LOUISIANA MOTION PICTURE INCENTIVE PROGRAM: HOW WELL IS IT WORKING?

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ABSTRACT

This article explores incentives offered by states to induce the production of films within their borders. Specifically, it examines the efforts of Louisiana, the first state to offer some form of these incentives. Pro and con arguments relative to such incentives are presented. After reviewing legislation establishing incentives in Louisiana, the author examines relevant data to determine the economic impact of same on the state and concludes that the benefits have outweighed the costs. **JEL Classification**: H71

INTRODUCTION

As of the beginning of 2004, six states had Motion Picture Incentives (MPIs) designed to attract producers of motion pictures within their borders. Louisiana had been the first state to enact MPIs approximately a decade earlier in 1992. Hawaii and Minnesota followed in 1997; Missouri, in 1999; Virginia in 2001; and New Mexico in 2002. However, over the 2004-2009 period, 38 additional states enacted legislation creating MPIs. By the end of 2009, 44 states had some type(s) of MPIs. The six states lacking MPIs are: Delaware, Nebraska, Nevada, New Hampshire, North Dakota, and Vermont. The most common MPIs are: (1) Tax Credits, (2) Cash Rebates, (3) Grants, (4) Sales Tax Exemptions, (5) Lodging Exemptions, and (6) Fee-Free Locations. Of these, tax credits are the most significant. In fact, tax credits are the only type of MPI offered by Louisiana, one of the leading states involved in the production of motion pictures. Louisiana's initial MPI legislation of 1992 enacted a tax credit for "investment losses in films with substantial Louisiana content."[1] In general, the tax credits offered by the various states remove a portion of the companies' income tax, given that these companies satisfy certain stipulations. Cash rebates involve the reimbursement of a portion of the production companies' qualified expenses. Grants are often, though not exclusively, tied to certain percentages of qualified expenses. While sales tax exemptions and lodging exemptions are basically self-descriptive, and while fee-free locations may offer the provision of rather complex services, the most common benefits offered are such things as traffic control by police officers and emergency standby crews (Luther (2010)).

Of the MPIs listed above, 28 states offer tax credits, 17 offer cash rebates, 3 offer Grants, 28 offer Sales Tax exemptions, 33 offer lodging exemptions, and 6 offer fee-free locations. Three of the six that lack MPIs do not have at least one of the major taxes to which the credits could be applied. That is, Nevada has no corporate or individual income taxes, Delaware has no sales tax, and New Hampshire does not tax general sales or wages. The three remaining states lacking MPIs (Nebraska, North Dakota, and Vermont) have, at least, considered legislation to install MPIs (Luther (2010)). Despite this, it is fair to say that states have generally moved heavily in the direction of offering MPIs in order to boast economic development within their respective borders. The question is "have they done so because such incentives have proved to be promotive of such growth or have they done so in a 'monkey-see, monkey-do' defensive posture?" It is frankly too soon to know. While the earlier states that moved to provide such incentives may have profited to some extent, perhaps the late-comers cannot, or perhaps, they can only hope to prosper by offering more lavish incentives. This could conceivably result in incentive-warfare similar to the price warfare experienced in various segments of the private sector in the early 20th century. Then, too, perhaps the benefits to be earned from such incentives have already reached critical mass and are purely illusionary beyond that point. If so, the increased incentive-thumping may merely devolve into a zero-sum game.

Proponents of tax credits and other MPIs contend that these promote economic development and create substantial employment opportunities in the private sector while generating significant tax revenue for governmental entities. Critics of these incentives claim that the alleged benefits that they are said to generate are often based on fanciful estimates which cannot come to fruition. Further, the costs of the MPIs are said to be often understated. Also, many of the jobs created by film projects, critics claim, may only be of a temporary nature. Rather than granting tax relief on an industry-specific basis, critics of MPIs contend that states should implement tax systems that welcome all industries if they want to generate true wealth creation within their borders (Luther (2010)). However, given the recent nature of the provision of the MPIs, it is, as suggested earlier, too soon to draw any definitive conclusions about the long-run effectiveness of such incentives.

Various studies conducted to evaluate the economic impact of state film incentives programs will be reviewed herein. In addition, a discussion of recent expansions and contractions in such state programs will be provided. The legislation of 2002 establishing the Louisiana film incentive program, as well as, subsequent amendments to the programs are discussed prior to an examination of the economic impact that the implementation of the program has had on the Louisiana economy. The paper closes with summary comments and conclusions relative to Louisiana film incentive programs.

