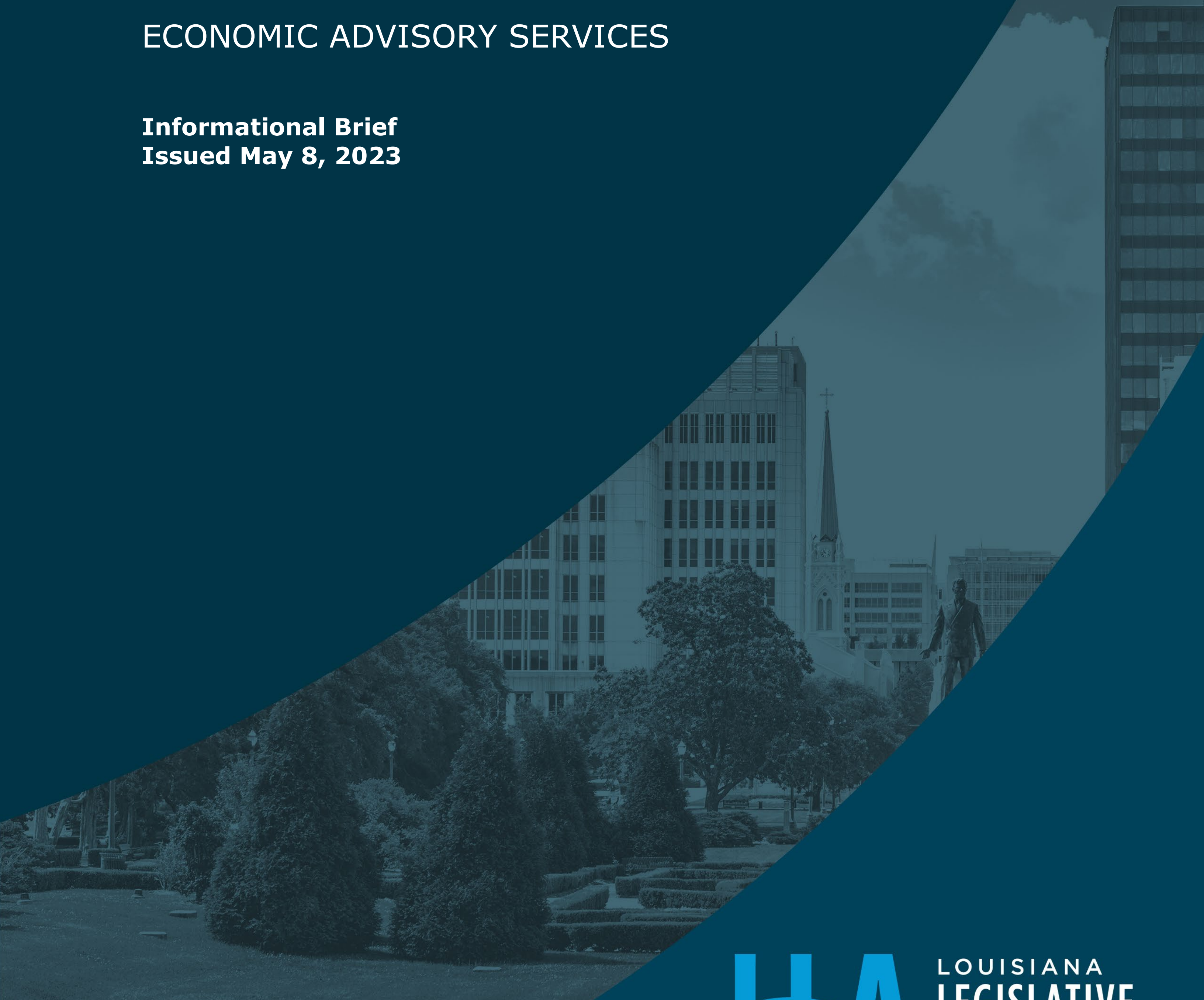
MOTION PICTURE INVESTOR TAX CREDIT

LOUISIANA DEPARTMENT OF ECONOMIC DEVELOPMENT

ECONOMIC ADVISORY SERVICES

Informational Brief
Issued May 8, 2023



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May 8, 2023

The Honorable Patrick Page Cortez,
President of the Senate
The Honorable Clay Schexnayder,
Speaker of the House of Representatives

Dear Senator Cortez and Representative Schexnayder:

This informational brief provides the results of our analysis of the Motion Picture Investor Tax Credit program. This brief is intended to provide timely information related to an area of interest to the legislature based on a legislative request. I hope this brief will benefit you in your legislative decision-making process.

We would like to express our appreciation to the Louisiana Department of Economic Development for its assistance during this informational brief.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW/ch

MOTION PICTURE INFORMATIONAL BRIEF

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Informational Brief

Motion Picture Investor Tax Credit

Louisiana Department of Economic Development

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MICHAEL J. "MIKE" WAGUESPACK, CPA

Audit Control #42220001
Economic Advisory Services – May 2023

Background

To encourage development of a strong capital and infrastructure base for motion picture production, the Louisiana Motion Picture Investor Tax Credit (MPITC) offers credits of 25% to 40% on production expenditures incurred in the making of motion pictures in Louisiana. Companies that produce movies, television shows, videos, commercials, or other motion picture productions (excluding sports and news television coverage, as well as adult films) can receive a 25% to 40% income tax credit for their production spending in Louisiana. The company also has the option to sell the credits back to the state for 88% of their face value.[1]

Why We Compiled This Informational Brief

Because of legislative interest in the Motion Picture Investor Tax Credit, we obtained information on the credit and the state's motion picture industry.

