THE ECONOMIC IMPACT OF LOUISIANA'S ENTERTAINMENT TAX CREDIT PROGRAMS FOR FILM, LIVE PERFORMANCE & SOUND RECORDING

For

Office of Entertainment Industry Development
Louisiana Department of Economic Development

By

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Executive Summary

The purpose of this report is to examine the economic impact of the Louisiana tax credit incentive programs for the entertainment industry. These programs are administered by the Office of Entertainment Industry Development (OEID) within the Louisiana Department of Economic Development (LED) as required by La R.S. 47:6007(D)(6), 47:6023(D)(5), and 47:6034(G). This report examines three programs: (1) motion picture production tax credit, (2) sound recording investor tax credit, and (3) musical and theatrical production income tax credit[1]. Additionally, the report provides a five-year overview of each program's activity, as well as a brief synopsis of comparable incentives in other states and countries.

This economic impact analysis is calculated based upon the final amount of audited expenditures certified by LED and credits issued in calendar years 2015 and 2016 based upon the final certification date. It is important to note that credits are not issued until expenditures are actually made and certified; all spending occurs prior to the issuance of credits. This is important, because it means that the fiscal impact to the State is not felt until after all production-related spending occurs in the State.

Table EX-1 shows the amount of tax credits certified by year in each of the three programs in 2015 and 2016.

Table EX-1
Tax Credits Certified Per Program: CY2015-CY2016
($Millions)

Category	2015	2016
Film Industry		
Production	$268.3	$282.6
Sound Recording		
Production	$0.4	$0.1
Live Performance		
Production	$3.8	$1.6
Infrastructure	$5.3	$5.0
Total	**$277.8**	**$289.3**

Source: Louisiana Department of Economic Development, Office of Entertainment Industry Development.

For the purposes of this analysis, "certified Louisiana spending" is defined as the actual amounts of qualified spending verified by an independent audit and certified in a given calendar year by LED, based upon the final certification date when the tax credits are issued. Once a credit is issued, it is eligible to be claimed, meaning it will have an impact on State revenue.

[1] This program contained an infrastructure component which ultimately sunset on 1/1/2014; however, as eligible projects are closing out, LED/OEID are still issuing credits which continue to diminish over time.

Table EX-2
Certified Spending in Louisiana on Film, Sound Recording and Live Performance Entertainment Programs: CY2015- CY2016
($Millions)

Category	2015	2016
Film Industry		
Production	$863.5	$893.0
Sound Recording		
Production	$1.5	$0.5
Live Performance		
Production	$14.9	$6.1
Infrastructure	$21.2	$19.3
Total	**$901.1**	**$918.9**

Source: Louisiana Department of Economic Development, Office of Entertainment Industry Development

Table EX-2 illustrates the total spending in the State for each program, as finally certified by LED. Using the information on the total amount in tax credits certified for each program (Table EX-1), total certified spending for each program (Table EX-2), and the additional impacts of this certified spending on the State's economy, a State input-output table was used to estimate the total impact on the Louisiana economy. Table EX-3, illustrates the impact in 2016 of each of the three programs on business sales, household earnings, and jobs supported by spending under these programs in the State. In that year the tax credit programs generated almost **$1.3 billion in new sales at firms in the state, $919.3 million in new household earnings** for State residents, and **14,541 jobs**. While not shown in the table, it is estimated that in 2016 this spending generated **$64.4 million for the state treasury** and another **$41.4 million for local governments**. The last column shows the weighted average of business sales per dollar of tax credits.

Table EX-3
Total Impacts Certified Spending on the Film, Sound Recording and Live Performance Entertainment Programs on the Louisiana Economy: CY2016
(Sales and Earnings in $Millions)

Category	New Business Sales	New Household Earnings	Jobs Supported	Sales per Dollar of Tax Credit[2]
Film Industry				
Production	$1,221.7	$902.6	14,194	$4.32
Sound Recording				
Production	$0.7	$0.5	6	$5.25
Live Performance				
Production	$7.4	$3.3	70	$4.49
Infrastructure[3]	$38.3	$12.9	271	$7.71
Total	**$1,268.1**	**$919.3**	**14,541**	**$4.68**

Data regarding the total amount of certified spending in the State under each of the three programs (shown in Table EX-2), along with the total amount of certified tax credits (Table EX-1), were used to estimate the benefits of the program to the State's economy (Table EX-3). The impact amount to the state's budget and the per job cost to the state are shown in Table EX-4.

Table EX-4
Budgetary Impacts Across Film, Sound Recording and Live Performance Entertainment Programs: CY2016
(Impact on State Budget in $Millions)

Category	Impact on State Budget[4]	Cost per Job to State
Film Industry		
Production	-$219.4	$15,460
Sound Recording		
Production	-$0.1	$16,333
Live Performance		
Production	-$1.4	$20,155
Infrastructure	-$4.1	$15,003

[2] The sales per dollar of credit are based on actual sales and tax credits, not the rounded off numbers shown in Tables EX-1 (the total amount of tax credits certified) and EX-3 (the total impacts of certified spending in the State). Total is the weighted average.
[3] No certified film infrastructure or sound recording infrastructure spending in 2016.
[4] Impact on state budget values determined by taking estimated state taxes generated minus the actual credits certified and issued in the calendar year.

TABLE OF CONTENTS

I. Introduction

The purpose of this report is to examine the economic and fiscal impacts of the Louisiana incentive programs for the entertainment industry as administered by the Office of Entertainment Industry Development (OEID) within the Louisiana Department of Economic Development (LED) as required by La R.S. 47:6007(D)(6), 47:6023(D)(5), and 47:6034(G). Incentives are presently provided to three specific sectors within the entertainment industry: (1) motion picture, (2) sound recording, and (3) live performance. These financial incentives are provided to encourage and incentivize these activities with the ultimate goal of establishing a self-sustaining entertainment industry in Louisiana.

Section II of this report will focus on the total impacts of the entertainment incentives. Sections III through V of this report contain data on various aspects of these three programs, including applications received, estimated spending, verified spending, actual credits issued, and (when the data is available) the actual wages paid to Louisiana residents over the past five years. Each section will also include a comparison of Louisiana's incentive program with programs in place across the country and around the world. The economic impact of these programs on business sales, household earnings, jobs supported, and tax collections in the State as well as the fiscal impact to the State's budget is analyzed for each program. In addition, recommendations for future changes that could be made to these incentive programs are presented. These changes appear warranted, based on the full analysis of the available data related to these programs.

II. Economic Impacts of Entertainment Spending in Louisiana

State law requires LED to include in its biennial report on the entertainment programs the estimates of the impact of spending certified under each program on the Louisiana economy and the State's budget. In this report, we provide those estimates for Calendar Years 2015 and 2016.

Direct Entertainment Spending In Louisiana

The amount of direct, certified Louisiana expenditures from 2015 and 2016 by program are detailed in Table 1. Expenditures on film production are by far the largest component of certified spending in Louisiana. Since the Motion Picture Investor Tax Credit program was adopted in 2002, certified spending in the motion picture sector has essentially remained around roughly $700-900 million each year. In 2016, certified spending was $893 million, the highest amount of certified spending in the State under the program to date.

Table 1
Certified Spending in Louisiana: CY2015-CY2016
($Millions)

Category	2015	2016
Film Industry		
Production	$863.5	$893.0
Sound Recording		
Production	$1.5	$0.5
Live Performance		
Production	$14.9	$6.1
Infrastructure	$21.2	$19.3
Total	**$901.1**	**$918.9**

Source: Louisiana Department of Economic Development, Office of Entertainment Industry Development

Indirect Impacts of Entertainment Spending in Louisiana

In determining the impact of the entertainment spending on the Louisiana economy it is important to note that the data in Table 1 do not capture the full impact, but only the **direct impact** on the economy. When workers in the industry receive their paychecks, they will in turn spend some of that money at other firms and businesses in the State. This spending, in turn, supports jobs for people in other sectors. They too will spend their new earnings at other firms and businesses in the State, and thus the cycle keeps repeating.

It may be helpful to think of the Louisiana economy as one large economic pond. For example, in 2016, an $893 million rock was dropped into this pond. When the rock hit the pond, it sent ripple effects all the way out to the edge of the pond. These ripples are what economists refer to as the **indirect or multiplier effects** of the entertainment spending. Multiplier effects need to be added to the direct effects to determine the full impact of the entertainment spending certified in 2016 on Louisiana's economy.

Measuring the Indirect Effects

Fortunately, there is a handy tool for measuring these multiplier effects- an input-output (I/O) table. Such a table has been constructed for the Louisiana economy by the Bureau of Economic Analysis (BEA) in the U.S. Department of Commerce. The BEA has been building I/O tables for various geographic areas for decades. The BEA is the same agency of the federal government that is responsible for collecting and disseminating data such as the national gross domestic product, gross state products, state income levels, and state/local population estimates in non-census years.

Using the Louisiana I/O tables constructed by the BEA, the multiplier effect of the various types of entertainment spending shown in Table 1 on (1) sales at Louisiana firms, (2) household earnings for Louisianans, and (3) jobs for residents of the state can be estimated. These data can then be used to estimate the impact of the various kinds of entertainment spending on state and local tax revenues.

Data Nuances for Impact Analysis

There are some unusual data issues that have to be addressed in order to use the I/O table for measuring indirect effects of certified spending on the State's economy. First, the spending data shown in Table 1 is aggregate spending. When these data are plugged into the I/O table they must be broken down into various specific spending categories, such as labor, construction, rentals, hotels, etc.

