Comparison of Loren Scott Analysis and HR&A Analysis

Prepared for:
Louisiana Film and Entertainment Association (LFEA)
Motion Picture Association of America, Inc. (MPAA), Inc.

April 2015

Prepared by:
HR&A Advisors, Inc.
99 Hudson St, Third Floor
New York, NY 10013
Summary
While both the report prepared by HR&A Advisors, Inc. ("HR&A") and the report prepared by Loren C. Scott & Associates ("Loren Scott") find that the Louisiana Motion Picture Investor Tax Credit has supported industry growth and generated significant in-state economic impacts, the Loren Scott report underestimates the Credit’s full economic and fiscal contributions to Louisiana.

- The Loren Scott report underestimates the economic impacts of the Credit by excluding the impacts of motion picture and television-induced tourism.
- The Loren Scott report applies an unwarranted reduction to resident wage payments in order to produce “adjusted economic impacts.”
- The Loren Scott report underestimates tax revenues generated by the Credit by failing to account for taxes on non-resident earnings. Non-resident earnings are taxed in Louisiana, and a full accounting should include the revenue generated by these taxes.
- The Loren Scott report evaluates the economic and fiscal impacts of production spending based on the year in which the spending was finally certified, and is therefore examining economic activity that occurred potentially years earlier. The HR&A study evaluates the economic and fiscal impacts of production spending based on the year in which the spending actually occurred and generated an impact to the State’s economy.

Full Review
Both Loren C. Scott & Associates ("Loren Scott") and HR&A Advisors, Inc. ("HR&A") recently completed economic impact analyses of the Louisiana Motion Picture Investor Tax Credit. This memorandum summarizes HR&A’s review of the Loren Scott report, and notes key similarities and differences between the studies.

The two studies share important points of agreement:

- Both studies find that the Motion Picture Investor Tax Credit has supported the growth of the motion picture and television production industry in Louisiana and generated significant economic impacts for the state, in terms of increased business sales/economic output, earnings/income, and new jobs.
- Drawing on data from the Office of Entertainment Industry Development, both studies highlight substantial growth in qualified production spending over time, especially since 2009, when the Credit was revised to its current form. The Loren Scott report notes, for instance, that "it is clear that the program is performing as designed and continues to provide an economic impact to the state" (p. 12).
- Both studies find that the production infrastructure tax credit, in place from 2005 to 2009, has played an important role in supporting the expansion of the motion picture and television industry in the state by promoting the creation of “much needed infrastructure” (Loren Scott, p. 4), such as major new studios including Millennium Studios in Shreveport, Celtic Media Centre in Baton Rouge, and Second Line Stages in New Orleans.
However, despite these commonalities, the Loren Scott and HR&A reports demonstrate key methodological differences, which go a long way towards explaining why the Loren Scott report significantly underestimates the Credit’s economic and fiscal contributions to Louisiana. In the following section, we highlight these key differences and describe why the HR&A study’s methodology is more robust and transparent.

**The HR&A study is more comprehensive, in that it includes the economic and fiscal impacts of motion picture and television-induced tourism, as well as qualified production spending.** The HR&A report used a rigorous methodology to estimate the spending impacts of motion picture and television-induced tourists. Several previous studies have highlighted the effects of motion picture and television-induced tourism around the world, including studies examining this phenomenon in the United States, New Zealand, the United Kingdom, Scotland, and Ireland. HR&A’s analysis is predicated on a statistically robust survey (n=1,381) of domestic, out-of-state, leisure visitors to Louisiana who came to the state within the last two years. The Loren Scott report does not acknowledge the economic impacts of motion picture and television-induced tourism, instead focusing only on qualified production spending impacts. Failing to include these impacts significantly underestimates the full impacts of the motion picture and television production industry supported by the Credit, given the economic importance of the state’s tourism industry and the proliferation of on-screen depictions of Louisiana.

**HR&A employs a more appropriate methodology for accounting for wage payments.** The Loren Scott report, on the other hand, applies an unwarranted reduction to produce “adjusted economic impacts.” The Loren Scott study reduces its “upper bound” economic impact estimates by 25.2% to exclude talent, producer, director, and writer payments, under the assumption these individuals “in most cases do not live in Louisiana.” For instance, the total 2013-2014 household earnings estimate (of all entertainment industry certified spending, the vast majority of which is motion picture and television related) is reduced from $1,598.1 million to $1,196.1 million. Yet the report acknowledges that the $1,598.1 million in earnings accrued to Louisiana residents. It is unclear, under the report’s own logic, why the additional step to reduce the original household earnings estimate is taken if these earnings accrued to state residents. The HR&A report, by contrast, employs a more reasonable, albeit somewhat conservative, assumption that payments to above-the-line talent do not generate multiplier impacts within the State of Louisiana, and therefore excludes the multiplier effects of all direct spending classified as “Talent.” According to data provided by the Office of Entertainment Industry Development, “Talent” comprises approximately 19.4% of qualified production spending.

**The Loren Scott report underestimates tax revenues generated by the Credit by failing to account for taxes on non-resident earnings.** Both the HR&A report and Loren Scott report include estimates of the state and local tax revenues generated by the Credit. However, the Loren Scott study, as best can be concluded from the methodological detail that is provided, does not include tax revenues generated by non-resident earnings, as well as spending by these non-residents on food, accommodation, retail, etc. Non-resident earnings are taxed in Louisiana, and accounting should consider the revenue generated by these taxes. By contrast, the HR&A report performs a comprehensive analysis by estimating state and local taxes generated by non-resident earnings and spending as a share of total economic value added to the Louisiana economy.

**The HR&A study evaluates the economic and fiscal impacts of production spending based on the year in which the spending actually occurred.** HR&A examined production spending based on Credit Year, the actual time at which the expenditures were incurred and therefore generated an impact to the State’s economy. The Loren Scott report, by contrast, employs the Final Certification Year, or the year in which the spending was finally certified. However, under the Credit program, spending always occurs before it is
finally certified, sometimes years before. Under Title 61, Part 1, Chapter 16 of the Louisiana Administrative Code (April 2014), credits can be carried forward 10 years to offset outstanding Louisiana tax liabilities from the year in which they are earned. Thus, the Loren Scott report is examining economic activity that occurred potentially years earlier and calculating tax revenues generated based on this historical economic activity. This methodology only manages to capture historical economic and fiscal impacts, and does not allow for an assessment of the most current motion picture and television production spending in the state, which are fully reflected in HR&A’s methodology.

**HR&A uses a more transparent methodology, as summarized in the appendix of its report.** The Loren Scott report included limited methodological detail and, in particular, is opaque about its economic modeling process. The report notes the analysis used a Louisiana input-output table provided by the Bureau of Economic Analysis as the basis for constructing its own economic impact model. By contrast, the HR&A report relies on the industry-standard 2012 IMPLAN model for the State of Louisiana, the most recent model available from IMPLAN, to estimate all economic impacts. IMPLAN is a widely-recognized modeling tool developed at the University of Minnesota with the U.S. Forest Service’s Land Management Planning Unit. IMPLAN is used for the preparation of economic and fiscal impact analyses by many public and private entities throughout the United States, and documentation of the model is available. The Loren Scott report does not reveal if it employs IMPLAN, or any other nationally accepted economic impact model, such as RIMS II or REMI, to conduct the analysis.

In conclusion, it is worth noting that despite some of the issues highlighted above, the Loren Scott report does not recommend substantial changes to the Credit Program.