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FISCAL & ECONOMIC IMPACT ANALYSIS OF LOUISIANA'S ENTERTAINMENT INCENTIVES

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Contents

I. Executive Summary

The BaxStarr Consulting Group (BSCG) was hired by Louisiana Economic Development (LED) to conduct an economic and fiscal assessment of the State's entertainment incentives between 2008 and 2010. Accordingly, BSCG staff compiled and analyzed data provided by the State[1] and data collected from its own field research with business and economic development specialists throughout the state. This document reflects not only the current state of the entertainment industry, but takes both a historical look to show how far Louisiana has come, and a forward view to highlight growth opportunities. The economic impact data and analysis contained in the following pages are not intended as a thorough economic assessment of the state's entire entertainment industry, merely of activity associated with the incentives.

Key Findings

The key findings from BSCG's economic and fiscal impact analysis are

1. Output multipliers[2]. Every $1 of tax credits issued generates the following estimated total economic output:
    - Film production - $5.71
    - Sound recording - $6.47
    - Digital media - $6.90
    - Live performance - $7.41
2. Louisiana Entertainment Industry Economic Impact
    - An average of about $710 million per year in economic output for 2008 and 2009
    - Approximately $1.08 billion statewide in economic output for 2010 alone, representing a 52 percent increase above the annual average for years 2008 and 2009

Key Trends

National trends in the motion picture industry are not entirely reflected in Louisiana, which presents something of a positive anomaly. While wages and production numbers shrank nationally, Louisiana saw overall increases since the previous impact analysis. *(The last analysis, covering 2005-2007, was released in 2009 and will hereafter be referred to as either "the previous analysis" or "the 2009 analysis."*)

The digital media and sound recording industries have continued to grow since the previous impact analysis was completed. Sound has grown relatively slowly, while the digital interactive media sector is beginning to take hold with an increasing and diversifying demand and market for these products. Digital interactive has also now gone beyond the primary focus of video games.

[1] Data provided by LED and the Legislative Fiscal Office – collectively hereafter referred to as the "State".
[2] Based upon actual data from 2008 and 2009, and estimated data for 2010.

As the newest sector for Louisiana's entertainment industry development efforts, live performance represents the least developed industry, although interest in the program is growing, and the credits for infrastructure have been the basis for almost $100 million in investment.

Motion Picture Industry

Louisiana's flagship incentive program has been a catalyst for substantial film production growth statewide. This increase is reflected in four key areas:

1) number of certified productions (i.e. films/TV series etc. being shot in Louisiana),
2) percentage of overall budgets spent in Louisiana,
3) dollars spent in Louisiana (aka in-state "spend") and
4) wages.

Only 200 productions qualified for tax credits in the six year period between 2002 and 2007, representing an average of about 33 per year. This increased to 275 productions in the three year period 2008-2010, an average of about 92 productions per year. **This represents an increase of 175 percent in the annual volume of films being produced in Louisiana.**

Likewise, the *proportion* of total film production budgets spent in Louisiana has also increased significantly, from 34 percent in 2006 to 64-80 percent in 2010. In 2006 when the law changed to specify that only in-state spending would qualify for tax credits, productions spent approximately 34 percent of their budgets on in-state goods and services. By year-end 2010, that number is estimated to have hit 64 percent, indicating a widespread proliferation of Louisiana-based businesses servicing the industry. When the total spending is adjusted to eliminate mega-productions which tend to import more crew and vendors into Louisiana, and focuses on Louisiana projects budgeted at $20 million or less (90 percent of all film projects in the state), which use more Louisiana goods and services, the in-state spend average climbs even higher, to about 80 percent.

This shift in spending is significant because it reflects the growing maturity of the film industry in Louisiana. For example, services that once had to be performed in Los Angeles can now be secured in Shreveport, and jobs that were once found only in Burbank, CA are now based in New Orleans. Thus the brain drain is slowly being reversed in this sector, with Louisiana natives and their families returning to the Pelican State.

Similarly, the *amount* of spend in Louisiana increased by 30 percent from 2008-2010. LED estimates that production expenditures occurring in Louisiana reached $474.2 million in 2008; $361.5 million in 2009; and an estimated $674.1 million in 2010, a number BSCG considers conservative. (A number of factors may have created the 2009 decrease including the recession, potential industry strikes and temporary uncertainty about the future of Louisiana's tax incentives.) These expenditures produced an estimated annual total economic impact – also known as economic output or economic benefit – in Louisiana of approximately $812 million in 2008, $593 million in 2009, and $1.1 billion in 2010.

Finally, during a time of nationwide recession, rising unemployment and falling wages, average annual industry wages actually rose by $3,000 between 2008-2010. Although the U.S. Bureau of Labor Statistics does not have industry employment data for 2008-2010, data from IATSE Local 478, the film industry's predominant trade union, demonstrates that Louisiana membership has grown from 776 in 2008 to more than 850 in 2010. An additional 200 professionals now work in other associated trades. Direct in-state wages for film projects have grown from approximately $163 million in 2008 to $106 million in 2009 to a conservative estimate for 2010 of $213 million (calculated by taking only 75 percent of those reported on initial certifications). According to IATSE figures, its members' average annual wages have now hit approximately $55,000 plus benefits, compared to more than $52,000 in 2008.

Sound Recording Industry

Enacted in 2005, the sound recording program's economic contribution has been much smaller than film, but is also growing, showing that the initiative is beginning to gain traction. In 2006 (the first year applications were accepted), only one sound recording project was certified for tax credits in Louisiana. That number increased to five in 2007 and 15 each in 2008 and 2009. In 2010, an estimated 45 projects were underway. **Program activity based on number of projects tripled in one year.**

The roughly $340,000 spent on the five certified sound recording productions in Louisiana during 2007 generated a total economic impact of more than $576,700 throughout the state's economy. In 2008, this figure was $492,856 reflecting in-state spending of $320,931. In 2009, the total economic impact was about $1.1 million reflecting $666,837 spent in state. And in 2010, the estimated total impact had increased to about $1.7 million reflecting about $1.1 million of spending in-state by tax credit-related projects. Some of this increase reflects the growing use of local music industry talent by motion picture and video game producers and other entertainment content developers.

Digital Interactive Media Industry

Enacted in 2005, the Digital Interactive Media program was originally intended to expand upon the successes of the film program, by developing primarily the video game sector. However, in 2009, this focus was expanded to also include a broad spectrum of digital media and software applications.

The broadened scope of the program, combined with the vigorous marketing efforts of the State and local communities, seem to be paying off in this growing sector. While still in its early stages, the numbers reflect positive movement. Whereas only 5 projects qualified for tax credits between 2005 and 2007, averaging fewer than 2 projects annually, this increased to 69 projects between 2008 and 2010, representing 23 projects annually, **a more than twelvefold increase.**

In 2008, the total Louisiana spend by digital interactive projects was approximately $4.2 million (certified expenses), generating total economic benefit of about $6.8 million. LED's Office of Entertainment Industry Development (OEID) began to track the actual payroll generated by this program in 2008. For that year, direct payroll expenditures hit about $3.4 million.

In 2009, the qualified Louisiana spend was nearly $3 million, with direct payroll expenditures totaling more than $2.5 million. The total economic output that resulted from this spending was about $5.0 million.

For 2010, payroll expenditures are estimated to have hit about $5.1 million, with in-state spending of $7.6 million and total economic output estimated at approximately $12.8 million.

Live Performance Industry

Enacted in 2007, the musical and theatrical program, aka "live performance" program, was intended to make Louisiana a thriving location for live performances by offering incentives for both the construction and renovation of theatrical venues throughout the State and attracting the shows that would fill the newly expanded theatre capacities.

While still in its early stages, this program also shows positive momentum. To date, six infrastructure projects have applied, representing an anticipated total investment of about $104 million, over multiple years. The largest project is the Saenger Theater in New Orleans, which was devastated by Hurricane Katrina in 2005. Other major projects are also underway, and in some cases nearing completion, in Shreveport and Baton Rouge. Construction and renovation of these facilities result in significant short-term job creation while construction is underway. Based on the approximately $20 million in tax credits approved, the calculation of economic output from live performance infrastructure development reaches a substantial figure of more than $30 million in 2009 and nearly $26 million in 2010. This not only spurs the economy in the near term, but also adds capacity for anticipated future increases in production activity.

As the first theatrical performance production incentive in the nation, this trailblazing program has been slow to gain ground but preliminary data suggests a bright future. Whereas total in-state spend for 2009 is estimated at $1 million, with a total economic output of about $1.9 million, the numbers rose to about $2.1 million in in-state spending for 2010, with nearly $3.9 million in output**. Despite its infancy, production numbers in this program approximately doubled from 2009 to 2010.**

II. Introduction and Methodology

BSCG was contracted by LED to define and measure the economic and fiscal impacts of various entertainment-related industries receiving incentives in Louisiana. In addition, BSCG compared and contrasted the infrastructure development and economic results of Louisiana's incentive programs with those in several of the key states that compete with Louisiana. To do this, BSCG reviewed the relevant trends in Louisiana since the incentive programs were enacted. Specifically, this analysis evaluates the impacts of the

- Film/motion picture,
- Sound recording,
- Digital interactive media, and
- Live performance industries.

To complete this analysis, BSCG researched available data on the industries in Louisiana and conducted supplemental interviews with businesses and stakeholders in both government and the private sector.

In this introduction, BSCG outlines the data sources and the economic impact methodology that was used to develop conclusions. Louisiana is targeting the development of the motion picture, sound recording, digital media, and live performance industries. The incentive opportunities are as follows:

1. For Motion Picture industries a production company can receive a 30 percent, fully transferable tax credit for expenditures made within Louisiana, and an additional credit of 5 percent for labor costs related to hired Louisiana residents. Minimum spend is $300,000 within the state. Production companies may either transfer the credits back to the state for $0.85 on the dollar or sell them on the open market.
2. For Digital Interactive Media the incentive is a 25 percent transferable tax credit for production expenditures and an additional 10 percent for resident labor with no required minimum investment.
3. For Sound Recording the program has a 25 percent rebate and a minimum $15,000 spend in the state.
4. And for Live Performance there are credits for both production and infrastructure calculated on a sliding scale (up to 25 percent) based on the level of investment and an additional 10 percent payroll credit. For this program, credits are either transferable or refundable.

In earlier years, the State offered a tax credit for investment in motion picture infrastructure, such as sound stages. As a result, several facilities have been built and expanded throughout the state and are generally considered to be adequate to meet the current level of demand.

