Hollywood is here, but is price too high for state?

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On the screen: A castle door opens to reveal a party in full swing.

And not just any party: “A Princess birthday party from Party City!”

Over the next 15 seconds, gleeful little girls frolic in a haze of pink while an announcer says: “Find everything you need to give her the royal treatment — from tableware to invitations … and all at incredibly low prices … because not every moment in her life will be like a fairy tale.”

This TV ad is one of 11 that state Rep. John Loughlin, R-Tiverton, produced for the New Jersey-based Party City discount party-goods store that qualified his Rhode Island production company, Media-Rite, for $77,559 in tax credits from a state program aimed at bringing motion picture and television-production dollars to Rhode Island.

Party City says the tax credits enabled Media-Rite “to lower their production costs,” which provided “an incentive to work with them.”

Loughlin scored a $310,236 contract that paid him a $108,656 producer’s fee for the months he spent scouting locations and coordinating the hiring, set-building at the Pawtucket Armory, four-day shoot and post-production editing of the spots.

And more than two dozen aspiring young Rhode Island actors and actresses received from $250 to $500 a day for their 15-to-30 seconds of screen time in birthday, graduation and Halloween party hats and costumes.

But in a tough budget year, when lawmakers are struggling to close a massive deficit and thousands face ejection from state-subsidized assistance programs, tax credits such as this are getting a close look.

Critics are asking how much Rhode Island is getting in return for the $52 million in personal and corporate income-tax credits it has promised, and the $30.8 million in credits it has already awarded the motion picture, TV and commercial production industry.

And while most of the out-of-state money lured here by Loughlin’s relatively small advertising-production contract stayed here, this is less clear in other cases.

After a 15-month records fight with The Journal, the Rhode Island Film & Television Office has for the first time provided a glimpse at what Rhode Island has gotten for its money. And to the extent it's documented, it's not much.

Consider: The state provided $2.65 million in tax credits to the production company that spent 26 days here filming Hard Luck, a feature film starring Wesley Snipes and Cybill Shepherd that went straight to DVD.

That represented 25 percent of the roughly $11 million the company reported spending in Rhode Island on the production.

But only $1.9 million of the $11 million went to "Rhode Island vendors or residents," according to the company's cost report. That included amounts spent on payroll, makeup, costumes, building materials, hotel accommodations, location rentals, vehicle leases, unspecified "professional fees" and catering.

Even in the food arena — an area of particular pride to Rhode Islanders — the producers paid more to out-of-state catering companies ($87,633) than they did to in-state caterers ($52,071).

Hard Luck Productions was the only production company that provided this level of detail in its cost reports — others did not — and the state film office initially whited-out all of this information on how much money the company pumped directly into the Rhode Island economy when it made the cost reports public Feb. 20.

But then lawyers for the state were persuaded by The Journal to release an unabridged version. The unedited document raised anew questions that Governor Carcieri, among others, has been asking about whether the film tax credit program achieves the goal of creating jobs and boosting the Rhode Island economy.

Steven Feinberg, executive director of the state's film office, says the numbers may be misleading and it is possible that as much as $5.5 million of the $7.7 million that Hard Luck Productions reported as payroll expenses for "non-Rhode Island vendors or residents" may also have gone to Rhode Islanders provided through out-of-state "loan-out" companies to work on the crew.

He explains: "There are no rules governing use of Rhode Island residents/Rhode Island-owned companies. However, each production prefers to use locals in order to save money on the production. They would prefer to hire people who don't need to stay in hotels and receive per diem."

But there is nothing in the documents made public so far to substantiate his argument. Representatives of the now-dissolved Hard Luck production company have not responded to inquiries. And other production companies that received the tax credits did not distinguish — as Hard Luck did — how much they paid Rhode Island residents and companies.

The affiliate of Walt Disney Pictures that produced Underdog was the only production company that identified the Rhode Island residents on its cast, production, editing and support roster. The overwhelming majority were "cast drivers" and "day player(s)," Providence Mayor David Cicilline among them. Only one rose to the level of casting assistant, four as stunt players.

Against this backdrop, Carcieri spokesman Jeff Neal said: "The value of the film tax credit program to Rhode Island is extremely unclear at this stage."

"Governor Carcieri is always supportive of programs designed to grow jobs in Rhode Island. That's why he didn't initially oppose the General Assembly's decision to create this tax credit," Neal said. But, "unfortunately, after several years of operation, it still isn't clear to what extent the film tax-credit program achieves the goal of creating jobs and boosting the Rhode Island economy…. In other words, Rhode Island taxpayers should not be spending more money to attract a company to the state than that company is spending in the Rhode Island economy."

Added Ellen Frank, chief economist for the Poverty Institute at Rhode Island College: "The state, of course, is facing a very significant budget deficit and we are looking at really Draconian cuts in programs, for example, cutting the length of time a person can stay on public assistance from 60 to 24 months … and cutting all parents above 133 percent of the poverty level off RIte Care," the state's subsidized health insurance for low- and moderate-income people.

