



Lights, Camera, Louisiana!

Thanks to special tax incentives, Louisiana has become one of the most popular locations in the country for film and television production. More than 300 movies and TV shows have been shot in the state over the last ten years, generating a reported \$1.5 billion in economic activity. But some analysts say the benefits of film tax credits are overstated and they often don't even pay for themselves. So who is profiting from filmmaking in the state? Explore "Lights, Camera, Louisiana!" on Louisiana Public Square, Wednesday, May 25th at 7 p.m. on LPB.



"SECRETARIAT" (L_R) Diane Lane, John Malkovich Ph; John Bramley ©Disney Enterprises, Inc. All Rights Reserved

The 2010 film "Secretariat" chronicling the 1973 Triple Crown winner was shot almost exclusively in Lafayette, Opelousas and Carencro.

History of the Incentives While Louisiana's rich culture and unique history has always attracted its share of films, film production has now become a major industry in the state. In 2002, Louisiana was the first state in the country to enact motion picture tax credit legislation. Then state Senator Jay Dardenne and former state Representative Steve Scalise shepherded passage of the "Louisiana Motion Picture Incentive Act" setting up a film tax incentive program. Since the legislation was passed, nearly 500 movies and television shows have been filmed in Louisiana. Productions in 2010 alone, according to a recent [Louisiana Economic Development Report](#), created an economic impact of \$1.1 billion.

"We've seen motion picture production in Monroe; Lake Charles; Lafayette; Shreveport; Alexandria, New Orleans, and Baton Rouge. The incentive works statewide. From my perspective, an industry that benefits the state as a whole is a great thing."

Chris Stelly,
Louisiana Entertainment

The first movie produced under the program was Crusader Entertainment's *Ray*, which won a "Best Actor" Academy Award for Jamie Foxx, while advancing Louisiana to the forefront as a premier location to make movies. When productions like Touchstone Pictures *The Guardian*, moved to Shreveport following Hurricane Katrina, North Louisiana began to reap some of the rewards. There were 25 new film and television projects in the 21-month period from October 2005 to June 2007.

The growth of the industry in Shreveport helped to forge a rare North/South Louisiana alliance in 2009 when the incentives were due to be phased down. At the same time other states such as Michigan and Georgia had begun offering similar tax credits but at higher levels, hoping to woo film makers with more lucrative deals. Supporters statewide pushed to make the incentives permanent as well as increase the tax break from 25 to 30%. Producers receive another 5% incentive for using Louisiana labor.

FILM INCENTIVE DETAILS Producers can receive a tax credit of up to 30% of the total production budget over \$300,000 spent in Louisiana. Film companies can also maximize their labor costs by utilizing a larger percentage of Louisiana workers in their productions. The Labor Tax Credit allows for a tax credit equal to 10% of the Louisiana payroll used on a production.

HOW THEY WORK What makes Louisiana’s film tax incentive system unique is its reliance on private investment. Producers apply to the state for the credits. The state approves the production. The necessary tax credit calculations are done and the credits are granted directly to the producer. Work begins, money is spent and the credits become effective. At some point, the producers or investors usually sell the credits for less than full value to a broker, who in turn sells them to other taxpayers. The taxpayer can apply the full value of the credit against its state income tax liability. This system benefits producers and investors who need quick capital for their projects; and taxpayers who pay lower taxes after buying the credits.



The relocation of movie projects like *The Guardian* to Shreveport following Hurricane Katrina spurred development of facilities like “The Louisiana Wave Studio”.

STATE GUARANTEE What the state also did in 2009 was look at ways to “shore up” the incentive, Chris Stelly, Film Director with the state’s “Louisiana Entertainment” department recently told LPB. *“Now the state offers three options for the tax credit,”* Stelly says, *“You earn a dollar worth of tax credit; one; the easiest and most beneficial is use it to offset any of your personal or corporate income taxes. The second option is to transfer it on the open market for whatever that rate may be; but the third most stabilizing option is that the state now guarantees 85 cents on the dollar. Meaning if you have a million dollars worth of tax credits; the state will buy them back and give a check to you for 850 thousand dollars.”* This bold move by the state led to a record first quarter in 2010, with 26 productions carrying budgets close to \$400 million.

ENTERTAINMENT INCENTIVES The success of the state’s film program also spurred the Louisiana legislature to create similar incentive programs for the sound recording, interactive and live performance sectors. James Alsfeld CEO of *FBT Film & Entertainment* a brokerage firm based in New Orleans, says *“Credits to encourage digital media companies to relocate in Louisiana were seen as an afterthought, but the beauty of the digital credit is that it makes permanent jobs where film productions make temporary jobs.”*

INNOVATIVE ENTERTAINMENT INCENTIVES			
FILM	UP TO 35% TRANSFERABLE TAX CREDIT	★ NO CAP	★ \$300,000 MINIMUM INVESTMENT
MUSIC	25% PRODUCTION REBATE	★	★ \$15,000 MINIMUM INVESTMENT
INTER ACTIVE	UP TO 35% TAX CREDIT	★ NO CAP	★ NO MINIMUM INVESTMENT
LIVE	UP TO 35% TRANSFERABLE OR REFUNDABLE TAX CREDIT	★	★ \$100,000 MINIMUM INVESTMENT