This is particularly problematic in dealing with the largest category--film production. Films range widely in size from small to very large productions. As a result the percentage of spending in each specific category can vary noticeably, depending on the size of each production. To address this problem, the OEID reviewed all projects which received final certification in calendar years 2015 and 2016 and further separated out this spending into the specific categories for input needed for the I/O table. Because the full "population" of all productions certified for tax credits in these years was used, and not just a "sample" or subset, we can place confidence in these estimates of certified spending in each specific spending category. This approach was used for all three programs examined in this report.

A second data issue exists in relation to **measuring the direct employment** supported by the spending in each category. When requesting tax credits for their entertainment spending, applicants are required to document how much money was spent on payroll for hiring and paying Louisiana residents. They are not required to document specifically how many people they hired to generate this payroll. In addition, part of the issue in effectively accounting for everyone working in the motion picture industry is that many people are hired indirectly, either as independent contractors (through 1099s) or through a payroll company that is engaged by the film production. The way the I/O tables work is that the independent contractors are captured in the indirect job count, when they should be included as direct workers in the industry.

This report also attempts to provide an estimate of current jobs supported by the industry by implementing the following methodology. First, each year LED tracks the portion of total certified amounts spent on total direct resident payroll (employed directly by the production company and issued traditional W2s).This is represented for each category in Table 1. Secondly, the U.S. Bureau of Labor Statistics generates data on the average annual wages for persons working in NAICS codes that cover all entertainment industry categories in Table 1. This data on average annual wages was divided into the certified resident payroll data to produce an estimate of direct resident employment generated by the various types of entertainment spending. Again, some might reasonably argue that this methodology likely underestimates total direct employment supported by the tax credits, as the data provided does not capture individuals that may work as contract labor (1099) or for companies that contract these services. However, these individuals are captured in the overall (direct plus indirect) total employment estimate.

Total Impacts of All Certified Film, Sound Recording, & Live Performance Entertainment Spending

The total impacts of the certified spending across the three entertainment incentive programs are represented below in Table 2.

Table 2
Total Impacts of All Certified Film, Sound Recording, & Live Performance Entertainment Industry Spending on Louisiana: CY2015 and CY2016
(Sales, Earnings, Local and State Taxes in $Millions)

Year	Sales	Earnings	Jobs	Taxes	
				Local	State
2015	$1,242.7	$894.1	13,802	$40.2	$62.6
2016	$1,268.1	$919.3	14,540	$41.4	$64.4

According to our estimates, the total certified entertainment spending in these three categories over this two-year period generated:

- Over **$2.5 billion in new sales** for firms in Louisiana;
- Nearly **$1.8 billion in new household earnings** for Louisiana residents and;
- **An average of 14,171 jobs** supported over the two-year period for residents of Louisiana.

A second very important piece of data is provided in Table 4. It is possible to estimate the impact of this certified spending on state and local tax revenues. Officials in Louisiana's Legislative Fiscal Office (LFO) have estimated that for every dollar of new earnings created in the state, a large portion of that money gets spent in Louisiana and the state collects taxes as a result. The LFO estimates that for every dollar of new household earnings generated in Louisiana the state treasury collects seven cents in various taxes and fees, such as sales taxes, income taxes, gasoline taxes, etc. Thus, from the $1.8 billion in new earnings created in 2015 and 2016 by the certified spending, **the State of Louisiana collected an estimated $126.9 million in various taxes and fees**.

Further, in consultation with officials in the LFO, our team estimated that for every dollar of new earnings generated in the state, local governments collect an additional 4.5 cents in various taxes and fees. Thus, on the $1.8 billion in new household earnings generated by the certified entertainment spending, **local governments were estimated to have collected $81.6 million in taxes and fees**.

Benefits Compared to the Cost of Entertainment Tax Credits

An alternative way of measuring the benefits to the state (one that was used in the previous two studies of these programs) is to look at the business sales generated per each dollar of entertainment tax credits. This information for each program for calendar year 2016 is reported in Table 3. The business sales per dollar of adjusted certified tax credits are shown in the last column of this table. The value ranges from a high of $7.94 per dollar of tax credit certified for live performance infrastructure to a low of $4.32 for film production spending. The weighted average across all programs is $4.68. It is important to note that these are upper bound estimates of these business sales impacts, meaning they have not been adjusted for leakages associated with talent, directors, producers, and writers' earnings that may not have been spent in the state.

Table 3
Total Impacts of Certified Entertainment Spending on the Louisiana Economy: CY2016
($Millions)

Category	New Business Sales	New Household Earnings	Jobs Supported	Sales per Dollar of Tax Credit
Film Industry				
Production	$1,221.7	$902.6	14,194	$4.32
Sound Recording				
Production	$0.7	$0.5	6	$5.25
Live Performance				
Production	$7.4	$3.3	70	$4.81
Infrastructure	$38.3	$12.9	271	$7.94
Total	**$1,268.1**	**$919.3**	**14,541**	**$4.68**[5]

Impact on the State Treasury

One other aspect of evaluating the entertainment programs is to explore what it costs the State (in terms of State tax revenue) to attract this entertainment business. The benefits reported in Table 3 were not free. In order to attract this activity to Louisiana the state has granted tax credits which effectively reduced the amount of money flowing into the state treasury. In 2016, the total face value of the tax credits certified for these three entertainment sectors was $289.4 million.

While comparative budgetary impacts across the three programs are individually examined later in this report, the data for 2016 are summarized in Table 4 to make it easy for readers to compare results across each program.

[5] Weighted average across all four programs

Table 4
Budgetary Impacts across All Entertainment Programs: Certified Spending for CY2016
(Impact on State Budget in $Millions)

Category	Impact on State Budget	Cost per Job to State
Film Industry		
Production	-$219.4	$15,460
Sound Recording		
Production	-$0.1	$16,333
Live Performance		
Production	-$1.4	$20,155
Infrastructure[6]	-$4.1	$15,003[7]

Uses for Tax Credits

The tax incentives administered by OEID have a variety of redemption and transfer options. Motion Picture tax credits may be used to offset personal and/or corporate income tax liabilities, transferred to another Louisiana taxpayer, or transferred back to the Louisiana Department of Revenue for 85% of the face value of the credits. Any credits earned under the Sound Recording program are either directly rebated or credited against Louisiana income tax liability. Credits earned under the Live Performance program may be applied to any Louisiana tax liability and a refund of overpayment will be issued or credits may be transferred on a one time basis to another Louisiana taxpayer.

To the extent that the film production industry opts for the State buy-back, when this mechanism is employed, the impact to the state budget is reduced by 15 percent. Unfortunately the Louisiana Department of Economic Development does not control or have access to data on the extent to which this mechanism is used.

For credits earned under the Motion Picture and Live Performance programs, there is another option to transfer these credits on the open market if the program participant does not use the credit against their own income tax liability. (Live credits can only be transferred one time). For firms with little to no state income tax liabilities, this may be an option to secure more than the 85% amount received through the buy-back mechanism. A great deal of the tax credits not bought back by the State will likely be transferred to third-party taxpayers who can claim the credits on their own personal or corporate returns and therefore receive the full value of the credit.

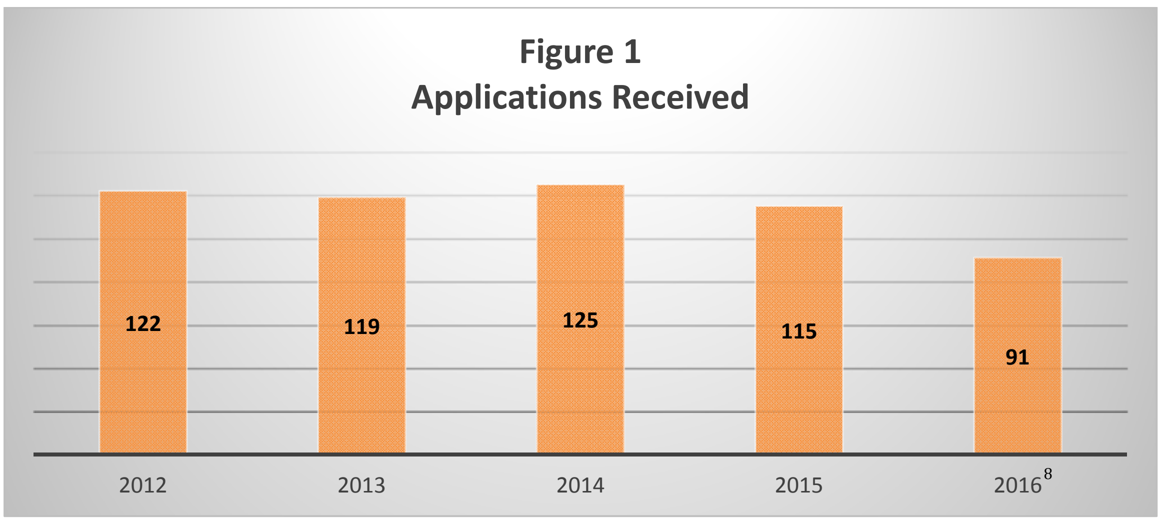
How does the gross value of these tax credits, which are effectively the costs to the state, compare with the benefits? Below the report compares these costs to the tax receipts and jobs associated with each entertainment endeavor using the credits.

