

Silver Screen Subsidies

Is hoping to land the next Hollywood hit a sound economic development strategy?

BY DAVID VAN DEN BERG

Subsidy contests among states to lure sports teams and factories have been fought for years. Now many states want to attract movies and television shows and offer those Hollywood productions generous incentives. Critics of incentive programs argue that they don't pay for themselves. Supporters of production incentives claim they are an attractive and quick way to inject money into a community.

When production companies arrive, they immediately spend money on items such as lumber for set construction and accommodations for out-of-town cast and crew. Tim Reid, an actor who played the disc jockey "Venus Flytrap" on the television show "WKRP in Cincinnati," has firsthand knowledge of these expenditures. Reid is also a filmmaker and co-founder of New Millennium Studios in Petersburg, Va. He says bringing a production to a community is like hosting dream in-laws. "They come and visit you, they spend lots of money and they leave quickly," he says. "Who wouldn't want in-laws like that?"

"One Tree Hill," a CW television network drama filmed in Wilmington, N.C., shows the impact a production can have, says David Hartley, a producer for the show. The program has just finished its sixth season shooting in Wilmington. In the time it has been there, Hartley says the show has generated revenue for Wilmington's economy through spending at local businesses, which boosts the city's tax base. "We're not even a big budget show," he says.

The overall effectiveness of these subsidies, however, remains in question. States that seek those revenues and offer production incentives should be asking themselves if this is a sound economic development strategy for the long term.

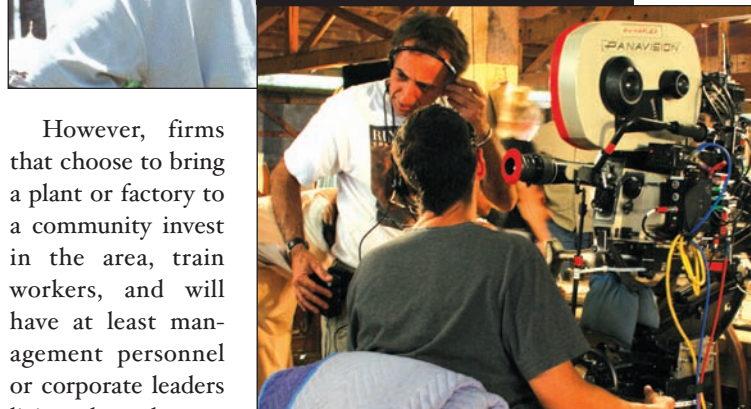
The Incentives Game

Many states offer incentives to all sorts of companies looking to relocate or open a plant. However, not all firms will view incentives as a major factor in their location decision. Education levels of the work force, the ease of transporting goods, and the overall quality of life could prove just as important for the company. A comparative advantage, like the abundance of a particular natural resource or a specialized labor input, may also attract a firm to a state.

Film and television productions differ from corporations making choices about where to put factories because movie productions in particular are short-term work. Television series can stay longer in a community but don't always last. Besides, especially with feature films shot on location, much of the labor force could come from somewhere else and eventually leave.



Cinematographers and camera operators at EUE/Screen Gems Studios in Wilmington, N.C., collaborate on a scene.



However, firms that choose to bring a plant or factory to a community invest in the area, train workers, and will have at least management personnel or corporate leaders living where the new facility is located. "The motion picture industry isn't like that, except in Los Angeles or New York," says Cornell University City and Regional Planning Professor Susan Christopherson.

Moviemaking and television production, furthermore, don't need to rely on a specific location. Just because a film or television show takes place in one city doesn't mean it has to be shot there. Special visual effects can alter certain elements of a landscape or the look of a street. In these cases, any city can be a substitute for any other, thereby reducing any comparative advantage a city's appearance provides.

The industry that can re-create any location also produces one of the nation's largest exports: movies. With the decline in manufacturing and the appeal of the entertainment industry, it's not surprising states would want to attract film production, says Ned Rightor, principal of MXCIX, a Boston area policy research firm. Rightor has worked with Christopherson on research into production incentives. Currently, more than 40 states — even film

production hubs like California and New York — provide incentives in various forms.