REVIEW OF EVIDENCE

A number of studies have been conducted to evaluate the economic impact of state film incentives program. For example, Ernst and Young conducted a study for the New Mexico State Film Office employing three elements: (1) a survey of film industry employees and businesses related to the industry, (2) budget information submitted by film production companies within their applications to the New Mexico State Investment Council, and (3) qualifying expenditures by all film productions participating in the state's film tax credit program. The study sought to assess the direct, indirect, and induced economic impact of the New Mexico Tax Credit Program through (1) increased film production activity, (2) increased investment in New Mexico film studios and equipment, and (3) spending by tourists. At the time of the study, the New Mexico program, which was initiated in 2002, offered a film production tax credit of 25 percent of production expenses incurred during the production and post-production phases of each film produced in the state (Ernst and Young (2009)).

The study concluded that the state's film tax credit program had led to positive direct and indirect economic impacts attributable to film production spending activities, as well as, additional benefits from capital investments made to support the film industry's growth and from film-related tourism. Specifically, the study found that film production activities generated 2,200 direct jobs in 2007. These 2,200 direct jobs led to 1,609 indirect jobs in other industries, resulting in a total employment expansion impact of 3,829 jobs associated with film production activities per se. Further, the study found that 5,381 (3,769 direct and 1,612 indirect) jobs were generated by film-related capital expenditures and film tourism spending. Hence, the total number of direct jobs generated by the program was found to be 5,989 and the total number of indirect jobs was 3,221. Overall, then, 9,210 jobs were found to be generated in 2007 by the state's film tax credits. For the year (2007), 30 films were produced in New Mexico generating $253 million of spending benefiting the state's economy. Further, these film expenditures generated increased state and local tax collections. For 2007, state tax collections emanating from film production activities reached $22.6 million. In addition, the study estimated that state tax impacts generated by capital expenditures undertaken in 2007 and from film tourism during 2008-2011 would total $21.5 million in 2007 dollars. Finally, the study concluded that, based on the 2007 value of present and future year tax receipts and the 2007 value of film production tax credits granted by the State of New Mexico, the state's program earned $0.94 in additional state tax receipts for each dollar paid out in incentives. Coupled with the $0.56 earned by local governments within New Mexico, total state and local tax collections amounted to $1.50 for each dollar of state credits granted (Ernst and Young (2009)).

The Center for Economic Analysis at Michigan State University conducted a study in early 2009 of the state-wide economic effects of audited expenditures of Michigan film productions in 2008, the year in which the state inaugurated its Michigan Film Production Credit. During the nine months following the passage of this program, 32 film productions were completed in the state generating $65.4 million dollars. Over $25 million was spent on direct wages and salaries with an excess of $40 million being spent on Michigan goods and services. Direct employment of Michigan residents totaled 2,763. An additional $28.4 million in state-wide expenditures were generated via the multiplier effect, resulting in a 2008 total of $93.8 million of state output emanating from film production expenditures. Further, 1,102 year-round equivalent jobs with total wage and salary income of $53.8 million were said to be generated from film productions via a multiplier effect (Miller and Abdulkadri (2009)).

Film production expenditures were expected to increase over a four-year period. Both employment and output multipliers were expected to increase over time due to deepening value chains linked to infrastructure development within the state. Further, the report asserted that film expenditures would lead to increased migration into the state. The study, admittedly, did not consider the full bloom of motion picture and digital media production, such as the establishment of soundstages, production facilities, and other media production vehicles such as video game production. Finally, the study also did not consider real economic impacts on Michigan's tourism industry

(Miller and Abdulkadri (2009)).

Another study undertaken for a number of Convention and Visitor Bureaus in Michigan concluded that the economic impact of the state's film tax credit program in 2009 and 2010 were significantly positive. For 2009, $119.1 million of film-production expenditures were direct payments to Michigan residents and businesses. These direct impact payments generated estimated indirect impact payments of $190.2 million leading to an estimated combined total of $309.3 million of total Michigan economic output for 2009. The combined direct and indirect impacts on resident total income was $108.9 million and the combined impact on FTE resident employment was 2,631. All these measures rose in 2010. That is, combined economic output rose to $503.0 million. Total resident income increased to 172.5 million, with combined FTE resident employment rising to 3860. Further, indirect employment rose from 2009 to 2010 for all twelve industry groups within the state (Ernst and Young (2011)).

State and local taxes generated from film productions showed increases, as well. For the state, the combined direct and indirect tax impacts resulting from film production activities were $15.2 million 2009 and $24.2 million for 2010 (an increase of over 58 percent). The combined direct and indirect local tax impacts was $4.3 million in 2009 and $6.8 million for 2010 (an increase in excess of 58 percent). Further, based on the assumption that film production employees were unemployed prior to the film productions undertaken, the study noted the additional fiscal impact of the reduction in state unemployment benefits resulting from jobs attributable to the film production activities. These reduced state unemployment benefits were $4.3 million for 2009, and $6.7 million in 2010 (Ernst and Young (2011)).