The employment trends in Louisiana were tracked in several categories to determine how the incentive programs may have impacted jobs in targeted industries. These figures reflect the North American Industry Classification System (NAICS) which profiles a wide array of industry employment. These were used in the previous economic impact analysis. The NAICS categories are as follows:

For the Motion Picture Industry

NAICS 51211 Motion Picture and Video Production comprising establishments primarily engaged in producing, or producing and distributing motion pictures, videos, television programs or television commercials.
NAICS 51212 Motion Picture and Video Distribution comprising establishments primarily engaged in acquiring distribution rights and distributing film and video productions to motion picture theaters, television networks and stations and exhibitors.
NAICS 51219 Postproduction Services and Other Motion Picture and Video Industries comprising establishments primarily engaged in providing postproduction services and other services to the motion picture industry, including specialized motion picture or video postproduction services, such as editing, film/tape transfers, titling, subtitling, credits, closed captioning and computer-produced graphics, animation and special effects, as well as developing and processing motion picture film.
NAICS 7115 Independent Artists, Writers and Performers comprises independent (i.e., freelance) individuals primarily engaged in performing in artistic productions, in creating artistic and cultural works or productions, or in providing technical expertise necessary for these productions. This industry also includes athletes and other celebrities exclusively engaged in endorsing products and making speeches or public appearances for which they receive a fee.

For the Sound Recording Industry

NAICS 5122 Sound Recording Industries that comprise establishments primarily engaged in producing and distributing musical recordings, in publishing music, or in providing sound recording and related services.

For the Digital Interactive Media Industry

NAICS 5112 Software Publishers comprises establishments primarily engaged in computer software publishing or publishing and reproduction. Establishments in this industry carry out operations necessary for producing and distributing computer software, such as designing, providing documentation, assisting in installation and providing support services to software purchasers. These establishments may design, develop and publish, or publish only.
NAICS 541511 Custom Computer Programming Services comprises establishments primarily engaged in writing, modifying, testing and supporting software to meet the needs of a particular customer.

For the Live Performance Industry

NAICS 71113 Musical Groups and Artists comprises groups primarily engaged in producing live musical entertainment (except theatrical musical or opera productions) as well as independent (i.e., freelance) artists primarily engaged in providing live musical entertainment. Musical groups and artists may perform in front of a live audience or in a studio and may or may not operate their own facilities for staging their shows.

While these classifications may not be an exact match for the four entertainment industry segments that have access to tax credits, they are reasonably comparable and can show trends in employment. However, they should be viewed as a rough guide for determining industry trends given the highly mobile nature of employment in these industries.

Employment Trends

Employment data by NAICS code are collected by the federal government from employers monthly in a uniform manner as required by federal law. State and local governments use this data set to compute employment growth rates, project income tax revenues, and study employment history and labor markets. The data series includes employment for the entire industry for every worker who receives a paycheck during the pay period that includes the 12th of the month, which generates a W-2 form and is therefore covered by unemployment insurance. Normally between 85 and 95 percent of all employees are covered by unemployment insurance. It should be noted that both the U.S. Bureau of Labor Statistics (BLS) and the Motion Picture Association of America (MPAA) acknowledge that this system under-represents film production industry employment, since so many industry professionals work on a contractual or freelance basis. BLS calculates this deficiency results in underreporting by about 10 percent; MPAA estimates place the underreporting at as much as 20 percent. Acknowledging this shortcoming, BSCG considered how Louisiana measures with respect to its share of workers in the targeted NAICS categories compared to other states.

Economic Impact Analysis

Economic impact analysis is conducted using an analytic tool called an input-output model. The results of the analysis measure the economic activity occurring within a defined geographic region as a result of spending and wages paid by a particular industry. The initial economic stimulus is referred to as the *direct impact* of the business activity. The *indirect impacts* are generated as a result of the purchases of the identified industry.

For example, a motion picture production company comes to Louisiana to make a movie that will generate direct impacts – all the expenditures by the production company while filming in Louisiana. As defined by the law, these expenditures can have access to the tax credits allowed.

Companies supplying those goods and services to the production company in turn buy goods and services from other businesses. This is the *indirect* impact, also an economic benefit. In addition, the individuals earning wages will have additional spending power, as they re-spend part of their wages on goods and services in the state. This is the *induced impact,* which occurs when employees spend their earnings in the economy.

The results of an economic impact analysis in Louisiana are reported in the following ways:

Output: total value of goods/services produced across all industry sectors and all stages of production.
Employment: This represents the number of jobs needed to support the given economic activity across all sectors, often referred to as "jobs created." It includes all wage and salary employees, both part- and full-time. It is measured in annual average jobs (full time equivalents).
Earnings: total payroll costs (including benefits) across all sectors. It includes the wages and salaries of workers who are paid by employers, as well as benefits, as well as proprietary income received by self-employed individuals.
Total Value Added: refers to that portion of the value of total output that was actually created by the economic activity in an area and/or industry. It is the net – the difference between the value of goods produced and the cost of materials and/or supplies that are used in producing them. It includes wages, proprietary income, other property income and indirect business taxes. Other property income is comprised of rents, royalties, dividends and profits.
Indirect business taxes: include excise taxes, property taxes, fees, licenses and sales taxes paid by businesses that occur during the normal operation of business but do not include taxes on profit or income.
Fiscal Impacts: are the revenues, both taxes and fees, generated at the federal, state and local levels resulting from the economic activity.

Our analysis and conclusions concerning the economic impact of the entertainment industry in Louisiana are based on the use of the IMPLAN model, a software program first developed by the United States Department of Agriculture (USDA) Forestry Service to perform impact analysis for planning purposes. IMPLAN's database includes Louisiana data for 528 industrial sectors and the ways in which those sectors interact with each other, households and government agencies. IMPLAN is widely used across the United States by government and private entities to prepare location-specific economic impact analysis. The economic multipliers found in IMPLAN are developed using input-output tables that provide information on all production activities and transactions between producers and consumers in the state. The multipliers measure the re-spending of dollars in an economy and are used to calculate indirect and induced impacts, also known as the 'multiplier effect.'

To determine the economic impact of the profiled entertainment industries, BSCG used "input" data from OEID for analysis in IMPLAN. OEID tracks the amount of money spent in Louisiana by companies that have received State incentives for motion picture, sound recording, digital interactive media, and live performance activities. Only the dollars spent in Louisiana are eligible for the incentives. Only after these dollars are audited by independent Louisiana CPAs are tax credits awarded. BSCG also took into account the savings to the State achieved through the motion picture program's "buy-back" provision, which allows productions to transfer credits directly back to the State at $0.85 on the dollar, rather than using them or selling them on the open market.

Impacts from 2005 through 2007 were presented in the previous impact report published in 2009. The industries have evolved and grown substantially since then. This report focuses on the 2008, 2009, and 2010 calendar year impacts. The accounting and reporting is considered to be essentially complete for 2008 and 2009. However, 2010 numbers are estimated conservatively based on trends in prior years and preliminary data on 2010 program activity. It will be possible to compare the enhanced impacts between the earlier years and the years highlighted in this report, including preliminary data for calendar year 2010.

Interviews

As part of the analytical process, the BSCG staff conducted a series of interviews focused on regional film, music/sound production, digital interactive media, and live performance (which has a limited track record). BSCG met with or interviewed over the phone regional advocate/marketing organizations, economic development offices at the state and local levels, production companies, sound stage managers, and spinoff businesses as well as comparable offices (primarily film) from other states with entertainment incentives.

III. Key Relevant Aspects of the Motion Picture Industry

Structure of the Industry

The motion picture industry has historically been dominated by several large studios based primarily in Hollywood. These include Sony Pictures, 20th Century Fox, The Walt Disney Company, Warner Bros, Paramount Pictures, and NBC Universal. In addition to the studio system, several smaller or "mini-major" studios have arisen. These include companies such as Nu Image, Lionsgate, the Weinstein Company and Summit Entertainment.

The following are the most common types of productions: feature films with a wide range of budgets and intended for theater, straight to DVD or electronic distribution; Movies of the Week (MOWs); television pilots; television series; music videos; commercials; documentaries; and reality television. Development of web-based content is also growing.

Trends in the Feature Film Industry

Changes in the feature film business have been, by and large, positive for Louisiana and other states that have been competing for a share of this business. Data previously maintained by MPAA through 2008 was summarized in the previous economic impact study and showed that the average cost of producing and marketing large feature films had been increasing (averaging about $100 million per film). With the growing number and variety of other film products there has not been an increase in the number of feature films produced annually. But there has been an increasing emphasis on saving on production costs to ensure profitability. The incentives packages now being offered around the US and overseas are considered the "price of entry" for states that want to capture this business. Louisiana has been successful in capturing a portion of feature film activity and there has been a variety of other types of films that are now occurring within the state.

Trends in the Television Production Industry

The TV production and distribution industry in the U.S. includes approximately 500 companies with combined annual revenue of $13 billion. Major companies include NBC Universal, CBS Paramount, Disney-ABC, Fox Television Studios, Warner Bros. Television Group and Sony Pictures Television. As a result, the television industry is highly concentrated, with the 50 largest companies accounting for 80 percent of the industry revenue. Most firms, however, are small, privately held production companies. Producing television shows is expensive and costs occur well in advance of revenue. A single episode of an hour-long television network show can cost between $1 and $2 million to produce. Some of the key trends that have continued to occur since the 2008 study:

1. Reality TV has become increasingly popular and lucrative. There have been some instances where producers have used the unique environment of Louisiana for these productions.

2. Pervasiveness of cable television. The product is generally created by smaller, independent producers.
3. Television networks may produce their own movies.
4. Production of commercials is more price sensitive than in the past and may not meet State spending thresholds.
5. Episodic and other content developed specifically for Internet distribution.

Economic and Fiscal Significance of Motion Picture Production

The Motion Picture business resembles any other business sector in the kinds of impacts it produces for a state or local economy. The magnitude of this impact depends on how extensively the industry has evolved and its capacity for self-sufficiency (i.e., the capacity of supporting businesses to meet the needs of the film production companies and the depth of the labor force to provide the skills needed by individual motion pictures).

As BSCG interviewed the principals in film production companies and the existing studios, they learned that many markets in Louisiana have the capacity to accommodate most of the “below-the-line,” hands-on film creation functions, and some of the creative/management “above-the-line” skills. It is primarily post-production that is still often taken back to Los Angeles or New York. But BSCG’s review of the expenditure reports submitted for audit to qualify for tax credits shows that some of this work is being done in Louisiana. Changing film-production technology is also enhancing the potential for comprehensive film products with new software and easier-to-use cameras. Digital advances allow more flexibility where scenes can be corrected on-set digitally, and dailies can be screened less than 24 hours after wrapping a day’s shoot.

Local business sectors that have capitalized on these activities include labor, transportation, lodging, car and truck rentals, gas stations, food and beverage establishments, other retail such as antiques, construction and construction materials, housing, repair, equipment rentals, personal, business and government services, catering, etc. One example of this diversification in the state is locally owned Hollywood Trucks, which has grown its fleet from a few trucks to well over 200 vehicles to service the motion picture industry.

The Internet is still viewed as the most promising medium of the future. The National Cable & Telecommunications Association (NCTA) reports that the number of residential high speed data subscribers increased from 5.5 million in Q2 2001 to 37.0 million in 2008. This represents an increase of nearly 600 percent, nearly three times the increase in the number of digital cable subscribers. To date, there is no common commercial model for optimizing the distribution of motion picture content over the Internet. Internet distribution is often sponsored by advertising, subscription fees, pay-as-you-go product sales or some combination of the three.