Louisiana competes with other states for motion picture production activity, which has been historically and still currently is heavily concentrated in California and New York. States began offering incentives to the motion picture industry to encourage the production of films within their borders, with Arkansas being one of the first to do so in 1983. Louisiana adopted a motion picture incentive program in 1992 and significantly enhanced it in 2002. As of May 2022, the National Conference of State Legislatures identified 36 states (including the District of Columbia) as offering incentive programs for the motion picture industry. The equipment and labor needed for motion picture production are relatively mobile in comparison to other industries, and the mobility of this industry may increase the effectiveness of incentives in attracting motion picture production activity.

As more states adopted motion picture incentives, California and New York's share of national employment in the motion picture industry declined from 81% in 1980 to 67.7% in 2022.[2] The number of productions in these states started at a lower percentage but declined by comparable amounts, going from 63% of TV shows and

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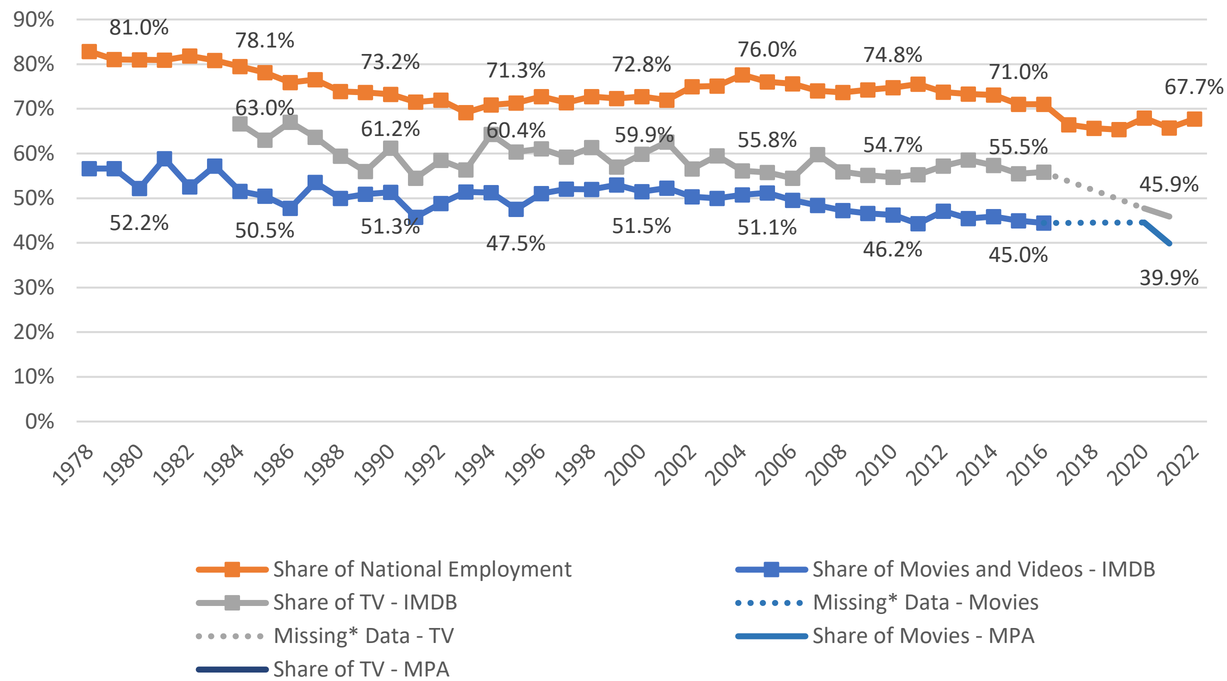
[1] Louisiana Revised Statute (R.S.) 47:6007(C)(4)(f)(i)(bb) allows the company to transfer credits to the Louisiana Department of Revenue for 90% of their face value, but (C)(4)(h)(i) levies a 2% fee on the credit amount, resulting in a net value of 88%.

[2] Throughout this report, we use the term "motion picture industry" to refer to the industries relating to motion picture production and post-production from the Standard Industrial Classification (SIC) for years prior to 2000 and North American Industrial Classification System (NAICS) for 2000 and onward. Specifically, this encompasses SIC codes 7812 (Motion Picture and Video Production), 7813 (Motion Picture and Video Production, Except TV), 7814 (Motion Picture and Video Production, for TV), and 7819 (Services Allied to Motion Pictures), and NAICS codes 51211 (Motion Picture and Video Production) and 51219 (Postproduction Services and Other Motion Picture and Video Industries). We include only private sector employment.

50.5% of movies in 1985 to 55.5% of TV and 45% of movies in 2015.[3] California and New York still account for a disproportionate share of the motion picture industry—these states only accounted for 18% of the U.S. population in 2022—but the industry has shifted away from these states. Exhibit 1 shows how California and New York have seen their share of national motion picture production and employment decline since 1978.

Exhibit 1
Motion Picture and Video Production and Private Sector Employment
California and New York as a Percentage of U.S. Total
Calendar Years 1978 through 2022



Note: Data for 2020 and 2021 come from the Motion Picture Association (MPA), "Film & Television Economic Contribution by State." Because of the two differing data sources used, it is not possible to infer from this exhibit whether California and New York's share of all motion picture productions nationally increased or decreased between 2016 and 2020.
Source: Prepared by legislative auditor's staff using information from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, the Internet Movie Database (IMDB) via Button (2019 – cited in footnote 3), and the Motion Picture Association.