In early 2010 Ernst and Young also issued an estimated impact study of the New York State Film Credit. The state had initiated the program in 2004 by offering a tax credit equal to 10 percent of qualified New York production activities. This state credit rate was increased to 30 percent in April 2008. In addition, there is a 5 percent credit applicable for qualifying New York City production expenses. The study found that $2,791 million of direct spending in 2009 generated total production value of $6,395 million via a multiplier of 2.29. Total multiplier-induced income was $3,351 million for 2009. Further, 11,262 direct jobs led to an increase of total employment of 32,027 via a 2.84 multiplier. In addition, the report projected that the average annual employment impact over the next five years would be 36,035 (Ernst and Young (2010)).

A study of April 2010 funded by the Rhode Island Film Collaborative concluded that the state's Motion Picture Production Tax Credit had been critical to the introduction and growth of the film and television production industry in the state. The study was designed to assess the economic impact of the credit on the state's economy for the years 2005-2009. Positive results were found for the five-year period, as well as, for each of the five years relative to employment, wages and salaries, and employee state and local taxes generated. Overall, the total economic impact was $465.51 million. Wages generated for direct employees of film and television production companies were $181.7 million, while total wages generated for jobs created in other industries were $152.6 million. Further, the state's tax credit was said to have created 4,184 FTE jobs for the 2005-2009 period (Mazze (2010)).

The Massachusetts Department of Revenue has issued a report on the state's film industry tax incentives wherein it concluded that the state's film tax credit program resulted in $32.6 million in new spending in the state's economy for 2009. In addition, the report noted that $161.2 million in new in-state spending was generated by the program over calendar years 2006-2009. These numbers represent the net economic impact of the tax incentive program in that they allow for payments to non-residents and non-Massachusetts businesses, as well as state spending reductions needed to accommodate the tax credits and still maintain a balanced budget. For 2009, the tax credit program led to approximately 586 net new full time equivalent employees, with approximately 1,897 new FTE's generated by production spending and its multiplier effects. State personal income over the 2006-2009 period rose by $115.4 million and total state revenue (state tax and non-tax revenue) rose by $36.3 million over the 2006-2009 period (Department of Revenue (2011)).

Connecticut's Department of Economic and Community Development has found that its state's film production tax credit program has generated an average of $995,401 of net state revenue over the 2006-2009 period. Its film production infrastructure tax credit program was found to have generated average annual net state revenue of $21,719 over the 2007-2010 period. However, the state DECD has recommended that the program should be continued, arguing that it is relatively new and has cost the state an insignificant amount of net revenue. The DECD believes an accurate assessment of other benefits accruing to the state from the program, such as net new jobs and procurement, needs to be undertaken by the state. Further, the third leg of the state's incentive program, its digital animation tax credit, has generated an annual average of $510,159 over 2008 through 2010. The DECD has recommended that the state's three film tax credit programs be maintained. It will analyze the performance of the programs every three years to examine the growth of the industry over time (McMillen and Smith (2011)).

Meanwhile, the Tax Foundation, as mentioned earlier, continues to be critical of film tax credits as failing to fulfill their promise of overall economic growth and enhancement of tax revenue for states. The Foundation argues that the jobs created by such incentives are primarily temporary jobs and that competition among the several states has tended to benefit the movie industry more than local businesses or state revenue coffers. It asserts that 2010 was probably the peak for the state film incentives and notes that a number of states are ending their incentive programs finding, perhaps, that they cannot compete successfully in an over-saturated film incentive environment (Henchman (2011)). Further, most states are currently experiencing overall budgetary problems. Large expenses to cover Medicaid costs and other items combined with declining revenues due to the aftermath of the economic downturn have had a negative impact across the various states. The average deficit as a percentage of 2011 spending for all states is 17.6 percent. In fact, only six states do not project a budgetary shortfall for fiscal 2012. Therefore, several states have been engaging in budget reductions impacting spending on even essential services, such as education, health care, roads, and social services. It is, therefore, probably not surprising that some states may have cut or are contemplating cutting or even eliminating their film tax credit programs.

