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The price of fame

Thanks to lucrative incentive packages, New Orleans is becoming Hollywood South, but is Louisiana getting enough in return?

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If Jamie Foxx wins the best actor Oscar for his portrayal of Ray Charles during tonight's Academy Awards ceremony in Los Angeles, among those he should thank are the taxpayers of Louisiana.

After all, as with the many other stars who have worked in the state in the past two years, the taxpayers of Louisiana picked up about 15 percent of Foxx's paycheck for the time he spent in New Orleans working on the movie "Ray."

Provisions like that one, in which taxpayers subsidize the salaries of A-list movie stars and big-name directors, have made Louisiana's tax incentive program for motion picture production perhaps the most aggressive in the nation, one that has paid out nearly \$100 million in tax credits since 2002.

The question is, have the benefits been worth the cost?

As the Legislature braces for a new session in April and the inevitable fight over public money that will come with it, the film incentive program almost certainly will come up for discussion. Senate President Don Hines, D-Bunkie, already has said the costs of the program are a cause for concern for the state's budget, raising if not a red flag, then a "dark pink" one.

To be sure, the investment by the state has ignited a boom in movie and television production, creating a surge in economic activity for Gov. Kathleen Blanco, who ran on an economic development platform. Much of the work has been in and around New Orleans, where stars such as Kate Hudson, Jude Law, Kate Winslett, Sean Penn, Lindsay Lohan, Queen Latifah, John Travolta and Scarlett Johansson have flocked in the past two years.

Beyond the glamour, the production work has spawned local production companies, encouraged corporate giants such as Panavision Inc. to set up regional offices in the area, and created hundreds of well-paying local crew jobs with wages totaling \$60.4 million. Lawyers and bankers have gotten in on the act, making millions by brokering tax credits and financing films.

In brief, the incentives have sown a lucrative, high-profile industry in New Orleans. According to a study commissioned by the Louisiana Governor's Office of Film and Television Production, the industry had an economic impact of \$173 million on Louisiana in 2003, which was the program's first full year in existence. The study estimates that the activity produced the equivalent of 2,349 full-time jobs in that period.

In 2004, the amount of money producers spent on movies made in Louisiana nearly doubled

from \$189 million in 2003 to \$355 million. Although the film and television office has not performed an impact study on 2004, the production spending numbers suggest even greater benefits.

"I don't think anybody imagined that it would do this well this fast," said State Rep. Steve Scalise, R-Metairie, an architect of the program.

Blanco plans to continue to support the program during the upcoming session, favoring moderate modifications or none at all, said Denise Bottcher, the governor's spokeswoman. The program has brought significant attention and investment to Louisiana, Bottcher said. And, she added, "We're going to continue on that path."

But the fledgling industry has come at a hefty price.

Fiscal analysts always expected the state would pay out more in tax credits than the film productions would create in new tax revenue for the state, said Greg Albrecht, senior economist with the Louisiana Legislative Fiscal Office, which analyzes the effect of legislation on the state's coffers. But nobody dreamed it would cost the state as much as it has, Albrecht said.

The original estimates were based on the roughly \$30 million then being spent on film production each year in the state, he said. Based on that level of work, Albrecht said, his office estimated the state would pay out about \$2.5 million in credits per year. Instead, the state has granted \$30 million to \$60 million in credits each year, according to the Governor's Office of Film and Television Development, which administers the program.

Altogether, since the incentive program went into effect in 2002, Louisiana has paid out \$95.7 million in tax credits to the motion picture industry, the film and television office reports. That's roughly what it would cost to build eight public schools in New Orleans, or about four times the \$23 million price tag of the New Orleans Center for Creative Arts in Faubourg Marigny.

Furthermore, that spending thus far has not generated enough in new taxes to cover what the state has paid out. In fact, for every dollar Louisiana taxpayers have given up, the state has recovered about 30 to 33 cents in new taxes produced from the film activity, according to the analysis commissioned by the Louisiana Governor's Office of Film and Television Development and the Legislative Fiscal Office.

"The fiscal note always said there will be a net cost," Albrecht said, referring to the analysis done when the legislation was being debated in 2002. But, he said, nobody guessed that the levels of production would increase more than tenfold from 2002 to 2004, meaning the net cost to the state also would multiply.

"It really has been sort of a surprise," he said.