We received a legislative request for information relating to the motion picture investor tax credit. The following is a summary of the questions we were asked, and a brief overview of what we found:

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[3] This includes movies, videos, and television series provided in the online appendix for Button, Patrick (2019), "Do tax incentives affect business location and economic development? Evidence from state film incentives," *Regional Studies and Urban Economics*, Vol. 77, pp. 315-339. https://dx.doi.org/10.17632/jkjw83rtmh.1

Question 1: What is the economic impact of the Motion Picture Investor Tax Credit program?

Overall, the MPITC appears to have a positive impact on the state's economy because it generates more household income than it costs the state, but the credit does not generate enough state tax revenue to make up for the revenue that the state loses.

Question 2: What is the geographic distribution of motion picture production activity that benefits from the Motion Picture Investor Tax Credit?

We estimate that 72% of the jobs and 78% of the productions in Louisiana's motion picture industry are located in the New Orleans area. Among credits certified in fiscal years 2021 and 2022, 19% of projects (accounting for 4% of incentive dollars) qualified for the added 5% incentive for producing films outside of the New Orleans area. It may be possible for Louisiana's smaller metropolitan statistical areas to grow their motion picture industries, although they may face challenges because of their relatively small populations.

The next section presents the results of our analysis in detail.

Question 1: What is the economic impact of the Motion Picture Investor Tax Credit program?

Overall, the MPITC appears to have a positive impact on the state's economy because it generates more household income than it costs the state, but the credit does not generate enough state tax revenue to make up for the revenue that the state loses. We reviewed studies commissioned by the Louisiana Department of Economic Development (LED), as well as separate studies performed by the Louisiana Department of Revenue (LDR) and academic researchers. LED's and LDR's studies, despite differing in their methodologies, reach similar conclusions. However, LED's studies find larger positive impacts than LDR's studies, and some of the academic studies that include other states question the effectiveness of motion picture incentives. A summary of their findings, as well as an analysis of the underlying data, follow below.

Economic impact studies commissioned by LED or performed by LDR have consistently found that the motion picture projects that receive MPITC do not generate enough state tax revenue to make up the cost of the credits, but they do generate more income for Louisiana households than the credit costs the state. Since 2009, LED has contracted for at least eight economic impact studies on the motion picture investor tax credit. These studies have consistently found that the projects that receive MPITC generate more household income than the MPITC program costs the state, but not enough tax revenue to make up the cost of the credits. The most recent study, issued by Camoin Associates in

October 2022, found that the incentivized projects generated $2.59 in household income and 23¢ in state taxes for every dollar of credits they received. In addition, LDR has included the MPITC in its annual Return on Investment reports for 2022 and 2023. LDR's methodology includes a "but-for" analysis that is designed to estimate how much growth in the state's economy would not have occurred "but for" the MPITC. LDR's estimates are smaller than Camoin's. Specifically, LDR found that the program generated $1.11 in household income and 7¢ in state tax revenue for every dollar the state spent on the program in FY 2022.[4] All of the studies account for not only the direct effects on household income as the productions directly hire Louisiana residents, but also the indirect effects of subsequent rounds of spending that go to vendors and contractors who also hire Louisiana residents. To facilitate comparisons across studies, we use return on investment (ROI) calculations similar to the ones LDR utilizes in its return-on-investment reports, as shown below:

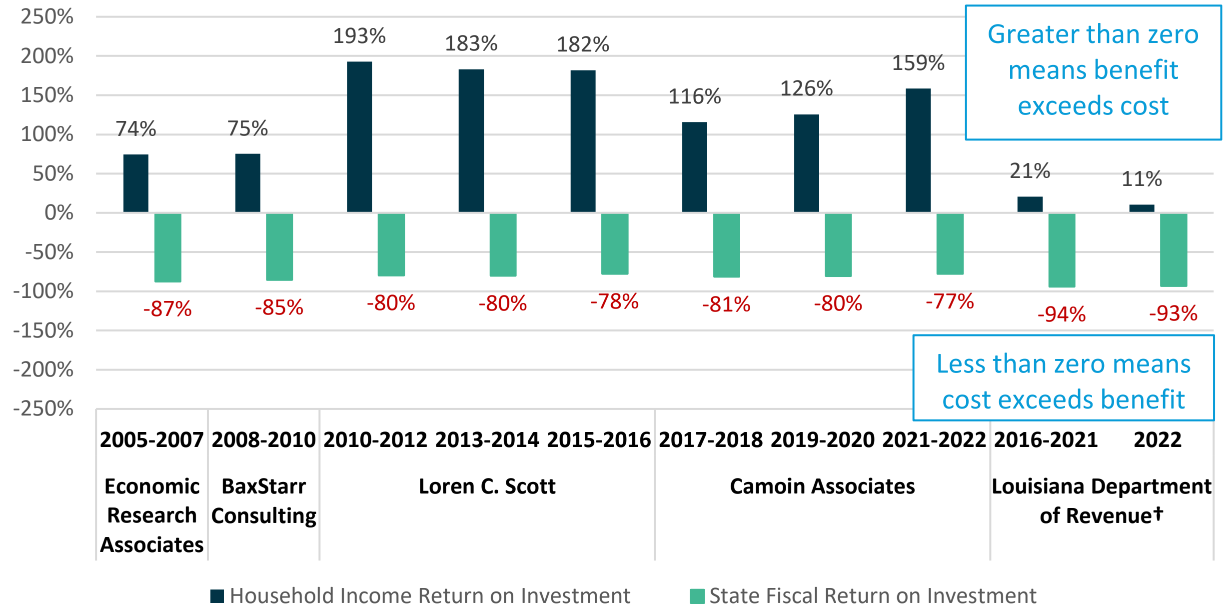
$$\text{Household Income ROI} = \frac{\text{Increase in Household Income} - \text{Cost of Credits Issued}}{\text{Cost of Credits Issued}}$$

$$\text{Fiscal ROI} = \frac{\text{Increase in State Tax Revenue} - \text{Cost of Credits Issued}}{\text{Cost of Credits Issued}}$$

For example, Camoin Associates' October 2022 report reported a 259% household income benefit-cost ratio, which would translate into a household income ROI of 159%, and their 23% ratio of taxes generated to credits issued would translate into a fiscal ROI of -77%. In both cases, the calculation consists of subtracting 100% to convert from a gross return on investment to a net return on investment. Exhibit 2 summarizes the results of economic impact studies on the MPITC from 2005 to 2023.

