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Film Incentives: Subsidizing Hollywood by Jordan Cash

Proponents of publicly funded tax incentives for film-making projects had much to cheer about in the last legislative session as their long struggle for a film incentive program was finally passed in LB863.[\[1\]](#)

However, despite LB863 being the first film incentives program to be introduced in Nebraska, it is fairly small in its scope compared to programs in other states. LB863 simply allows for local communities to use their economic development funds-as provided by the Local Option Municipal Economic Development Act of 1991 (LOMED), also colloquially known as LB840 funds-for subsidizing the production of film, commercial, or television programs.[\[2\]](#) Currently, there are 59 communities who have established LOMED programs; Nebraska's three largest cities, Omaha, Lincoln, and Bellevue, have not.[\[3\]](#)

Giving cities more latitude in how to spend their economic development funds is a good example of local control. However, these cities with LB840 funds should be aware that the costs often outweigh the benefits when it comes to spending taxpayer money on film projects.

In 2010, 43 states offered some kind of incentive for the film industry, however that number has decreased partially because these incentives have not resulted in the financial return most officials expected.[\[4\]](#) Most cost-benefit analyses of film incentives indicate that states do not get what they pay for, with most estimating that states receive less than 30 cents worth of economic growth for every \$1 spent. Of state specific studies, Arizona received the most back on its investment generating 28 cents of economic growth for every dollar spent; on the other hand, Connecticut only gets 7 cents for every dollar it invests in the film industry.[\[5\]](#) One comprehensive study of New England film tax credits found that of the five states in that region with tax credits-New Hampshire does not have a film subsidy program-those states only received 15 to 20 cents on the dollar back.[\[6\]](#)

In addition to being a bad investment for local governments, there is evidence that films do not create the kind of jobs expected by subsidy supporters. Film producers require workers with very specialized skills, so most film crews are imported from out-of-state. The jobs left for in-state residents are usually low-paying, temporary work for things

like carpentry, security, storage, sanitation, or catering.[\[7\]](#) A study by Michigan State University estimated that Michigan residents working for film crews only worked an average of 23 days, and a similar study from the Massachusetts Department of Revenue noted that residents working for film crews earned only 40 percent of the total payroll generated both directly and indirectly from subsidies.[\[8\]](#)

Proponents for film incentives have also argued that the only way for films to be made in Nebraska is to offer them subsidies, but there are several flaws in this argument. First, films were being made in Nebraska long before the introduction of subsidies. One notable case is Alexander Payne, the Academy Award-winning director, Omaha native, and film subsidy advocate, has made three films in Nebraska despite the lack of subsidies.[\[9\]](#) Similarly, the Academy Award-nominated film "Up in the Air" was filmed in Omaha despite the lack of film incentives.[\[10\]](#) This indicates that if a movie needs to shoot in Nebraska, it will come whether or not there are incentives, essentially making subsidies rewards for work they would have done here anyway.

The second issue with the argument that films will only be made in Nebraska if there are incentives is that it makes Nebraska part of a race to the bottom in terms of the kind of incentives it is willing to offer. If films will only be made in Nebraska with incentives, then the incentives have to be better than those offered in all other states, creating a competition among states of who offers the best incentives. Considering that incentives cost states substantial amounts of money with little return, trying to outdo other states with more incentives is fiscal insanity and would only cost taxpayers more money with a smaller return each time.[\[11\]](#)

Local communities should also remember that every dollar given to film subsidies is a dollar taken away from other economic development activities which may be much more productive than having a film made in their town. The limited funds provided by LB840 would be much better used for things like infrastructure or improving government services generally, investments that would truly promote economic development, instead of on subsidies with little to no benefit.

Additionally, film-makers have reason to be worried about film subsidies, as taking public money for their projects may impede their ability to produce their works the way they want to. Dependence upon public money makes the public an investor and gives them a say in what is produced. This has had a negative effect on film-makers in Michigan, Texas, and Utah, who have been denied public funds because the state was allowed some say in the editorial content. Michigan law, for example, says movies underwritten with public funds have to promote the state as a tourist destination. Texas is able to deny funding if it "portrays Texas or Texans in a negative light," and a film about the 1993 Waco raid was rejected for public funds simply because the head of the film commission judged their portrayal to be inaccurate.[\[12\]](#) Film-makers in Nebraska may face this form of censorship by taking public money, since LB840 guidelines say they have to hold public hearings and the loans must be approved by voters.[\[13\]](#) Therefore, if voters disapprove of the material, film-makers may have to change their film to appease the public, doing a disservice to themselves and their work.