[6] There was no film infrastructure or sound recording infrastructure spending in 2016.
[7] Cost per Job to State based on non-rounded numbers

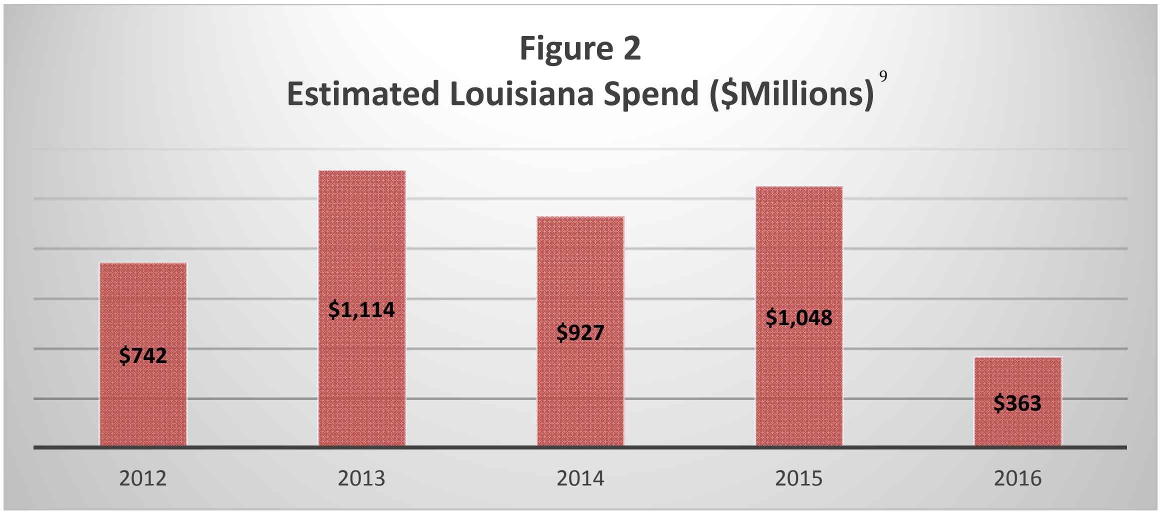
III. La R.S. 47:6007 Motion Picture Production Tax Credit Program (also referred to as "Film")

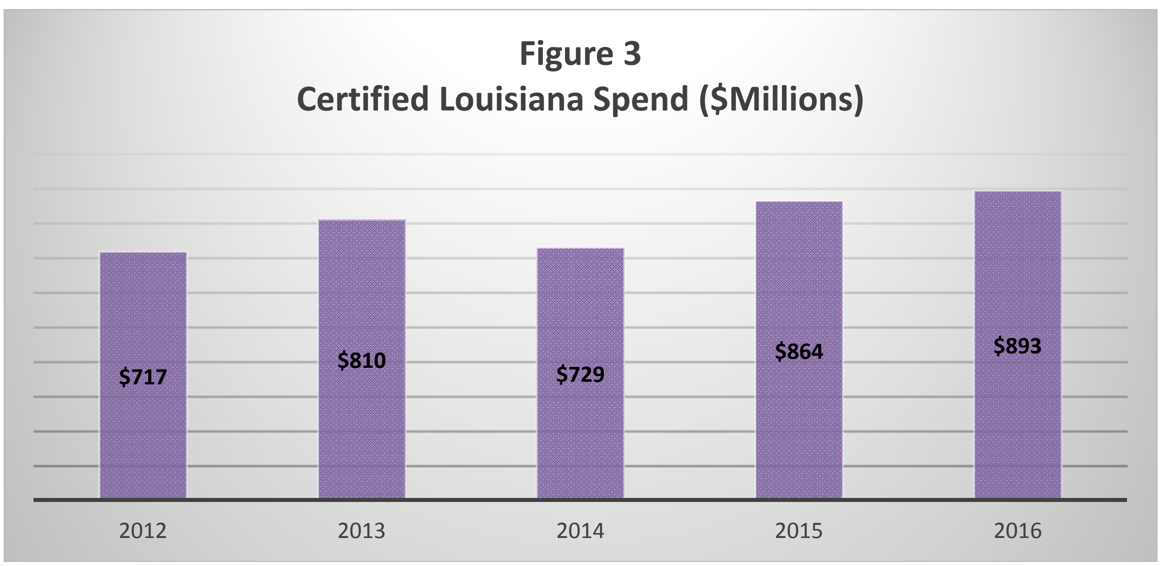
Five Year Overview

In 2002, Louisiana forever altered the way motion pictures are made in the United States by adopting its pioneering motion picture incentive program. In the 15 years since the adoption of its program, Louisiana has seen an increase in applications, spending, credits issued and resident payroll. Except for estimated spending for applications received in 2016[8], the past five years have been relatively consistent and stable. Supporting this stabilizing trend in the industry has been the development of both mature, production-related infrastructure, as well as a skilled labor pool that provides the resources major productions rely on in order to film in Louisiana.



[8] Changes made in the 2015 Legislative Session caused a material downturn in the industry in Louisiana, of which the only numerical impacts felt so far have been in the estimated spending. It is anticipated that the data will reflect that downturn in the actual spending certified and credits issued in Calendar Year 2017. There is typically a lag in the time (anywhere from 12 to 24 months) between when the spending occurs and when OEID finally certifies expenditures & issues credits.





[9] Estimated Louisiana Spend based on the application received date. This will differ with the Certified Louisiana Spend for the calendar year due to a 12-24 month gap between application and final certification.

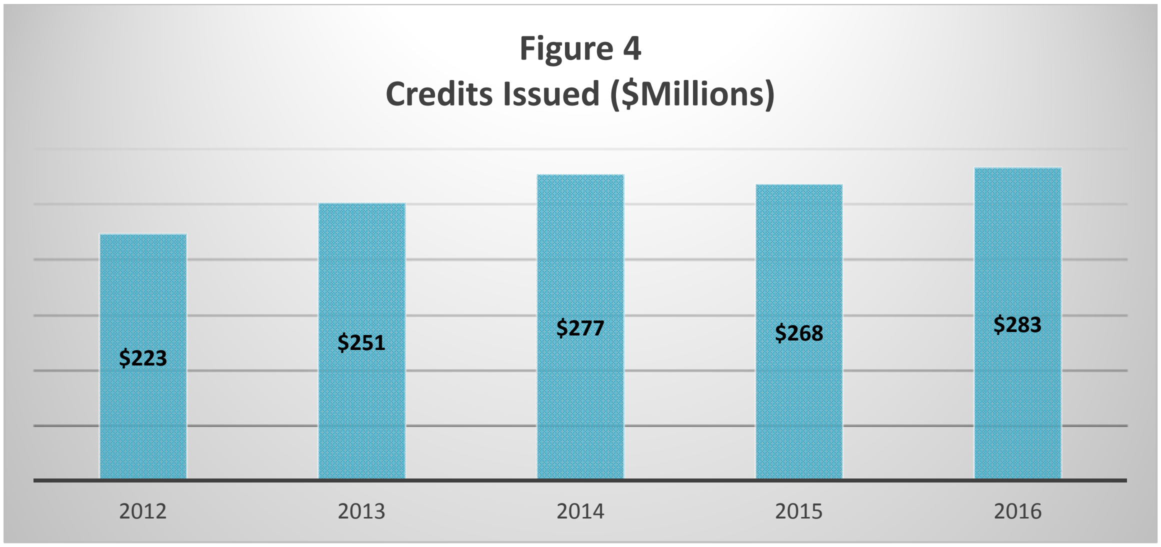


Figure 4
Credits Issued ($Millions)
$223
$251
$277
$268
$283
2012
2013
2014
2015
2016

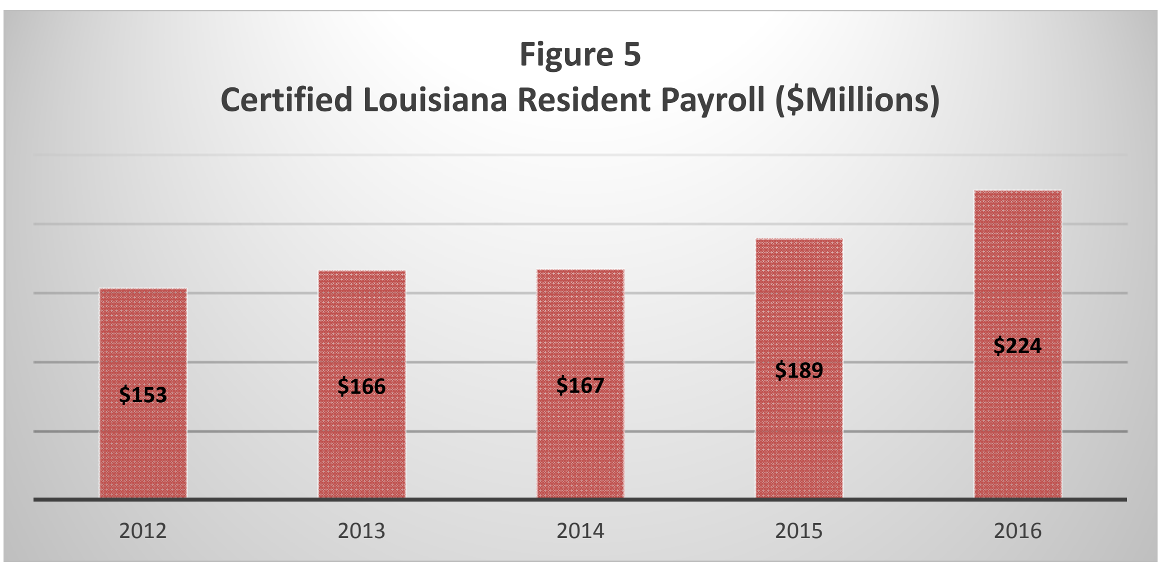


Figure 5
Certified Louisiana Resident Payroll ($Millions)
$153
$166
$167
$189
$224
2012
2013
2014
2015
2016

Comparative Inducements

In 2016, 37 U.S. States and Territories offer similar production-based incentives for the motion picture industry. This is down from the peak of 44 in 2009[10]. In addition, several international jurisdictions have adopted similar types of programs or have enhanced their already-existing incentive offerings. This has created intense competition and a variety of options for decision makers in this industry sector.