[4] LDR's economic return on investment was originally calculated based on value added (i.e., gross domestic product), but we converted this to a household income multiplier based on the typical ratio of personal income to gross domestic product, excluding 2020 and 2021 when pandemic-related disruptions temporarily distorted this ratio.

Exhibit 2
Motion Picture Tax Credit Economic Impact Studies
Calendar Year 2005 through Fiscal Year 2022*

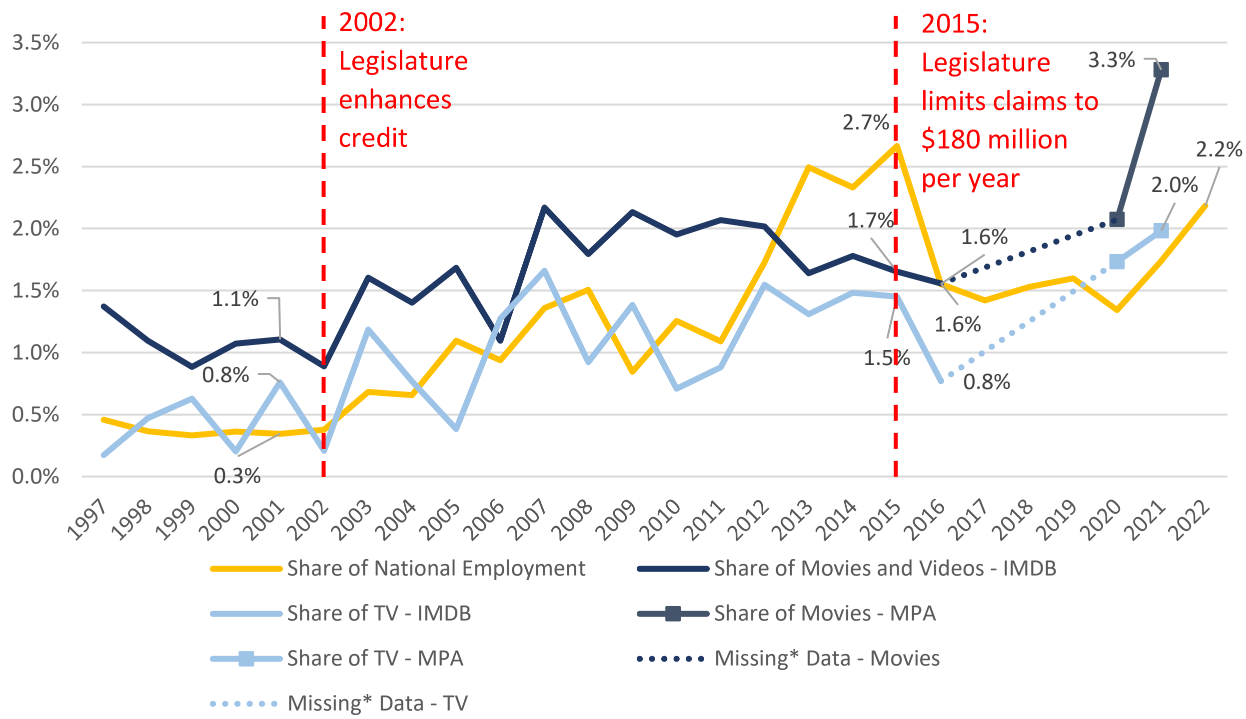


* From 2005 through 2020, LED's contracted economic impact studies on the MPITC were conducted on a calendar-year basis. However, LED's report for 2021 and 2022 by Camoin Associates, dated October 2022, is on a fiscal-year basis. LDR's studies are all on a fiscal-year basis.
† LDR's studies were the only ones to utilize a "but-for" calculation. LDR's economic return on investment was originally calculated based on value added (i.e., gross domestic product), but we converted this to a household income multiplier based on the typical ratio of personal income to gross domestic product, excluding 2020 and 2021 when pandemic-related disruptions temporarily distorted this ratio.
Source: Prepared by legislative auditor's staff using economic impact studies provided by LED and LDR.

As of 2021, Louisiana had the sixth-highest number of film productions and the eighth-highest number of television productions, and as of 2022 had the fifth-highest number of motion picture industry jobs. Since the Louisiana MPITC was enacted in its current form in 2002,[5] Louisiana's motion picture industry has grown at a rate higher than the national average. Specifically, Louisiana's share of all movies filmed in the United States increased from 1.1% in 2001 to 1.7% in 2015, while Louisiana's share of all employment in the industry increased from 0.3% in 2001 to 2.7% in 2015. Exhibit 3 shows Louisiana's share of motion picture productions and employment nationwide.

[5] Act 894 of the Regular Legislative Session of 1992 established an early version of the MPITC, but it was structured to allow investors to recover 50% to 67% of their net losses on a state certified production. Act 6 of the First Extraordinary Legislative Session of 2002 modified the program so that the incentive would be equal to 10% to 15% of the base investment.