Arizona and Washington ended their programs after 2010. Arkansas, Idaho, and Maine did not officially end their programs, but had not appropriated funds for them. Iowa, Kansas, and New Jersey suspended their programs. However, there is a push to reinstate the program in New Jersey, and the Iowa program was suspended due to the discovery of widespread fraud and abuse. The State of Alaska is considering non-renewal of its program. Tax review commissions in both Georgia and Missouri have recommended the elimination of the programs in their respective states. Further, Rhode Island's governor is seeking to end the state's program. Connecticut, Michigan, and Wisconsin have reduced the generosity of their programs while New Mexico has put a cap on its program. Although Hawaii has maintained its program, legislators there have rejected efforts to expand it. The reader will recall the aforementioned studies recommending retention of programs in Connecticut, Michigan, New Mexico, and Rhode Island. All are presently still in effect despite the fact, as noted above, that the generosity of the Connecticut and Michigan programs have been reduced and that the program has been capped in New Mexico (Henchman (2011)).

Of the 17 above states which have eliminated or reduced their programs or are considering doing so, two had passed their enabling legislation in 1997 and one did so in 2002. The remaining 14 had passed their enabling legislation over the 2005-2009 period, seven from 2007-2009. Probably, then, many of these states pursuing program elimination or reductions are acting under the pressure of strained state finances and not because they have become philosophically opposed to film tax credits or because they believe such programs to be ineffectual in promoting state revenues and economic growth. One would have to suspect this given the hesitancy of several states to eliminate their programs outright. Moreover, a number of states have taken positive action relative to film tax credit programs. Utah has enhanced the generosity of its tax credit while Wyoming had signed a five-year extension of its program. New tax credits have been put into effect in California and Virginia. Further, the governors of Ohio and Pennsylvania have chosen not to disturb or eliminate their existing state programs. Minnesota has restored funding for its program and there is a movement in Nevada to create a film incentive program. Obviously, Louisiana, and several other states, continue to actively utilize their programs to generate increased jobs and economic growth. Hence, there is a lack of unanimity relative to the merits and demerits of state film tax incentive programs. There will, undoubtedly be winners and losers among the several states employing such programs. Over time, one can expect a shakeout of state programs as those coming late to the stage or those experiencing continued tough economic conditions decide to pursue economic survival and development in other ways.

THE MPI EXPERIENCE OF THE STATE OF LOUISIANA

For decades, most film production was carried out in California and New York, which states remain the industry leaders. However, as indicated above, Louisiana actually became the first state to put MPIs into effect as early as 1992 though the state did not experience any substantive production activity until after the passage of its Motion Picture Incentive Act of 2002 and subsequent amendments to same in 2003, 2005, 2007, and 2009. The initial legislation created a 10 percent tax credit for investments between $300,000 and $1,000,000 and a 15% tax credit for investments exceeding $1,000,000. These credits applied to all production dollars inclusive of those spent out of the state. In addition, a 10 percent employment credit was provided on resident payrolls of $300,000-$1,000,000 and a 20 percent credit for in-state spending exceeding $1,000,000 (Acts 1 and 2 of the 2002 Extraordinary Session). The 2003 amendments made the credits transferrable and altered the thresholds for the 10 percent credit to investments between $300,000 and $8,000,000 and to investments exceeding $8,000,000 for the 15 percent credit. While the employment credits remained unchanged, sales tax and use tax exemptions were added (Acts 551 and 1240 (2003)).

Then in 2005, the state's legislation was changed to a 25 percent tax credit for in-state spending (investment) only and a 10 percent additional credit for Louisiana resident payroll was provided. A 15 percent infrastructure credit was added, (due to sunset at the end of 2007), as well as, an audited expenditure report requirement for tax credit certification. The sales and use tax exemption however, was abolished (Act 456 (2005)). In October of 2005, the state's Attorney General ruled that language in the 2005 law indicated that the infrastructure tax credit was 40 percent. In effect, the legislation had inadvertently added the 15 percent infrastructure credit to the 25 percent production credit. The 2007 amendments added further clarification of legislature intent regarding infrastructure, extended the sunset on the infrastructure credit by one year to the end of 2008 and set minimum thresholds and a $25 million per project credit cap for new infrastructure applications (Act 482 of the 2007 Regular Session). The 2009 amendments, descriptive of current incentive provisions, increased the tax credit for investments in excess of $300,000 to 30 percent and decreased the tax credit for expenditures on payroll for Louisiana residents to 5 percent of such payroll. It maintains the ability to transfer or sell any previously unclaimed tax credits to another Louisiana taxpayer or to the Governor's Office of Film and Television. This transferability is important since most out-of-state production companies have no Louisiana State income tax liability. They can, in effect, monetize their credits through appropriate intermediaries by exchanging their credits for cash. However, transfers to the Governor's office could be made for 85 percent of the face value of the credits (Act 478 (2009)).

