

## Push on to drop cap on film tax credit

**By Denise Perreault**  
**PBN Staff Writer**  
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Whenever a film production comes to Rhode Island, Christina Chandler, owner and operator of Studio 539 Flowers, can count on new business at her flower shop on Wickenden Street in Providence.

"I am always delivering flowers from the producers and directors to the actors and actresses," Chandler said. "We do a lot of deliveries to them and usually for good amounts of money, because these are nice arrangements." Filmmakers often come to her shop for props, too, and Chandler said she sold hundreds of dollars worth of pottery to the "Underdog" production company, which proceeded to smash it all in the film.

Chandler is one of dozens of small-business owners throughout the area who benefit when a movie or television show is produced in the state. Rhode Island legislators and policymakers next year will, as in 2008, likely again be faced with deciding whether the benefits of the film tax credit are sufficient to warrant its cost to the state.

Steven Feinberg, executive director of the R.I. Film & Television Office, intends to help them find out. His office sent a letter Nov. 2 to "friends of Rhode Island Film & Television Production," seeking information on direct and indirect returns so he can prepare a "comprehensive study" of the total economic impact of the controversial credit.

His goal is to propose changes to the General Assembly early next year, including removing the cap that since 2008 has limited the total amount of film credits the state awards each year to \$15 million. The credit provides 25 percent corporate or individual income tax credits on qualified costs for productions with budgets of at least \$300,000. "Qualified" costs, in general, are those incurred and paid in Rhode Island.

A state revenue department report last year pegged the cost to the state at \$35.6 million since the credit's inception in 2005.

On average, every dollar invested by the state in the form of a motion picture-production tax credit has returned 28 cents to the state in direct tax revenue, for a negative investment rate of 72 cents per one dollar, according to the state revenue report. The report found that each dollar invested must produce an additional \$3.57 in direct and indirect expenditures for the state to earn back the value of the tax credits issued. In fiscal year 2009 alone, state revenue was reduced by \$10.1 million as a result of the film tax credit, according to a report done by The Poverty Institute.

However, Feinberg said, the state report was incomplete because it did not take into account indirect benefits, such as the extra income generated for flower shops like Chandler's and other ancillary businesses not directly involved in a film project.

Cities and towns indirectly benefit from the productions, for instance, because of higher meal tax revenue from restaurants patronized by a film's cast and crew, Feinberg maintained. Other indirect examples he cited are a lumber company and a car-rental business that each added personnel to handle the extra movie work.

Local charities raised funds by auctioning off walk-on roles, and Hope High School in Providence received new lockers from Disney's "Underdog" production. Interns from film-study programs at local colleges and universities gained valuable, first-hand, moviemaking experience, Feinberg said. The hospitality industry, including tourism, surely received a boost from visitors drawn to the state after seeing films made here, he argued.

Promotional benefits of films made in Rhode Island are never-ending, Feinberg suggested, noting that marketing campaigns are launched for each phase of release, from theatrical to DVD to pay-TV to free TV. Some in Newport, he said, still point to the 1974 movie "The Great Gatsby" – which was filmed on Aquidneck Island at Rosecliff, the Marble House, Hammersmith Farm and other locations along Ocean Drive – to promote the City by the Sea.

Feinberg's recent letter to friends of the film industry asks these kinds of questions:

- "If you are a crew member, how many productions did you work on?"
- "Did your work in the film industry positively affect your personal/family life?"
- "Were you able to buy a home or start a new business?"
- "Did you receive health insurance?"
- "Has your income grown as a direct result of having Hollywood set up shop here?"
- "Did you hire additional personnel?"
- "How much did your company earn by providing goods and/or services to productions in Rhode Island?"

Feinberg has a tough row to hoe winning over critics like Kate Brewster, executive director of the Poverty Institute based at Rhode Island College.

Brewster is convinced that financial analyses done by Rhode Island and other states show that film tax credits do not pay for themselves. "When states lose revenue like this, it puts pressure on the states to cut their budgets in other places," she said.

For a state to break even, studies have shown that film productions must stimulate more than three times the amount of each credit in additional economic activity – "an unheard-of" factor in state economics, she said. So, for instance, a film that received a \$1 million tax credit would have to generate more than \$3 million in new business for the state to avoid a loss.

And while Feinberg may be unhappy with the \$15 million annual cap, Brewster noted that in fiscal 2009, film credits claimed amounted to less than that – \$10.1 million, according to a study of all state tax credits on the institute Web site, [www.povertyinstitute.org](http://www.povertyinstitute.org). In fiscal 2008, \$12.8 million in film credits were claimed, the same study said.

Feinberg has a study, too, to which he can point to counter such claims. The states of New Mexico and New York commissioned studies by Ernst & Young, he said, that found tax credits actually do generate more revenue than they cost – \$1.50 for every dollar spent by state and local governments in New Mexico and, in New York, \$1.90.

One point particularly irks Feinberg. When Rhode Island enacted its film tax credit in 2005, few other states had them, but now at least 41 as well as the District of Columbia offer the benefit – including neighboring Connecticut (with a 30 percent credit) and Massachusetts (with a 25 percent credit), both with no caps.

"I can tell you, the first question out of Hollywood's mouth is: 'Is there a cap?'" Feinberg said. Film producers shy away from states with tax-credit caps, he said, because they cannot be certain the credit will be honored at all. States with caps put productions on a list and the first finished receive the credits until the cap is reached, he explained.

At the Wickenden Street flower shop, Chandler figures she probably earned an extra "couple of grand" from her work with moviemakers over the years.

Louise Sutherland, an owner of Pepin Lumber, can also attest to the positive financial impact of the tax credit on her 63-year-old Woonsocket business.

Moviemakers from two different productions spent approximately \$65,000 buying lumber during just one winter season about two years ago, she said, to construct sets in mill buildings for the films "Hichako" that mostly was made in Woonsocket and the thriller "Tell-Tale," made in Central Falls and based on the Edgar Allan Poe story. Sutherland said the moviemakers came to Pepin for lumber because they were working nearby.

The unexpected income certainly helped her business retain employees. "I wish they would do a movie every year," she said, "especially now." •