Exhibit 3
Louisiana's Share of National Motion Picture Production Activity
Calendar Years 1997 through 2022



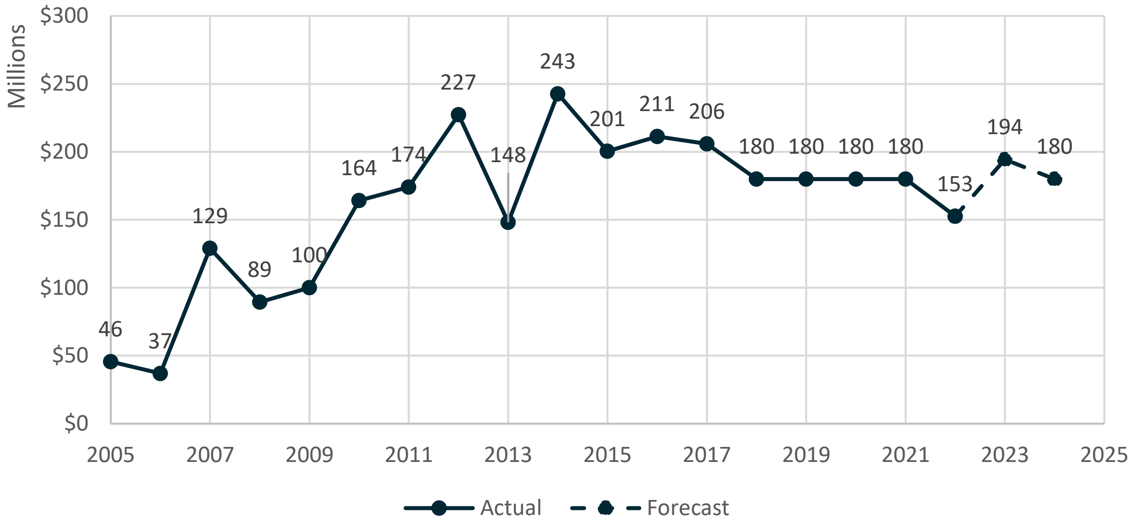
***** Production counts for movie/video and TV projects are based on a combination of data from two sources. Data for 1997 through 2016 come from the Internet Movie Database (IMDB) via Button (2019, cited in footnote 3). Data for 2020 and 2021 come from the Motion Picture Association, "Film & Television Economic Contribution by State." Because of the two differing data sources used, it is not possible to infer from this exhibit whether Louisiana's share of all motion picture productions nationally increased or decreased between 2016 and 2020.
Source: Prepared by legislative auditor's staff using data from the Internet Movie Database via Button (2019, cited in footnote 3), the U.S. Bureau of Labor Statistics, and the Motion Picture Association.

Employment in Louisiana's motion picture industry contracted sharply in 2016, falling from 2.7% of national employment in 2015 to 1.6% in 2016. In 2015, 13 laws were enacted that made changes to the MPITC statute, including the following two key changes:

- The state suspended buybacks of credits during fiscal year 2016. During this time, credits could only be used to offset tax liabilities.
- No more than $180 million in credits could be claimed in any given year from fiscal year 2016 through fiscal year 2018 (made permanent in the 2017 Regular Session).

In fiscal year 2018 and subsequent fiscal years, the state's revenue loss from MPITC claims has not exceeded $180 million. The Louisiana Department of Revenue's Tax Exemption Budget for 2022-2023 forecasts that $194 million will be claimed for fiscal year 2023, due to the accumulation of unused capacity from prior years.[6] Exhibit 4 shows the actual dollar amount of credits claimed on income tax returns for fiscal years 2005 through 2022, along with forecast amounts for fiscal years 2023 and 2024.

Exhibit 4
Louisiana Motion Picture Investor Tax Credits Claimed
Fiscal Years 2005 through 2024



Note: The Tax Exemption Budget did not separately report amounts for the Motion Picture Investor Tax Credit prior to FY 2005.
Source: Prepared by legislative auditor's staff using information from LDR.

Although studies by LDR and LED indicate that the MPITC has a positive impact on the state's economy, some published studies on motion picture incentives have reached mixed results.[7] Studies by Thom (2018) and Button (2019) analyze state-level data for the entire United States and find some effects of motion picture tax credits on the number of productions, but no or limited effects on employment. Owens and Rennhoff (2020) find that incentives impact location decisions for motion picture productions, but that the incentives do not pay for themselves. Another study by Button (2021) focusing on Louisiana and New Mexico finds that motion picture incentives generated increases in feature films, but not in TV series or employment.

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[6] R.S. 47:6007(J) establishes an annual $150 million cap on credits that LED can grant in final certification letters, and an annual $180 million cap on credits that can be claimed against a state income tax liability. The $150 million cap on credits granted in final certification letters does not allow for a carry-forward of unused capacity, but the $180 million cap on credits claimed does carry forward into the next fiscal year.

[7] Button (2019), as cited in footnote 3. Button, Patrick (2021). "Can Tax Incentives Create a Local Film Industry? Evidence from Louisiana and New Mexico." *Journal of Urban Affairs*, Vol. 23(5), pp. 658-684; Owens, Mark and Adam Renhoff (2020). "Motion Picture Production Incentives and Filming Location Decisions: A Discrete Choice Approach," *Journal of Economic Geography*, Vol. 20(3), pp. 679-709; Thom, Michael (2018). "Lights, Camera, but No Action? Tax and Economic Development Lessons From State Motion Picture Incentive Programs." *American Review of Public Administration*, Vol. 48(I), pp. 33-51.

