

# Silver Screen Dreams

Interstate competition for film and TV productions is intensifying.

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BY SUZANNE WEISS

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**F**ans of “Vegas,” a new television series starring Denis Quaid as Sin City’s legendary Mob-busting Sheriff Ralph Lamb, likely don’t care one way or the other that not a single scene of the CBS production was filmed in Las Vegas—or anywhere else in Nevada, for that matter.

But some lawmakers in the Silver State do. “With all that our state has going for it—the landscape, the history, lots of skilled workers—it’s unacceptable that a show like ‘Vegas’ winds up going to New Mexico and California instead of being filmed right here,” says Nevada Senator Aaron Ford (D).

He has sponsored a bill wending its way through the Legislature this session that would make Nevada the latest state to offer financial incentives—up to \$50 million a year in tax credits, in this case—to the producers of films, TV shows and commercials.

Ford, a freshman legislator representing the Las Vegas Valley, says he decided Nevada could no longer remain among the handful of states that don’t offer such inducements.

“Since 2001, we’ve seen our film industry revenues drop from \$155 million a year to \$89 million,” Ford says. Although a similar proposal failed in the 2012 session, he’s confident his bill will fare better, noting it has bipartisan support in both chambers



Senator  
Aaron Ford (D)  
Nevada

and the strong endorsement of organized labor, local chambers of commerce and economic-development agencies.

## A Recent Release

A decade ago, only a handful of states offered incentives to production companies, largely in the form of exemptions from sales and lodging taxes, small income-tax credits and free services like access to public lands and assistance in identifying appropriate locations.

Today, most states, along with the District of Columbia and Puerto Rico, offer production companies credits, exemptions, rebates and other services. And a few more states are debating bills this year.

The competition began in the early 2000s, not long after the launch of an aggressive campaign by Canada’s federal and provincial governments offering incentives and tax breaks to U.S. film and TV production companies. Louisiana and New Mexico followed Canada’s lead, and the race was on. Both states experienced considerable and widely noticed success. In Louisiana, for example, the number of feature films and TV shows produced there went from one in 2002, the year before tax credits went into effect, to 54 just four years later.

Other states quickly followed suit, and over the years they have steadily increased the scope of their incentive packages to stay ahead of one another. At least until the recession hit.

Four years ago, Arizona and Kansas suspended film production credits to help balance their budgets. Kansas restored its in 2011, while Arizona’s remains on hold. Also in 2009, then-Governor Jim Doyle (D) essentially gutted Wisconsin’s 25 percent



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tax credit, turning it into a \$500,000 annual grant program.

Iowa's Film, Television and Video Promotion Program has been on hold since 2009 as well, but for a different reason. Following a criminal investigation, seven people connected to the program were convicted of fraud and misconduct.

In addition, several states have placed caps on the total amount of tax breaks that can be given out from year to year, and several have imposed stricter requirements on how credits are used and reported.

### How Much Bang for the Buck?

Over the years, reports by state tourism agencies, the Motion Picture Association of America and other entities have asserted that film incentives generate enough revenue to offset their cost. Among the top benefits cited are new, high-paying jobs, increased tourism, and an economic boost for local businesses ranging from hotels and restaurants to florists, caterers, hardware outlets and lumber suppliers.

Among the many states with tax credits, only a handful require as rigorous an annual economic-impact analysis as does Massachusetts. Its state revenue department has concluded that the film incentives disproportionately benefit nonresidents, and don't pay for themselves. Between 2006 and 2010, the state awarded \$275 million in tax credits for film and TV producers, which generated \$37 million in revenues—or about 13 cents on the dollar.

Also casting doubt on the cost-effectiveness of these incentives are reports issued by two Washington, D.C.-based think tanks in early 2011—one by the left-leaning Center on Budget and Policy Priorities, the other by the right-leaning Tax Foundation.



STEVE NEWMAN, DISNEY

*Virginia's Capitol during filming of "Lincoln."*

### Virginia Capitol Plays Starring Role in "Lincoln"

When Steven Spielberg's "Lincoln" won top honors for production design at the 2013 Academy Awards ceremony, Virginia—and particularly its magnificent Capitol Building—could claim a piece of the prize, says Andy Edmunds, director of the state's film commission.

In the film, the exterior of the 225-year-old, Roman temple-style building stands in for the Civil War-era White House, and one of its chambers doubles as the U.S. House of Representatives.

For 18 days in 2011, Capitol Square in downtown Richmond was transformed into a Hollywood backlot, a welter of construction crews, trucks, cranes, lifts, miles of cable, and equipment ranging from lighting and cameras to portable trees.