In estimating the economic and fiscal impact of the film industry that has been spawned by the tax credit incentives, one must define what business is being carried out by the state labor force, what expenditures occur within local establishments, and – in contrast – what dollars for salaries and other expenditures are accruing out of state. This has been made clear by productions' audited spending accounts provided to LED to qualify for the credits. It is apparent from the data that over time, the home-grown business capacity is larger and more sophisticated, meaning producers coming to the state for the financial incentives are able to effect more of their business activity locally.

Impacts of Film Production

The key fiscal impacts of the film industry include the following:

1) The employment of a local workforce
2) The purchase of local materials and supplies
3) Various services that are used by both the production and the people involved in the production, including food service and catering
4) The generation of auto rentals and room nights at area hotels
5) Increased restaurant and retail revenues
6) Taxes and fees

BSCG reviewed several thousand pages of expenditure data submitted to OEID to determine what types of expenditures occur with varying types of film production. The data is audited for the actual receipts, therefore it is not possible to determine the exact nature of some expenditures. However, BSCG found the following to be generally supportable figures for recent film and TV productions:

1) The television series *Treme*, spent nearly $7.5 million in its first year that was recorded for tax credits. Nearly 85 percent of the cash spent was in the Louisiana economy. For example, $176,000 for hotels, $95,000 on per diem, and $116,000 for production living costs; $372,000 was spent on a wide variety of materials, and $28,000 was spent for construction; rentals were $325,000 for equipment and materials, with another $213,000 for site rentals and $74,000 on office rent – all going to local businesses. Other expenditures included miscellaneous services ($39,000); set dressing ($20,000), food and catering ($91,000); gasoline ($31,000); location security ($76,000), police ($44,000), permits ($12,000), and auto/transportation ($64,000). Some of this latter list went to government. These all create secondary impacts on the economy as well.
2) The recently released *Battle: Los Angeles* had a production budget of $68.8 million, of which $46.5 million was spent in Louisiana, and over $12 million in labor payments. A review of this budget shows that local expenditures were made at all levels of production: above the line and below the line. Labor included the main actors as well as local stunt people, extras and stand-ins. Because there were street and highway closures in Shreveport, about $35,000 were paid to local government. Location costs were nearly $500,000 including payments to local security and police. Non-labor purchases and rentals exceeded $10 million.
3) *Swamp Shark* is a low budget film (about $2.5 million) which is estimated to spend $2.2 million in Louisiana with that amount covering a $250,000+ payroll. The remaining $2+ million in spending went to a variety of identified costs: hotel ($33,000); cars ($30,000); rentals and purchases ($150,000+); rental housing ($84,000); telephone ($27,000); film processing ($14,000); and other normal expenses.

4) *Killing Karma*, a moderate-sized feature film, had substantial spending during the production period. Examples of spending are purchases of various types ($270,000), equipment rentals ($240,000), site rentals ($114,000), meals and catering ($117,000), auto/truck ($248,000), hotel rooms ($62,000), police/security ($77,000), fire protection ($17,000), and medic services ($12,000).

These examples illustrate the kind of spending that is occurring related to the tax credit program. Some of the summarized expenditures included tax payments. In most of these cases the hotel room tax exceeds 13 percent; auto rentals exceed 7 percent; and the materials/supplies retail sales taxes at the rates within the municipalities where they occurred. Some of these tax impacts will be summarized in the IMPLAN conclusions.

Impact on Employment

According to BLS, the motion picture and sound recording industry (NAICS 512) employed about 380,000 persons in 2007. This represents a slight increase of 1.3 percent from 2006, but the updated numbers in Table 1 below show that in 2010, total employment was about 372,000. It should be noted that many individuals work in the motion picture and video industries on a freelance, contractual, or part-time basis and, according to BLS, some of these jobs are missing in the official counts, because these workers are not directly employed by companies and do not qualify for unemployment compensation. In general, the motion picture industry depends partially on interim labor, and some motion picture and video establishments employ fewer than 5 full-time workers.

Table 1. U.S. Motion Picture Industry Employment (in thousands)

Year	Total Employment (000s)	Annual % Change
2001	376.8	--
2002	387.9	2.9
2003	376.2	-3.0
2004	385.0	2.3
2005	377.5	-1.9
2006	375.7	-0.5
2007	380.6	1.3
2008	371.3	-2.4
2009	357.6	-3.7
2010	372.0	4.0

Source: Bureau of Labor Statistics Current Employment Statistics

Employment of a local workforce is particularly noteworthy since film production/crew jobs tend to pay higher wages than comparable employment using the same skills. For instance, a landscaper or costume designer working on a film production can earn nearly double their regular earnings in non-production-related jobs. The motion picture production industry involves highly skilled, high-wage employment. Data from the BLS for 2009 shows the mean wages in the arts industries, both for industries with more than 100 employees and those with fewer than 100 employees. These are substantially higher than the mean for the average U.S. employee (see Table 2 below).

Table 2. Mean Wage for Arts Occupations, 2009

	Companies With Fewer Than 100 Employees	Companies With More Than 100 Employees
Actors, Producers and Directors	*	$81,446
Camera Operators: TV and Motion Pictures	$53,732	$38,799
Writers / Editors / Authors	$51,480	$58,514
Audio and Video Equipment Technicians	$51,926	*
Miscellaneous Media & Communications	$45,599	$35,737

Source: Bureau of Labor Statistics
** BLS does not report numbers for this category.*

Infrastructure Impacts

Louisiana implemented an infrastructure incentive during the first years that the entertainment incentives were offered. As a result of this incentive, the state now has a variety of production and post-production facilities and service providers, including sound stages, in key regions.

IV. Louisiana's Motion Picture Industry

Louisiana has been able to market itself effectively as a place for various types of film production, primarily movies and television. Each part of the state has been able to leverage its various assets: from scenic beauty (bayous, woodlands, Gulf of Mexico, lakes), to history and culture (plantations, historic buildings and New Orleans' French Quarter). The Louisiana tax credits – which return to the production company up to 35 percent of allowed in-state expenses for labor and materials/services – serve to lower costs and film budgets compared to other states or nations (such as Canada) where a range of costs are comparatively higher or the incentive packages are lower. All this enhances the bottom-line profitability of film productions. At the time of the last impact study for LED, the Canadian-to-US dollar exchange rate offered a financial benefit to Canada. Currently, the exchange is approximately at par. However, some areas of Canada have retained a competitive position in the marketplace. For example, Vancouver has a privately-run film production school that has been operating since the 1980s. It is highly regarded in the industry and serves as both an industry catalyst and workforce pipeline.

At the time of the previous impact study, data provided by the Internet Movie Database (IMDb) website indicated 426 productions had taken place in Louisiana from 2002 through 2008. This database includes feature films, television (TV) episodes, made-for-TV movies, TV series, direct-to-video movies and live action video games. It should be noted that not all 426 of the productions listed on IMDb applied for tax credits through Louisiana's incentive programs.

In the document *Building a Permanent Entertainment Economy* prepared by OEID, there is discussion of the diversity of film activity occurring within the state. (The above document, along with a comprehensive Louisiana filmography, can be found at www.LouisianaEntertainment.gov.) Tax credit records provided by OEID form the database for the impact analysis of the tax credit-related film business in the state. As can be seen from the filmography, there has been steady growth in film production in the state. This continues through 2010 which is larger still than 2009. Further, investment has grown – that is, dollars spent in the state and their related "churning impact."

Another measure of the film industry is the number of members in trade unions. IATSE Local 478, the predominant Louisiana below-the-line union, counts between 850 and 900 members. In recent years, another 200 members of additional film production guilds and unions have filled out the ranks of a variety of other film production aspects.

Before the actual results of the IMPLAN model are discussed and quantified, BSCG updated the information on film-related employment and its fit into the larger national picture. The tables below show these indicators and the continued growth in the industry in Louisiana. The objective of the tax credits for production – and previously for infrastructure – was to create a diverse and self-sustaining industry. The data show this is being effectively accomplished.

A good indicator of this is the $100+ million of tax credit-audited payroll spent in 2009. Over one-half billion dollars was spent in total by film productions that year; of this amount, about $361 million was spent in the Louisiana economy.

The credits were issued under the directives of two separate legislative initiatives. One allows up to a 35 percent tax credit and the other a 25 percent credit. The total values of 2009 productions aggregated for each program (total certified dollars, payroll, credits approved, etc.) indicate that approximately 70 percent of the total budgets were spent in the state and is part of the impact being estimated.

Employment Trends

Since 2002, the film industry in Louisiana has undergone substantial and exponential growth, with impacts created not only by direct employment, but also the spinoffs of the related investment in the state and wage spinoffs. It is important to track this employment because it has outpaced national averages. Employment in Louisiana's film industry increased between 2001 and 2007 (last detailed state data available from the BLS) at a compound annual growth rate (CAGR) of about 22 percent. This compares to a national growth rate of about 2 percent annually for the seven years where data was available.

Although the average wages are lower than the national levels, they have increased at an average annual rate of over 8 percent, much faster than inflation. The lower wages reflect both the lower cost of living in Louisiana as well as the fact that some higher industry earners live outside of the state. By 2007, according to BLS data, people in the motion picture industry in Louisiana earned an average wage of $37,209.

Additional information can be found in the 2001 to 2008 employee tracking of industry payroll companies *Entertainment Partners* and *Cast and Crew* for their Louisiana clients (provided by IATSE Local 478). In 2001, the average annual wage was $7,428 which then increased to $52,534 in 2008. This represents a CAGR of 32.2 percent. Furthermore, the aggregate wages reported by IATSE increased from $1 million to $34.5 million during the same period, an astonishing 65.8 CAGR.

(More recent employment information and trends, based on actual (2008-09) and estimated (2010) payroll data provided by OEID and generated by IMPLAN respectively, are discussed in detail in the next section, "Economic Impact of Louisiana's Motion Picture Industry.")

Table 3. Motion Picture Industry (NAICS 51211, 51212, 51219 and 7115): 2001 to 2008

	Firms	Jobs	Total Wages ($ millions)	Average Pay
United States				
2001	33,081	242,828	$17,844.6	$73,487
2002	33,846	259,172	$18,963.4	$73,169
2003	34,375	250,882	$19,045.8	$75,915
2004	35,257	265,505	$21,233.1	$79,973
2005	36,374	262,300	$21,340.0	$81,357
2006	38,706	265,995	$22,417.8	$84,279
2007	39,405	270,685	$23,215.4	$85,765
2008	39,952	280,471	$24,520.5	$87,432
CAGR (%)	2.7	2.1	4.6	2.5
Louisiana				
2001	197	926	$21.5	$23,247
2002	200	896	$22.7	$25,307
2003	193	1,515	$28.0	$18,456
2004	184	2,156	$46.8	$21,723
2005	218	2,543	$83.3	$32,762
2006	237	2,176	$66.8	$30,700
2007	260	3,056	$113.7	$37,209
CAGR (%)	4.7	22.0	32.0	8.2

Source: Bureau of Labor Statistics Quarterly Census of Employment & Wages

The following table presents the average annual employment for the film industry by specific industry category in Louisiana from 2001 to 2007 as well as the associated compound annual growth rate (CAGR). Employment in the category for motion picture production is the largest segment among those profiled and has experienced the most growth over this time period. In 2001, before Louisiana enacted tax incentives, there were approximately 500 people employed in this segment. By 2007, employment had increased more than 5 times, reaching about 2,700 full-time-equivalent people (both full- and part-time workers). This represents a CAGR of about 33 percent. There have been some fluctuations in employment levels in each of the segments, but as the industry further matures, employment levels should begin to even out and stabilize. Also recall that self-employed persons/contractors, who make up as much as 20 percent of the workforce in this industry, are not included in the dataset.