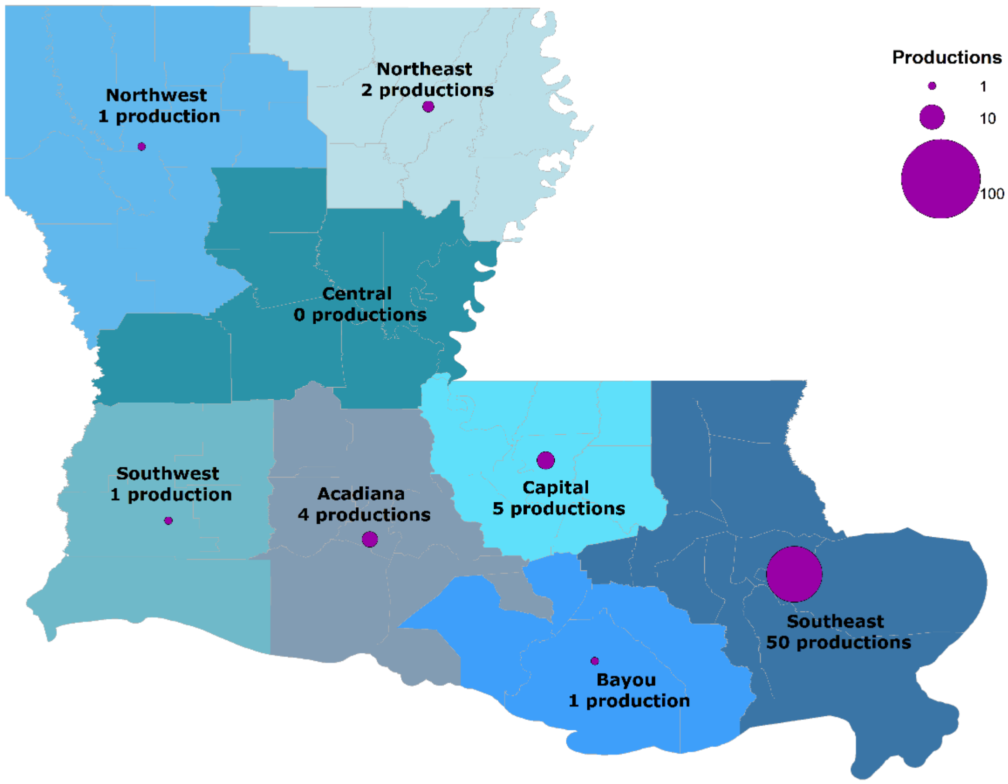
Notwithstanding these academic studies, an informal analysis of Louisiana's motion picture industry indicates that the enhancement of Louisiana's MPITC in 2002 was followed by industry growth, and the cutbacks to the program in 2015 were followed by industry contraction. As shown in Exhibit 3 above, Louisiana's share of national employment in the motion picture industry increased nine-fold from 2001 (prior to the program's enhancement in 2002) to 2015, its share of television shows roughly doubled, and its share of movies increased by half. On the other hand, after the state changed the program in 2015 to limit claims and suspend buybacks, Louisiana's share of national employment fell by 42%, and its share of television productions fell by 47%, although its share of movie production decreased by only 6%. Considering the time series data and the results of LDR's ROI study, the program does appear to generate more household income than it costs the state, even if it does not pay for itself.

Question 2: What is the geographic distribution of motion picture production activity that benefits from the Motion Picture Investor Tax Credit?

Approximately three quarters of Louisiana's motion picture industry is located in the New Orleans area. In addition, the state's additional 5% incentive for filming outside of the New Orleans area was earned by 19% of motion picture projects in fiscal years 2021 and 2022. The state could try to grow the motion picture industry in metropolitan areas outside of New Orleans, and some states, such as Florida, Pennsylvania, and Texas, have motion picture industries similar in size to Louisiana's that are more evenly distributed among two or more metropolitan areas. However, if Louisiana's metropolitan areas outside of New Orleans and Baton Rouge succeeded in attracting a substantial motion picture industry presence, they would be among the smallest in the country in terms of population to do so.

We estimate that 78% of the productions in Louisiana's motion picture industry during fiscal years 2021 and 2022 were located in the New Orleans area. We reviewed the list of projects that LED issued credits to in fiscal years 2021 and 2022. Based on publicly-available information from the Internet Movie Database, industry websites, and news articles on filming locations, as well as information provided by LED, we tagged each production based on the region of the state where filming occurred. Exhibit 5 shows the number of productions that received credits in fiscal years 2021 and 2022 taking place in each of the state's nine economic development regions. Productions that took place in multiple regions are counted more than once.

Exhibit 5
Number of Productions by Region
Fiscal Years 2021 and 2022



Note: The filming locations for 18 out of 80 projects could not be determined. Two projects were counted twice because they occurred in two regions each.
Source: Prepared by legislative auditor's staff using information from LED, the Internet Movie Database, industry websites, and news articles.

State law[8] provides for an out-of-zone incentive, increasing the credit by 5% for motion picture projects that establish their production office and do at least 60% of their principal photography outside of the New Orleans area. In fiscal years 2021 through 2022, 19% of the projects that were subject to the new law authorizing the out-of-zone incentives, accounting for 4% of total credits issued, received this benefit. Exhibit 6 shows the number of projects and associated credit amounts occurring in the New Orleans area and the out-of-zone region of the state eligible for the 5% enhanced credit.

