary of \$37,500. When fully booked, the studio could employ as many as 2,000 people at once and generate \$6 million in new employment and sales tax revenue, Katersky said.

Craig Stevenson, an economic developer for South Windsor, said the film industry also has a big multiplier effect because each new crew needs to build sets, rent homes and vehicles, and eat at local restaurants.

"When one film is finished, a new group comes in and does the very same thing," he said. "You're talking about hundreds of millions of dollars being brought into Connecticut each year."

The outlook for potential success can be measured in part by the performance of Albuquerque Studios, which opened in 2007 and has performed "surprisingly well in its infancy," said Nick Smerigan, the studios chief operating officer.

During its first three months of operation, the studio booked all eight of its stages for a year, and has played host to four feature films and two television shows, Smerigan said.

During a one-and-a-half-year stretch, production companies using it spent about \$250 million in the local economy and created over 2,600 hundred jobs, Smerigan said. The studio was fully booked most of last year, but did experience some slowdown due to the Screen Actors Guild contract negotiations.

Notably a film studio, which makes money by renting space, services and equipment to productions companies, isn't an easy business. Katersky said it is as entrepreneurial as any real-estate venture because deals for its use are usually struck at the last minute.

"You don't get any reservations until the facility is built," Katersky said. "You just know that you have expressions of interest from major studios and you go on that because you have long-term relationships with people."

"It's a risky business but so is any type of development today," he added. "Because of the film tax credits, we have had a strong showing of interest from the major studios about filming in Connecticut."

When asked if he has squared away financing for the studio, Katersky said "we are almost there."

Reader response:

"Before the tax credit Connecticut made virtually no money from the film industry. Once the tax credit was in place Connecticut made millions of dollars, imported thousands of jobs, many of them permanent, and is on the road to grow even more.

Democrats are threatened by this success. It shows their worldview on taxes is flat out wrong. That's why they have to stop it now. What if the voters of Connecticut realize you could grow entire industries by lowering taxes? What if this spreads? The Democrats are scared silly -- and they should be." -- **Realist**

"This is not a Democrat vs. Republican issue. There are many Democrats who support these tax credits. Our neighbors in Massachusetts just announced a major studio in Boston and will take away our production business if we eliminate or even limit it. The MA film tax credits have strong bi-partisan support as does CT. The group lobbying against the credits is resorting to "disinformation" because they don't have the facts on their side. This program is a huge success. Lets keep it." -- **Producer, Virtual Artists Inc.**

"This is absolutely not a Democrat vs. Republican issue at all. I attended last summer's CT Film Industry Training Program, put on by the State to train residents for entry-level jobs in the industry. Due to the threat of the tax credits being eliminated or capped, there is essentially NO film work in CT right now. Consequently, I am currently working on a production in NYC in order to keep my career going. It is a hardship on me to travel out of state, and I would much prefer to be working in CT. Keeping (and not capping) the tax cuts, and reaping the rewards of the business that would follow, is such a no brainer. It is so frustrating to see the lack of support for what could be a great boon for the state." -- **Ginger LaBella, Ginger LaBella Productions Inc.**

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