International jurisdictions have seen an upswing in production primarily due to favorable monetary exchange rates. While Louisiana's industry remains active, recent changes to the State's incentive program, as well as increased production in other states and countries due to the aforementioned factors have led to decreased production in the State. Table 5 compares Louisiana with the most competitive domestic and international jurisdictions - Georgia, California, New York, Vancouver, United Kingdom, and Australia - according to OEID.

Table 5
Film Incentive Structures across Various Jurisdictions: 2017[11]

Jurisdiction	Louisiana	Georgia	California	New York	British Columbia	United Kingdom	Australia
Base Rate	30%	30%	20-25%	30%	28%	25%	16.5% - 40%
Added Inducement(s)	10% resident labor	None	5% extra for shooting outside of L.A.	Multiple Add-ons Offered (VFX, out of NYC, etc.)	Multiple Add-ons Offered	None	None
Caps/Limitations	$180M claims cap for 3 fiscal years (FY16-FY18) $30M per project cap for 3 fiscal years (FY16-FY18)	None	$330M (issuance)	$420M (issuance)	None	Up to 80% of core expenditures are eligible for credit	None
Sunsets	None	None	2020	2019	None	None	None
Minimum Spend	$300,000	$500,000	$1,000,000	$500,000	$100,000	10% minimum in UK spend	$500,000
Credit Type	Transferable / Rebate (85%)	Transferable	Credit	Refundable	Refundable	Cash Rebate	Cash Rebate

[10] "State Film Production Incentives & Programs" National Conference of State Legislatures. April 12, 2016.
[11] Table represents a high level overview of the basic incentive offered in these jurisdictions, each have their own governing statutes and those should be referred to for further details.

Impact of Film Production Spending

Table 6 shows the I/O table estimates of the impact of film production spending certified for 2015 and 2016 on the Louisiana economy. Not surprisingly (given the data regarding the total estimated economic impact of certified spending in Louisiana in Table 3), the largest impacts of film production spending was in the year of the largest aggregate spend-2016. According to the I/O table, the aggregate film production spending of $893 million generated over **$1.2 billion in sales at firms in Louisiana**, **$902.6 million in household earnings for Louisiana residents**, and a **total of 14,194 direct and indirect jobs within the state**.

Table 6
Impacts of Film Production Certified Spending on Louisiana:
CY2015-CY2016
(Sales and Earnings in $Millions)

Year	Sales	Earnings	Jobs
2015	$1,181.3	$872.8	13,329
2016	$1,221.7	$902.6	14,194

There are a few other noteworthy points to be made about the economic impact of certified spending in Louisiana. First, over the two-year period examined in this report, certified spending on film production generated a little over $2.4 billion in new business sales within the state and a total of nearly $1.8 billion in new household earnings. Second, over this two-year period, an average of 13,762 new jobs were supported during this period as a result of film production spending within the state.

Third, by dividing the household earnings number for 2016 ($902.6 million) by the total jobs supported by the program (14,194) one gets an implied average annual wage for all workers---direct and indirect---of **$63,590**. The average annual wage of all workers in Louisiana's private sector in November 2015 was $41,808. This suggests that the jobs supported by film production activities in the State offer higher-than-average salaries. Indeed, the $63,590 figure is remarkably close to the average annual income of $63,012 reported by the local film workers union.[12]

When considering average wages, however, there is an important caveat to consider. Under the regulations, the certified spending numbers used to calculate the numbers in Table 6 include payments made to talent, writers, directors, and producers, which tend to be the most highly-paid individuals on a production's payroll. It cannot be assumed that all of these monies will actually be spent in Louisiana since these individuals are typically not Louisiana residents. Inclusion of their salaries in the "certified Louisiana spend" for tax credit purposes undoubtedly exaggerates the numbers in Table 6.

[12] Survey results are based on 797 respondents (of 1,056 surveyed). Email from Dawn Arevalo, Assistant Business Manager, IATSE Local 478, January 17, 2017.

Finally, industry leaders have suggested that film production in the state has contributed to a significant increase in tourism spending in Louisiana. A portion of this tourism effect is actually captured in our model as we attempt to estimate the multiplier effect of production-related spending. In order to validate this hypothesis, there should be a concerted effort to directly measure the effects of production spending incentivized by the motion picture tax credit program on Louisiana's tourism sector to determine if the impacts are large or small.

Industry Impacts of Film Production Spending

Table 7 represents estimates of which sectors of the Louisiana economy gain the most from the multiplier effects of film production-related spending. It is important to note that these are the industries most affected by the multiplier effect. It does **not** include industries impacted by the direct spending.

From an earnings standpoint, workers in the health care sector are the largest beneficiaries of indirect spending incentivized by Louisiana's film incentive program, as they see roughly $52.1 million in additional earnings as a result of production-related spending. From the standpoint of the number of jobs supported by production-related spending in a given industry sector, healthcare ranks third, with an estimated 1,233 jobs supported by production-related spending. The industry sector which most benefits from the incentive from the standpoint of the number of jobs supported by production-related spending is real estate/rentals/leasing workers (1,295 jobs), followed by retail trade (1,252 jobs). The retail trade boost is not surprising since payrolls played a big role in the direct film spending in 2016.

Table 7
Indirect Effects of Certified Film Production Spending on Louisiana by Industry: CY2016
(Sales and Earnings in $Millions)

Industry	Sales	Earnings	Jobs
Agriculture, Forestry, Fishing, and Hunting	$6.0	$1.5	34
Mining	$17.0	$2.9	31
Utilities	$27.4	$4.2	45
Construction	$111.2	$42.8	759
Durable Goods Manufacturing	$26.5	$5.4	106
Nondurable Goods Manufacturing	$80.5	$12.6	182
Wholesale Trade	$50.3	$15.9	244
Retail Trade	$97.3	$34.9	1,252
Transportation and Warehousing	$109.0	$32.5	646
Information	$29.0	$6.3	119
Finance and Insurance	$81.2	$19.5	522
Real Estate and Rental and Leasing	$216.6	$39.1	1,295
Professional, Scientific, and Technical Services	$39.1	$17.5	283
Management of Companies and Enterprises	$12.1	$5.1	66

Administrative and Waste Management Services	$26.5	$11.6	414
Educational Services	$13.4	$6.3	209
Health Care and Social Assistance	$113.7	$52.1	1,233
Arts, Entertainment, and Recreation	$10.4	$3.1	131
Accommodation	$38.7	$10.9	375
Food Services and Drinking Places	$37.1	$12.1	664
Other Services	$78.7	$29.1	858
Households	$0.0	$1.3	120
Total	**$1,221.7**	**$366.8**	**9,589**

An Important Caveat

In all the economic impact discussions above, this report attempts to describe the impacts as resulting from **certified** Louisiana spending. In reality, when measuring the economic impact of an activity on the state, money that actually remains and is spent within the state should be included. Measuring the impacts using certified spending includes salaries paid to talent, directors, producers, and writers who, in many cases, do not live in Louisiana and are therefore unlikely to spend a significant portion of those earnings in the state. Because of this, the state's return on investment is typically lower for those projects (primarily feature films) that involve a large proportion of payments made to non-residents. Readers should consider the numbers in Table 6 as an upper bound on the industry's impact.

According to the data provided by LED, roughly 25% of the eligible Louisiana spending that was certified in calendar years 2015 and 2016 was for salaries paid to talent, directors, producers, and writers[13]. Reducing the upper bound estimates in Table 6 by 25% would provide a lower bound estimate. The number likely resides somewhere in between.

Table 8
"Adjusted" Impacts of Film Production Certified Spending on Louisiana:
CY2015-CY2016
(Sales and Earnings in $Millions)

Year	Sales	Earnings	Jobs
2015	$886.0	$654.6	9,997
2016	$916.3	$677.0	10,646

[13] In 2015, the Legislature restricted the qualifying amount of above-the-line salaries to 40% of the eligible Louisiana spend. There hasn't been enough production activity to determine the impact of this change; however, if that percentage is reduced further, it is likely that the return on investment for the State would improve even more.

While there is no way to accurately calculate how much money non-resident talent, directors, producers, and writers may spend in Louisiana, we assume that it is not a significant portion of their earnings while working in the state. Talent hired to perform in television series, however, does tend to show a higher rate of spending a larger portion of their earnings in the State as they are typically in Louisiana for longer periods of time, sometimes for around 8 to 10 months out of the year.

Unlike the talent hired for television series, film talent may stay in the State only briefly, since they typically film all scenes in a shorter, condensed period of time. Since there is no way to know how much a non-resident may spend in the state of Louisiana, this report provides both the higher-end estimates and the lower-end estimates. The precise numbers lie somewhere in between.

Impact on the State Treasury

Table 9 highlights the impact the motion picture incentive program has on the State treasury. The net impact on the State treasury is a simple calculation of the total certified tax credits minus the estimated taxes received (as per the I/0 tables utilized for this analysis).