[8] R.S. 47:6007(C)(1)(a)(i)(aa) allows for a 5% increase in the base investment rate for state-certified productions with their production office and 60% of principal photography based and occurring outside of the New Orleans Metropolitan Statistical Area, not including St. John the Baptist Parish. This means that the out-of-zone enhancement is available for projects occurring in any parish other than Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. James, and St. Tammany.

Exhibit 6 Additional Credit for Out-of-Zone Filming Credits Issued Fiscal Years 2021 and 2022						
Location	Number of Projects			Dollars of Credits Issued		
	Pre-Act 309	Post-Act 309	Total	Pre-Act 309	Post-Act 309	Total
All Projects	10	70	80	$6,307,019	$259,430,341	$265,737,360
Out-of-Zone	0*	13	13	$0*	$10,190,841	$10,190,841
Percent out-of-zone	0.0%	18.6%	16.3%	0.0%	3.9%	3.8%

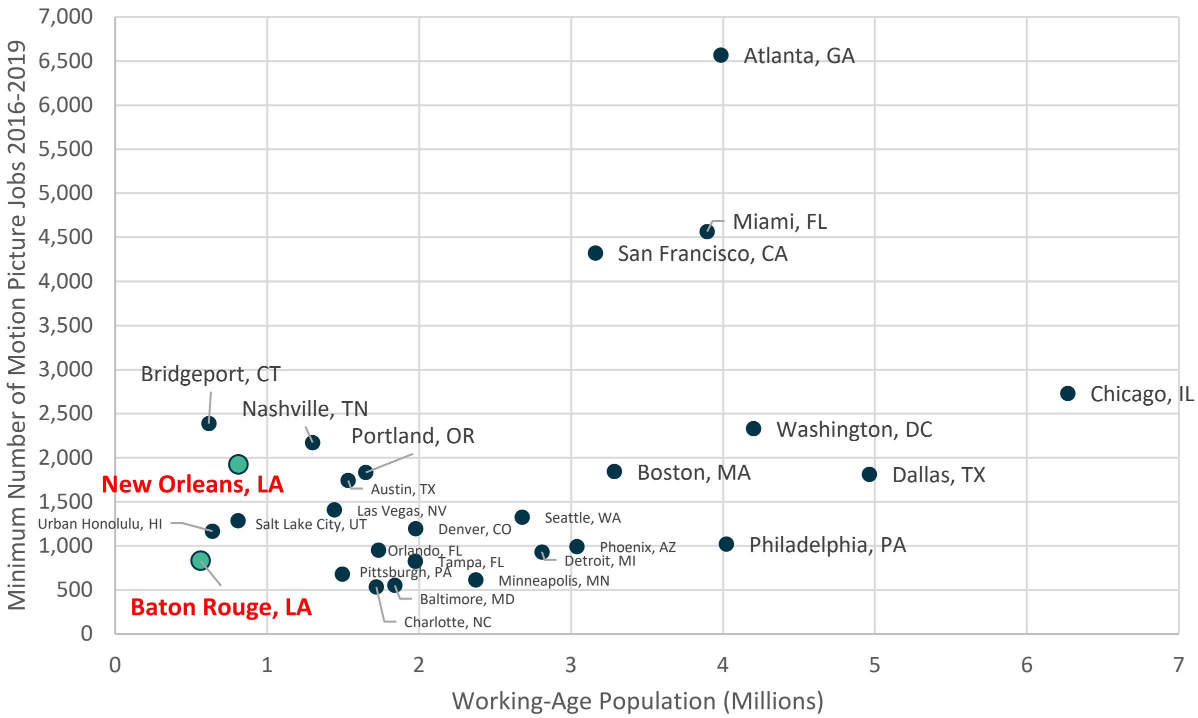
***** The additional out-of-zone incentive was made available by Act 309 of the 2017 Regular Legislative Session. Pre-Act 309 projects are ineligible for this additional incentive.
Source: Prepared by legislative auditor's staff using data from LED.

New Orleans and Baton Rouge have relatively small working-age populations in comparison to other metropolitan statistical areas (MSAs) with significant motion picture industries. Lafayette, Shreveport, and other MSAs may be able to grow their motion picture industries, but they would be among the smallest MSAs with a significant industry presence. MSAs that are able to maintain significant numbers of motion picture jobs also are typically significant population centers. Among the 29 MSAs in the U.S. that consistently had at least 500 motion picture jobs each year between 2016 and 2019, Baton Rouge had the smallest working-age population (563,481 persons), and New Orleans was the fifth-smallest (812,371 persons) among those with at least 1,500 jobs. The nine MSAs that consistently maintained at least 500 to 1,000 jobs in the motion picture industry had working age populations of approximately 1.9 million, putting Baton Rouge on par with cities 3.5 times its size. If Shreveport and Lafayette had been able to maintain a minimum of 100 motion picture jobs during 2016 to 2019, they would have been the fourth- and sixth-smallest MSAs to do so, respectively.[9] According to LED and the International Alliance of Theatrical Stage Employees Local 478, productions will seek to source as many goods and services as possible locally, including labor. The deeper the crew base is in an area, the less a production may have to spend on travel-related costs.

Exhibit 7 shows the relationship between population and motion picture employment for MSAs that maintained a minimum of 500 motion picture jobs between calendar years 2016 and 2019.

[9] A total of 74 MSAs had at least 100 motion picture jobs each year from 2016 to 2019. Of these 74, those with smaller working-age populations than Shreveport (246,086 persons) or Lafayette (304,732 persons) were Asheville, NC (286,831 persons), Manchester-Nashua, NH (279,144); Boulder, CO (226,033 persons); Olympia-Tumwater, WA (185,371 persons); and Missoula, MT (79,563 persons).