Table 4. Average Annual Employment in Motion Picture Industry in Louisiana

Year	2001	2002	2003	2004	2005	2006	2007	CAGR (%)
Motion Picture and Video Production	497	516	993	1,281	1,971	1,875	2,737	32.9
Motion Picture and Video Distribution	71	22	10	6	5	4	6	-33.8
Postproduction Services	201	195	352	732	468	161	170	-2.8
Independent Artists, Writers, Performers	157	163	160	137	99	136	143	-1.5
Total	926	896	1,515	2,156	2,543	2,176	3,056	22.0

Source: Bureau of Labor Statistics

Unfortunately, the BLS has not updated these figures since the last analysis, but the data show that despite the decline in such areas as distribution and post production (which may be down due in part to changing technology), the overall trends for the six-year period had been up. Louisiana is ranked as one of the top states in the country for motion picture and video production business levels.

Economic Impact of Louisiana's Motion Picture Industry

As a result of the 2002 legislation designed to stimulate Louisiana film activity, the industry has grown significantly in terms of projects, employment, and infrastructure. OEID serves as the information clearinghouse and provides technical assistance for companies engaged in film and television production in the state. Since the program began through 2010, hundreds of productions have been either certified or given initial certification in Louisiana and qualified (finally or initially) for incentives through the motion picture tax credit program. The OEID estimates 118 projects were produced in 2010.

Table 5 below presents the number of productions with certified expenditures in a given year. Due to the nature of motion picture production, a single project may have expenditures in multiple years resulting in annual totals somewhat different from those cited above. Project spending is categorized as budgeted, initially certified and finally certified. Finally certified expenditures indicate that the project had qualified expenditures in Louisiana verified by an independent audit. Tax credits are then issued based on finally certified dollars.

There are also a large number of 2010 projects that have applied for tax credits and have been initially certified. Because OEID does not yet have final in-state spending figures, a conservative estimate of 75 percent has been applied to all initially certified project figures to achieve Louisiana spend. This estimated figure projects 2010 as having the strongest annual investment activity to date. In 2009, spending per production ranged from a low of $300,000 (the minimum to qualify for credits) to a high of $69 million.

Table 5. Summary of Motion Picture Projects in Louisiana

	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Est.)
Total Projects	1	15	32	36	49	86	46	112	118
Actual total budgets (millions)	$10.5	$241.1	$413.4	$609.3	$698.1	$450.6	$652.7	$519.3	$1,100
Initially Certified LA Spend (millions)	N/A	N/A	N/A	N/A	$174.9	$407.9	$511.9	$494.3	$898.8
Finally Certified LA Spend (millions)	$3.5	$79.6	$136.4	$201.1	$281.2	$374.5	$474.2	$361.5	$674.1

In characterizing the impacts of film on the economy, it is important to consider both the output and total value added. "Total value added" represents the degree to which the state economy is enriched by a given activity, with the largest component being wages. It also includes such things as rents, royalties, dividends and profits as well as indirect business taxes incurred. It does not include taxes on profit or income which are included in the fiscal impacts. It includes payments made to individuals (employee compensation), business owners (proprietary income or corporate profits), investors (dividends, economic rents and royalties) and governments (sales and excise taxes). In the discussion in a previous section, BSCG defined how various productions are spending money in the state's economy. The IMPLAN impacts reflect spending in all of these categories.

BSCG input data provided by OEID for years 2008 and 2009 into IMPLAN to generate the impacts for those years. Because 2010 projects have not all received final certification, and therefore similar "actual" numbers are not available, BSCG used conservative estimates as inputs for IMPLAN. The 2010 estimates considered the historic range of estimated spend dollars that were ultimately converted to final approved/certified spend and redeemable against state income tax liability. This recently ranged from 73 percent to 93 percent. This analysis uses 75 percent, which BSCG considers to be a very conservative figure.

According to data provided by OEID, total spending in 2009 was $519.3 million and the Louisiana spend (which is the basis of the impact estimates) was $361.5 million. These figures are those which have been certified, and include the labor spending of over $100 million – which has the 5 percent additional credit for Louisiana residents.

The 2009 impacts were clearly lower than those in 2008. This lower figure is likely the result of several factors: a threatened writers' strike, an actors' strike, the economic recession, and some uncertainty about the direction of the film tax credit legislation (which was ultimately made permanent that year).

For 2010, following the historical trends referenced above, BSCG applied the 75 percent estimate to the approximately $898.8 million in initially certified Louisiana spend, resulting in $674.1 million in finally certified Louisiana spend. Tables 6, 7 and 8 summarize these figures, reflecting the results of IMPLAN runs for each of the years.

Comparatively, 2010 – which had four major productions – has the largest metrics for impacts, and 2009, a year that faced a number of industry and economic problems, is the low performer of the three. The tables break out the impacts by the types discussed earlier in the report: direct, indirect and induced. Further, jobs, related wages, value added and total output are shown for each of the categories of impacts and all are aggregated to show the full impacts.

Table 6. 2008 Film Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	3,806.9	$163,377,215	$334,689,241	$540,933,262
Indirect	978.1	$40,870,039	$71,680,815	$121,321,351
Induced	1,345.5	$49,279,624	$88,178,428	$150,022,911
Total	6,130.5	$253,526,878	$494,548,484	$812,277,524

Table 7. 2009 Film Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	2,777.3	$106,471,306	$244,170,200	$394,634,051
Indirect	713.6	$29,816,449	$52,294,234	$88,509,137
Induced	980.2	$35,951,603	$64,329,952	$109,448,159
Total	4,471.1	$172,239,358	$360,794,386	$592,591,347

As can be seen in the tables above, the impacts in 2008 were about 37 percent higher than those in 2009. Table 9 details all three years, showing that the 2010 estimated impacts are greater than each of the previous years.

Table 8. 2010 Film Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	4,967.2	$212,745,965	$435,824,497	$704,390,565
Indirect	1,273.7	$53,200,003	$93,341,071	$157,981,809
Induced	1,749.5	$64,170,766	$114,823,873	$195,356,302
Total	7,990.4	$330,116,734	$643,989,441	$1,057,728,676

These impacts include the implications of the full range of spending discussed in a previous section for both production and post-production.

2008 was a banner year, with approximately 3,807 direct jobs, another 978 indirect jobs and 1,346 induced jobs -- a total of about 6,130 resulting from tax-credit related productions that year. Total earnings were $253.5 million, averaging about $41,355 in the aggregate picture. The direct wages averaged about $42,916 in 2008. Value added was about $494.5 million and total output was approximately $812.3 million.

The average wage in 2009 resulting from direct spending in the film industry was about $38,336. Value added totaled $360.8 million and the total economic output was $592.6 million. The direct jobs are estimated to be 2,777. Additionally, about 714 indirect jobs and about 980 induced jobs were created for total employment impact of about 4,471 jobs.

As noted above, the forecast for the impacts of 2010 is based on a conservative capture/conversion of the initial certification level. The preliminary numbers show that nearly 8,000 total jobs will be linked to film production, of which about 4,967 are direct jobs, 1,274 are indirect jobs, and 1,750 are induced jobs. Total wages are expected to be $330.1 million – or about $41,314 for the aggregate average and $42,830 for the average related to direct jobs. Value added was about $644 million and the total output is forecast to be approximately $1.058 billion.

When all certifications for 2007 are included, 2007 output is estimated at approximately $763.4 million. This compares to economic output of about $592.6 million in 2009 and approximately $1.1 billion for 2010. Jobs created in 2007 with total spending were 6,230. This compares to about 4,471 total jobs in 2009 and 7,990 expected in 2010. Total income in 2007 was $303.1 million compared to about $172.2 million in 2009 and $330.1 million in 2010.

Economic activity like wages, sales and profits generate tax revenue for federal, state and local governments. In addition to income, sales and property taxes, this includes fees paid to governments, including motor vehicle licensing fees, fines and payments for permits.

In 2008, the IMPLAN model estimated $34 million in total tax revenues ($20.7 million to the State and $13.3 million to local governments).

IMPLAN estimated that the total fiscal/tax impact to the State in 2009 was $24.8 million generated by indirect business, household and corporations and is allocated between the State and local governments. The total – based on data from the Census of Government Finance is estimated to be 61 percent State revenues ($15.1 million) and 39 percent local government ($9.7 million).

In the forecast for 2010, IMPLAN estimates aggregate taxes at $44.3 million (with $27.0 million to the State and $17.3 million to local governments).

Cost Benefit Analysis

In this section, BSCG estimated the costs and benefits to the State as well as the benefits to the overall economy as a result of the motion picture tax credit program. Productions that have applied for tax credits must be approved by the State and their in-state expenses certified. Tax credits are then issued only on qualified expenditures made in the State of Louisiana. For qualified film productions, there is also a wage credit for state residents employed on the project. These two credits are fiscal liabilities to the State and are netted against the tax and other revenues generated by film production activity.

According to analysis of data from the Louisiana Department of Revenue (LDR) by LED, there is often a delayed fiscal impact of certified tax credits because of the taxpayer's ability to carry the credits forward for up to 10 years after certification. As a result, the redeemed credits do not necessarily coincide with the credits that were issued and result in a skewing of the actual impacts in any given year – even though they are, in fact, the numbers that reflect the budget impacts in any given year. Since the motion picture production program's inception, only a portion of those credits have been utilized. The LDR estimates that certified productions were *redeemed* in the following amounts during the three years being evaluated:

2008 -- $54,936,604
2009 -- $167,571,424
2010 -- $89,120,773

In July 2009, the program began to allow the approved productions falling under the 30 percent tax credits to transfer their credits back to the State at 85 cents on the dollar (i.e., State "buy-back"). Of the approximately $63.4 million certified in 2009 after the buy-back provision took effect, $14.4 million was sold back, with a savings to the State of about $2.2 million. In 2010, of the estimated $202.2 million in credits to be issued, about $36 million has already been transferred to the State for buy-back. This translates into at least $5.4 million in savings to the State, with a very conservatively estimated net cost of about $196.8 million in anticipated tax credits after buy back. (See "Costs" in Table 9 below.)

Another factor to consider in the 2010 analysis is the impacts of four very large feature film productions that were certified during the year. The productions and their estimated budgets, in-state spend and tax credits are of a magnitude that they skew the results of that year. While it is not reasonable to remove them from the analysis – because it is conceivable that subsequent years will also have some large productions – it is valid to consider what share of the total economic activity they comprised during this period. The productions include *Battle: Los Angeles*, *Green Lantern*, *Battleship*, and *Twilight*.

For *Battle: Los Angeles*, which is completed and released, the total budget was $68.8 million, the Louisiana spend was $45.2 million, and the tax credits certified were $13.6 million.