To replicate the north portico of the White House, crews hid one side of the Capitol behind a façade consisting of huge foam columns and metal trusswork 40 feet tall and 100 feet wide. Tons of mulch were trucked in to alter landscaping and cover sidewalks.

"I won't sugarcoat it. To have all of that traffic and activity in the operating seat of government for that long—it was complete Armageddon," Edmunds says. But he was quick to add that, overall, "things went very, very smoothly," and within two days of final shooting, cleanup crews "had everything completely swept up and back to normal. Except for the grass, which was pretty much destroyed, you wouldn't know what had gone on."

Filming inside the Capitol, in the House of Delegates, was considerably less disruptive. The chamber wasn't repainted, existing desks and chairs were used, and the only major alteration was to cover up the electronic voting boards.

One challenge the production crew had to surmount was the Capitol staff's concern about the use of smoke machines to create lighting effects. To avoid potential damage to historic artifacts and fixtures, the film's director of photography and his crew developed and tested a haze machine that didn't leave any residue—"a whole new technology," Edmunds says.

Over the years, both the exterior and interior of the Virginia State Capitol have appeared in a variety of feature films, including "The Contender," "Dave," "GI Jane," "First Kid," "The Jackal" and "Hannibal," and TV productions, notably "John Adams" and "Commander in Chief."

Among other state capitols that have appeared in films as stand-ins for the nation's Capitol are Utah's ("Legally Blonde 2: Red, White and Blonde"), Rhode Island's ("Amistad") and Arkansas' ("Under Siege").

## The Carrots

Incentives vary, but typically include one or more of the following.

- ◆ **Tax credits**, which lower production companies' corporate and/or personal income tax liability. If a production company lacks sufficient tax liability to use all of its tax credit, some states will pay the company the whole credit anyway, in effect giving it a cash grant. States also sometimes allow film producers to sell their unused credits to other entities, typically banks and insurance companies, which use them to reduce their own tax liability.
- ◆ **Cash rebates**, which reimburse production companies for a certain percentage of qualifying expenditures.
- ◆ **Tax exemptions**, which offer production companies reprieve from state sales, lodging or use taxes.
- ◆ **Fee-free services**, which allow production companies to use, for example, state-owned land or police services at no charge.

"State film subsidies are a wasteful, ineffective and unfair instrument of economic development," the Center on Budget and Policy Priorities' report concluded. "The jobs they provide in-state residents tend to be spotty, part-time and relatively low-paying work, and the revenue that films generate falls far short of the cost of tax breaks and subsidies that states dole out." Currently, the report goes on to say, the median state incentive is worth 25 cents for every \$1 of production expense, a considerably higher amount than standard tax credits in many states.

The Tax Foundation's economist, William Luther, reached a similar conclusion in his report. "Based on fanciful estimates of economic activity and tax revenue, states are investing in movie production projects with small returns and taking unnecessary risks with taxpayer dollars," Luther wrote in the report.

## The Race Continues

Still, the incentives race remains intensely competitive, particularly for frontrunners. Just look at what has happened in Michigan over the past several years.

In 2008, then-Governor Jennifer Granholm (D) and state legislators teamed up to enact a 42 percent rebate on production expenses, the second most generous in the nation after Alaska, which offers 44 percent.

Within two years, more than 80 productions were being shot in Michigan, from documentaries and commercials to feature films like Clint Eastwood's "Gran Torino," George Clooney's "Up in the Air" and Drew Barrymore's "Whip It," a comedy-drama set in Austin, Texas, but shot entirely in southern Michigan.

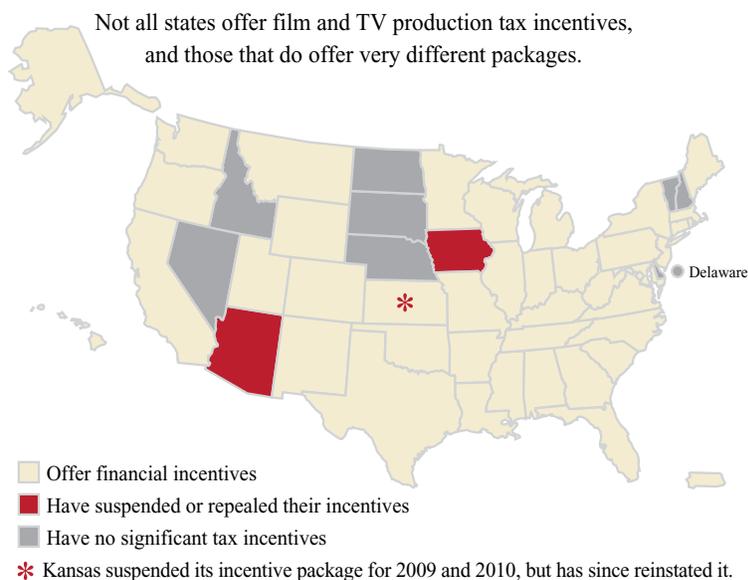
More recently, "Oz the Great and Powerful," a Walt Disney Pictures' 3-D fantasy adventure released in early 2013, was produced at the Michigan Motion Picture Studio in Pontiac. The 170,000-square-foot facility, formerly a GM manufacturing plant, is "the finest studio in the nation outside Hollywood," boasts Michigan Senate Majority Leader Randy Richardville (R).