Hence, essentially the State of Louisiana went from granting tax incentives on a graduated scale between 10 and 15 percent on all production dollars and a graduated scale between 10 and 20 percent for resident payroll (2002-2005) to a single incentive rate of 25 percent for in-state productions spending only and a single 10 percent rate for resident payroll while adding a 15 percent sunset-provided infrastructure credit (2005). Then in 2009, the single incentive rate for in-state production expenses was increased to 30 percent while the single rate resident payroll incentive was lowered to 5 percent.

ASSESSMENT OF THE LOUISIANA MPI EXPERIENCE

The Louisiana MPI program began in earnest with the passage of the state's Motion Picture Incentive Act of 2002. Hence, as of this writing, it is only in its ninth full year of operation (2003-2011), with eight years fully in the books, so to speak. Since the program is, thereof, still in its infancy, it may be premature to try to assess its impact on the State of Louisiana. However, available data relative to the program can, at least, provide some insight into the effectiveness of the Louisiana MPI Incentive program to date. The annual number of productions that have been certified by the State of Louisiana had increased from 5 in 2002 to 118 in 2010.

The number of certified productions increased annually from 2002-2009, then fell off a bit (by 7.8 percent) from 2009 to 2010. Over the program's eight full years of operation (2003-2010), there was a compound annual growth rate of 29 percent in the number of certified productions. In addition, there were 133 applications for production incentives pending from 2010 and 58 pending for 2011.

Total production budget spending rose over five years since the program's inception and fell in only one (from 2006 to 2007) for which data are available. The compound annual growth rate of these expenditures over the 2003-2008 period was 22 percent. Actual budget dollars spent in Louisiana rose in seven years and fell in only one (from 2008 to 2009). The compound annual growth rate for this Louisiana spending over the 2003-2010 period was 30 percent. For the years 2002-2005, the percentage of production dollars spent in Louisiana remained about a third of the total production budget. This percentage increased to 41.6 percent from 2005-2006 and had reached levels of 83.1 and 72.7 percent, respectively, for 2006-2007 and 2007-2008. This substantial increase in the percentage of total production dollars being spent within the State of Louisiana is largely attributable to the 2005 legislation which, as noted heretofore, had made the production credits exclusively applicable to in-state spending (investment). The higher the percentage of total production budget dollars spent in Louisiana, the greater, of course, is the economic impact of said production budget dollars on output, income, and employment within the state.

The actual annual Louisiana payroll totals emanating from film production expenditures made within the state, as given in Table I in the "Tables" section at the back of this article, are used to derive annual estimates of final demand generated by these payroll figures.

Estimates of final demand generated by the Louisiana payroll figures were derived through the procedure suggested by the Bureau of Economic Analysis (BEA) which involved dividing the annual Louisiana earnings (payroll) figures by the quotient obtained by dividing the BEA final demand earnings multiplier by the BEA direct effect earnings multiplier for the Motion Pictures and Video Industries Classification (NAICS 512100). Hence, dividing the final demand earnings multiplier for this industry in the State of Louisiana (.4670) by the direct effect earnings multiplier for said industry in the State of Louisiana (1.9493), yielded a quotient of .23957. The latter was then divided into each of the annual earnings figures in Table I to yield the estimates of final demand also shown in said table. Excluding the partial years of 2002 and 2011, the estimated final demand generated by the Louisiana payroll has increased in five years and decreased in two. The compound annual growth rate from 2003 to 2011 is 26 percent.

Given these annual estimates of final demand generated by the Louisiana payroll attributable to film production, one can then derive the total output, employment, and value added effects of film production expenditures in Louisiana by applying the appropriate BEA final demand multipliers for NAICS 512100. In addition, we can also derive the annual effect of film production activity on earnings in the state of Louisiana by applying the appropriate BEA direct effect-multiplier for NAICS 512100. These data are reported in Table II.

As with the Estimated Final Demand data listed in Table I, output generated, employment generated, value added generated and earnings generated, increased over five years and fell in two years over the 2003-2010 period. Again, the partial years 2002 and 2011, though reported in Table II, were excluded in the author's range of examination. The common compound annual rate of growth of output generated, employment generated, value added generated, and earnings generated was again 26 percent. Therefore, despite the two years of decline in these data series, they have all experienced a healthy rate of growth over the 2003-2010 over which the Louisiana motion picture incentive program has been fully operative: Coupling these with the upward trends noted above in both the number of movies produced in Louisiana and in the percentage of the associated production budgets being spent within the state, leads one to conclude that the production of movies has had a large positive effect on the private sector of the Louisiana economy and is likely to continue to do so into the future.

