CALLING CUT ON FILM INCENTIVES

A POLICY BRIEF BY
BEACON CENTER OF TENNESSEE

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INTRODUCTION

Originally, if you wanted to be around glitz, glam, and the "who's who" of American celebrities, the place to be was in Los Angeles. Even the Clampetts of the iconic show *Beverly Hillbillies* knew that, with its swimming pools and movie stars. Southern California's iconic role in American culture is so strong that it's one of the few industries referred to by its location, "Hollywood," similar to "Wall Street" and the financial services industry.

However, in recent years other states have tried to create their own Hollywoods by luring the A-listers through movie production incentives (MPIs), such as tax credits, exemptions, cash grants, or fee-free locations. When Louisiana was the first state to offer an MPI In 1992, it created a tax credit for "investment losses in films with substantial Louisiana content."[1] After initial commercial and critic success of several Louisiana filmed projects, other states rushed to get a piece of the action, enacting MPIs of their own. By 2009, 44 states offered some type of film incentive.[2]

Tennessee created its Entertainment Commission (TEC) in 1987 to help "attract and bring to this state the production activities of film, television, record and other producers of entertainment properties."[3] However, Tennessee's real efforts started in 2006 with the Visual Content Act, which created a fund "for the purpose of providing incentive grants that encourage the production of films, movies, television pilots or programs in the state of Tennessee." Since then, TEC has distributed over $51 million in cash grants, with another $23.6 million committed or obligated to be spent in the near future.[4]

Proponents of film incentives often highlight the benefits of such programs. A 2012 Ernst & Young study commissioned by the Motion Picture Association of America, stated, "film tax credits programs create both short-run and long-run economic and fiscal benefits that extend beyond the production activities that qualify for the credit. These benefits include increased tourism, development of film industry infrastructure [...] and attraction of production activities."[5] Yet with any government program using taxpayer funds, it is important that careful examination be given to determine if the return on investment of these funds are actually beneficial to taxpayers, let alone if the program is the proper use of taxpayer money in the first place. This brief seeks to examine the usage of these funds in Tennessee, such as:

- ***Are funded projects worthy of taxpayer investment?***
- ***Do these projects sufficiently highlight Tennessee in exchange for public funding?***
- ***Do the types of projects receiving funding showcase the wisest allocation of taxpayer dollars?***

1. Louisiana Act 894 (H.B. 252) (1992).
2. William Luther, "Movie Production Incentives: Blockbuster Support for Lackluster Policy." Tax Foundation. January 2010. pp. 4-20.
3. Tenn. Code Ann. § 4-3-5005.
4. "Biannual Report: December 2017." Tennessee Entertainment Commission.
5. Phillips, Cline, and Fox, "Evaluating the effectiveness of state film tax credit programs." Ernst & Young. https://tinyurl.com/ycnqf44v.

BAD INVESTMENTS AND BIG FLOPS

Most studies critiquing the usage of MPIs focus on their lack of economic benefits, return on investment (ROI), and negative effect on state budgets. This is for good reason, as the Center on Budget and Policy Priorities states, "the only studies claiming that a state film subsidy pays for itself were financed by the Motion Picture Association of America and/or a state office of film and tourism."[6] MPIs place a costly burden on state budgets, with studies showing ROIs anywhere from as little as seven cents on the dollar, to a maximum of just 28 cents returned for every taxpayer dollar spent.[7] Proponents of MPIs often claim that focusing on a state government's ROI is too limited when judging film incentives, "the important policy point is that film credits

6. Robert Tannenwald, "State Film Subsidies: Not Much Bang For Too Many Bucks." Center on Budget and Policy Priorities. December 2010. https://www.cbpp.org/sites/default/files/atoms/files/11-17-10sfp.pdf.
7. Connecticut Department of Economic and Community Development. "The Economic and Fiscal Impacts of Connecticut's Film Tax Credit." February 2008. http://www.ct.gov/cct/lib/cct/Film_Tax_Credit_Study_-_Final.pdf; Tannenwald (2010).

may be effective in meeting economic development objectives even if the public sector is not a net beneficiary."[8] However, subsidizing film and other media productions is not an essential function and role of government. Thus, even though MPIs may be an effective tool for one particular industry, it should not come at the cost of cuts to more essential government services such as infrastructure, public safety, or education or even tax increases.