Although the total price tag of movies made in Louisiana from July 2002 through December 2004 adds up to a whopping \$560 million, and tax breaks were given out based on that number, only about \$215 million of that was spent in Louisiana, the study by the film and television office indicates. The rest of the money went elsewhere for goods and services not based in Louisiana, including out-of-state crew workers.

In one case, state taxpayers paid \$10.5 million in credits for a big-studio movie that spent less than \$1.3 million on local payroll.

State Rep. Steve Scalise, R-Metairie, said the program's benefits have justified its costs, but he also said he would not be surprised if the program comes under scrutiny during the upcoming legislative session.

"It's always a concern," Scalise said. "But we have a strong story to tell on our side: that this has been a great benefit to our state. . . . We're creating lots of good jobs for our people, and we're reversing the trend of people leaving the state. We're actually getting people to move back here and work in a high-paying industry."

Carla Blanchard Dartez, D-Morgan City, vice chairwoman of the Louisiana House Ways and Means Committee, agreed.

"This is one of the best things that ever could happen," Dartez said of the program.

Money makers

Louisiana's program certainly has been good for moviemakers.

Even as other states have begun adopting incentive programs designed to woo producers, Louisiana's program stands as perhaps the most generous in the continental United States. Although Hawaii's program is more generous in theory, aspects of it have come under fire from policy-makers, and its future is cloudy.

Like other jurisdictions, Louisiana offers breaks on sales taxes for purchases made by producers. That means producers who buy \$100 worth of some essential item, such as lumber for sets, do not have to pay the \$4 tax on the wood that everybody else must pay. They still must pay any parish or city sales taxes.

But that's just the beginning. State taxpayers, in effect, give producers as much as 15 percent of production costs, minus a brokerage fee and discount. That money comes in the form of two tax credits of as much as 15 percent each, depending on the size of a film's budget.

A payroll credit, granted to the film's producer, applies to money spent on wages and salaries of Louisiana workers. This means if the producer of a \$10 million film spent, say, \$1.5 million to pay workers from Louisiana, the producer would get a tax credit worth \$225,000 from the state.

A second "investor credit" applies to total investment on a production. That includes all of the money that goes into making a movie but not distributing or marketing it. This credit, granted to the project's financial backers, applies to all production costs, including crew imported from Los Angeles or elsewhere. And it applies to the Louisiana crew as well. Thus the state grants two credits for Louisiana payroll: the payroll credit specifically designed to promote local hiring, and an investment credit applied toward all spending, including local payroll.

The result is that if the hypothetical movie's total production cost is \$10 million, the people or company that put up the money to make the movie would get a second credit worth \$1.5 million. Because the producer and investor are typically the same, the producer usually ends up with both credits.

In the \$10 million movie example, the credits would total slightly more than \$1.7 million, or 17 percent of the movie's production expenses.

In practice, producers end up pocketing less than that in cash. Because many producers don't live in Louisiana and don't have to pay Louisiana state taxes, the credits would seem to be worthless to them. However, producers can sell the tax credits, albeit at a discount. The going rate now is about 70 to 75 cents on the dollar, so the producer would get about \$1.3 million in cash by selling the credits. A broker would get some piece of the action, maybe 10 percent, or about \$170,000. Thus the buyer of the tax credit ends up paying less than \$1.5 million for a credit worth \$1.7 million, effectively creating a windfall worth more than \$200,000 for the buyer.

The state takes a hit come tax season when the buyer turns in the credit rather than \$1.7 million

in cash to the Louisiana Department of Revenue.

The program has generated so much activity, and so many credits, that the Legislative Fiscal Office, which assesses the fiscal impact of legislation, estimates that taxpayers will turn in \$60 million in tax credits in the 2005 fiscal year. For comparison's sake, that's about four times the amount the state needs to pay Saints owner Tom Benson this year to keep the football team in New Orleans.

Louisiana's investor tax credits are granted not just for money spent in the state. It also applies to the highly paid movie stars, directors, screenwriters and other creative types who work on the movie but live elsewhere. These are known in industry parlance as "above-the-line" talent. The masses of lower-paid crew are considered below the line because of where they appear on a movie budget.

The credits paid out for the above-the-line talent can be significant.