Row four contains the total jobs supported by the program as estimated by the I/O table and reported in Table 6. The last row is the cost per job of this incentive program. **In 2015, it is estimated the film production program resulted in a net loss of $207.2 million in state revenues. In 2016, this loss rose to $219.4 million.**

Table 9
Motion Picture Incentive Program - Impact on State Treasury
(Certified Tax Credits, Taxes Received and Net Impact on State Treasury in $Millions)

Category	2015	2016
Certified Tax Credits	$268.3	$282.6
Taxes Received[14]	$61.1	$63.2
Net Impact on State Treasury	-$207.2	-$219.4
Jobs Supported	13,329	14,194
Cost to State per Job	$15,547	$15,460

[14] "Taxes Received" is based on the upper bound estimate of the impact of the tax credits on the economy. On the lower bound estimates mentioned above (where an estimated 25% of the eligible spending that was certified went to non-residents actors, writers, producers, etc., who are required to pay Louisiana income taxes on the amounts they earn while working on the production), the net impact on the state treasury would be **$-209.5 million in 2015 and $-221.8 million in 2016.**

Recent Program Changes

Since the last version of this report was issued in 2015, the Louisiana Legislature adopted several of the recommendations for Film program improvements. The programmatic improvements made are as follows:

Provided fiscal predictability in the short term

- For fiscal years 2016, 2017 and 2017, there is a $180 million rolling cap on claims and buy-backs

Anti-fraud and abuse measure were introduced

- Granted LED the authority to hire CPAs to provide independent expenditure verification reports in order to improve the overall quality of submissions and ensure total independence
- Establish tighter controls and limitations over related-party-transactions (RPTs), including the option to refer any production with RPTs to the Inspector General for review prior to certification

Improvements to ROI were implemented

- Certain “soft costs” are no longer eligible for tax credits (ex. Airfare and bond fees, insurance premiums, finance fees and loan interest fees except those paid to Louisiana companies)
- State law only allows a credit on 40% of above-the-line salaries and a per person salary cap of $1 million
- Statute provides enhanced incentives to Louisiana resident filmmakers

Recommendations for Program Improvement

Governor John Bel Edwards has directed Louisiana Economic Development to analyze the motion picture production incentive program in depth and provide recommendations that will accomplish these main goals:

- Provide improved fiscal predictability
- Increase the return on investment to the state
- Create a more sustainable industry for Louisiana
- Create an industry that has greater statewide impact

Based upon the data and impacts obtained in this study, below are a few recommendations that should help accomplish these goals:

- An overall program cap will provide greater fiscal predictability for state budgeting
- Providing an incentive tied to permanent, full-time employment (W2s) for companies that are in the business of creating entertainment content or supporting entertainment content creators.

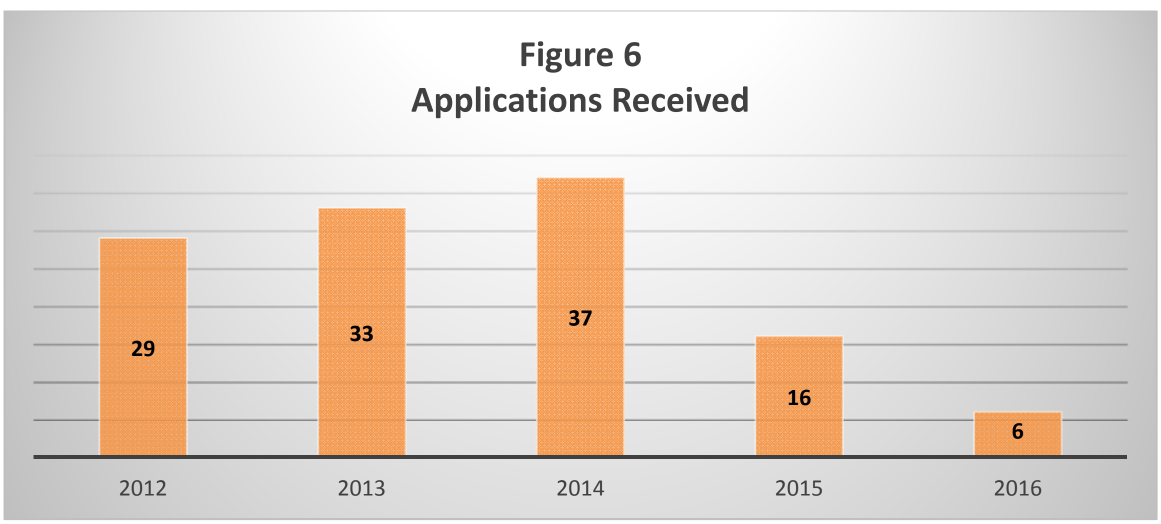
- Incentivize the creation of jobs that require digital art skills which tend to be higher paying and more permanent. These skills are also transferable to other industries.
- Further limit expenditures that provide little to no substantive economic impact to the state
- Create a fund based upon current program activity that can focus on growing Louisiana's local content creators

If successful, these efforts combined with other reforms should set Louisiana on a path towards a more sustainable industry for the long term future of this industry.

Section IV. La R.S. 47:6023 Sound Recording Investor Tax Credit (also referred to as "Sound")

Five-Year Overview

In an effort to stimulate Louisiana's music industry, the Sound Recording Incentive Program was adopted in 2005. Of all of the entertainment industries, the music industry has experienced major shifts. Traditionally, record companies would invest in recording songs or albums in a traditional recording studio. Technology (through both online sharing or streaming services) has caused the most disruption to the industry, manifest in the low costs associated with recording an album, the fact that recording often no longer results in the creation of a physical product, the fact that most music is now distributed and purchased digitally, and a host of other factors have all contributed to this shift. Music is no longer recorded as it was in the past, and the numbers associated with Louisiana's Sound Recording incentive program reflect that trend.



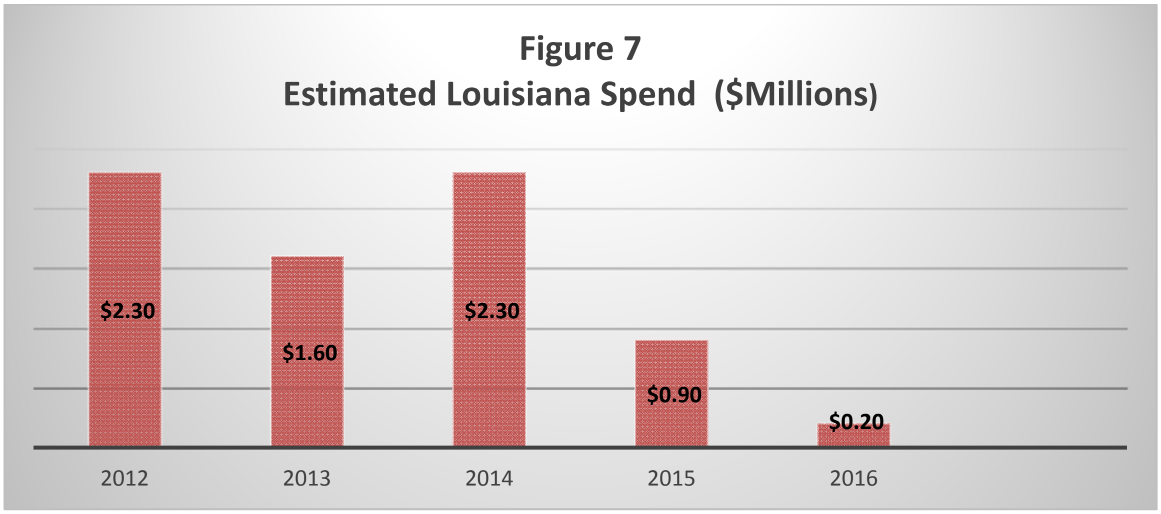


Figure 7
Estimated Louisiana Spend ($Millions)
$2.30
$1.60
$2.30
$0.90
$0.20
2012
2013
2014
2015
2016

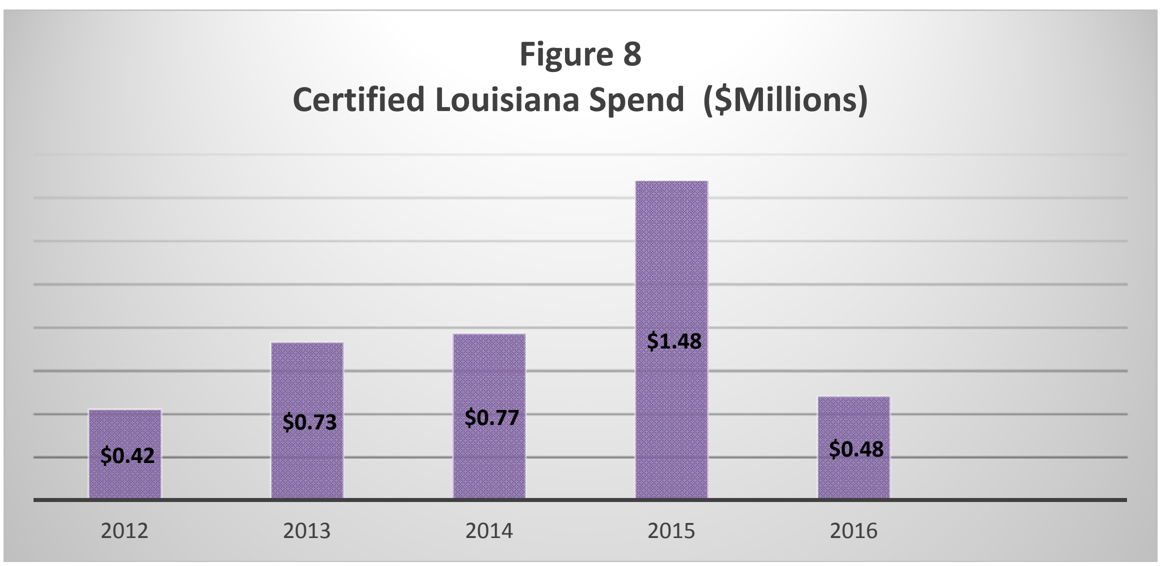
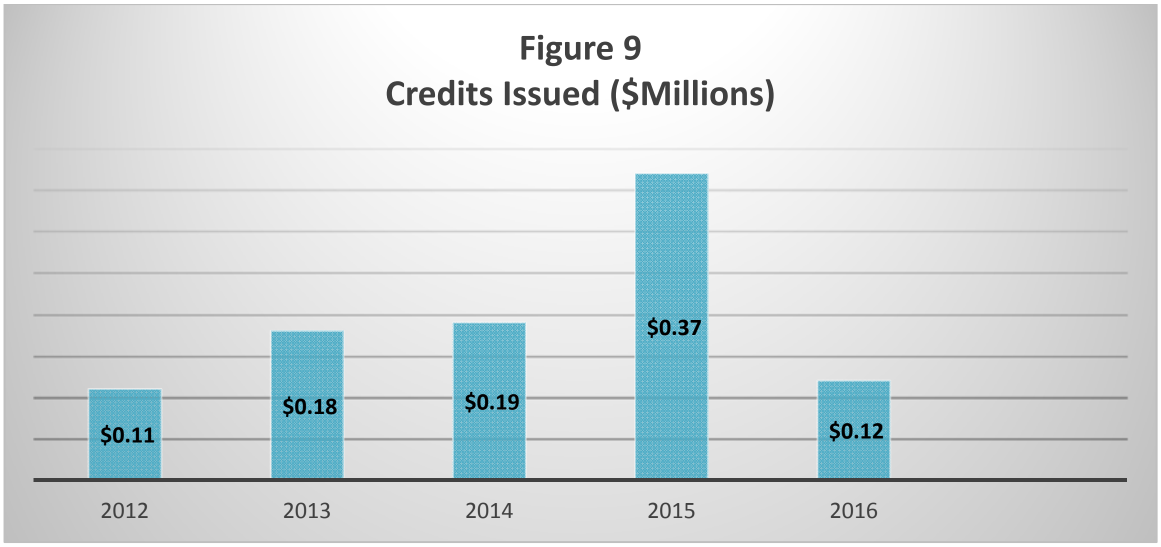


