

States Give Hollywood a Fortune in Tax Breaks

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By THE ASSOCIATED PRESS

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BALTIMORE (AP) -- Many states that are cutting spending on schools, roads and other basics have been lavishing hundreds of millions of dollars in incentives on Hollywood studios to lure TV and movie productions -- this, despite scant evidence that taxpayers come out ahead on such deals.

An Associated Press survey found that states competing for projects handed out \$1.8 billion in tax breaks and other advantages to the entertainment industry from 2006 through 2008.

Several states have even sweetened their incentives recently or are considering doing so, for fear that if they don't land the next major motion picture, someone else will.

"The industry has been able to play off North Carolina against South Carolina against Louisiana against Georgia. Louisiana raises its incentives, and it puts pressure on South Carolina, North Carolina and other states to do likewise," said Bob Orr, a former North Carolina Supreme Court justice who heads an anti-incentives group called the North Carolina Institute for Constitutional Law.

Some states argue that the tax breaks pay for themselves in revenue. Many others contend that even if tax revenue takes a hit, the film industry boosts their economies with an infusion of cash and jobs.

Production companies spend money on sets, props, caterers, and salaries for actors, extras and crew members. Movie crews eat at restaurants and stay in hotels while in town.

Movie shoots can also give a place a little Hollywood glamour, which can, in turn, boost tourism -- something that has happened in Durham, N.C., where the 1988 Kevin Costner comedy "Bull Durham" was shot, and in Savannah, Ga., the setting of the 1997 film "Midnight in the Garden of Good and Evil."

"I relate this to creating jobs similar to the way you would turn on a light," said Republican state Rep. Stephen L. Precourt of Florida, who is pressing to increase the state's incentives. "Within days, people could be working here under this incentive program."

New Mexico and New York commissioned studies by the accounting firm Ernst & Young that found the tax credits pay for themselves by producing more revenue than they sacrifice. The studies' authors estimated that state and local governments in New Mexico

brought in \$1.50 in revenue for every dollar spent on tax credits, while state and local governments in New York state and New York city generated \$1.90.

But many economists and policy analysts who have studied the issue independently contend that tax breaks for the TV and movie industry are rarely break-even deals for states, in part because the jobs created are often short-lived. Even the revenue departments in some states would agree.

Connecticut's revenue department, for example, found in 2007 that every dollar in tax credits generated only 20 cents in new tax revenue. Connecticut gave away an estimated \$70 million in tax revenue that year.

"The credit does not 'pay for itself,'" Jennifer Weiner, a policy analyst for the New England Public Policy Center at the Federal Reserve Bank of Boston, wrote in a January report about Connecticut's incentives. "Increases in economic activity spurred by the film credit generate some additional tax revenue for the state from a variety of sources. This additional revenue is likely to offset some, but not all, of the initial cost of the credit."

The AP surveyed the 41 states, plus the District of Columbia, that offer rebates, grants or tax credits to cover production costs for movies, TV shows and commercials, and found they committed \$1 billion last year alone. New York was the leader in 2008, giving away or pledging \$275 million in tax credits to productions that shot in the state that year.

New York said the money bolstered the state's economy with \$2.2 billion in direct spending. The state had no immediate estimate of how much tax revenue that translated into.

Louisiana, one of the biggest incentive states, pledged an estimated \$358 million in tax credits to filmmakers between 2006 and 2008, including \$27 million for last year's Oscar-winning "The Curious Case of Benjamin Button." Now state lawmakers are considering more than \$150 million in cuts to higher education.

Filmmakers have grown accustomed to shopping around for the best deal.

California, which is grappling with a projected \$24 billion budget deficit, launched an incentive program this year to keep its homegrown business from migrating. Movie-star Gov. Arnold Schwarzenegger even pledged to make a cameo in the Warner Bros. blockbuster "Terminator Salvation," now No. 2 at the box office, if producers shot it in California. The movie was made in New Mexico.

Little illustrates the competition between states better than Miley Cyrus' new movie project, "The Last Song." In April, North Carolina's governor scheduled -- then canceled the same day -- a news conference to announce the movie would be filmed in Wilmington. The reason for the cancellation: the Walt Disney Co. was considering Georgia, which offers incentives of up to 30 percent versus North Carolina's 15 percent.

Shooting is to begin in Georgia this month.

Determined not to miss out next time, legislators have introduced a bill in North Carolina -- a state facing a \$3 billion budget gap this year -- to increase incentives to 25 percent of production costs.

Some states have started rethinking their show business giveaways. Wisconsin Gov. Jim Doyle wants to eliminate the incentives he signed into law a year ago. A legislative committee has instead proposed capping the annual payout -- but only for two years -- to help solve Wisconsin's budget shortfall.

Michigan, which offers one of the most generous tax credits in the nation, equal to 42 percent of production costs, gave away \$48 million in incentives last year and is expected to pay out \$198 million in the 2010 fiscal year, which starts in the fall. And that's in a state that faces an estimated budget shortfall of \$700 million for 2010.

State Sen. Tom George said he supports Michigan's incentive program because of the production activity it has drawn to his job-starved state. But he has no illusions about whether Michigan brings in more tax revenue than it gives away.

"We don't get back what we pay out," said George, a Republican who wants to cap the annual payout, either on a per-film or per-year basis. "We don't even get back half of what we pay out. I don't even know if we get back a quarter of what we pay out."

Martha Waggoner reported from Raleigh, N.C.