However, since the State of Louisiana grants tax credit incentives to encourage the production of film projects within its borders, it does, as a consequence, give up some potential tax revenue. Hence, one can apply a benefit-cost analysis of the overall fiscal impact of the Louisiana motion picture tax incentive program on the State of Louisiana. The final benefits accruing to the state are the additional income tax and sale tax revenues resulting from the increased motion-picture production activity; and, as indicated above, the costs to the state are the tax revenues foregone by the state in its provision of the tax credit incentives. Annual tax revenues (sales and income tax) accruing to the State of Louisiana based on the earnings generated within the state by its motion pictures tax incentive program can be estimated for 2002-2011.

The Louisiana state income tax ranges from 2 percent to 6 percent. The author applied an average rate of 4 percent to the state earnings. To derive the annual sales tax revenues resulting from the tax incentive program, the author focused on the broad categories of consumption spending relative to the market basket of goods and services employed by the Consumer Price Index and the percentages allotted to each within said index. For example, 4 percent of this market basket involves apparel while 5 percent of the same applies to entertainment and 7 percent applies to the “other” category. Expenditures made on these items would be subject to the state’s general sales tax of 4 percent. While food items take up 13 percent of the CPI market basket, the 4 percent state sales tax would apply only to those purchases made for prepared meals, as in restaurants. Purchases of food items made in grocery stores and the like are subject to a 2 percent state sales tax. Assuming that people, on average, eat at home five nights a week and eat prepared food outside the home two nights a week, the author applied the 4 percent state sales tax rate to only 28.6 percent of total food purchases (3.7 percent of the CPI market basket) and the 2 percent state sales tax rate to the remaining 71.4 percent of total food purchases (9.29 percent of the CPI market basket). In addition, the portion of the CPI market-basket allotted to private transportation is 16.082 percent. Over 9.9 percent of the CPI market basket is associated with the purchase of fuel and gasoline, purchases which are subject to federal excise tax. Hence, this leaves about 6.1 percent of the CPI market basket to the purchase of transportation goods and services subject to the state’s 4 percent sales tax rate. Accordingly, the author applied the state 4 percent sales tax rate to the 25.8 percent of annual earnings (the sum of the 4 percent of the market basket involving apparel, the 5 percent applying to entertainment, the 7 percent applying to “the other” categories, the 3.7 percent applying to food consumed in restaurants, and the 6.1 percent applying to transportation) and the 2 percent state sales tax rate to 9.29 percent of annual earnings noted above and added the tax revenue from each to estimate the annual totals of sale tax revenues generated as a result of the state’s motion picture tax credit incentives program. These annual sales tax totals were added to the annual income tax generated to yield its annual total tax revenue figures attributable to the state’s incentive program. It was found that total tax revenue generated by the state’s motion picture tax incentives program increased from $1,971,030 in 2003 to

$9,837,634 in 2010, experiencing five annual increases and two annual decreases over this period. Table III lists the annual total tax revenues accruing to the State of Louisiana and the annual tax credits granted under the state's motion picture tax incentive program from 2002-2011.

Since the dollar amounts in the last column of Table III are large negatives indicating that the annual amounts of tax revenue taken in by the State of Louisiana have been far less than the tax credits given by the state under its motion picture tax incentive program, said program would seem to be a failure in a pure fiscal sense. However, a different picture emerges in regard to the overall economic impact of the incentives program from Table IV which compares the total earnings generated by the program to the total tax credits granted under the same.

As the reader can see, the total earnings generated within the State of Louisiana exceeded the total tax credits granted under the state's motion picture tax incentive program in every year over the 2002-2011 with the exception of the partial first and last years of that period (2002 and 2011). This must be considered in conjunction with the aforementioned increasing number of productions being undertaken in the State of Louisiana, the increasing portion of the production budget being spent within the state, as well as, the increasing amount of output generated, employment generated and value added generated within the state in assessing the overall impact of the state's incentive program. Doing so seems to suggest that the state's program has been a success. In fact, Louisiana has been ranked among the top 10 American film locations (p3 update (2010)).

CONCLUSIONS

Louisiana has been in the forefront of the enactment of Motion Picture Incentives (MPIs) legislation designed to attract producers of motion pictures within their borders, having first passed such legislation in 1992. At present, all but six states have legislation providing various forms of MPIs. There are, of course, opposing views relative to such incentives. Proponents contend that MPIs promote economic development and create substantial employment opportunities in the private sector while generating substantial tax revenue in the public sector. Critics, however, contend, among other things, that the benefits claimed for such incentives are based on unrealistic estimates and that the costs associated with such incentives are often understated.