For *Green Lantern*, the estimated total budget is $118 million, and the Louisiana spend is forecast to be $114 million, and the tax credits expected to be issued are $34.2 million.

Battleship reported an estimated total budget of $215 million; Louisiana spend is forecast to be $68 million, and the tax credits expected to be issued are $20.4 million.

For *Twilight*, the estimated total budget is $247 million, the Louisiana spend is $98 million, and the tax credits expected to be issued are $29.4 million.

Together, these productions have the following aggregate totals:

<u>Estimated Total Budgets</u>: $648.8 million

<u>Estimated Total Louisiana Spend</u>: $325.2 million

<u>Estimated Total Tax Credits Certified</u>: $97.6 million

This comprises nearly the same amount of the total film activities for the entire year in 2009. This may not be replicable in the future, but it reflects the attractiveness of filming in Louisiana with the tax credits.

Table 9. Economic/Fiscal Cost Benefit Comparisons of Film Production Tax Credit Program

Motion Picture Productions

	2008	2009	2010 (Est.)
Benefits			
Economic Output ($ millions)	812.3	592.6	1,057.7
Total Employment (Jobs)	6,130.5	4,471.1	7,990.4
Total Earnings ($ millions)	253.5*	172.2*	330.1
Total Value ($ millions)	494.5	360.8	644.0
State Taxes ($ millions)	20.7	15.1	27.0
Local Taxes ($ millions)	13.3	9.7	17.3
Costs			
Certified Tax Credits – cost after buy-back ($ millions)	128.6	106.1	196.8
Buy-Back ($ millions)			
		14.4	36
Tax Credits Redeemed ($ millions)	55	168	89
Output Multiplier			
Economic output divided by tax credits certified	6.3	5.6	5.4
Net State Fiscal Impact ,			
Reflecting Tax Credits Certified ($ millions)	-107.9	-91	-169.8
Reflecting Tax Credits Redeemed ($ millions)	-34.3	-152.9	-62

For years 2008 and 2009, actual direct payroll numbers provided by LED are reflected in the Total Earnings figures in Table 9. In general, actual direct payroll figures are larger than those generated by the IMPLAN software based on industry expenditures. As a result, the earnings estimates for years 2008 and 2009 may be larger relative to economic output, total value, and State and local taxes than the earnings estimate for 2010.

As shown in the preceding table, the State of Louisiana issued an estimated $128.6 million in tax credits in 2008 and $106.1 million in tax credits (after accounting for the $0.85 buy-back) for projects certified with estimated expenditures incurred during 2009.

Economic Stimulus

The 2008 figures represent an economic stimulus of $6.32 for every $1 in tax credits issued for qualifying motion picture expenditures during that year. In 2009 the ratio was $5.59 (after accounting for the tax credits redeemed minus savings from direct transfers back to the State). The average ratio of output-to-credits certified over the three years was 5.71.

Employment
In 2008, the $128.6 million in tax credits supported about 6,130 total jobs with an average salary of $41,355 at the cost of about $20,977 in tax credits per job. The State received $20.7 million in tax revenues from that year's activity.

The 2009 tax credits of $106.1 million supported about 4,471 total jobs throughout the state, paying an average annual salary of about $38,524 at the cost of about $23,730 in tax credits per job during 2009. The State of Louisiana directly received $15.1 million in taxes resulting from this economic output in 2009.

In 2010, estimated tax credits to be certified is about $202.2 million ($196.8 million after buy-back based on very conservative estimates) with about 7,990 total jobs at an average cost of about $24,630 in tax credits per job. The State received about $27 million in tax revenues from 2010 activities.

Fiscal Impacts
As in the previous report, the analysis in the table above shows that the fiscal impacts in each year were negative, ranging from about -$34.3 million in 2008 based on tax credits redeemed to about -$169.8 million in 2010 based on tax credits certified.

V. Overview of the Music Industry

The digital age has brought with it wide-sweeping changes to the recorded music industry. Online media now dominates the industry as the preferred method of purchase and delivery for recorded music. This section contains a general overview of national industry trends and associated consumer and product trends.

The market for CDs is dwindling rapidly, and the market for digital downloads will continue to grow as more of the marketplace has access to iPods, smart phones and other digital storage technology. An overwhelming majority of recorded music can now be downloaded for free or a small fee. In an effort to counter the significant loss of revenue derived from the sales of recorded music, major music industry interests have shifted their focus to developing new revenue streams. The touring industry has been identified as the most vibrant growth sector, and new models for generating ancillary income associated with touring (inclusive of downloads of recorded music as a value added incentive) are emerging.

Children's music has been the fastest growing genre of music in the industry recently. R&B/Urban and New Country artists continue to show great staying power on the sales charts.

VI. Louisiana's Music Industry

Historically, Louisiana artists have had great success in multiple genres, and not just as recording artists. Louisiana can claim generations of leading musicians, producers, composers and music industry professionals that are unparalleled in the United States. However, most of them have had to leave Louisiana to find commercial success. The sound recording incentives were designed as an attempt to turn that tide.

Compared to the film industry, Louisiana's music industry is smaller and growth related to the tax credit incentives has been proportional. However, film industry activity has generated positive side-effects for the sound recording sector in the form of increased activity in music recording projects for, and music placement in, film and video. Sound recordings include the production of new master recordings of music released on CDs, digital downloads, soundtracks for film or TV, or as part of commercials or video games.

The following tables document the size of the overall music industry in the United States and in Louisiana, although some of the data available for earlier years has not been assembled for 2009. The overall trend appears to be one of consolidation, with fewer companies with fewer employees in 2007 than in 2001. Employment fell at an average annual rate of 3.3 percent since 2001 while the number of companies fell at a rate of 2.0 percent nationally. On the positive side, the average pay has been increasing overall with a significant downturn in 2009.

The music industry in Louisiana is relatively small with fewer than 100 firms in the state and about 1 percent of the industry's total employment as of 2009. In 2007, there were 370 people employed at 89 industry firms in Louisiana. Despite enacting legislation to encourage development, there has been a slight decline in the industry, in part reflecting national trends as well as the effects of Hurricane Katrina. As with employment in the motion picture industry, many jobs in the music industry are characterized by part-time and short-term projects in Louisiana, not traditional full-time, year-round employment. Many musicians, like actors, are employed full-time in other industries to supplement their wages. A survey conducted by the Tipitina's Foundation, a not-for-profit musicians' advocacy organization, showed that the majority of people who considered themselves professional musicians had full-time or supplemental jobs to generate adequate income.

Table 10. Music Industry (NAICS 5122 and 71113): United States

Year	2001	2002	2003	2004	2005	2006	2007	2009
Firms	10,356	10,007	9,709	9,362	9,260	9,233	9,184	
Jobs	74,704	71,181	66,998	62,713	61,496	60,342	61,100	61,590
Total Wages (millions)	$3,464	$3,207	$3,432	$3,278	$3,345	$3,697	$3,843	$3,128
Avg. Wages	$46,364	$45,060	$51,222	$52,273	$54,397	$61,268	$62,906	$50,795

Table 11. Music Industry (NAICS 5122 and 71113): Louisiana

Year	2001	2002	2003	2004	2005	2006	2007	2009
Firms	92	98	100	93	94	93	89	
Jobs	681	653	633	562	421	365	370	610
Total Wages (millions)	$15.0	$18.2	$12.6	$12.1	$10.3	$10.7	$11.3	$18.6
Avg. Wages	$22,020	$27,891	$19,881	$21,467	$24,568	$29,290	$30,586	$30,469

Louisiana has a low concentration of music-based employment. California and New York are (again) far and away the leaders in this segment of the entertainment industry, followed by Texas, Illinois and Tennessee. Louisiana is known around the country for its music, but its employment is very low relative to the other states, demonstrating a lack of music business infrastructure.

Economic Impact of Louisiana's Music Industry

In 2005, the Sound Recording Investor Tax Credit was enacted to boost record production development by reducing the cost of making new master music recordings, whether distributed by CD, digital download or as part of a soundtrack. The legislation also provided a 25 percent tax credit on sound recording infrastructure. Although the music industry shrank considerably right after Hurricane Katrina, the industry has received a boost from the State through these tax credit initiatives. In 2006, there was only one certified project in Louisiana for $168,600. In 2007, five projects had certified expenses totaling about $340,000.

The Louisiana certified production spend numbers were as follows for 2008, 2009, and 2010:

- approximately $320,931 in 2008
- approximately $666,837 in 2009
- approximately $1.1 million in 2010

Using the same methodology to measure the impact of the film industry, BSCG generated economic impacts associated with projects that qualified for state production tax credits. Only those certified production expenses incurred in Louisiana were included. The following IMPLAN-generated tables summarize this economic activity:

Table 12. 2008 Sound Industry Production Tax Credit-Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	0.5	$16,088	$66,416	$320,930
Indirect	1.0	$41,730	$66,134	$129,040
Induced	0.4	$14,083	$25,225	$42,886
Total	1.9	$71,901	$157,775	$492,856

Table 13. 2009 Sound Industry Production Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	1.1	$36,483	$150,656	$727,994
Indirect	2.3	$94,660	$150,018	$292,713
Induced	0.9	$31,947	$57,221	$97,282
Total	4.3	$163,090	$357,895	$1,117,989

Table 14. 2010 Sound Industry Production Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	1.7	$56,776	$234,453	$1,132,911
Indirect	3.7	$147,311	$233,459	$455,522
Induced	1.4	$49,716	$89,048	$151,391
Total	6.8	$253,803	$556,960	$1,739,824

The $666,837 spent on music productions in Louisiana during 2009 generated a total economic impact of $1,117,989 throughout the state economy. Although the employment supported by projects that qualified for state tax credits is small – about 4 total jobs – the state certified spending in this industry has a much higher multiplier than the film industry. For every job in the music industry directly supported by qualified spending, three additional jobs are indirectly supported in other sectors of the state economy.

In 2008, the total impact was about $493,000 with only about 2 total jobs. The IMPLAN aggregate tax revenues were nearly $12,000 with about $7,100 going to State government and about $4,600 going to local government. IMPLAN estimates that total 2009 taxes were $26,290, with about $16,037 going to State government and $10,253 going to local government. When examining these impacts, it is important to realize that the economic activity generated in the music industry in Louisiana is much greater. These impacts are associated solely with projects that applied for and received state tax rebates.

In 2010, the figures climbed higher as the program began to gain traction. With about $1.1 million in certified spending, there will be about 6.8 total jobs created and more than $1.7 million in total output. The IMPLAN model indicated that this activity generated $40,800 in total taxes in 2010, with about $24,900 going to the State and the remaining $15,900 going to local governments. The cost benefit comparisons for these data are shown below.

Music industry activity in Louisiana was at a considerably lower level in 2006 and 2007, when total output was about $287,200 and $576,700, respectively. Total earnings were about $44,100 and $88,100, respectively, with only about 1.2 and 2.4 full-time equivalent jobs created for those years. Tax credits issued were about $42,100 in 2006 and about $85,100 in 2007, creating a ratio of about $6.80 in economic impacts generated per $1 of tax credits.