While no Tennessee agency has attempted to calculate the public ROI of our state's film incentives, one criteria that TEC could use to mitigate negative public ROI is to judge the film on likely commercial success, as box office sales create sales tax revenue for the state. However, TEC has shown to have a poor track record of picking projects likely to be successful. In fact, using available box office data, over 40 percent of films that receive grants made less at the box office than they received in incentives.

TENNESSEE'S TOP FIVE FILM INCENTIVE FLOPS[9]

TITLE	INCENTIVE	BOX OFFICE	DIFFERENCE
Bailey (Black, White & Blues) (Redemption Road)	$299,343	$27,012	$-272,331
Billy: "The Early Years"	$537,277	$320,876	-$216,401
Boulevard	$319,048	$126,150	-$192,898
My Many Sons	$162,059	$13,069	-$148,990
Nothing But the Truth	$515,462	$409,832	-$105,630

Certainly box office sales are not the sole way that the state collects revenue by incentivizing film production. However, the jobs, economic impact, and tourism benefits these incentives allegedly help create will not last if in the end, the public doesn't care to go see the films incentivized. We should let the free market determine which film projects are worthy of taxpayer money through ticket sales, not government handouts.

8. Phillips, Cline, and Fox, "Evaluating the effectiveness of state film tax credit programs." Ernst & Young. https://tinyurl.com/ycnqf44v.
9. Incentive totals are from the Tennessee Entertainment Commission's Biannual Report, December 2017, with box office results from IMDB, with "Nothing But the Truth" from BoxOfficeMojo.

POOR PILOTS AND UNCONSCIONABLE COMMERCIALS

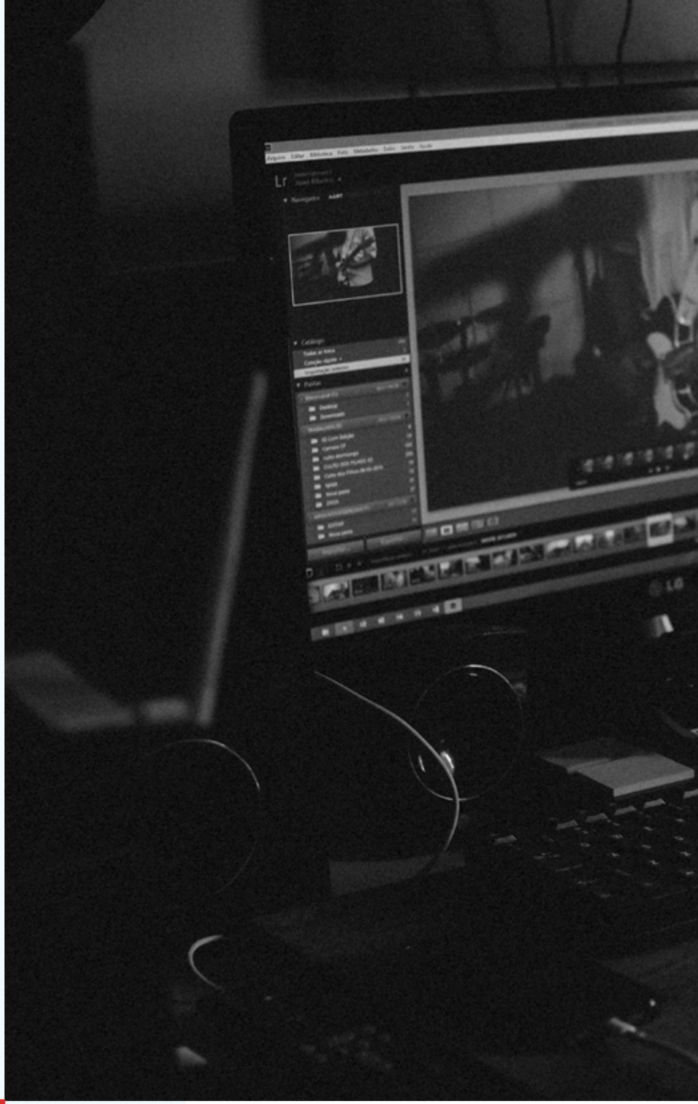
Successful *Gilmore Girls* actress Keiko Agena once said, "being on a successful show is kind of like being a sea turtle. Every year, sea turtles lay hundreds and hundreds of eggs, but only a few manage to survive and mature. It's the same with TV pilots. There are so many great ideas, but for whatever reason only the lucky ones get picked up." Most movie and show ideas never actually get filmed, making them a risky investment, let alone using taxpayer money. Major networks may accept hundreds of scripts for pilots, shoot a dozen or so, with only one or two shows eventually airing.

