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Committee Chair Judson S. Gilbert II
State of Michigan House Tax Policy Committee
124 North Capitol Avenue
Lansing, MI 48909-7514

Dear Mr. Gilbert:

HB 4361 Film Credit Incentives: A Script for a Michigan Full of Allen Parks

I wanted to write to your committee after reviewing Mitch Albom and Stuart Broz's submissions to your tax policy committee regarding the State of Michigan film incentive program. As you are aware, they have argued in many public forums, including testifying before your committee, that ending the film incentive program will destroy a growing industry in our state.

I took particular note of Mr. Albom's opening testimony before your committee where he commented that the Avengers movie, starring Robert Downey Jr., Scarlett Johansson and Samuel Jackson, left Michigan for Ohio after Governor Snyder' unveiled his new budget proposal. Mr. Albom continued that we lost \$72 million in economic activity in our state; however Mr. Albom and many other film incentive supporters fail to acknowledge the costs and risks of continuing this program

I have over 13 years of experience as an economist by training while working at another Big-4 accounting firm (a competitor of Ernst & Young), and I have a Master of Public Policy from the University of Michigan. I have not been involved in the entertainment industry, but I can offer an independent perspective of this program as both a business owner and a taxpayer. I do not believe the interests of the state of Michigan as a whole have been given a proper hearing due to the high-profile nature of the film industry.

As the owner of a start-up business, I understand the need to take a calculated risk in order to enter new markets. I have patiently listened to the arguments for continuing the Michigan film incentive, but Hollywood glamour has fooled us with dreams of a thriving new industry in Michigan. Unfortunately, the movie industry is far too transient to make Michigan a permanent home.

Michiganders hold a wide range of opinions of how we should re-energize our state's economy. Film incentives are particularly visible as our evening news can point to new movies being filmed across the state. A visit from George Clooney or Paris Hilton is always a conversation starter. In a state starving for jobs, the movie industry appears to be a beacon of hope for a turnaround in Michigan.

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Film incentive program will not create a permanent industry

The Film incentive credit program suffers a fatal flaw. Even if Michigan taxpayers continue to pay 35, 40 or 42 percent of a film producer costs incurred in Michigan, we are destined to create a state full of Allen Parks. Since over 40 states have film incentive programs, it only takes another state offering a more generous incentive to turn our investments to trash. In addition, new films will have no incentive to stay here when the 'temporary' program expires.

Proof? The State of Louisiana started their film incentive program in 2002, with a reimbursement scheme of up to 35 percent. As promised to their voters, Louisiana built up infrastructure to support an influx of new productions. In a year where film employment fell 10 percent, Louisiana's film employment fell 50 percent from 2008 to 2009 as – you guessed it – Michigan and other states became more aggressive with film subsidies.

In response, Louisiana governor Bobby Jindal signed a bill in 2009 to make film incentives permanent. Louisiana film subsidies were scheduled to disappear over 2010 to 2012.

Film incentive reimbursements are outrageously expensive

Frankly I am horrified by the cost of the film credit incentive. I can think of no other industry where we pay anyone up to 42 percent of someone's local Michigan operating expenses. If the producer is not based in Michigan, the subsidy leaves the state as well. Even if the average reimbursement rate is 36 percent as Mr. Albom argues, the reimbursements far exceed payments to any other business in Michigan.

People in Michigan need to understand that this incentive program is not refunding taxes paid; it is an actual cash reimbursement for what a producer spends in Michigan. In fact, certain Michigan film companies now offer services where producers can sell their film incentives to lower other companies' tax bills in Michigan.

Hollywood's rules put us all in danger

As you may be aware, after investing \$25 million to buy buildings for a studio, Allen Park can no longer afford to pay firefighters. Their movie producer at Unity Studios just packed up and moved with no repercussions. Allen Park is stranded paying debt to support filming for movies that were promised, but never delivered.

Supporters will claim that movies help us diversify our economy, and we need to subsidize films while we build local expertise. Supporters will point to studies prepared by Ernst & Young as proof that a sustainable industry is just around the corner. They will also claim that the union jobs, catering, hotels and support staff activities all represent tangible benefits of these subsidies.

Beyond the inherent conflict of interest in an incentive supporter funded study, the Ernst & Young study fails to include the cost of funding these subsidies. As an economist, I understand that the "devil is in the details" in these types of sponsored studies; and the analysis simply does not address the opportunity cost of the expenditures. When we pay a Hollywood producer up to

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42 percent of their locally incurred expenditures in Michigan, we are forced to make cuts in Medicaid, community colleges, state police, foster homes and many other state priorities. These expenditures have a bigger economic impact in our state as all the money spent actually stays in Michigan. These implicit Film incentive costs are in addition to any lost state tax revenues.

Just to revisit Mr. Albom's Avenger movie example, when I saw Robert Downey Jr., Scarlett Johansson and Samuel Jackson's names. I remembered that Michigan's taxpayers probably would have paid – in cash - \$2.1 million dollars for those three actors' salaries alone. Those actors and paychecks are not staying in Michigan. We have a nurse shortage in Michigan - how many nurses could we have trained in community colleges for those salaries? We also did not shell out more of our state budget that would have disappeared to California.

Film producers will not stay here permanently

Irrespective of these arguments, the film industry has demonstrated an insatiable demand for locations located in big-incentive states. Since film crews do not need to make long-term investments, they can disappear as quickly as they arrive. People in Michigan bear the risk. The fleeting nature of the industry makes investments of scarce state resources too precarious to be a viable economic policy in this state.

While this film incentive program continues, Michigan residents will invest their life savings in businesses to support the movie industry, pension funds will fund movie studios and municipalities – like Allen Park – will spend tax dollars on movie infrastructure.

Bottom line, spending scarce state resources in the hope that Hollywood will stay permanently is wishful thinking at best. Please make movies here, but we can no longer afford a state handout on speculative industries.

With the stroke of a governor's pen in another state, Hollywood will disappear. Gone - just like Allen Park –except all across Michigan.

Thank you for your consideration of my comments.

Sincerely



Alexander Martin

cc: Mr. David Mead, Committee Clerk

