

WOONG HOLLYWOOD – at a price

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PROVIDENCE — Rhode Island’s film business has exploded in the last two years, but that success has not come cheap: to lure a dozen or so moviemakers here in that short time, taxpayers will hand out more than \$37 million in subsidies.

With the state now facing a \$104.8-million deficit this year, some government watchers are questioning whether the state’s tax credit program for filmmakers is worthwhile. They say movie crews come to town, spend money, but then leave, creating few permanent jobs.

“What is the state getting for its money and could we be spending this money on more productive ventures?” said Ellen Frank, senior economist at the Poverty Institute at Rhode Island College.

Gary S. Sasse, executive director of the Rhode Island Public Expenditure Council, a business-backed research group, added: “We are concerned that the film tax credit is not creating permanent jobs and investment in Rhode Island.”

Two years ago, state lawmakers created a new tax credit for movie and television productions that spend at least \$300,000 in Rhode Island. For every dollar they spend on food, lodging, equipment rental, salaries — including those of the stars — and a slew of other expenses, the producers get a 25-percent tax credit. They in turn typically sell those credits, at a discount, to wealthy individuals who use the credit to reduce their Rhode Island personal income taxes.

So, if a movie spends \$20 million in the state, it would get \$5 million worth of credits. Those credits might then be sold to 100 or 200 different taxpayers who use the credit to offset their tax liability. The credit is almost like a gift card; it has no value except when used at the Division of Taxation.

A person or business that owes the state \$60,000 in taxes might buy \$60,000 worth of credits for \$52,000 from the movie company. The individual taxpayer wins because he or she essentially lowers his or her taxes by \$8,000. Movie companies win because they typically don’t have large tax liabilities and therefore have no use of their own for the credits.

To get a credit, each production must submit to the Rhode Island Film & Television Office a host of documents including budgets, list of vendors, a distribution plan and an accountant’s certifications of the costs.

The Providence Journal filed a public records request on Nov. 20 for all those documents. The request is still pending. Governor Carcieri's administration said some of the information might be proprietary and is reviewing the documents.

THE GENERAL ASSEMBLY passed the film-credit legislation hoping to create Hollywood East. Rhode Island had played host to some big productions, such as *Amistad*, *Meet Joe Black* and *Dumb and Dumber*, but filming here was sporadic.

The credits have changed that. More than a dozen productions have come to the state in less than two years, spending more than \$148 million here. Movie companies including Walt Disney Pictures, which has filmed two major pictures in Rhode Island, said the credits have put the state "on the preferred list of shooting locations."

In the months since the legislation's passage, House Speaker William J. Murphy, D-West Warwick, and Senate President Joseph A. Montalbano, D-North Providence, who sponsored it, have posed for photographs with one movie star after another. Joe Pantoliano, William Baldwin, Mario Van Peebles and others have made several appearances in the State House.

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.

The face of Rhode Island's moviemaking is Steven Feinberg, a Rhode Island native who returned from California less than three years ago to head the tiny film office after it was split off from the Economic Development Corporation.

Feinberg said Hollywood has pumped millions of dollars into the state's economy and created numerous jobs and he proudly takes credit for the boom. Every production receiving a tax break is required under Feinberg's own regulations to include in the movie credits "grateful acknowledgement" to the state and to Feinberg personally.

He said the state's leaders have created only "a minimal amount of businesses in the last 10 years" and that people need to give the movie industry a chance. The state is just starting to get a reputation as a film-friendly place and Feinberg now hopes to get studios and support industries to set up shop here.

"Now we're creating something," he said. "We're in our infancy. It's almost like, if you've got a baby that's crawling — that baby could be an Olympian — but you're not going to kill the baby because it hasn't reached its potential."

Murphy and Montalbano both called the film program a success and said they hope the industry grows in the state.

“I think the total reward to the state will be when we’re able to put a movie studio in a place like Quonset,” Murphy said. “Rather than having the post-production work done in New York or Los Angeles, we’re actually able to have the infrastructure here.”

Not everybody is sold on the value.

The New England Public Policy Center at the Federal Reserve Bank of Boston issued a report in October saying that a “film production stimulates little additional economic activity in other industries” and costs states “considerable foregone tax revenue.” The bank said that the stimulus to overall economic activity “appears to be rather modest.”

