

Capitol Records Studios Economic Impact of Closure



Los Angeles County Economic Development Corporation

Gregory Freeman
Myasnik Poghosyan

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*Economic Vitality,
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The Economic Impact of Closing Capitol Records Sound Studios

Executive Summary

Capitol Records may have to close eight special sound recording echo chambers in Hollywood because of the planned construction and operation of a subterranean parking structure adjacent to the Capitol Tower, which houses the studios. The LAEDC estimated the economic activity associated with the studios, as well as the percentage of activity that is at risk if the studios were to close.

The Capitol Studios sustain 247 full-time equivalent (FTE) jobs and \$21.1 million in wages annually. These jobs are tied to studio operations (96 FTEs), out-of-town artists (12 FTEs), and session musicians and singers (139 FTEs).

If the echo chambers and the studios close, about 78% of the economic activity will likely disappear. Thus, the Los Angeles County economy stands to lose 183 FTE jobs and \$14.2 million in earnings. The loss of this activity would cost the state and local governments at least \$1 million annually in income, sales, hotel and utility taxes.

Table 1 summarizes the annual economic impact in Los Angeles County of Capitol Studios by source and indicates the percentage of each activity at risk. Tables 2 through 6 provide detail. Table 2 describes the impact of studio operations. The estimated spending of out-of-town artists visiting Los Angeles is presented in Table 3, and the related economic impact is shown in Table 4. The economic activity related to session musicians and singers residing locally is described in Table 5, and the estimation of the activity at risk is shown in Table 6. Finally, Table 7 gives a detailed breakdown of the tax revenues that will be lost (by type of tax and by level of government) if the studios close.

I. Introduction

Capitol Records may have to permanently close eight special sound recording echo chambers in Hollywood because of the planned construction and operation of a subterranean parking structure adjacent to the Capitol Tower, which houses the studios. The studios generate a surprising amount of economic activity in Los Angeles, much of which will disappear if the studios are closed.

The historic Capitol Studios facility on North Vine Street in Hollywood, California is one-of-a-kind because of the echo chambers under ground on their property. The echo chambers produce an effect that cannot be replicated digitally nor matched by any other recording studio. Artists travel to Los Angeles from around the world to use the studios: indeed, out-of-town artists account for almost one-third of studio bookings annually. The echo chambers are critical to the operations of Capitol Studios, which as a unionized shop, is more expensive to book than its non-union competitors.

The studios underpin four distinct streams of economic activity in the Los Angeles area. These are tied to the recording artists and record companies that use the studios; the staff who operate the facilities and the related purchases; the hospitality industry that caters to artists visiting from out-of-town to use the studios; and the local musicians and vocalists who are hired to accompany the headline talent. Table 1 summarizes the economic activity related to the studios and the percentage of activity that is at risk if the studios were to close.

Economic Activity	Total (Direct & Indirect)		% at Risk
	Employment (FTEs)*	Wages (millions)	
Record Companies & Artists	<i>Not Measured</i>		<i>Unknown</i>
Studio Operations	96	\$5.7	100%
Out-of-Town Artists (Tourist Spending)	12	\$0.3	100%
Session Musicians & Singers	139	\$15.1	54%
Total	247	\$21.1	78%**

*Full-time equivalent jobs **Weighted average Source: Capitol Studios, LAEDC

Due to data limitations, the jobs and wages supported by record companies & artists were not measured, and the percent at risk is unknown. (See Section II for more information.) Studio operations account for 96 FTE jobs and \$5.7 million in direct and indirect wages yearly. (See Table 2 for details.) Tourist spending (\$520,000) by out-of-town artists (Table 3) supports 12 FTE jobs with \$310,000 in total earnings (Table 4). In both cases, 100% of the jobs are at risk. In addition, spending for session musicians & singers sustains 139 FTE jobs with over \$15.1 million in total earnings (Table 5). Here, 75 jobs (54 percent of the total) and \$8.1 million in earnings are at risk (Table 6). Overall, 183 jobs are at risk, representing annual earnings of \$14.2 million.

II. Record Companies and Recording Artists

The LAEDC does not have the necessary data to estimate the portion of recording artists' earnings and record companies' revenues that are linked to the work they conduct at Capitol Studios. Recording companies are protective about their revenues, and the use of royalties makes it difficult to assess artists' earnings. Nonetheless, some of the revenues and some of the earnings are clearly attributable to the work at the studios. This means that some of the additional (indirect) employment sustained by their respective purchases of goods and services in the Los Angeles economy is also attributable to the operations of the studios. How much of this activity is at risk due to the closure of the studios is unknown.