TV PILOTS RECEIVING TENNESSEE FILM INCENTIVES

TITLE	INCENTIVE	NUMBER OF SEASONS	NUMBER OF EPISODES
Outlaw Country	$591,586	N/A	N/A
Nashville	$571,891	6	124
Tough Trade	$450,875	0	1
Outlaw Country (Pilot Reshoot)	$401,805	1	7
Quarry	$53,427	1	8

Tennessee taxpayers have helped fund the creation of four different TV shows, with one pilot reshoot. Of these projects, only one, *Nashville*, went on to be a television mainstay. Two were cancelled after only one season. Most egregious was *Tough Trade*, which received taxpayer funding in 2015 despite being scrapped by Epix five years earlier, which then turned the one episode television pilot into a TV movie.[10]

In addition to the four pilots, TEC has awarded three incentives to help private companies film commercials. The first commercial cost taxpayers $34,000 and went to Health Spring (now known as Cigna-Health Spring), an arm of the healthcare insurance giant Cigna. Additionally, ESPN has received two incentives for promos, first a $52,000 teaser for *Monday Night Football* and another $50,000 for *College GameDay*. Prior to receiving the incentive in 2010, *Monday Night Football* was already the most watched series on cable for several years running.[11] Tennessee taxpayers should not be asked to help fund a commercial promo for a television program everyone is already aware of and most are watching. While not as widely viewed, *College GameDay*, a successful pre-game show for both college football and basketball, has existed for decades on one of the most successful channels on television. The idea that helping increase exposure to the company with a near domination of college football broadcasting rights is necessary for economic development is laughable, particularly in an already college football crazy state like Tennessee. Tennessee taxpayers should not be asked to fund commercials for two of America's most successful companies.



10. Fiscal year data comes from TEC Biannual Report December 2017. *Tough Trade* history: https://deadline.com/2010/10/epix-not-going-forward-with-tough-trade-but-plans-to-stay-in-the-scripted-business-72496/.
11. Mac Nwulu, "ESPN's Monday Night Football: Cable's Most-Watched Series for Ninth Straight Year." ESPN. December 23, 2014. https://espnmediazone.com/us/press-releases/2014/12/espns-monday-night-football-cables-most-watched-series-for-ninth-straight-year.

TECHNICALLY IN TENNESSEE

As previously stated, the main purpose of Tennessee's film incentive program is to "encourage the production of films, movies, television pilots or programs in the state." The grants go to offset the costs of "Qualified Tennessee Expenditures." To qualify, projects must spend a minimum of $200,000 on qualified expenditures within the state.[12] However, no minimum percentages exist for how much of a total project's budget must be spent in Tennessee to receive state taxpayer money. As a result, some of the largest projects to receive funding have spent negligible amounts in Tennessee.

12. Tennessee Entertainment Commission. "Production Incentive Guidelines and Instructions for Application." https://tinyurl.com/y8x8v2s6.