Table 15. Economic/Fiscal Cost Benefit Comparisons of Sound Industry Tax Rebate Program

	2008	2009	2010 (Est.)
Benefits			
Economic Output ($ thousands)	492.9	1,118	1,739.8
Total Employment (Jobs)	1.9	4.3	6.8
Total Earnings ($ thousands)	71.9	163.1	253.8
Total Value ($ thousands)	157.8	358.0	557.0
State Taxes ($ thousands)	7.1	16.0	24.9
Local Taxes ($ thousands)	4.6	10.2	15.9
Costs			
Certified Tax Rebates (25%) ($ thousands)	80.3	166.7	271.1
Output Multiplier			
Economic output divided by certified tax rebates	6.1	6.7	6.4
Net State Fiscal Impact, reflecting			
Tax Rebates ($ thousands)	-73.2	-150.7	-246.2

The net impacts to the State, reflected in the table above, were calculated again for the fiscal (State tax/revenue) and economic impact. The net State fiscal impacts ranged from -$73,150 in 2008 to -$246,200 in 2010. The economic impacts in term of total output ranged from $492,856 in 2008 to more than $1.7 million in 2010.

The State tax revenues generated by the Sound Recording program in 2006 and 2007 were about $3,800 and $7,400, respectively, with the net State fiscal impacts at about -$38,300 and -$77,700 in those years.

VII. Overview of the Digital Media Industry

For the purposes of this study, digital media includes things such as:

- E-commerce platforms
- Electronic games played online, on cell phones or video game consoles
- Mobile communication including cell phones and GPS navigation
- Online learning and training
- Video conferencing
- Business programs

Although digital media can take many forms, what is common among them is that digital media is transforming how people create and tell visual stories and how audiences watch and discuss them. For purposes of this analysis, BSCG focused on the evolution and current state of the video game and software development industry.

Our interviews revealed that the business has moved into several key areas: video games, training/education, and business operations software. Many digital interactive products can be purchased on the Internet, in retail stores and directly from designers. New designs and concepts are being created almost daily. And while most games won't have such favorable revenue to cost ratios, some do exceed comparable ratios for the film industry. The potential for this level of profit margin is what continues to attract businesses to the industry.

In an industry continually upgrading its technology, one hit could offset the costs of lower returns on other products, making the investment worthwhile for many developers and software companies. Some developers are willing to experience a loss leader in one product if it establishes their reputation for subsequent products. And software and video is one of the better performing sectors in the U.S. economy. Historic growth rates have exceeded 10 percent per year – much higher than the aggregate in the U.S. according to the Entertainment Software Association. The production of a single video game can create 35 jobs in a small company and up to 250 jobs in a large company. The production cycle is typically between three and five years.

To develop and support this industry, a concentrated and highly skilled workforce is essential. Thus, specialized training relating to various industry functions is viewed as an important prerequisite to ongoing industry development. While recruiting talent from other regions may work short-term, ultimately Louisiana will need its own robust education programs to fill the pipeline of digital media jobs.

Digital Interactive Trends

Entertainment Software

This emerging industry continues to grow and evolve. Initially the focus was on computer and video games – entertainment software – that grew annually at a rate of over 10 percent between 2005 and 2009. This is a spectacular figure given the fact that the economy was in its most severe recession in decades during a significant part of this period. Survey research shows that entertainment software is prevalent in most American households. In fact, games generated $10.5 billion in sales in 2009. States with a strong existing technology base are the top performers in business revenues (California, Texas, Washington, New York, and Massachusetts). This is an area in which the incentive program in Louisiana stands to do well in promoting business development because the start-up costs are less prohibitive and skilled technicians are relatively mobile.

Mobile Apps and Other Technologies

Interactive digital technology has evolved into other areas as well. Smart phones have become the host for all types of technologies from data bases and GPS to games, news programming, etc., prompting an explosion in software development for these devices.

Digital Distribution

The entertainment industry continues to evolve in the mechanisms in which distribution occurs: broadband Internet access and mobile (wireless) technology will drive significant growth in the industry. The Internet is still viewed as the most promising medium of the future. Residential high speed data subscribers continue to grow, although there is no common commercial model for optimizing the distribution of content over the Internet. Internet distribution is often sponsored by advertising, subscription fees, pay-as-you-go product sales or some combination of the three. With the meteoric rise in social network involvement (now encompassing large numbers of households in the U.S.), these offer opportunities for continued growth in this medium.

As broadband Internet becomes more accessible, video games may become more available for digital distribution. Some believe that as computers evolve, games will increasingly incorporate artificial intelligence and virtual reality capabilities. These games will require more than just hand-eye coordination, but rather complex strategies and abstract reasoning. These exist today. Other games will be easier to comprehend and shorter in length in order to reach a wider audience. Innovation will be the constant in this industry.

VIII. Louisiana's Digital Media Industry

The entertainment software industry is starting to take root in Louisiana in large part due to the enactment of the Digital Interactive Media Act. In this section BSCG took a look at broad industry trends occurring in the U.S. and Louisiana through employment data. Then BSCG examined how the tax incentives are being used. Finally, BSCG provides the economic impact estimates of the spending associated with the certified tax credits.

In addition, BSCG's discussions with local leaders in the field revealed interactive programs for health care applications including support of therapy for children with speech disorders and for behavioral health counseling. The potential in this field is enormous, and the growing business base in Louisiana would be expected to continue to create business opportunity and jobs – even in the support of filmmaking which has become increasingly digital and technological. (Some of these details are contained in the 2009 analysis.)

Employment Trends

The previous section provided industry specific data as measured by the Entertainment Software Association. This was custom research done in part because game software publishing is not identified as a separate U.S. industry in the NAICS. Typically, broader industry groupings are used to identify this industry. Entertainment software is often included within the broader industry category of software publishing (NAICS 5112). According to the official 2007 U.S. NAICS Manual, computer software publishing is comprised of "establishments primarily engaged in computer software publishing or publishing and reproduction. Establishments in this industry carry out operations necessary for producing and distributing computer software, such as designing, providing documentation, assisting in installation and providing support services to software publishers. These establishments may design, develop and publish, or publish only."

Within software publishing is home entertainment computer software which is where video game development would most likely fall. Other types of software classified in this NAICS code are

- Application computer software
- Business oriented computer software
- Educational computer software
- Operating systems computer software
- Prepackaged software
- Publisher's computer software
- Utility computer software
- Word processing computer software

For purposes of this analysis, BSCG also included Custom Computer Programming Services (NAICS 541511) as part of its definition of the digital media industry. This industry comprises establishments primarily engaged in writing, modifying, testing and supporting software to meet the needs of a particular customer. BSCG felt that the types of firms operating under these combined classifications would be not only the types of companies targeted by the Digital Interactive Media Act, but were most likely to be part of the video game industry. As noted previously, digital media is a technological process which has broad ramifications in the ways that content is created and delivered to end users. The video game industry is one subset of this much larger digital media market.

BSCG used the 2007 data for these sectors (the most recent data available). The previous analysis used these two sectors to capture this growing industry segment, not to represent the entire digital media industry. In addition, it should be noted that employment in the animation components of video game development may be included within the film industry NAICS definition since animation for both motion pictures and television are part of NAICS 512110, motion picture and video production.

The digital media industry as represented by software publishers and custom computer programming service providers has experienced some fluctuation in employment levels since 2001 but has been increasing steadily since 2004, reaching 847,000 employees nationally. Despite fluctuations in employment levels, the average number of employees per firm has remained relatively stable over time. At the national level, software publishing firms employ an average of 24 people. Custom programming firms employ an average of eight people. Wages grew in both sectors over this time period indicating that sales levels may have continued to rise. Wages in the custom computer programming services sector grew at a compound annual growth rate (CAGR) of 3.8 percent from 2001 through 2007. As this industry has continued to explode – even during the severe recession – BSCG believes this CAGR has continued, if not accelerated, and that Louisiana has stayed at the forefront of this growth as it was in the previous economic impact analysis. The IMPLAN analysis will show how many jobs the tax credit program is creating in 2008 – 2010.

Economic Impact of Louisiana's Digital Media Industry

The State of Louisiana, in enacting the Digital Interactive Media Act in 2005, is encouraging the development of the digital media industry throughout the state. Although the original focus of the legislation was to build the video game industry, a digital media project can qualify for the credits if it meets the following criteria:

1. It must involve a product that is intended for commercial use or distribution;
2. The product must be capable of being distributed over electronic media, including file downloads over the Internet;
3. The product must involve electronic interactivity which allows users to interact with a computer-controlled universe in order to achieve a goal or set of goals; and
4. The product must contain an appreciable quantity of three of the following data types: text, sound, fixed images, animated images and 3-D geometry.

During 2008 the total Digital Media spend was approximately $4.2 million, direct payroll was approximately $3.4 million, and the tax credits issued were about $792,200. *(It is important to note that employment figures listed here are only those associated with projects that have already been granted tax credits. There are projects currently in the pipeline that have yet to submit expenditure reports for tax credits but have already generated considerably more jobs than those reflected by these numbers.)* This activity created the following impacts:

Table 16. 2008 Digital Interactive Media Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	15.0	$3,380,111	$925,220	$4,007,441
Indirect	8.7	$474,844	$858,669	$1,887,232
Induced	8.2	$539,325	$539,325	$917,508
Total	31.9	$4,394,280	$2,323,214	$6,812,181

The following table summarizes the 2009 certified spending, showing Total Louisiana Expenditures, Total Louisiana Spend on Labor, and Total Credits Issued.

Table 17. 2009 Digital Interactive Media Tax Credit Investment Summary

Production	Actual Expenditures	Louisiana Payroll	Total Credits
IAPPTWO	$ 125,400	$ 120,500	$ 43,400
Future Systems	$ 148,870	$ 108,402	$ 22,330
FB1	$ 25,000	$ 25,000	$ 8,750
Say-N-Play	$ 8,633	$ 1,792	$ 1,727
PE Data	$ 300,280	$ 248,550	$ 70,257
Schedulist	$ 56,846	$ 56,846	$ 19,895
MedSonic	$ 68,150	$ 58,785	$ 19,988
EA North American	$ 1,884,019	$ 1,610,839	$ 439,614
Pulse +	$ 117,683	$ 117,683	$ 30,311
Fat Sales	$ 54,149	$ 54,149	$ 9,113
Mourning Post	$ 26,134	$ 26,134	$ 9,146
Generation Custom E	$ 29,925	$ 29,925	$ 9,494
NMD Emerge	$ 24,680	$ 24,680	$ 8,380
NMD Collect Pro	$ 24,881	$ 24,881	$ 7,924
NMD Offender	$ 98,934	$ 98,934	$ 22,690
TOTAL	**$ 2,993,584**	**$ 2,607,100**	**$ 723,019**

These total nearly $3.0 million in actual expenditures, more than $2.6 million in Louisiana payroll and about $723,019 in certified credits.

OEID began keeping records for *actual* payroll as part of the certification process in 2008. The actual numbers from these records differed somewhat from the estimates generated by IMPLAN. Given the availability of actual direct payroll data, those numbers were substituted for the IMPLAN figures throughout this report.