The entertainment industry is a fixture of the economy in both Los Angeles and New York City. Companies are involved in pre- and post-production, operating studios, and renting production equipment. Service providers like accountants and lawyers are all there to assist projects at every stage. Both places initially established leadership in the industry and developed a comparative advantage without tax incentives.

Now some states hope to use incentives to build their own comparative advantage. Production incentives generally come in the form of either tax credits or rebates. Some states also offer incentives for in-state construction of studios and other businesses related to moviemaking and production. Filmmaking incentives are typically applied toward “below the line” expenses such as equipment rentals and wardrobe. Some states cap the amount of incentives that can be applied toward “above the line” expenses such as salaries for star actors.

Top stars and big-budget movies have come to New Mexico to shoot. The state enacted its incentive program in 2002 and has since expanded it. The program includes a tax rebate on production expenses, employment training for “below the line” costs (mostly production workers), support for film and media programs at colleges and universities, and funds for capital expenses. Filmmakers have responded, as projects including Oscar-winner “No Country for Old Men” and the action film “Terminator: Salvation” were filmed in the state. A film production support industry has grown there. According to a New Mexico State University study, the industry had 136 businesses employing 2,284 workers in 2007. Both numbers had increased since 2001.

In the same study, however, New Mexico State economist Anthony Popp and a co-author show that in the 2008 fiscal year, for every dollar provided in incentives, New Mexico received only 14 cents in revenues. Companies have built and announced plans to build studio complexes in the state since the incentives took effect. Popp says he hopes the state’s incentives will establish an industry that can survive without them, but added that many of these sorts of companies are mobile. “The transaction costs of moving someplace else are fairly small.”

Wilmington, N.C., has housed a studio since 1984. Film producer Dino De Laurentiis brought the sound stages to town after falling in love with the area while scouting filming locations for Stephen King’s “Firestarter.” Numerous productions, including “Muppets from Space,” the HBO television shows “Eastbound & Down” and “Little Britain USA,” and “One Tree Hill,” have all been shot there. Though DeLaurentiis built the studio, its former president Frank Capra, Jr. — the deceased son of the legendary director of “Mr. Smith Goes to Washington” — is considered the godfather of the city’s film industry. The studio is one element of the comparative advantage the city has in film

and television production, and it was established initially without subsidies from the state. Wilmington is also home to a trained crew and multiple service providers.

The shooting of films and television series is one of the most mobile parts of the production process. States provide incentives for it in the hope that they can lure the less mobile parts. That strategy has become more difficult as the number of states offering production incentives has increased, says Steven Miller, an economist at Michigan State University. Michigan, Louisiana, and New Mexico have succeeded in luring companies to build studios in their states. But the only way a studio can make money is if a production company owns it and shoots a steady number of its own projects there, Christopherson says.

Boston has a comparative advantage in one specific area of film and television production because it is home to PBS station WGBH-TV. The station produces educational programs and the most PBS primetime and online productions. States interested in developing a film and television industry should pursue opportunities for specific niches instead of seeking the same productions other states fight for, Christopherson says. Opportunities are out there. “Regions should be trying to identify what’s distinctive in their economy and what they can build on rather than just competing on basis of cost,” she explains.

For states, trying to sell themselves on their comparative advantage alone is easier said than done. If left to their own devices, industries would choose to locate in places best suited to their needs, says Miller. In a world where incentives exist, however, states face a kind of prisoner’s dilemma. “If they’re not bidding for businesses to locate or stay in their geography, someone else is going to,” he says.

Stand-in Cities

In a world where one city can double as another, incentives can influence decisions about where productions are shot. “The Curious Case of Benjamin Button,” the Oscar-nominated film starring Brad Pitt as a man who ages in reverse, was based on an F. Scott Fitzgerald short story set in Baltimore. The film’s director had chosen Maryland locations for filming and the Maryland Film Office provided assistance, says Jack Gerbes, the office’s director. But, to take advantage of Louisiana’s more generous incentives, the setting of the story was changed to New Orleans, and most of the movie was shot there. Pitt told reporters at the movie’s New Orleans premiere that the project probably could not have been completed without the tax breaks Louisiana provided. Taxpayers there financed more than \$27 million of the film’s \$167 million budget.