Figure 8
Certified Louisiana Spend ($Millions)
$0.42
$0.73
$0.77
$1.48
$0.48
2012
2013
2014
2015
2016



Comparative Inducements

Louisiana appears to be the only State offering a stand-alone tax credit program for sound recordings although sound recording incentive programs may be in the process of being developed in other states. Recently, the legislature in New York passed a substantial sound recording tax credit program which was subsequently vetoed by the Governor. While there appear to be no other specific programs targeting sound recording, other states (Georgia, California) offer tax credits for sound recordings made for use in motion pictures.

Impact of Sound Recording Production Spending

In terms of total Louisiana spending, Sound has the smallest impact of the programs. Sound recording production spending certified in 2015 and 2016 amounted to only $1,475,891 and $514,504, respectively, representing a more than 50% decline in certified spending from 2015 to 2016. I/O estimates of the impact of certified SR production spending is provided in Table 10.

Table 10
Impacts of Certified Sound Recording Production Spending:
CY2015-CY2016
(Sales and Earnings in $Millions)

Year	Sales	Earnings	Jobs
2015	$1.4	$1.3	11
2016	$0.7	$0.5	6

Industry Impacts of Sound Recording Production

Because of the relatively small numbers involved, the multiplier effects of certified spending in the Sound program across other industries are not reported.

Impact to the State Treasury

Impacts of the sound recording production program are detailed in Table 11. The negative impact on the state treasury of the certified spend in this sector was about $300,000 in 2015 and $100,000 in 2016. In 2015, the per job cost was $25,791 and fell to $16,333 in 2016.

Table 11
Evaluating the Sound Recording Production Tax Credit Program Based on the Calendar Year the Spending Was Certified

Category	2015	2016
Certified Tax Credits	$400,000	$100,000
Taxes Received	$100,000	$0.00
Net Impact on State Treasury	-$300,000	-$100,000
Jobs Supported	11	6
Cost to State per Job	$25,791	$16,333

Recommendations for Program Improvement

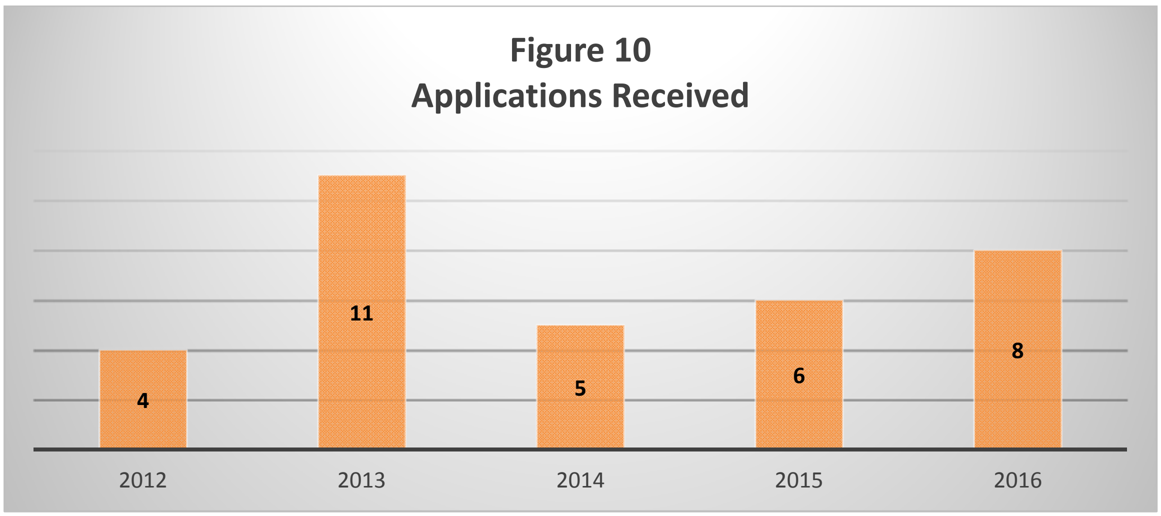
While this program has never exceeded or come close to meeting its statutory issuance cap, it is clear from the data analyzed here that the program has never anticipated industry shifts and the diminishing size of the sound recording industry (in terms of capital investment or jobs supported). It is therefore recommended that the department reevaluate whether the state should continue investing in this program. This recommendation should not be misinterpreted as failing to recognize the importance of the music industry in Louisiana. Instead, it should be seen merely as a practical reaction to and recognition of the industry's shift away from traditional modes of recording music. In addition, other State incentive programs (film and live) already cover some aspects of the recording industry (recording soundtracks, scoring, recoding of live performances).

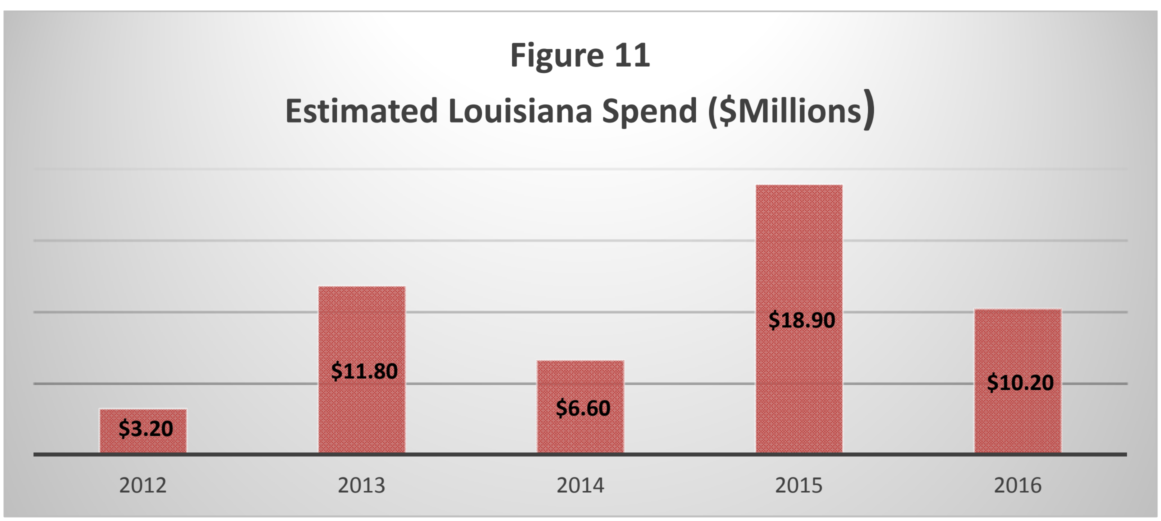
Section V. La R.S. 47:6034 Musical and Theatrical Production Income Tax Credit (also referred to as "Live Performance" or "Live")

Five-Year Overview

The 2007 adoption of the Live Performance incentive was the last of several major additions to Louisiana's package of entertainment industry incentives managed by OEID. Over the past five years, this sector continues to show signs of growth in the number of productions attracted to the State. In addition, the infrastructure program incentivized the development of much-needed facilities for this sector. The graphs below pinpoint the activity in this sector as well as exemplify the decline in infrastructure spending/credits issued due to the ultimate sunset (enacted in 2013) on applications to the infrastructure program.