III. Staff and Studio Operations

Capitol Studios employs 32 full-time workers, including six full-time temps, who earn collectively \$2.2 million annually. When the studios purchase goods and services in the local economy as part of their normal operations, it creates additional (indirect) employment. For example, the studio annually spends \$55,000 on equipment rentals, \$100,000 on material & equipment purchases, and \$12,000 at the local Gelson's Market. Catering, miscellaneous supplies, postage, repair services, and other items bring local studio spending to \$435,000 annually. Similarly, when the studios' employees spend their wages on everything from clothing to insurance to healthcare, they sustain still more indirect employment.

The LAEDC used a customized model based on RIMS II multipliers from the US Department of Commerce, Bureau of Economic Analysis to estimate the total (direct plus indirect) employment and wages sustained by the Capitol Studios operations. The results are presented in Table 2.

	Employment (FTEs)*	Wages (millions)
Direct Economic Impact	32	\$2.2
Total Economic Impact	96	\$5.7

*Full-time equivalent jobs Source: Capitol Studios, LAEDC

For each direct job, the studio operations sustain the full-time equivalent of almost two indirect jobs. (We have included among the indirect jobs the employment impact of a prorated share of the studios' spending on security services.) The relatively rich multiplier effect in the sound recording industry reflects a comparatively high level of purchases in the local economy. The actual number of people involved may be far higher. The indirect jobs are measured in full-time equivalents because the economic model adds up partial employment across multiple sectors. Buying a single meal at a restaurant, for example, contributes in a small way to employment at the restaurant and its suppliers. The indirect effects bring total employment sustained by the Capitol Studios operations to the 96 FTE jobs.

At risk: If the studios are closed, all of the direct jobs will be lost. Over time, the indirect jobs will follow.

IV. Hospitality industry

Capitol Studios draws artists from around the world. In the most recent year, almost one-third of the clients were from outside the area. For the local economy, these out-of-town studio clients are indistinguishable from tourists. The Los Angeles economy benefits from their spending on hotels, restaurants and transportation services, as well as local retail and entertainment.

To estimate the impact of spending by out-of-town artists recording at Capitol Studios, the LAEDC started with a representative budget for a recent studio visit by a well-known artist. We supplemented the budget with assumptions based on tourist spending surveys from LA Inc. (the Los Angeles Visitor and Convention Bureau). As a reality check, we collected price data on rental cars, limo services, hotels, and entertainment venues from various websites. We also assumed that as repeat customers, the recording companies organizing (and paying for) much of the local arrangements would receive substantial discounts to the listed prices. Next, we combined the spending information from the studios on the annual number of out-of-town clients (93), the average number of people traveling with the recording artist (two to three), and the average length of stay in Los Angeles (three days). The result was the spending estimates presented in Table 3.

Industry	Amount (thousands)
Hotels and motels	\$230
Food service and drinking places	\$90
Retail	\$50
Transportation	\$50
Entertainment	\$100
Total*	\$520

*May not sum due to rounding.

Source: LAEDC

We conservatively estimate that out-of-town clients add \$520,000 in tourist-type spending to the LA economy each year. To the extent that the performers spend in line with their incomes, actual food service as well as retail and entertainment expenditures could be considerably higher. This spending sustains employment in the Los Angeles area hospitality industry. The LAEDC used final demand multipliers from the RIMS II input-output model developed by the US Department of Commerce, Bureau of Economic Analysis to estimate the total (direct plus indirect) employment and wages sustained by the spending of out-of-town users of Capitol Studios. The results are presented in Table 4 on the next page.

Table 4 Annual Economic Impact of Visiting Client Spending		
	Employment (FTEs)*	Earnings (thousands)
Total (Direct & Indirect)	12	\$310

*Full-time equivalent jobs
Source: LAEDC

Spending by visiting clients sustains 12 FTE’s and \$310,000 in annual wages in the Los Angeles hospitality industry.

At risk: If the studio closes, the reason for the out-of-town clients to visit Los Angeles goes away. That means all the jobs supported by the visiting clients will disappear.

V. Additional Local Performers

The recording activities carried on at Capitol Studios are a major source of well-paid work for local musicians and singers, who accompany the artists who rent the studios. Forty percent of the studios clients work with an orchestra, which includes up to 56 additional performers. The rest of the clients typically use at least four “non-royalty artists” – session players or singers. The additional local performers do not work every day the headline talent has a studio booked, but with three studios and about 300 clients, there was still a lot of work.

Based on 55 people per orchestra session (and often, more people are involved) and four additional performers for the non-orchestra sessions (again there are often more), the LAEDC estimates that the Capitol Studios’ recording sessions sustain the full-time equivalent of 56 jobs for independent artists and singers annually. Combined, these performers earned \$7.0 million, an average of \$125,000 per year. Of course, individual performers would not earn that much unless they worked exclusively (and full-time) in union studios, of which Capitol is one of the last remaining. This illustrates an important point: the work at Capitol Studios is well paid. Orchestra members, for example, earn \$75 to \$155 per hour, depending on the instrument. (And the orchestra component of the \$7.0 million estimate is based on the bottom end of that scale.) So for the many individual performers (whose work together adds up to the full-time equivalent of 56 jobs), some of their better-paid work is undoubtedly at the Capitol studios.