There are more examples, including the movie “Annapolis,” a 2006 film starring James Franco about a young boxer struggling at the United States Naval Academy. That film had opened offices in Baltimore and was planning to shoot there and in Annapolis. But after opening the offices, Pennsylvania Legislature passed production incentives and within a couple days producers

were on their way north to shoot the movie.

Sometimes a state's comparative advantage is vital. "One Tree Hill" started shooting in Wilmington before North Carolina's incentives started. It followed in the footsteps of "Dawson's Creek," a drama shot in Wilmington for six years. But the setting for this show was Massachusetts. Warner Brothers chose to film "One Tree Hill" in Wilmington because of the presence of EUE/Screen Gems Studios and the city's pre-existing base of crew members, Hartley says. The incentives strengthened the argument for keeping the show in Wilmington. If the show was starting today, and no incentives were in place, Hartley says the show would likely not be filming there, and said consideration was even given to moving "Dawson's Creek" out of the city at one time. "Creatively if you have a certain look in mind there are certainly other places in the country that have incentive programs that can approach this place as a comparison."

Gerbes says state film commissioners like him are essentially salespeople who travel to trade shows, film festivals, and similar events selling their states' film industries, diversity of locations, and other amenities for filmmakers. Nothing would make him happier than to go back to the 1990s when decisions about whether to film in Maryland were made on those factors. But now it's all about incentives. "That's unfortunately the economics of today's Hollywood," Gerbes says.

A Shift in Strategy?

When will incentives stop? No one has asked that question, Popp says, but he thinks salespeople stop when states can no longer afford them. For now, whenever states want something developed, they award tax incentives for it. Politicians often focus on the jobs created but disregard the costs. Any halt to incentives would cause problems, including anger from the film industry. Current economic conditions, however, may mean that the approach states take toward economic development could have to change. "I think we're in a position where we ought to think about what we should be doing in terms of economic development," Popp says.

North Carolina may be at that point now. The state's incentive program took effect in August 2006. In 2007 and 2008, the state provided a combined \$32 million to 41 productions that spent \$215.4 million. Pending legislation would increase the state's film incentive program from a 15 percent rebate of select production expenses to 25 percent. More than 800 films and 14 television series have been

filmed in North Carolina, many before the state started offering incentives. After the subsidy took effect, the state has continued attracting productions, including feature films like "Nights in Rodanthe" and television shows like HBO's "Eastbound & Down," both shot in Wilmington. Even with all the productions that have been shot and the infrastructure that's in place, at a 15 percent rebate, "we're not a player anymore," says Aaron Syrett, director of North Carolina's film office. "We're seeing an industry that has been thriving here for the last 25 years start to dissipate and go away. We're losing that competitive edge along with our share of the market."

EUE/Screen Gems Studios could see more activity if the state expands incentives. The studio will add a 10th sound stage this year, it's largest. The new sound stage will have a 60- by 60-foot water tank and will put the company in contention for productions it wouldn't have a chance at nabbing otherwise, says Bill Vassar, the studio's executive vice president. A television production with distribution, money, and major talent behind it is interested in the new stage, Vassar says. However, a Disney film starring Miley Cyrus and written by a North Carolina author, will be shot in Georgia instead because of that state's more generous incentives. "Disney would have been the first client in there, which would have been great," Vassar says.

Wilmington remains home to several small production companies. Some of them benefit from the presence of large productions like "One Tree Hill" in the city because they can get called in to produce "behind the scenes" features for the DVD release of the show, says Jennifer Mullins, who owns Oriana East Productions with her husband, William. Their steadiest source of work is post-production for nationally broadcast reality shows. The company is now developing a feature film that has financing outside the Hollywood studio machine. As William Mullins explains, "We do have one project that has a lot of development money in place at this point, and fortunately it's coming from private equity, so the executive has a lot of creative control, and he wants to bring it to Wilmington."

The firm is serving as consulting producers on some feature films, which may or may not be shot in North Carolina. William Mullins says that decision — like so many others in the film industry — depends on executive producers, mostly based in Los Angeles. "The incentives offered by Louisiana and Michigan are very often too high for them to turn down." **RF**

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