Nevertheless, with Louisiana leading the way, states have been seeking to wrest film production enterprises from the traditional leading states of California and New York through the passage of legislation granting MPIs to film production companies. This paper has focused on the operation of the MPIs provided by the Louisiana legislation. It has detailed the provision of Louisiana's MPI program as it has evolved through the passage of a number of state laws. Basically, the state offers tax credits for production activity occurring within its borders, as well as tax credits for wages paid to Louisiana residents. It provides for the transferability (sale) of these credits by companies not having any Louisiana tax liability. For a brief period, the state had also provided tax credits for infrastructure development within the state. The program actually began in earnest as a result of legislation passed in 2002; and, in truth, has only been in effect as of this writing for eight full years, 2003-2010. Therefore, it may be a bit premature to try to formulate an assessment of the state of Louisiana's MPI program, or, for that matter, that of any other state. However, one can, at least, examine the existing data in an attempt to determine the effects of the program to date. This is what the author has attempted to do within this paper.

After examining the available data, it would seem that the fiscal costs of the state's MPI program (the revenue foregone by the state through the provision of tax credits) far outweigh the fiscal benefits of said system (the tax revenue accruing to the state as a result of the MPI program). However, in the overall sense, the state's MPI program as reflected in the substantial rate of growth of final demand, output, employment, value added, and earnings generated within the State of Louisiana, has been successful. The net benefits of the program, represented by the total earnings generated by the MPI, have exceeded the program's associated costs in each of the program's eight full years of operation. It remains to be seen if other states having MPI incentives (recall that 44 states do) will surpass Louisiana over time in terms of productions gained along, with their aforementioned concomitant benefits. However, it does not necessarily have to be a zero sum game where the gains made by one state are only made by inflicting losses on others. Perhaps the growth of motion pictures over time will accommodate increased productions in a large number of states. Further, while this paper has focused on incentives for motion pictures, several states, including Louisiana have incentive packages that apply to sound recording and digital media industries, as well. Consequently, there may be ample room for growth and success for several states in this more global electronic environment. Given Louisiana's early start and growing success with its MPI program, as well as, its unique cultural and topographical features, it would seem that the state will reap positive net benefits from this program for many years to come. This is not necessarily true of all programs of the several states. As reviewed in this paper, some states have eliminated or reduced their incentive programs and others are considering such actions. Partly this is due to the tough budgetary conditions being encountered by most states. Then too, some state programs have proved to be more attractive than others due to differences in incentives offered in the various programs, as well as due to unique cultural and topological features found in those states. Overall, then, it is expected that there will be a gradual shakeout of states withdrawing from film tax credit programs. Louisiana's tax credit program will be apparently one, which will survive and prosper due to its early start and the unique features it offers to the film industry.

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Table 1
Actual Payroll Generated in
Louisiana by Production Expenditures
Made Within the State
2002-2011

Year	Louisiana Payroll	Estimate of Final Demand Generated
2002	$74,909.00	$312,677.14
2003	$19,378,817	$80,888,985.82
2004	$38,603,126	$161,133,040.87
2005	$47,193,771.84	$196,991,196.17
2006	$80,721,867.29	$336,940,587.17
2007	$76,224,413.81	$318,167,797.7
2008	$99,426,507.11	$415,015,494.7
2009	$82,744,099.98	$345,381,574.6
2010	$96,721,835.72	$403,725,945.4
2011	$181,585.73	$757,955.74
(Partial)		

Source: Louisiana Film Commission

Table 2
Annual Output, Employment, Value Added,
& Earnings Generated By Film Production Activity
In the State of Louisiana
2002-2011

Year	Estimate of Final Demand	Output *Generated	Employment **Generated	Value Added ***Generated	Earnings	Earnings ****Generated
2002	$312,677.14	$562,162.33	6.299	$258,114.98	$74,909	$146,020.11
2003	$80,888,985.82	$145,430,307.60	1629	$66,773,857.79	$19,378,817	$37,775,127.98
2004	$161,133,040.87	$289,701,094.18	3246	$133,015,325.24	$38,603,126	$75,249,073.51
2005	$196,991,196.17	$354,170,471.59	3968	$162,616,232.44	$47,193,771.84	$91,994,819.45
2006	$336,940,587.17	$605,785,481.67	6788	$278,144,454.71	$80,721,867.29	$157,351,135.91
2007	$318,167,797.7	$572,033,883.48	6410	$262,647,517.0	$76,224,413.81	$148,584,249.84
2008	$415,015,494.7	$746,156,357.92	8361	$342,595,290.87	$99,426,507.11	$193,812,090.31
2009	$345,381,574.6	$620,961,532.97	6958	$285,112,489.83	$82,744,099.98	$161,293,074.09
2010	$403,725,945.4	$725,858,877.23	8133	$333,275,767.93	$96,721,835.92	$188,539,874.76
2011	(Partial)$757,955.74	$1,362,728.62	15	$625,692.46	$181,585.73	$353,965.06