In the end, local communities must decide what the best use for their limited resources is: making a movie with temporary jobs and no financial return, or long-term investments that would create economic growth. Cities with LB840 should use their funds for uses needed by the community, like infrastructure, improving government, or lowering taxes, not for subsidizing Hollywood.

[1] Nebraska Legislature, "Legislative Bill 863," approved by the Governor April 10, 2012. Accessed May 10, 2012:
<http://nebraskalegislature.gov/FloorDocs/Current/PDF/Slip/LB863.pdf>.

[2] Nebraska Legislature, "Legislative Bill 863," approved by the Governor April 10, 2012. Accessed May 10, 2012:
<http://nebraskalegislature.gov/FloorDocs/Current/PDF/Slip/LB863.pdf>; Nebraska Legislature, "Legislative Bill 863, Statement of Intent," January 31, 2012. Accessed May 10, 2012: <http://nebraskalegislature.gov/FloorDocs/Current/PDF/SI/LB863.pdf>.

[3] Nebraska Department of Economic Development, "Local Option Municipal Economic Development Act (LB840)." Accessed May 10, 2012:
<http://www.neded.org/community/community-info/community-improvement/local-option-municipal-economic-development-act-lb840>; United States Census Bureau, "State & County QuickFacts." Accessed May 10, 2012. Omaha is Nebraska's largest city with 408,958 people, Lincoln is the next largest with 258,379, and Bellevue is the third largest with 50,137. The next largest is Grand Island with 48,520 people. Those statistics may be found by selecting the respective city from a list at <http://quickfacts.census.gov/qfd/states/31000.html>.

[4] Robert Tannenwald, "State Film Subsidies: Not Much Bang For Too Many Bucks," Center on Budget and Policy Priorities, December 9, 2010. Accessed May 10, 2012:
<http://www.cbpp.org/cms/index.cfm?fa=view&id=3326>.

[5] Mark Robyn and I. Harry David, "Movie Production Incentives in the Last Frontier," Tax Foundation, April 26, 2012. Accessed May 10, 2012:
<http://www.taxfoundation.org/news/show/28169.html>.

[6] Darcy Rollins Saas, "Hollywood East? Film Tax Credits in New England," *New England Public Policy Center*, October 2006. Accessed May 10, 2012:
<http://www.bostonfed.org/economic/neppc/briefs/2006/briefs063.pdf>.

[7] *The Economist*, "Unilateral disarmament," June 9, 2011. Accessed May 11, 2012:
http://www.economist.com/node/18805941?story_id=18805941&fsrc=rss.

[8] Robert Tannenwald, "State Film Subsidies: Not Much Bang For Too Many Bucks," Center on Budget and Policy Priorities, December 9, 2010. Accessed May 11, 2012:
<http://www.cbpp.org/cms/index.cfm?fa=view&id=3326>.

[9] Roger Moore, "Alexander Payne on Hawaii, Omaha and the Geography of his movies," November 16, 2011. Accessed May 11, 2012:
http://blogs.orlandosentinel.com/entertainment_movies_blog/2011/11/alexander-payne-on-hawaii-omaha-and-the-geography-of-his-movies.html.

[10] Bob Fischbach, "Omaha gets more exposure on 'Up in the Air' DVD," *Omaha World Herald*, March 28, 2010. Accessed May 11, 2012:
<http://www.omaha.com/article/20100328/ENTERTAINMENT/703289975>.

[11] A good description of the "race to the bottom" can be found in Mark Robyn's testimony before the California Legislature: Mark Robyn, "Film Production Incentives: A Game California Shouldn't Play (Testimony Before California Legislature)," *Tax Foundation*, March 21, 2011. Accessed May 11, 2011:
<http://www.taxfoundation.org/research/show/27135.html>.

[12] Michael Cieply, "State Backing Films Says Cannibal Is Deal-Breaker," *New York Times*, June 14, 2010. Accessed May 11, 2012:
http://www.nytimes.com/2010/06/15/movies/15credits.html?_r=1.

[13] Nebraska Department of Economic Development, "Local Option Municipal Economic Development Act (LB840)." Accessed May 10, 2012:
<http://www.neded.org/community/community-info/community-improvement/local-option-municipal-economic-development-act-lb840>.



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