For example, according to budget information submitted to the state by the producer, above-the-line costs for 20th Century Fox's 2003 film "Runaway Jury" totaled \$39.3 million. That included the salaries of actors such as John Cusack, Dustin Hoffman, Gene Hackman and Rachel Weisz, and the film's director, Gary Fleder -- people who do not live in Louisiana and who therefore are not likely to spend the money here.

Louisiana taxpayers subsidized "Runaway Jury's" above-the-line costs to the tune of about \$6 million.

Supporters of the policy, such as Scalise, note that the state makes back some of the money it pays out to above-the-line talent in the form of income taxes. Leonore Heavey, a lawyer in the policy services division of the Louisiana Department of Revenue, said actors working in Louisiana are supposed to pay state income tax on money made here. The state's highest bracket is 6 percent, which means the highest-paid actors theoretically would put some tax money back into the state in the form of income taxes.

Among these is Foxx, who has been nominated for an Oscar for "Ray." It is unclear exactly how much Foxx received from the picture and how the state fared in comparing the tax credit that subsidized his deal against the income taxes he must pay for his work in Louisiana. The tax credits would apply only to how much he was paid by the production company and not any royalties or percentage of gross revenue he might receive. Budget information submitted to the state does not contain a line item for Foxx's salary, and Kate Anderson, a publicist for the film, declined to comment on it.

"We can't comment on the amount paid, so we can't comment on the tax credits," she said.

Cost of business

The incentives have created an overriding issue that policy-makers must consider, said Albrecht, the economist with the Legislative Fiscal Office.

At the end of the day, the program is costing the state money, he said. Even factoring in the multipliers that economists use to measure the effects of money circulating through the economy, Albrecht said the program is costing the state more in tax credits than it is generating in new taxes.

"At my very, very best, I've only recovered a third," he said. "I don't have any doubt about that, using their numbers."

Albrecht cited a 2003 economic impact study commissioned by the Governor's Office of Film and

Television Development. For a hypothetical \$10 million production, the report says, taxpayers would pay out \$3.4 million in tax credits to stimulate activity that would produce \$960,000 in new state taxes.

"That's the final result after all the dynamic multipliers have done their magic -- worse than a three-to-one ratio," Albrecht said.

Alex Schott, director of the Louisiana Governor's Office of Film and Television Development, said it is important for Louisiana to be aggressive when trying to develop the industry. Policies, for example, should not exclude certain costs, such as above-the-line expenses, from what producers can obtain tax credits for.

"It's not in (the producers') interest to shoot here if you start taking away certain elements of their budgets," he said. "As you're building an industry here, you have to be more lenient. . . . You have to invest more."

"It's not like we're not getting anything (in return)," Schott said.

Big benefits

Louisiana indeed has received substantial benefits from the motion picture industry.

In addition to the intangible benefits that come with having images of Louisiana cast on the silver screen and the civic pride residents can take in being one of the nation's film meccas, the industry has produced the sort of tangible benefits that go with industrial development. Among these are jobs.

The New Orleans metro area alone appears to have gotten hundreds of new jobs. Furthermore, these jobs have proven to be as lucrative as some of the region's traditional manufacturing industries, offering wages starting at \$20 per hour to \$25 per hour, plus benefits.

In New Orleans, many industry workers -- including electricians, wardrobe workers, set builders and other behind-the-scenes crew -- are represented by Local 478 of the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts.

Phil LoCicero, president and acting business agent of IATSE's New Orleans' local, said that two years ago the local had about 130 members but that only 65 were working regularly. In the past two years, that membership has grown to 270, all of whom are working regularly, typically moving from job to job without a break. That amounts to the equivalent of about 200 new IATSE jobs. LoCicero said the local could have another 70 to 100 members in the next two years.

Wages for these jobs compare favorably with the region's shipbuilding and chemical industries. According to the U.S. Department of Labor's Bureau of Labor Statistics, shipbuilding workers earned an average hourly wage of \$16 to \$17 in 2004, and chemical manufacturing employees earned about \$30.

According to IATSE's scale, a movie set painter earns \$25 per hour, a lighting technician about \$22 and an assistant hair stylist a little more than \$20. In addition, workers receive time and a half for overtime beyond eight hours and double time beyond 14 hours, which is not uncommon when a production is in full swing.

More skilled workers, such as camera operators, digital imaging technicians, and still photographers earn more than \$35 per hour.

Motion picture workers also receive health care, pension and other benefits through the union.