PERCENTAGE OF BUDGET AS TENNESSEE EXPENDITURES

PROJECT	BUDGET	TN SPEND	BUDGET SPENT IN TN	INCENTIVE
Quarry (Season 1)	$41,528,733	$676,051	1.6%	$169,013
Water for Elephants	$53,373,545	$980,699	1.8%	$166,719
Quarry (Pilot)	$7,094,653	$213,707	3.0%	$53,427
"42" Jackie Robinson Story	$46,092,744	$3,727,093	8.1%	$633,606
Brave New Jersey	$1,405,197	$295,375	21%	$73,844

While the $36,000 incentive for the television series *Tail Light TV: Cross Country* would not put as much into the private sector than the six figure subsidy for *Water for Elephants* would, with nearly 90 percent of its budget spent in Tennessee, this project would be far more in line with the supposed purpose of the incentive grant program. Projects like *Water for Elephants*, with such a minimal investment in Tennessee in terms of their overall budget, indicate a more "shopping for incentives" approach than a true investment in Tennessee film and media productions.

NO MORE FOR 'NASHVILLE'

No project exemplifies the bad public policy of MPIs in Tennessee more clearly than the ABC/CMT television show *Nashville*. The show, which has now been cancelled twice in three years due to poor ratings, has received the most taxpayer money of any project, totaling $45 million in state incentives alone (including millions more in local taxpayer incentives). Even worse, the show's six seasons received the largest six individual TEC grants of any project in state history. The smallest incentive, $5.7 million given for the sixth and final season, was still awarded after CMT announced the show would be permanently cancelled.[13]
The show *Nashville* also serves as an example of how corporations or sports teams hold cities and states hostage after receiving taxpayer money. After the show's second season, ABC producers explored moving filming to Austin, Texas, unless the show received more in Tennessee taxpayer incentives for the third season. However, this came immediately after less than 50 percent of season two's budget was spent in Tennessee, a series low.

NASHVILLE GRANT TOTALS

SEASON	BUDGET	TN SPEND	% OF PRODUCTION BUDGET SPENT IN TN	INCENTIVE
Season 1	$39,714,218	$35,592,604	89.6%	$6,050,743
Season 2	$90,173,391	$39,957,180	44.3%	$9,989,295
Season 3	$91,707,132	$49,666,452	54.2%	$6,950,000
Season 4	$85,619,856	$44,459,589	52%	$8,000,000
Season 5	$86,630,368	$47,646,702	55%	$8,500,000
Season 6	$62,411,184	$34,326,151	55%	$5,750,000
Total	**$456,256,149**	**$251,738,678**	**55.2% (avg)**	**$45,240,038**

13. Cole Delbyck, "'Nashville' just got canceled again, y'all." Huffington Post. November 17, 2017. https://www.huffingtonpost.com/entry/nashville-canceled-final-season_us_5a0f16dce4b0e97dffed09b2.

For a show named after a Tennessee city, outside of its first season *Nashville* was hardly dominating the Tennessee film industry. Also of note is that with the increased production budget after the first season, the percentage of expenditures that were qualified Tennessee expenditures dropped dramatically. The show also demonstrates that if a taxpayer-incentivized television show becomes even somewhat popular and scales up production and budget, the vast majority of a project's growth will inevitably occur elsewhere, likely in Hollywood, where actors and actresses are more likely to reside and where support staff is easier to obtain. Thus, even a "successful" TV series will result in Tennessee taxpayers subsidizing Hollywood and other out of state locales. While fans may miss the show after it received its final death in July 2018, Tennessee taxpayers should breathe a sigh of financial relief.

CONCLUSION

The best way to encourage economic growth and development are broad-based reforms such as tax and regulatory reform. Corporate welfare tends to overpromise and under-deliver in terms of jobs and economic benefits. Film incentives are perhaps one of the worst examples of the government picking winners and losers and subsidizing one industry on the backs of others. The incentives never "pay for themselves" through generated tax revenue, therefore diverting needed funds from legitimate government services. Additionally, film and other media projects are generally a risky investment. Tennessee lawmakers should eliminate this fund and resist the urge to compete with other states in a race towards the bottom. At the very least, more safeguards and restrictions should be placed on the grants, including what types of projects receive funding and a percentage minimum of spending within the state.

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