When the independent artists and singers spend their earnings in the local economy, they create additional indirect employment. The LAEDC used direct effects multipliers from the RIMS II input-output model developed by the US Department of Commerce, Bureau of Economic Analysis to estimate the total (direct plus indirect) employment and wages sustained by the session work of independent artists and singers. The results are presented in Table 5.

Table 5 Economic Impact of Additional Performers		
	Employment (# of jobs)*	Earnings (millions)
Total (Direct & Indirect)	139	\$15.1

*Full-time equivalent jobs
Source: LAEDC

With the multiplier effect, total direct and indirect employment sustained by the session work of additional performers working with the talent for whom the studios were booked rises to 139 full-time equivalent jobs with annual earnings of \$15.1 million.

At risk: Table 6 summarizes the share of total employment related to additional performers at risk, by percent of business, percent at risk, employment and respective earnings.

Table 6 Breakdown of Risk to Additional Performers Working with Studio Clients				
Economic Activities	% of Business	% at Risk	Employment (# of jobs)*	Earnings (millions)
Out-of-Town Client Sessions	31%	100%	43	\$4.7
Local Client Sessions	69%	33%	32	\$3.4
Total	100%	54%	75	\$8.1

*Full-time equivalent jobs
Source: LAEDC

Out-of-town client sessions comprise 31% of the total business at the studios and 100% of this business is at risk. If the studios close, Los Angeles will lose 43 FTE jobs supported by out-of-town client sessions and annual earnings of \$4.7 million.

Local client sessions are 69% of the total bookings at the studios. No one is really sure how many of the local client sessions would be at risk of leaving the area if Capitol Studios close. One vulnerable segment is film scoring, which represents about 20% of the total activity at the studios. Other states and countries have been aggressively courting LA's film producers. Some offer incentives for post-production work as well. The loss of the echo chambers at Capitol Studios would deprive Los Angeles of a resource that makes it attractive to keep film scoring work in the area. The LAEDC has assumed that 33% of all local client activity is at risk of leaving if the studios close. Thus, an additional 32 FTE jobs could disappear along with \$3.4 million in annual wages.

Overall, if the studios close, 54% (the weighted average of the percent at risk of out-of-town and local client sessions) of work for additional performers could leave, taking with them 75 FTE jobs earning \$8.1 million in total wages.

VI. Tax Revenue Impact

The LAEDC estimated some of the annual tax revenues associated with the economic activity likely to be lost if the studios close. These include 100% of the activity related to the operation of the studios themselves (96 FTE jobs); 100% of the activity sustained by spending of artists visiting from out-of-town (12 FTE jobs); plus 54% of the session musicians and singers (75 FTE jobs). Table 7 illustrates some of the annual tax revenues associated with activity at risk at Capitol Studios by type of tax and by level of government.

Table 7 Capitol Studios' Tax Revenue Impact <i>Per Annum</i>	
Revenue by Type of Tax	
State Income Tax	\$595,000
Sales Tax	\$371,000
Transient Occupancy Tax (TOT)	\$28,000
Utility Tax	\$4,000
Total*	\$1,000,000
Tax Revenue by Level of Government	
State	\$865,000
County	\$56,000
Local Government (Cities)	\$77,000
Total*	\$1,000,000

* May not sum due to rounding.
Source: LAEDC

State and local governments stand to lose nearly \$1.0 million annually from income, sales, hotel, and utility taxes. The state income tax (\$595,000) is the largest component (60.0%) of the tax revenues shown in Table 7. Sales taxes generated by Capitol Studios add up to \$371,000, followed by transient occupancy tax (TOT) of \$28,000. The latter is important, because the majority of out-of-town artists stay at hotels in the City of Los Angeles. In addition, the Studios pay \$4,000 in utility taxes, which are included in monthly utility bills.

LAEDC has also allocated the tax revenues to various state and local governments. The state government captures about \$865,000 in taxes associated with Capitol Studios. Los Angeles County receives \$56,000 (including the LA Metro share of the sales tax). Local city governments share \$77,000 in the form of local sales & use, TOT, and utility taxes, though the City of Los Angeles collects most of it.

Overall, the LAEDC's estimates for tax revenues generated by Capitol Studios are low because they are incomplete. The LAEDC has omitted corporate profits taxes and state fuel taxes because of data limitations. Nor have we included the state unemployment insurance or California disability insurance paid by the direct and indirect workers related to Capitol Studios.