*=BEA Final Demand Output Multiplier of 1.7979 applied
**=BEA Final Demand Employment Multiplier of 20.1468 per million jobs applied
***=BEA Final Demand Value Added Multiplier of .8255 applied
****=BEA Direct Effect Earnings Multiplier of 1.9493 applied
Source: Computed from data provided by the Louisiana Film Commission and BEA Multipliers.

Table 3
Tax Credits & Tax Revenues Generated by the
Louisiana Motion Picture Incentive Program
2002-2011

*Program began in 2005 and terminated at end of 2008; credits certified for 2007-2010, with over $110,000,000 credits pending.

Year	Production Credits Earned	Labor Credits Earned	Infrastructure Credits Earned*	Total Credits Earned	Total Tax Revenue Generated	Fiscal Outcome
2002	$1,577,284.05	$14,981.72		$1,592,265.77	$7,619.04	$-1,584,646.73
2003	$36,140,193.70	$3,815,935.84		$39,956,129.54	$1,971,030.63	$-37,985,098.91
2004	$61,987,371.97	$7,691,798.10		$69,679,170.07	$3,926,346.16	$-65,752,823.91
2005	$90,666,417.70	$9,343,563.11		$100,009,980.81	$4,800,105.89	$-95,209,874.92
2006	$106,408,629.86	$14,764,803.93		$121,173,433.79	$8,210,267.57	$-112,963,166.22
2007	$93,607,607.71	$7,622,441.38	$10,607,852.41	$111,837,901.5	$7,752,828.99	$-104,085,072.51
2008	$118,782,350.46	$9,928,153.61	$5,747,302.13	$134,457,806.20	$10,112,727.24	$-124,345,078.96
2009	$105,598,521.15	$5,748,988.56	$12,256,833.94	$123,604,343.65	$8,415,950.01	$-115,188,393.64
2010	$146,941,448.04	$4,869,340.02	$20,754,393.88	$172,565,181.93	$9,837,633.59	$-162,727,548.34
2011	$1,186,183.38	$9,079.29		$1,195,262.67	$18,469.19	$-1,176,793.48
(Partial)						

Source: Louisiana Film Commission and calculations by the author.

Table 4
Annual Earnings Generated and Annual Tax Credits
Granted by the Louisiana Motion Picture Tax Incentive Program,
2002-2011 (Partial)

Year	Earnings Generated in the Private Sector[1]	Total Tax Revenue Generated[2]	Earnings Generated by Tax Revenue[3]	Total Earnings Generated	Total Credits Granted[4]	Earnings Generated-Credits Granted
2002	$146,020.11	$7,619.04	$17,234.27	$163,254.38	$1,592,265.77	$-1,429,011.39
2003	$37,775,127.98	$1,971,030.63	$4,458,471.28	$42,233,599.26	$39,956,129.54	$2,277,469.72
2004	$75,249,073.51	$3,926,346.16	$8,881,395.01	$84,130,468.52	$69,679,170.07	$14,451,298.45
2005	$91,994,819.45	$4,800,105.89	$10,857,839.07	$102,852,658.52	$100,009,980.81	$2,842,677.71
2006	$157,351,135.91	$8,210,267.57	$18,571,625.25	$175,922,716.16	$121,173,433.79	$54,749,327.37
2007	$148,584,249.84	$7,752,828.99	$17,536,899.18	$166,121,149.02	$111,837.901.5	$54,283,247.52
2008	$193,812,090.31	$10,112,727.24	$22,874.989.02	$216, 687,079.33	$134,457,806.20	$82,229,273.13
2009	$161,293,074.09	$8,415,950.01	$19,036,878.93	$180,329,953.02	$123,604,343.65	$56,725,609.37
2010	$188,539,874.76	$9,837,633.59	$22,252,727.18	$210,792,601.94	$172,565,181.93	$38,227,420.01
2011	$353,965.06	$18,469.19	$41,777.31	$395,742.37	$1,195,262.67	$-799,520.30
(Partial)						

1 See Table II above
2 See Table III above
3 Multiply Tax Revenue Generated by BEA Government Service Multiplier of 2.262
4 See Table III above