Stories abound of locals getting better jobs or moving to Louisiana to work in show biz, a reversal of the out-migration trend that has plagued the state and region.

"I had no idea that this was even an option to do this kind of thing," said Christina Gulotta, a 26-year-old UNO graduate who worked for years earning slightly more than minimum wage as an assistant manager at the Virgin Megastore in the French Quarter before landing a short-term job as a graphic designer on "Ray."

Since that first job, Gulotta has been working consistently on movies, earning \$20 per hour to \$25 per hour designing everything from period posters and pizza boxes to vintage matchbooks used to give realism to scenes. Although the work technically has consisted of a series of temporary jobs, Gulotta said it has amounted to continual employment.

"It definitely has been full-time," she said.

The 200 or so local IATSE jobs do not include the local assistant directors, production assistants and actors who have found work amid the Louisiana Tinsel Rush. Nor do they include full-time office staff that work with local production companies that have sprung up.

GWave Productions, a local film production services firm, has a full-time staff of about 25 people and hires an additional 65 or so for shooting, said Lampton Enochs, a New Orleans native who returned home from California to run GWave. In the past year and a half, GWave has produced five television movies, each with a Louisiana payroll of as much as \$1.5 million.

"They're begging for vacations," Enochs said of the local crew workers employed by GWave.

Another growth story is Lift Productions. Founded in 2002 with a three-person office in New Orleans, Lift now has a full-time staff of about 20, said Malcolm Petal, the firm's chief executive. That doesn't count the crew Lift has hired to work on the lower-budget feature films it has made with its joint-venture partner Element Films and television movies it has made for CBS, Lifetime and A&E.

For 2004, Lift's payroll totaled about \$9 million and the company provided about 400,000 hours of employment in the state, Petal said. That amounts to 250 full-time, 40-hour-per-week jobs at an average salary of \$45,000 per year.

Unlike big-budget productions, Lift and GWave projects use mostly local crew and generally don't have the megastars that collect big paychecks. The result is that much of the payroll for those projects has stayed in the state.

"This would be almost entirely Louisiana-located jobs," Petal said.

A similar case in point is "Poolhall Prophets," an independent film produced locally by a team that included Lift co-founder John Anderson and New Orleans lawyer Morris Bart. The movie received about \$1 million in tax credits but spent \$1.6 million on local payroll, data provided by the state show.

That ratio of spending on local crew to money paid by the state is far better than the ratio from many big-studio movies, where saving money is less of a concern. Paramount's "Last Holiday," for example, received \$10.5 in tax credits but spent less than \$1.3 million to hire local crew.

Supporters note that even if the big-studio movies do not hire local workers, they spend money in other ways, buying goods and services. For example, movie cast and crew paid for 2,400 room nights at The Ritz-Carlton Hotel in New Orleans in 2004, a spokeswoman said. And Neometix Inc., a neon light maker in New Orleans, increased its revenue about 20 percent in 2004 doing work for film productions, said Mark Klaybor, a partner in the firm.

Mark Drennen, chief executive of Greater New Orleans Inc., a regional economic development group, said the state's investment clearly is building something.

"It's all brand new, and none of us know how big it might get," he said. "It's not like 7,000 jobs at Northrop Grumman (owner of New Orleans' Avondale shipyard, the region's largest employer), but it's a good new industry."

Building an industry

These kinds of benefits have legislators bullish on the program, despite its costs.

Bryant Hammett Jr., D-Ferriday, who is chairman of the House Ways and Means Committee, said the program appears to be doing what it was meant to do. But, he added, "We don't want to come across looking like the rube that gave away the farm and got nothing back."

The Legislature might consider capping the amount of tax credits the state will issue each year or devising a way to make it easier for producers to use Louisiana workers and services, Hammett said. But, he said, he does not foresee a massive overhaul.

Mark Smith, Louisiana's Director of Entertainment who helped develop the incentive program in his previous post as state film commissioner, said a solution might be to draft laws or new rules that would maintain the program's aggressive stance but require that producers spend more on goods and services in Louisiana.

"From my perspective, that is the most appropriate and most pro-business way," Smith said.

State Rep. Jeff Arnold, D-New Orleans, who also is on the committee, concurred, saying the program might need to be "tweaked" but nothing more.

"If we're building an industry," he said, "it's probably worth the price."

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