Live Performance Production: Five-Year Overview





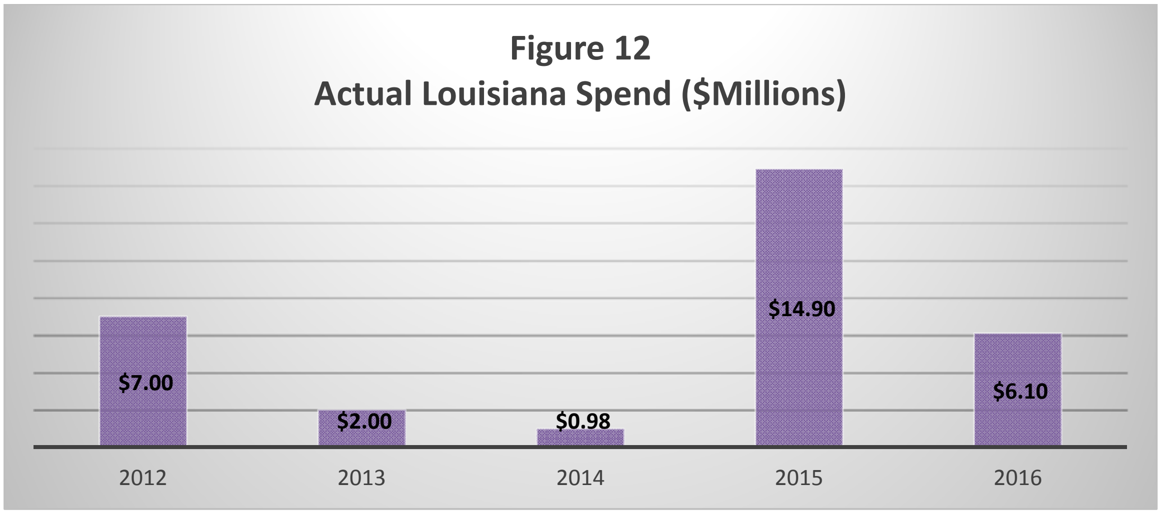


Figure 12
Actual Louisiana Spend ($Millions)
$7.00
$2.00
$0.98
$14.90
$6.10
2012
2013
2014
2015
2016

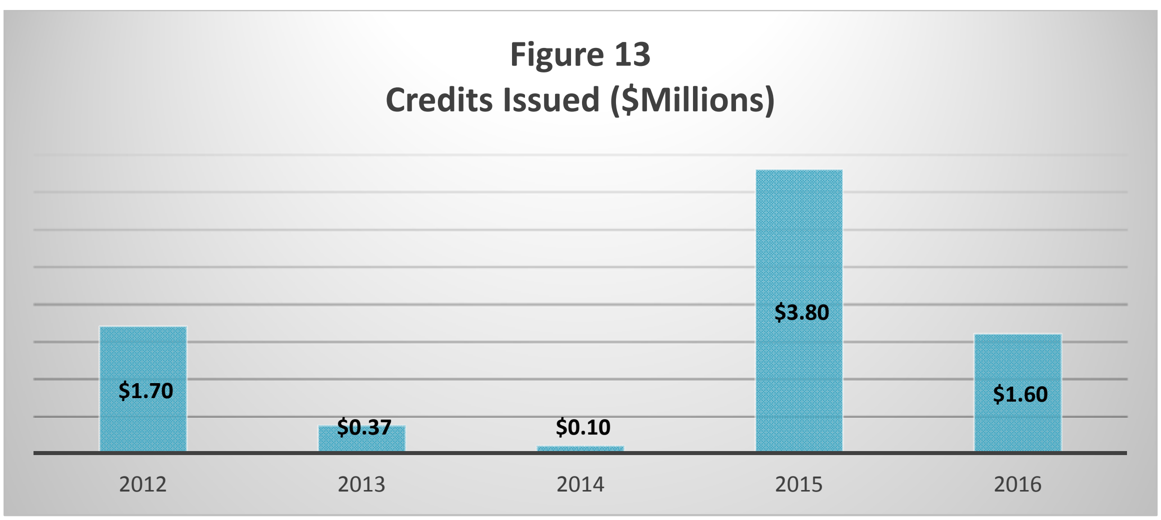
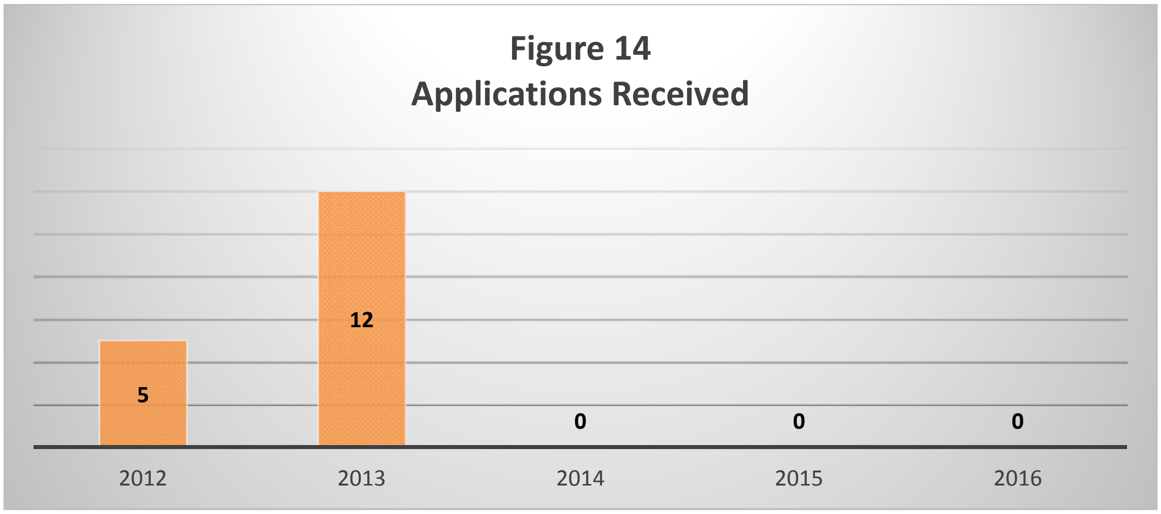
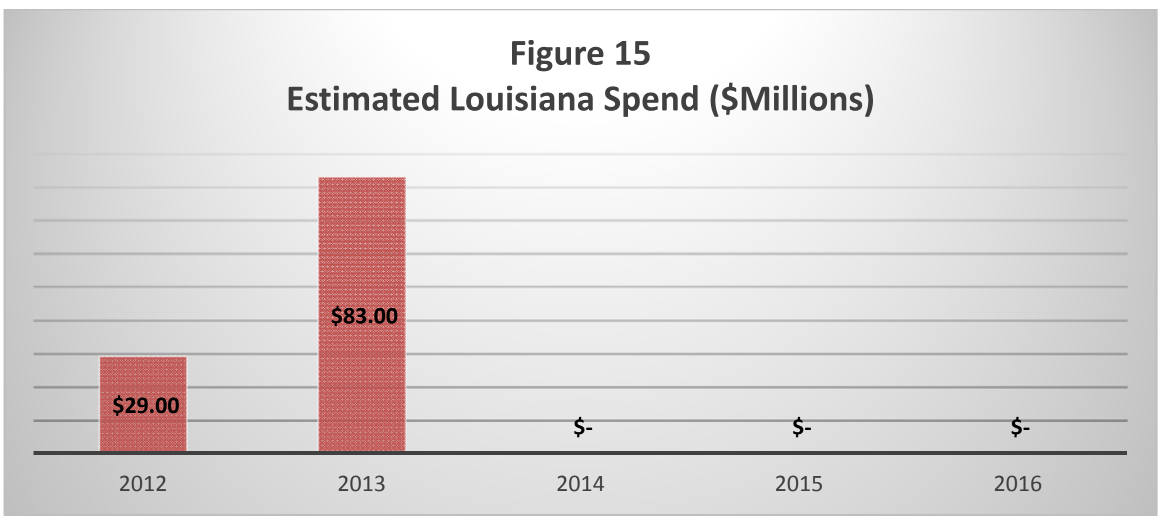


Figure 13
Credits Issued ($Millions)
$1.70
$0.37
$0.10
$3.80
$1.60
2012
2013
2014
2015
2016

Live Performance Infrastructure: Five-Year Overview





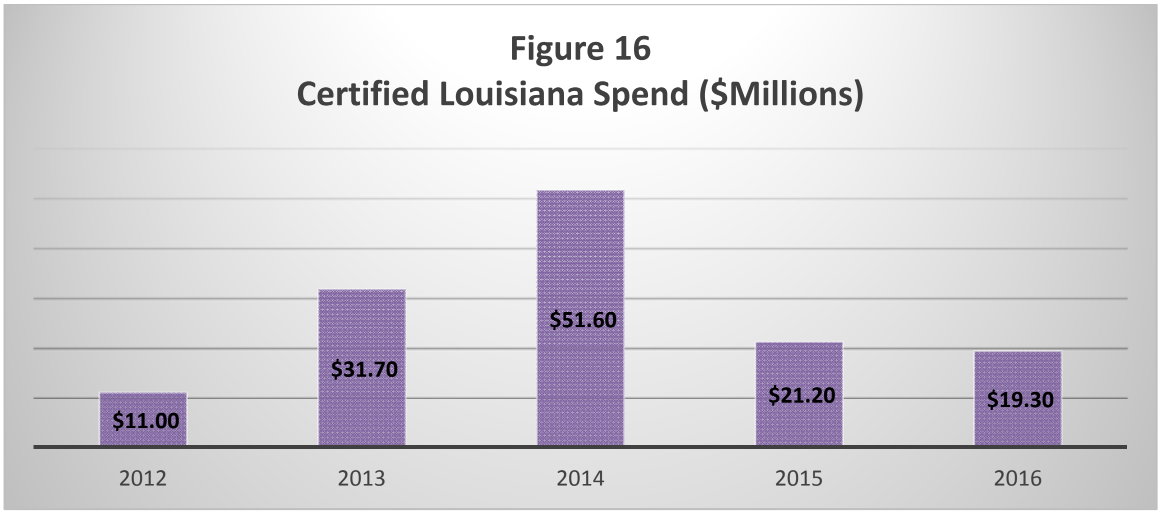


Figure 16
Certified Louisiana Spend ($Millions)
$11.00
$31.70
$51.60
$21.20
$19.30
2012
2013
2014
2015
2016