One state that has started to question its credit program is Louisiana. Lawmakers there passed a film tax credit in 2002 that pushed moviemaking in the state from about \$20 million a year to \$350 million. But Louisiana’s Legislative Fiscal Office last year found that while their credits attracted movies, the state got only 16 percent to 18 percent of the cost of its credits back in tax receipts.

Feinberg said when Rhode Island’s law was crafted, “we looked at Louisiana and their mistakes” and ensured, for instance, that the credit is given only for expenses made in-state.

“I’m not worried about Louisiana,” Murphy added. “I’m worried about Rhode Island.”

THE LARGEST production to take advantage of the tax break is Underdog, a live action version of the 1960s TV cartoon series.

Walt Disney Pictures filmed at Providence locations including the State House from April through July, spending \$38 million on wages, food, lodging and supplies, according to the film office.

The movie was a boon to private businesses patronized by the Underdog crew and to actors and crew members hired by Disney. But, that success came at a cost to taxpayers: \$9.5 million in tax credits.

It is unclear how much of that 25 percent the state makes back.

All of the spending by film companies is taxed at a significantly lower rate: meals, hotel rooms and goods are taxed only at 7 percent. Companies that do business here pay a 9-percent tax and Rhode Island workers pay a graduated income tax of 3.75 to 9.9 percent.

None of those taxes alone can make the state’s coffers whole. But theoretically the money pumped into the state’s economy would be spent over and over again, giving the state several chances to take its share.

For example, Underdog had to feed its crew. If some of that business went to local restaurants, those eateries might hire more employees who would pay income taxes and spend some of their salaries at local stores.

However, the equation is complicated by the fact that several productions used out-of-state companies for some services. Those companies pay taxes here, but are not likely to reinvest in Rhode Island's economy. The Poverty Institute's Frank said one problem with the program is a lack of reporting to the public about what is actually spent in the state. Frank said politicians favor credits over direct appropriations because they don't have to vote on them on a case-by-case basis.

"I find it very difficult to believe," she said, "that in a tight fiscal situation ... Disney coming to the General Assembly and asking for \$9.5 million to make Underdog would pass the laugh test."

RIPEC's Sasse said preferential tax treatment should be given only to industries with "permanent and tangible investments and job creation." He said there might be more efficient ways to grow the economy, such as more higher education spending.

Tax credits have been sought for the Showtime series Brotherhood; another Disney film called Dan in Real Life; the JVC Jazz Festival Newport, which is filmed for PBS; and Waterfront, a television series about a fictional Providence mayor that was not picked up by CBS. These productions all submitted initial applications but have not yet sought final approval for a credit.

Waterfront filmed 5 of a proposed 13 episodes here before the network pulled the plug. Feinberg said the producers could still get the credit — even if the show never airs — because they spent money in the state.

THE REAL BENEFIT of movies is not the one-time location shoots, but setting up studios and post-production companies in the state, according to Jeffrey M. Grybowski, Carcieri's chief of staff.

"The jury's still out on the effectiveness of the credit," Grybowski said. "Clearly we are pleased that the amount of production activity has greatly increased in Rhode Island since the credit was passed."

Yet, he warned, the impact probably doesn't yet outweigh the cost.

"They're one-shot deals," Grybowski said. "We don't have an industry."

Carcieri said in a statement that he is pleased Rhode Island has recently attracted a number of television and movie productions.

"However, we are only now beginning to fully understand all the costs and benefits of the state's film-tax credit," Carcieri said. "I'm hopeful that Rhode Island can develop a

sustained film-production capacity with high paying jobs for our citizens. When that happens, the film tax credit could be deemed a success.”

Feinberg recently traveled to Los Angeles trying to woo businesses and has talked with Hasbro about building a studio.

Some companies have already moved to Rhode Island, but not on a large scale. For instance, Red Herring Motion Picture Lighting moved from Easton, Mass., to East Providence, but it has only four employees.

“I think we’re really good where we are right now, but it’s not where we’re going,” Feinberg said. “Tax credits alone are not the game plan. It’s about building infrastructure.”

Feinberg also said increased visibility for the state in movies will lead to more tourists.

Murphy said the tax credits are similar to breaks given to companies such as Amgen and Fidelity. However, those tax breaks created thousands of permanent, high-paying jobs.

“It’s the cost of doing business in trying to lure this industry here,” he said. “We have an industry here in Rhode Island that we did not have before.”

Montalbano added: “In the 21st century, this is how we try to compete as a state. I think ultimately it will be more of a home base as opposed to a hit-and-run kind of situation. I hope so.”