Richardville and other champions of the state's burgeoning film and TV production industry, however, have been locked in a major battle over the incentive program



Senate  
Majority Leader  
Randy  
Richardville (R)  
Michigan

## Where States Stand



Source: Motion Picture Association of America, May 7, 2013.

with Republican Governor Rick Snyder since his election in 2010.

Snyder initially proposed eliminating the incentives altogether, but in the face of legislative opposition, had to settle for a phased-in reduction of the rebate, from 42 percent to 27 percent by December 2014, and a rebate cap of \$50 million a year.

This year, Snyder wants to cut the cap to \$25 million, but Richardville and others are fighting hard to keep it at \$50 million.

"I respect the governor's position, but we have figures that clearly show the benefits of these incentives," Richardville says. "We've established a strong foothold in the industry, we've built the infrastructure, and now is not the time to pull back so drastically."

The consequences of the ongoing wrangle have been costly, according to Richardville. Since 2011, Michigan's production activity has fallen off sharply. Among the big-budget projects that the Michigan Film Office was close to landing, but failed to sign, were "The Avengers," whose producers opted to film in Ohio, and "Iron Man 3," which was filmed in North Carolina.

"States are trapped," says Robert Tannenwald, an economist and a former senior fellow at the Center on Budget and Policy Priorities. "Thanks to the extreme mobility of film production, when one state goes after these movies, another state, if it wants to stay in the game, has to match the deal they're offering."

Not necessarily, notes Andy Edmunds, director of the Virginia Film Commission. States with less-generous incentive packages have landed big projects, too. Compared with other states' tax credits, Virginia's is relatively modest—15 percent, with a bonus of 5 percent if the production is filmed in an economically distressed area of the state—and the annual payout is capped at \$2.5 million. Even so, Edmunds believes the state's modest tax credit in 2010 played a pivotal role in producer-director Steven Spielberg's decision to film the box-office hit "Lincoln" in Richmond and several other locations throughout the state.

"As far back as 2003, he [Spielberg] began scouting and planning here in Virginia, so he was interested in us from the start," Edmunds says. "But there's no doubt he could have gone elsewhere, and he might well have without our offering an incentive."

The Virginia legislators who oppose the film industry incentives believe they are simply an improper use of taxpayer money. "From my point of view,

giving millions of dollars to a billionaire to make his movie in Virginia is a luxury our state can't afford when we are cutting education, Medicaid and the rest of our safety net," says Delegate Scott Surovell (D). "To the extent that we do spend money on economic development, it ought to be for projects that support permanent investments in Virginia and not fleeting activities like movie productions."



Delegate  
Scott

Surovell says he has been disturbed by a recent proliferation of tax credits "for things ranging from telecommuting to beehives to ports. It seems like everybody who has a lobbyist at the State Capitol is getting tax credits—except for our constituents, who pay the bill."

New Hampshire Representative Susan Almy (D), who chairs the House Ways and Means Committee, takes an equally dim view of film production incentives. A bill proposing to enact tax credits of up to \$10 million a year was recently tabled by Almy's committee until December.



Representative  
Susan Almy (D)  
New Hampshire

"They're asking for something that no business of any kind has ever gotten in our state," Almy says, noting that New Hampshire is one of only two states with neither a sales nor an income tax. "I just don't see it happening."

Almy also is skeptical about the perceived economic benefits of incentives, which she thinks have reached "totally absurd" levels in many states.

### Supporters See Things Differently

Supporters of incentives are unconvinced by reports questioning their cost-effectiveness, and cite their own set of figures. "What we're proposing would generate \$80 million a year in new revenue," says Nevada's Ford. "We're looking to make film and TV production as strong an industry as the other drivers of our economy—gaming, tourism and mining."

When it comes to the conflicting claims of those for and against incentives, Andy Edmunds of the Virginia Film Commission thinks "the reality lies somewhere in the middle."

Only one thing is certain, he says: "If you want to compete, you have to offer sufficient incentives. Otherwise, your phone isn't going to ring." The question remains, is that a bad thing? 

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