"To consider cutting those and at the same time expending funds on unproven programs that were presumably passed to promote economic growth with no evidence that they are doing that is, in our view, irresponsible."

THE FILM tax credits were introduced in 2005 — and shepherded through the legislature — by the Democratic leaders of the House and Senate. Connecticut and Massachusetts soon followed with their own film incentives. Connecticut gives productions a 30-percent credit. Massachusetts offers a 25-percent credit on production expenses and 20 percent on payroll.

According to the preamble to the Rhode Island law, "It is recognized that the motion picture industry brings with it a much needed infusion of capital into areas of the state which may be economically depressed" and the "multiplier-effect … serves to stimulate economic activity beyond that immediately apparent on the film set."

To qualify for the tax credits, a company has to spend a minimum of $300,000 on production costs that were "directly attributable to activity within the state" on a "feature length film, video, video games, television series or commercial made in Rhode Island, in whole or in part."

Several of the private-sector accountants who prepared the cost reports that the production companies submitted to the film office have interpreted this to mean: "All goods and services purchased for use in the production of the film in the state of Rhode Island will be included as a ‘state-certified production cost’ even if purchased outside of Rhode Island or from a non-Rhode Island vendor.”

Since adoption of the law in 2005, 22 productions — big and small — have queued up for the tax credits. The largest so far to take advantage of the tax break was Underdog, a live action version of the 1960s TV cartoon series. The smallest include the TV ads that Loughlin produced; an animated one-hour variety show that the Providence-based Tango Pix produced in collaboration with the Hasbro toy company, and five episodes that Providence Pictures produced for the PBS science series NOVA.

At 25 percent of what the film office accepts as “qualified costs,” the credit amounted to a mere $77,559 of Loughlin’s production costs, but $5.1 million of a reported $20.4 million in Rhode Island production costs for Dan in Real Life and $9.5 million of the $38.1 million in reported Rhode Island spending for Underdog, which relied heavily on the State House as a setting.

The $30.8 million in tax credits issued so far were predicated on an overall $123.2 million in Rhode Island production costs, with no publicly available documentation — in all but the one case, Hard Luck Productions — of how much of that money went to Rhode Island people and businesses.

While the tax credits are not issued until the production is complete, they are a marketable commodity from the beginning. The holder can theoretically pledge the proceeds toward payment of a loan, or wait until the end, and then sell them to people or corporations seeking to reduce their Rhode Island tax liability. Brokers here and beyond boast their expertise in this arena on the Internet.

Say a production company qualifies for $100,000 in tax credits but has no income-tax liability in Rhode Island, it can sell the credits to someone who does.

That taxpayer might pay $85,000 for the opportunity to use those credits to write off $100,000 in tax liability. The production company gets money it otherwise would not have had, and the hypothetical taxpayer in this example has saved a net $15,000 in taxes.

An analysis by the state tax department found the tax credits being purchased by relatively small numbers of people.

The $9.5 million in tax credits generated by Underdog were split among only four taxpayers. At the other end of the spectrum, the $2.6 million in tax credits generated by the feature film Evening was divided among 124 parties.

To date, the credits have been used to reduce personal income tax payments to the state by $25.2 million, and corporate income tax payments by $10.5 million, according to state tax administrator David Sullivan.

A handful of people have emerged as middlemen in the transactions, including Anthony Gudas, a former revenue agent for the state tax department.

For instance, Loughlin — who recused himself from each legislative vote on the tax credits — said he had Feinberg issue his $77,559 tax-credit certificate in the name of Nova Marketing, the Boston company that engaged him to do the Party City advertising campaign and then "Anthony goes ahead and finds the market for the tax credit."

With no Rhode Island tax liabilities of its own, Nova sold the tax credits to Gudas' Tax Credit Finance LLC for the discounted rate of "83 cents on the dollar," according to Nova vice president James Lawlor, who said his company walked away happy with a check for about $65,000 because, by passing that money along to Party City, it brought the production cost down to what the company was willing to spend.

In an interview yesterday, Gudas said, "Every transaction is different."

But when asked how much he made on the Party City transaction, he said, "Obviously you can figure out that I am getting more than 83 cents per dollar of credit and the people that are buying the credits wouldn't buy them unless they were paying less than $1 per credit. So somewhere in between is the answer to your question."

On average, he said, he keeps two to three cents of each dollar, "so there is not a huge markup there. I am able to make money off the volume of credits that I do." He pegged his annual sales of historic and film-tax credits in Rhode Island, Massachusetts and Connecticut at $70 million.

AS TO WHAT the state gets out of it, both Feinberg — and House Speaker William J. Murphy — say a lot.

Said Murphy in a recent interview: "I view the film industry as another great opportunity to expand our economy. Several of our local colleges now offer film study programs, and the tax credit program may enable some of the next generation of workers to remain in Rhode Island and find good job opportunities in a field that has proven to be resistant to the swings of the economy."