Table 18. 2009 Digital Interactive Media Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	11.0	$2,607,100	$674,915	$2,923,285
Indirect	6.3	$346,381	$626,368	$1,376,668
Induced	6.0	$219,842	$393,418	$669,289
Total	23.3	$3,173,323	$1,694,701	$4,969,242

And finally in 2010 the estimated total spend is roughly $7.6 million, direct payroll at roughly $5.1 million, with tax credits at about $2.4 million. (The 2009 experience with the Digital Interactive Media Tax Credit program demonstrated that, of the initial applications, approximately 42.5 percent of projects came to fruition and received incentives under the program. To ensure that the 2010 estimates are realistic and in line with the earlier trend, the total spend in 2010 reflects the 2009 percentage: 42.5 percent. That is, the discounted share of the 2010 applications.) Economic impact results are as follows:

Table 19. 2010 Digital Interactive Media Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	28.3	$5,060,289	$1,740,594	$7,539,099
Indirect	16.3	$893,311	$1,615,392	$3,550,402
Induced	15.5	$566,969	$1,014,619	$1,726,085
Total	60.1	$6,520,569	$4,370,605	$12,815,586

The total output was approximately $6.8 million in 2008, $4.9 million in 2009 and $12.8 million in 2010. The total number of jobs generated was 32 and 23 in 2008 and 2009, respectively, increasing to 60 in 2010. The ratio of output to credits was

- 2008 – 8.60
- 2009 – 6.87
- 2010 – 5.31

This compares to an output of approximately $2.1 million in 2007, with about 15 total jobs created and about $618,100 in total earnings. The ratio of economic output to tax credits certified in 2007 was about 8.70.

Table 20. Economic/Fiscal Cost Benefit Comparisons of Digital Interactive Media Tax Credit Program

	2008	2009	2010 (Est.)
Benefits			
Economic Output ($ thousands)	6,812.2	4,969.2	12,815.6
Total Employment (Jobs)	31.9**	23.3**	60.1**
Total Earnings ($ thousands)	4,394.3*	3,173.3*	2,914.4
Total Value ($ thousands)	2,323.2	1,694.7	4,370.6
State Taxes ($ thousands)	119	88	225.8
Local Taxes ($ thousands)	77	56	144.3
Costs			
Certified Tax Credits ($ thousands)	792	723	2,413.3
Tax Credits Redeemed ($ thousands)	131	509.5	614.6
Output Multiplier			
Economic output divided by tax credits certified	8.6	6.9	5.3
Net State Fiscal Impact,			
reflecting Tax Credits Certified ($ thousands)	-673	-635	-2,187.5
reflecting Tax Credits Redeemed ($ thousands)	-12	-421.5	-388.8

For years 2008 and 2009, actual direct payroll numbers provided by LED are reflected in the Total Earnings figures in Table 20. In general, actual direct payroll figures are larger than those generated by the IMPLAN software based on industry expenditures. As a result, the earnings estimates for years 2008 and 2009 may be larger relative to economic output, total value, and State and local taxes than the earnings estimate for 2010.

*****The total employment estimates generated by IMPLAN likely underestimate the actual number of jobs created by the Digital Media Tax Credit Program based on a comparison with the number of jobs secured by LED project wins.***

The net fiscal impacts of the digital media program to the State of Louisiana are shown above and are each calculated by subtracting the amount of tax credits certified (or by subtracting those redeemed) from the amount of State tax revenue generated each year.

For 2008, the IMPLAN tax estimate was $196,000, of which the State share would be about $119,000 and the remainder of about $77,000 to local government. According to IMPLAN, the total of taxes and fees generated in 2009 by the Digital Interactive Media program would have been $144,000. Of this amount, the State share would be about $88,000 and the local share about $56,000. IMPLAN indicates that in 2010 total tax impacts were $370,100 of which the State share is about $225,800 and the local government share at about $144,300.

Here, again, in this program the fiscal impacts are negative when the liabilities of tax credits are balanced against the State revenues generated by the program, but must be considered in light of the total economic output, which is positive: roughly $6.8 million in 2008, $5.0 million in 2009, and $12.8 million in 2010.

Comparing to 2007, the State tax revenues generated that year were about $38,000 and a net State fiscal impact of about -$207,100.

The overall economic impact to the state over the three years reflected by this analysis is about $24.6 million. The net fiscal impacts to the State based on tax credit *certification* were about -$673,000 in 2008, -$635,000 in 2009, and about -$2.2 million in 2010.

The net State fiscal impact reflecting tax credits *redeemed* was about -$12,000 in 2008, -$421,500 in 2009, and -$388,800 in 2010.

IX. Overview of the Live Performance Industry

Several factors influencing the live performance industry in North America will impact the major regional markets for touring and resident productions. Broadway League Executive Director Charlotte St. Martin is quoted in a February 2010 industry assessment saying "The Broadway and Touring landscape is changing at a startling rate, and it is time to reconsider the way we do business." How the State responds will determine whether a thriving, self-sustaining sector within the state becomes reality.

Recent Broadway seasons have seen a higher concentration of shows with shorter Broadway runs. This will increase competition among touring shows as a significantly higher number of productions jockey for coveted touring engagements. Louisiana can take advantage of this trend by aggressively marketing the live performance tax credit for tertiary markets beyond New Orleans including Shreveport, Baton Rouge, Lafayette, Monroe and Lake Charles. In addition, these markets are positioned to benefit from the non-union touring model that has seen major expansion in the past decade. Broadway Across America's market share consists of approximately 40 markets which require producers, in most cases, to pay union labor rates. The expense of mounting and operating such tours, however, limits the viability of these tours to larger population centers. Producers of non-union and family shows seek out smaller markets that offer low overhead and affordable non-union labor. The proliferation of these tours is expected to continue, offering Louisiana the opportunity to become a launching ground for non-union and family tours.

In concert with these industry shifts, expansion of new product development opportunities continues in the form of new play festivals and workshops like the Sundance Festival, National Alliance of Musical Theater and the O'Neill Playwrights Conference. These events serve as incubators for new works, giving producers the chance to test a new product before making significant capital investments.

The tentacles of convergence reach the live performance sector just as they do film, digital interactive and sound recording. Global deals – deals that include all potential revenue streams, such as merchandising, recording rights, film rights and game development rights are now the industry standard for theatrical producers. Louisiana – with its full spectrum of entertainment incentives – is uniquely positioned to capitalize on these with the larger players such as Disney, DreamWorks and Universal.

Further contraction of capital markets will increase the need for innovative producing models like the non-union, family and global models mentioned above. Louisiana may also see other states jump on the incentive bandwagon as they did after seeing the state's film industry success. Possible competition for the live performance tax credit market is already emerging in Ohio, Pennsylvania and Rhode Island.

X. Louisiana's Live Performance Industry

The Louisiana Live Entertainment Tax Credit program is relatively new and consists of production and infrastructure components.

Infrastructure

The infrastructure tax credit applies to live entertainment venues, primarily live performance theaters. Due to the nature of construction, these projects typically span several years. In light of this factor, BSCG has made rough estimates of live performance infrastructure spending by year, although any given project may cover multiple years.

One of the first applicants for this program was the Stage Door Canteen at the World War II Museum in New Orleans, where the facility has been running its programming since 2009. Another group of theaters have applied and have been initially certified in the program (as shown below) and these have been approved for nearly $90 million in investment, primarily renovation.

In 2010 the infrastructure participants were

- Saenger Theater, New Orleans (from damage created by Hurricane Katrina) - $47 million
- Emmett Hook Performing Arts Center, Shreveport - $4.9 million
- The Lincoln Theater, Baton Rouge – $4.9 million
- The Ellis Marsalis Center – New Orleans 9th Ward - $10.9 million
- The Joy Theater, New Orleans - $17.7 million
- The Little Gem Saloon, New Orleans - $4.5 million

Estimated **infrastructure** budgets for the entire program (multiple years, including the 2010 projects listed above) total approximately $104 million with about $19.9 million in related initially certified tax credits.

LED has estimated the infrastructure spend was $15.5 million in 2009 and $13.5 million in 2010. These spend amounts created 231.9 and 198.7 jobs in 2009 and 2010, respectively. Total economic output generated in Louisiana for the two years was $30.2 million and $25.9 million, respectively. IMPLAN indicates that total tax revenues generated in 2009 were $945,900. Of that, about 61 percent, or $577,000, would accrue to State government, and the remaining $368,900 to local government entities; and $780,400 total tax revenues were estimated to be generated in 2010 with about $476,000 to State government and about $304,400 to local government entities.

Table 21. 2009 Live Performance Infrastructure Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	132.2	$6,735,279	$7,646,158	$16,859,886
Indirect	40.1	$2,213,532	$3,312,155	$6,733,407
Induced	59.6	$2,181,542	$3,907,763	$6,643,214
Total	231.9	$11,130,353	$14,866,076	$30,236,507

Table 22. 2010 Live Performance Infrastructure Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	113.3	$5,770,483	$6,550,884	14,444,790
Indirect	34.4	$1,896,454	$2,837,705	$5,768,879
Induced	51.0	$1,869,047	$3,347,996	$5,691,606
Total	198.7	$9,535,984	$12,736,585	$25,905,275

Production

The second element of the live performance program includes expenditures for **production** of live performances and permits an additional credit for the wage cost (payroll expenditures) of live performance productions. Production credits from 2009 and 2010 are shown below.

Table 23. Live Performance Certified Productions: Payroll in 2009 and 2010

Live Performance Production	2009	2010 (Est.)
Southern Rep	325,000	
White Noise	825,000	
Let Freedom Swing	397,000	
Pearl Jam	50,000	
Pearl Jam		25,000
Le Petit Theatre		300,000
Le Petit Theatre		300,000
Ain't Dat Super		53,000
Cirque Dreams		92,569
Victory Belles		71,892

TOTAL	**1,597,000**	**842,461**

The payroll figures, including both initially and finally certified productions, total nearly $1.6 million for 2009 and $842,500 for 2010. The total estimated production costs for the two years were $4.6 million and $3.5 million respectively. The actual in-state production spending, based on final certified expenditures only, totaled $21,000 in 2008, $1 million in 2009 and $2.1 million in 2010. These certified expenditures are the basis for the IMPLAN calculations shown below.