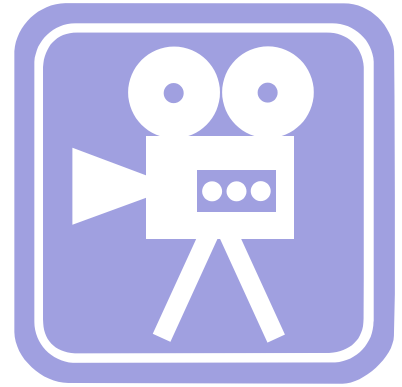
PROGRAM ABUSE The state’s incentive program has not been without controversy. In 2007 a federal investigation uncovered bribery of Mark Smith, the former head of the Louisiana Film Commission. Smith gave improper or excessive credits to the Louisiana Institute of Film Technology (LIFT) while approval of other projects’ tax credits were delayed. Smith also awarded incentives to several New Orleans music festivals interpreting the incentive program loosely. Smith eventually pleaded guilty to taking bribes and the requirements for the program were tightened. The program also was clarified in response to infrastructure project proposals seeking tax credits for “golf courses and luxury condos wrapped around film studios –with the notion that the state would subsidize the whole package.”

ECONOMIC IMPACT A [report released by Louisiana Economic Development in April of 2011](#), analyzed the multiplier effect of the various entertainment tax incentives. The report found that every \$1 of tax credits issued generates the following estimated total economic output:

- Film production - \$5.71
- Sound recording - \$6.47
- Digital media - \$6.90
- Live performance - \$7.41

For the film industry exclusively:

- Approximately \$1.08 billion statewide in economic output for 2010 alone, representing a 52 percent increase above the annual average for years 2008 and 2009
- The industry also created more than 8,000 jobs for the state.



So, given these types of numbers, is the state “getting its bang for its buck”?

Chris Stelly with Louisiana Entertainment thinks so. Citing several of the businesses that have sprung up due to the program, Stelly says, *“These incentives have encouraged private development all across Louisiana; we’ve seen the Celtic Media Center here in Baton Rouge provide stage space; and an incubator, Hollywood Trucks is based out of there; Second Line Studios is based out of New Orleans; Pixar Magic in Lafayette. We have MoonBot Studios with William Joyce’s studio doing the bulk of their animation out of that studio. In Shreveport you have Millenium doing films all across the world.”*

James Richardson, Ph.D., an economist with LSU and a member of the Legislative Revenue Estimating Conference replies, *“Are you getting new jobs – yes. Are you getting back in terms of state revenues in terms of what you’re putting out in the tax revenue? The answer is no.”* Taxwise, Louisiana is losing out Richardson says. *“Over the last three years, the state has averaged \$145 million in credits for the film industry,”* Richardson notes, *“but the tax that is generated that will be coming to the state over those 3 years has averaged about 20 – 25 million dollars a year”*

In an analysis entitled [“Not Much Bang for Too Many Bucks”](#), the Center on Budget and Policy Priorities found that:

- **State film subsidies are costly to states and generous to movie producers.** Over the course of state fiscal year 2010, states committed about \$1.5 billion to subsidizing film and TV production—money that they otherwise could have spent on public services like education, health care, public safety, and infrastructure.
- In Louisiana, the value of film subsidies appropriated or awarded annually exceeds that of longstanding business tax incentives, such as tax credits for investment and research and development.
- **The best jobs go to non-residents.** Producers import scarce, highly paid talent from other states. Jobs for in-state residents tend to be spotty, part-time, and relatively low-paying work that is unlikely to build the foundations of strong economic development in the long term.
- **No state can “win” the film subsidy war.** The film industry is inherently risky and therefore dependent on subsidies. Consequently, the competition from other states is fierce, which suggests that states might better spend their money in other ways.

“The only problem with the film credit is that any state that wants the film industry can obviously match the credit. There’s nothing unique to that credit to Louisiana.”

**James Richardson, Ph.D.
Economist**

The Louisiana Budget Project says the tax credit is a **“Sellout to Hollywood.”** On its website, it says **“Film productions don’t create permanent jobs or generate income to offset the loss in state revenues.”** It also cites a 2005 **report** by the Legislative Fiscal Office that estimates the state government will only recover 16 to 18 percent of lost taxes. It argues that, **“every dollar that goes to Hollywood is a dollar that is lost to higher education, healthcare, economic development, and infrastructure such as roads and bridges.”**

To measure their true success, Richardson says you have to ask what do you want the incentives to accomplish? *“If it’s to get a particular industry here and have to have it recurring; then you’ve accomplished it.”* Richardson says. *“The question is, you can’t have that many credits for every industry you want because you can’t afford it. Now the question is at what point do we say, at some point they need to pay their own way; we can’t continue to subsidize them forever because we have other things to use the money. And that’s a choice we’ll have to make at some point down the line.”*

When that time comes, Diego Martinez, President of Shreveport’s Millenium Studio, feels the state will be ready. *“When there are no more incentives; everyone should say we’re in Louisiana; let’s shoot in Louisiana”* Martinez says. *“And I think we’re headed that way. We’re still positioned as one of the top states really behind New York and California. We took advantage of that head start and we’ve built a great crew base here; the facilities are going up and if we continue this way I think this is a viable industry that’s going to pack the state for a long time.”*



Watch “Lights, Camera, Louisiana!”

Wednesday, May 25th, 2011 at 7 p.m. on LPB HD.

Let us know your thoughts on the state’s film tax incentives.

Visit www.lpb.org/publicsquare and post a comment.