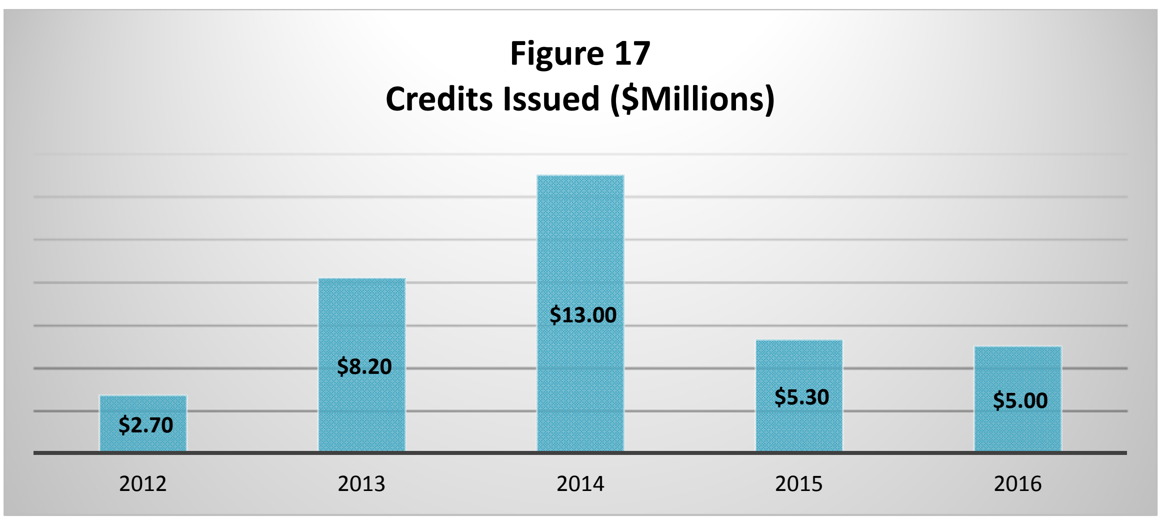


Figure 17
Credits Issued ($Millions)
$2.70
$8.20
$13.00
$5.30
$5.00
2012
2013
2014
2015
2016

Comparative Inducements

There are other states that have passed musical and theatrical tax credit incentive programs in an effort to mirror the success of Louisiana's program. However, none of the competing programs are designed to incentivize the launch of arena-touring productions, which is the area of the live entertainment industry that represents the bulk of program activity in Louisiana. Illinois, Rhode Island, Massachusetts and New York all have active live performance incentive programs.

It is worth noting that these particular states contain markets which have the capacity to sell multiple week-long and month-long runs of Broadway touring productions. This is generally a necessity when launching a major theatrical tour. Louisiana's largest market for touring theatricals is generally limited to one- and two-week runs of Broadway touring productions. Because of this, arena-touring productions are a more natural fit for Louisiana. Arena touring involves acts that require a larger “arena-type” venue with a higher audience capacity. This area of the industry is active in all major population areas in Louisiana. For example, Cirque du Soleil has now launched major touring productions from Shreveport, Lafayette, Lake Charles, Baton Rouge, and New Orleans.

Impact of Live Performance Production Spending

The impacts of certified spending by live performance productions on the Louisiana economy is shown in Table 12. Certified spending on live performance productions was $14.9 million in 2015 and $6.1 million in 2016. In 2015, certified spending in this category created about $17.9 million in new business sales at firms within the state. It also generated about $5.8 million in new household earnings and approximately 162 new jobs. In 2016 new business sales was $7.4 million within the state due to certified spending on live performance productions, with an estimated associated increase in household earnings of approximately $3.3 million and 70 new jobs. For this two-year period, this program produced $25.3 million in sales, $9.1 million in household earnings, and an average of 116 new jobs.

Table 12
Impacts of Certified Live Performance Production Spending:
CY2015-CY2016
(Sales and Earnings in $Millions)

Year	Sales	Earnings	Jobs
2015	$17.9	$5.8	162
2016	$7.4	$3.3	70

Impact of Live Performance Infrastructure Spending

In 2015 certified spending on live performance infrastructure amounted to $21.2 million, and in 2016 decreased slightly to $19.3 million. I/O table estimates of the impacts of this spending are detailed in Table 13. The decrease will continue as the infrastructure portion of the incentive program has sunset and OEID is finalizing the last remaining eligible projects.

Table 13
Impacts of Certified Live Performance Infrastructure Spending:
CY2015-CY2016
(Sales and Earnings in $Millions)

Year	Sales	Earnings	Jobs
2015	$42.1	$14.2	301
2016	$38.3	$12.9	271

Over the two-year period reported, certified live performance infrastructure expenditures generated $80.4 million in new sales for Louisiana firms, $27.1 million in new household earnings, and an average of 286 jobs a year.

Industry Impacts of Live Performances Production & Infrastructure Spending

Table 14 details how the multiplier impacts of the certified production and infrastructure spending in the live performance area are spread across various industries in the state. Not surprisingly, the largest beneficiary of this spending by far was the construction sector with $7.5 million in household earnings and 134 jobs supported by the multiplier effects of the spending. This significant impact results from the fact that the biggest component (59%) of live performance spending over this two-year period was in the development of live performance infrastructure and facilities. As is the case with the other entertainment categories, the other major beneficiaries are healthcare, retail trade, and manufacturing.

In 2016, an estimated 333 jobs were supported by certified live performance spending in the Louisiana economy. This certified spending also generated a total of $15.1 million in new household earnings. The associated average wage for these jobs was $45,345---just slightly above the average annual wage for all workers in the private sector in the state ($41,808).[15]

[15] Ibid.

Table 14
Indirect Impacts of Certified Live Performance Production & Infrastructure Spending by Industry: CY2016
($Millions)

Industry	Sales	Earnings	Jobs
Agriculture, Forestry, Fishing, and Hunting	$0.2	$0.1	2
Mining	$0.6	$0.1	1
Utilities	$0.7	$0.1	1
Construction	$19.6	$7.5	134
Durable Goods Manufacturing	$2.8	$0.6	11
Nondurable Goods Manufacturing	$2.7	$0.4	6
Wholesale Trade	$1.7	$0.6	8
Retail Trade	$2.9	$1.0	37
Transportation and Warehousing	$1.3	$0.4	8
Information	$0.7	$0.2	3
Finance and Insurance	$1.4	$0.4	8
Real Estate and Rental and Leasing	$3.3	$0.6	22
Professional, Scientific, and Technical Services	$1.3	$0.6	9
Management of Companies and Enterprises	$0.3	$0.1	2
Administrative and Waste Management Services	$0.6	$0.3	10
Educational Services	$0.3	$0.1	5
Health Care and Social Assistance	$2.5	$1.2	27
Arts, Entertainment, and Recreation	$0.2	$0.1	3
Accommodation	$0.5	$0.1	5
Food Services and Drinking Places	$0.8	$0.3	15
Other Services	$1.2	$0.4	13
Households	$7.4	$0.0	3
Total	**$45.7**	**$15.1**	**333**

Impact on the State Treasury - Live Performance Production

Table 15 provides data on the impact of the live performance production tax credit program. Live performance is comparable to the sound recording category in that both are a fraction of the size of the film program. The live performance incentive resulted in a net negative impact to the State treasury of $3.4 million in 2015 and $1.4 million in 2016.

Table 15
Evaluating the Live Performance Production Program Based on the Calendar Year the Spending Was Certified
(Certified Tax Credits, Taxes Received and Net Impact on State Treasury in $Millions)

Category	2015	2016
Certified Tax Credits	$3.8	$1.6
Taxes Received	$0.4	$0.2
Net Impact on State Treasury	-$3.4	-$1.4
Jobs Supported	162	70
Cost to State per Job	$20,799	$20,155[16]

Impact on the State Treasury - Live Performance Infrastructure

In Table 16, data are presented on the budgetary impact of the live performance infrastructure program. In 2015, certified spending negatively impacted the State treasury by $4.3 million, followed by $4.1 million in 2016. The 271 jobs supported by this program in 2016 came at an estimated cost of $15,003 per job.

Table 16
Evaluating the Live Performance Infrastructure Program Based on the Calendar Year the Spending Was Certified
(Certified Tax Credits, Taxes Received and Net Impact on State Treasury in $Millions)

Category	2015	2016
Certified Tax Credits	$5.3	$5.0
Taxes Received	$1.0	$0.9
Net Impact on State Treasury	-$4.3	-$4.1
Jobs Supported	301	271
Cost to State per Job	$14,315	$15,003

[16] There was a significant jump in the costs per job in the live performance program from the previous study, rising from about $7,000 per job in 2014 to just over $20,000 in 2015-16. This change was primarily driven by the fact that tax credit issued in 2016 were nearly 27% of the total expenditures versus only 11% in 2014.

Recommendations for Program Improvement

As program utilization is expected to gradually decline as a result of the 2014 sunset of the infrastructure component, it is recommended that the department continue to monitor production activity levels and consider establishing an issuance cap, if called for, in order to provide better fiscal predictability and a more positive fiscal impact. If an issuance cap is pursued, state law should prioritize program participants (non-profits, community theatres, etc.) that are located in Louisiana and hire Louisiana residents. This would create a much better ROI overall and grow the theatrical side of this program.