From a cost-benefit standpoint, he said: "The tax credit is 25 percent. For every dollar spent in Rhode Island by the movie and television industry, the state is gaining 75 cents that it never had if not for this program. There is also the multiplier effect — we are putting people to work with good-paying jobs. The program also benefits our state's tourism and hospitality industry."

While Feinberg would not agree to a face-to-face interview, he sent a series of e-mails in which he boasted of "$200,000,000 in economic activity," tourist activity ("Newport's Tourism Board is still selling the area as the location for the motion picture The Great Gatsby), and "roughly 2,000 open crew positions, excluding actors and extras from 2005 to present day."

No question: the tax credits have helped feed a cottage industry of craftsmen and industry professionals, many of whom list their names and contact information on the film office Web site.

Feinberg mentions food trucks, as an example. In 2005, he said, the Hard Luck cast and crew had to order in much of their food from out-of-state because the company "could not find a local Rhode Island caterer with a large catering truck, capable of feeding 200 people at various locations daily, under intense time constraints. Since then, businessmen are investing in catering vehicles, which do cost about $150,000."

Asked how many of these are full-time jobs, Feinberg said: "A permanent job, from what I have researched so far, means a job that provides a yearly salary and pays for food, clothing, shelter, etc. In that regard, I would say that each open crew position would be considered a permanent job even though each production may only last six months." His argument: "Because these crew members tend to work 12-hour days at a good pay, they typically make more money in six months than someone making $40,000 in a year."

As anecdotal evidence, Feinberg produced a one-page report from Teamsters Local 251 indicating that its members — who stretch from here to Southeastern Massachusetts — logged 80,075 hours in Rhode Island hauling people and equipment for TV and movie production companies between 2005 and 2007.

While only 10 to 20 men work each production for a few days or weeks, Local 251 Secretary-Treasurer/Principal Executive Officer Joseph J. Bairos said the pay is good: a flat $2,800 for a 60-hour work week: "And I know when our people are making that kind of money, they spend it."

Feinberg also provided an e-mail from Chris O'Donnell, business manager for Local 481, International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts, that said his union members — who come from across New England — "made approximately $8 million more in Rhode Island in 2006 than in 2005."

But the only productions that received the tax credits that filmed here for more than a month-and-a-half were Underdog (91 days) and the first season of the Brotherhood TV series, which filmed here for 229 days. In their state filing, Brotherhood's producers reported having hired a total of 165 Rhode Islanders, including day-players.

Feinberg has yet to convince the Poverty Institute's Ellen Frank.

"He told us that it had created 2,000 jobs in the state … and I wondered whether these were temporary or full-time, year-round jobs. He couldn't say, but said: 'what's a full-time year-round job anymore? People carve together " part-time temporary positions and for many people that was fine.'

Frank said the math is also such that the amount paid actor Richard Gere, who has been filming a movie in Rhode Island in recent weeks, "will be counted toward the Rhode

Island cost, but the likelihood that any of that is spent — anything more than a very small portion — is spent in the Rhode Island economy is very small, which means that the multiplier effect on these expenditures is probably less than one."

"We are certainly not getting our money's worth in terms of money coming back to the state…. That's the big concern," she says, and "the lack of any public information on what we just bought with these credits."

On this issue, Republican Carcieri shares her concerns: "Rhode Island should be the financial winner from this type of tax credit program. We should never be the net financial losers…. That's especially true when the state is facing such a huge budget crisis."

"In that light," spokesman Jeff Neal said, Carcieri has already asked the state's new office of tax policy analysis "to fully examine the costs and benefits of this program. We need to make sure the film tax credit isn't more costly than it's worth."

CONNECTICUT HAS already taken steps to rein in its year-old program, after pledging $26 million in tax credits to 64 productions.

Under the new rules, only 50 percent of expenses "incurred outside the state" will count toward the calculation of Connecticut's 30-percent tax credit after Jan. 1, 2009, and "no expenses or costs incurred outside the state and used within the state shall be eligible for a credit" after Jan. 1, 2012.

Karen Senich, executive director of the Connecticut Commission on Culture and Tourism, explains: "The change was made because the purpose of the legislation is to build an industry in the state and to put our residents to work."

Aware of the growing concerns here, Feinberg said, he has been working with the state tax department in recent weeks to draft rules that would narrow the definition of a qualified cost to "services performed within the state of Rhode Island."

The way he sees this working: "Wardrobe purchased or rented from a vendor within Rhode Island will constitute a cost incurred within the state; however, wardrobe purchased or rented from an out-of-state vendor and shipped to Rhode Island will not constitute a cost incurred within the state."

Why make changes now? "We have been following the law, but I came up with the idea as a way to keep building up our infrastructure and stimulating further local economic growth, without changing the law," he said. "We can provide even more opportunities to our local vendors and create more jobs."

Asked if he worried about losing film business as a result, he said: "Yes, that is something that slightly concerns me in the back of my mind…. However, I believe this will be a healthy move.

“We don’t need to grossly saturate our state with film production. Right now we are gaining a steady momentum. We just need a healthy amount of productions per year which our state can build upon.”

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