Exhibit 7
Motion Picture Employment and Working-Age Population
Calendar Years 2016-2019

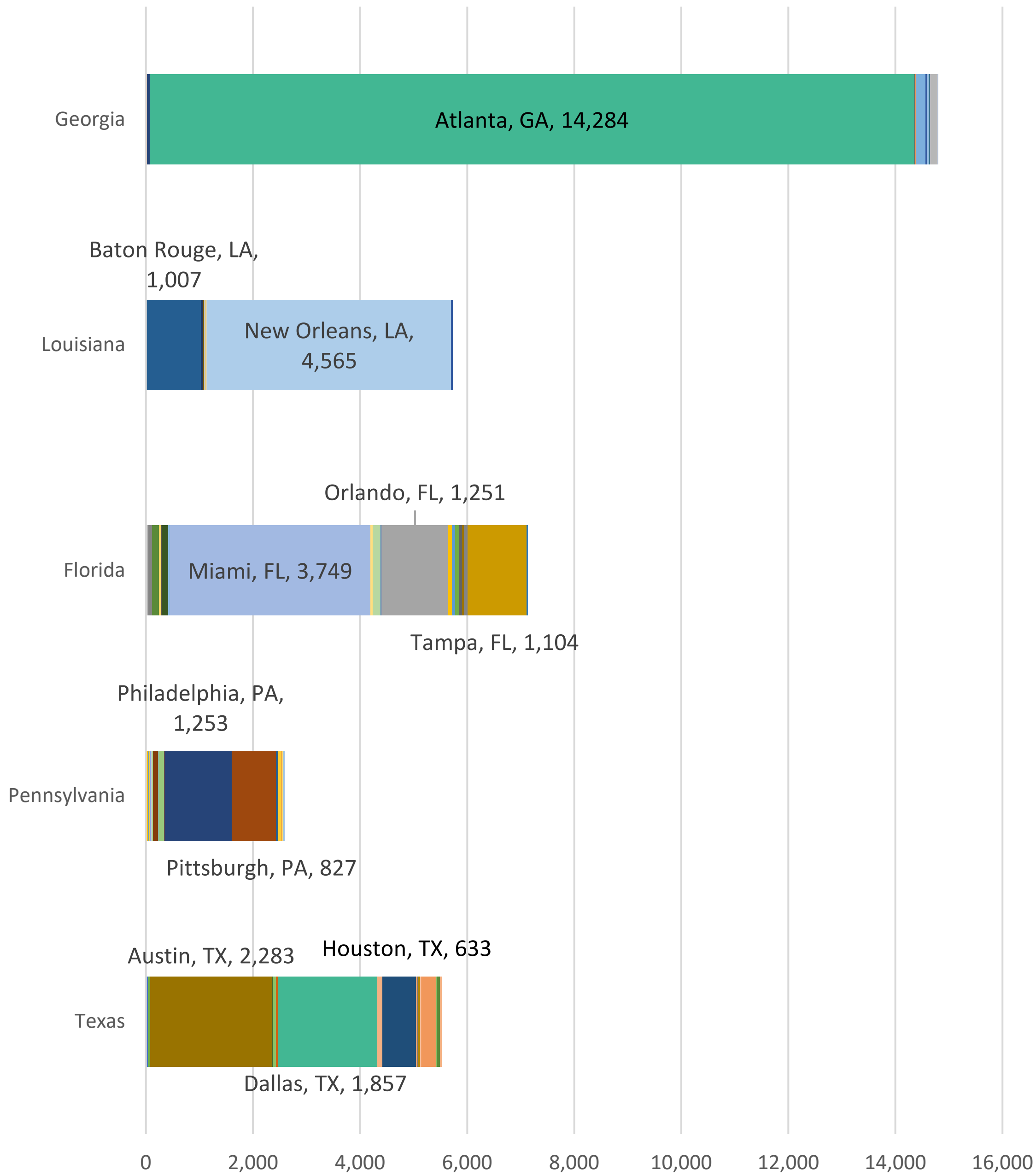


Note: New York, Los Angeles, and MSAs with fewer than 500 motion picture jobs are not included. Employment counts were imputed based on establishment counts for MSAs with employment counts suppressed for confidentiality reasons. MSA names are abbreviated in the exhibit for readability.
Source: Prepared by legislative auditor's staff using information from the U.S. Census Bureau and Bureau of Labor Statistics.

In 2022, 72% of Louisiana's motion picture jobs were in the New Orleans MSA, and 16% were in the Baton Rouge MSA. Although Louisiana's motion picture industry is highly concentrated in these areas, other states such as Florida, Pennsylvania, and Texas have motion picture industries that are similar in size to Louisiana's but are more distributed across multiple MSAs. Louisiana's industry, which has 72% of its motion picture jobs located in New Orleans, is more similar to Georgia's, where 80% of the jobs are located in the Atlanta MSA. In contrast, Florida, Pennsylvania, and Texas have comparable numbers of motion picture jobs statewide, but no more than 53% of their jobs are located in any one MSA.

Exhibit 8 shows the number of motion picture jobs by MSA for two groups of states: those with industries concentrated in one MSA (Georgia and Louisiana) and those with an industry presence in multiple MSAs (Florida, Pennsylvania, and Texas).

Exhibit 8
Concentration of Motion Picture Industry Employment Within States
January through September 2022



Note: Exhibit shows the number of jobs in each MSA. Some MSAs span multiple states. We included all MSAs that include each state as part of their territory. We excluded jobs at establishments outside of MSAs and those whose county is listed as unknown or undefined.
Source: Prepared by legislative auditor's staff using information from the U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.