Table 24. 2008 Live Performance Production Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	0.9	$12,138	$11,787	$23,888
Indirect	0.1	$2,776	$4,228	$7,378
Induced	0.1	$3,665	$6,570	$11,162
Total	1.1	$18,579	$22,585	$42,428

Table 25. 2009 Live Performance Production Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	40.5	$554,148	$538,097	$1,090,584
Indirect	3.5	$126,746	$193,015	$336,853
Induced	4.6	$167,309	$299,944	$509,598
Total	48.6	$848,203	$1,031,056	$1,937,035

Table 26. 2010 Live Performance Production Tax Credit Related Impacts

Impact Type	Jobs	Labor Income	Value Added	Output
Direct	80.9	$1,108,153	$1,076,056	$2,180,886
Indirect	7.1	$253,459	$385,980	$673,618
Induced	9.2	$334,574	$599,811	$1,019,066
Total	97.2	$1,696,186	$2,061,847	$3,873,570

Table 27. Economic/Fiscal Cost Benefit Comparisons of Live Performance Production Tax Credit Program

	2008	2009	2010 (Est.)
Benefits			
Economic Output ($ thousands)	42.4	1,937.0	3,873.6
Total Employment (Jobs)	1.2*	48.6*	97.1*
Total Earnings ($ thousands)	18.6	848.2	1,696.2
Total Value ($ thousands)	22.6	1,031.1	2,061.8
State Taxes ($ thousands)	1.4	62.7	125.4
Local Taxes ($ thousands)	0.9	40.0	80.2
Costs			
Certified Tax Credits ($ thousands)	5.3	261.5	523.0
Redeemed Tax Credits ($ thousands)**	N/A	N/A	N/A
Output Multiplier			
Economic output divided by tax credits certified	8.0	7.4	7.4
Net State Fiscal Impact,			
reflecting Tax Credits Certified($ thousands)	-3.9	-198.8	-398
reflecting Tax Credits Redeemed($ thousands)**	N/A	N/A	N/A

**These employment figures reflect the highly labor intensive nature of the live performance industry.*
***To date, no live performance tax credits have been redeemed.*

The production tax credits are shown in Table 27. For each of the three years (2008, 2009, and 2010), the output was about $42,400, $1.9 million, and $3.9 million, respectively. Certified tax credits were about $5,300, $261,500 and $523,000, respectively.

According to IMPLAN, (the table above reflects *actual* data for 2008 and 2009) total tax revenues were about $2,300 in 2008 – or about $1,400 for State government and about $900 for local governments; about $102,700 in 2009 with approximately $62,700 going to State government and about $40,000 to local governments; and about $205,600 in 2010 with about $125,400 going to State government and about $80,200 going to local governments.

XI. Entertainment Industry Incentive Programs: State Comparisons

In this section, BSCG researched the film tax incentives in five other states (New Mexico, Georgia, Pennsylvania, Michigan, and North Carolina) to determine the experience those states have had and the impact trends they have experienced. The general overview of existing programs and interview results are shown below.

Types of Incentives for Film Production

Direct Production Incentives
Direct production incentives in other states – both new and revised – are making for an increasingly competitive landscape. The table that follows lists the seven most common kinds of direct production incentives and provides a brief description of each. In general, the most common incentive programs apply either tax credits or rebates to local qualifying expenditures. There is an important difference.

A *rebate* is money directly rebated from the state independent of any tax return process, whereas a tax *credit* can reduce a taxpayer's overall tax liability.

There are typically two distinct kinds of tax credits – refundable and transferable – with crucial differences. In the case of a refundable tax credit, which tends to be far more lucrative to filmmakers, the production company uses the credit against its liability at tax time, and receives a refund for any balance beyond its taxes owed. A production with no tax liability simply receives a refund check for the total credits. In the instance of a transferable credit, however, the production company may sell its tax credits to other taxpayers (often wealthy individuals or companies). This is often less desirable to filmmakers for a few reasons.

First, buyers of these transferable tax credits do not pay the full value of the tax credits – they buy them at a discount relative to their redeemable value. Second, the process may involve accountants, lawyers and other middlemen, who also must be paid for their services. Third, the process can be an administrative burden and often takes many months for the production to claim the proceeds of their remaining tax credits. Every step in this process chips away some value from the incentive.

This contrasts with a refundable tax credit, whereby productions often get a check for their full credit within 30 days of filing their tax return.

Some states also offer production grants, which, unlike tax credits, provide a limited sum of money available on an annual basis. Therefore, productions starting later in the fiscal year may not have funds available to them if funding has already been depleted.

Production Grants. A production grant is directed toward a percentage of the total production cost of a project. This type of incentive differs from a production tax credit since it can be disbursed to the production company prior to the start of filming a project, thereby reducing financing costs.

Production Tax Credits. Production tax credits are tax credits that are generally based on a percentage of labor costs, and/or a combination of materials, services and other costs related to production. These credits may or may not be transferable. These credits usually have a minimum state/provincial spend, may be capped per production or per employee, might require a minimum percentage of the total production be shot in the state/province and generally apply to certain types of productions (e.g., feature films, television, commercials, etc.).

Labor Rebates. Labor rebates differ from labor-based production tax credits since they allow for funds to be dispersed during production. In this respect they are similar to grants and do not require a waiting period.

Regional Incentives. Regional incentives are generally offered for film and television projects undertaken outside of a metropolitan area and provide a "bonus" production or labor tax credit.

Training Incentives. Similar to regional tax credits, a training incentive acts as a bonus.

Digital Incentives. The newest type of incentives being offered, digital incentives provide a tax credit for the production of digital images.

Indirect Production Incentives

There are three principal types of indirect production incentives that some states offer, as follows:

1. Sales and use taxes: Filmmakers spend money in state on goods and services that are subject to state and local sales taxes. These can be waived in two forms. First, the production companies sometimes get a state-certified coupon that waives sales tax at the point of sale. Alternatively, states may refund sales tax after filmmakers submit expense reports detailing qualified expenditures.
2. Hotel taxes: All out-of-state labor – or even out-of-area labor – generally requires overnight stays in hotels. Some states waive the hotel tax for qualifying stays. A qualifying stay generally requires at least 30 days of consecutive nights and the tax credit or rebate is applied either to the total stay, or to all nights past the required minimum. Although this benefits feature filmmakers, it has the effect of incentivizing out-of-area labor.
3. Fee-Free Filming: Many states provide state parks, municipal and state buildings and other public property available to filmmakers free of charge. It is also common for public employees like police to be fee-free as well.

NEW MEXICO FILM/ENTERTAINMENT PROGRAM

The program started in 2002 and as of 2010 has generated 141 major film projects. The primary incentives include:

1. A 25 percent film production tax rebate up to $15 million for projects (film and TV)

2. A film investment “No Interest Loan” of up to $15 million for projects with budgets over $2 million

3. No hotel tax for stays over 30 days

4. 50 percent reimbursement for resident training program wages

5. No State sales tax

Direct spending for film projects has increased from $16 million in 2003 to $202 million in 2010. In the same time span estimated project fiscal impacts are estimated to have gone from $47 million to $607 million.

Year	Number of Films	Direct Spending	Fiscal Impact
2003	5	$16 million	$47 million
2004	7	$12 million	$36 million
2005	16	$62 million	$186 million
2006	21	$153 million	$460 million
2007	22	$150 million	$452 million
2008	30	$274 million	$823 million
2009	24	$260 million	$780 million
2010	16	$202 million	$ 607 million

In the same eight-year time period, employment generated by the film projects, measured in worker days, is estimated to have increased from 14,000 days to 206,000 days.

There is reportedly a legislative debate underway regarding this incentive program with numerous considerations regarding how to improve the value of the investments. Gov. Susana Martinez has called for reducing the 25 percent project credit to 15 percent.

GEORGIA FILM /ENTERTAINMENT PROGRAM

In 1973 Georgia opened the Georgia Music and Digital Entertainment Office. The state now asserts that 700 feature films have been produced in the state since 1972. The program has evolved and expanded and invested $590 million dollars in 2009 that generated an estimated $1.1 billion dollars in economic impacts. The film/TV component has also evolved from a sales and use tax exemption incentive in 2002 to a new project incentive program in 2008 that provides:

1. A 20 percent Investment Tax Credit for projects with a minimum expenditure of $500,000

2. A 10 percent Investment Tax Credit bonus if the Georgia logo is included in program

3. Sales and use tax exemptions

In the first quarter of the year there was one film project. After the new act was passed, seven more film projects were committed. It is estimated that this program brought in $770 million in film activity in 2009, a significant increase over prior years:

Year	Film Economic Impacts
2006	$475 million
2007	$413 million
2008	$647 million
2009	$770 million

In addition the programs have generated over 5,000 union and non-union crew base members. Fourteen colleges offer related programs. Georgia also has a Summer Camp program of one to eight weeks to provide students with experience in filming techniques both on location and in the classroom.

MICHIGAN FILM/ENTERTAINMENT PROGRAM

Historically, up until 2007, a total of 127 films were made in Michigan. The State says its diverse environment is a program asset. The current incentive program offers:

1. Refundable tax credits up to 42 percent for expenditures

2. 25 percent credit for companies that invest in new film and digital media studios

3. 50 percent tax credit for job training

4. 2 percent credit for purchases in "core communities"

5. Free use of State property

Data for 2008 Michigan film production indicates a spend of $65.4 million dollars ($40 million on goods and services and $25 million on wages) -- 32 film programs were involved and 2,763 resident jobs were created. Estimated multiplier economic impacts indicate an additional 1,102 jobs, $53.8 million in wage and $28.4 million in expenditures. Recent data for 2010 shows 26 projects spending $168 million and getting $65 million in credits. The State program has a high priority for increasing local production capacity with new and expanded film and digital industry clusters in Michigan. In addition, a related objective is to increase relevant state employee skills including involvement of university programs. The goal is to increase the local film production activities and their economic benefits in the state. This concept supports local estimated film project growth of 187 percent between 2008 and 2012.

Recent news reports tell of an intense debate over the future of the film incentive program in Michigan, including discussion of drastic reduction of the tax credit percentage.

PENNSYLVANIA FILM/ENTERTAINMENT PROGRAM

The program generated 615 film projects between 2002 and 2008. The current incentives offering includes

1. 25 percent tax credit for film projects that spend 60 percent of a projects total budget in state

2. No hotel tax on stays over 30 days

3. Free use of State property

Within 60 days of production completion, a final report including economic impacts must be submitted. A 2009 report indicated there were 69 projects that spent $260 million and generated $525 million in economic impacts in Pennsylvania. In addition there were 3,950 jobs created. The State investment was $65 million plus $18 million in waved taxes and fees. These numbers were down from 2007 when $267 million was spent and 4,000 jobs were created. Reportedly there was operator concern over the future of the program when the State cut project funding from $75 million to $47 million. The State film office is urging program support because:

- Films are a dynamic industry with a bright future
- Programs are labor intensive with desirable jobs and high wages
- The return on investment is high
- Films are a clean industry

An ongoing objective has been to encourage more State film production capacity.

NORTH CAROLINA FILM/ENTERTAINMENT PROGRAM

The State Film office was established in 1980 and an estimated 800 films have been produced so far. The State revised and expanded its incentive program in 2010 and reportedly had a very favorable industry response. The current program includes:

1. A 25 percent tax credit not to exceed $20 million
2. Expansion of what qualifies as expenditures (fringe benefits, per diem, etc.)
3. No hotel tax on stays over 90 days
4. Tax credit of 25 percent of amount invested by qualified businesses up to $50,000

The program estimates the economic benefits of the program as follows:

Year	Economic Benefits
2007	$160.2 million
2008	$91.9 million
2009	$75.5 million
2010	$75 million
2011	$200 million (estimated)

The North Carolina Department of Labor data shows that 8,000 jobs were involved in 2010. The staff pointed out that regional offices have also proved very helpful. In addition, while this year looks very good so far, there is some growing concern that sustaining the tax credits program in difficult economic times could prove to be a challenge.