Economic Impact of State Tax Credits for Infrastructure and Production Expenditures for State-Certified Musical and/or Theatrical Productions

Prepared for

Broadway South, LLC
New Orleans, Louisiana

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***Dr. Richardson is solely responsible for the analysis, findings, and conclusions presented in this report.**

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About the Author

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He organized and supervised a major tax study for the state of Louisiana which resulted in *Louisiana Fiscal Alternatives: Finding Permanent Solutions to Recurring Budget Crises,* published by the LSU Press in 1988. Dr. Richardson has co-edited a major book, *Handbook on Taxation,* which was published by Marcel Dekker in January 1999. Dr. Richardson also served on the Louisiana Law Institute's Tax Study Commission, a group that was formed in response to Senate Concurrent Resolution 88, passed in 1999.

Dr. Richardson served as fiscal advisor to the Governor of Louisiana from 1988 through 1991. He contributed to the comprehensive tax study for the state of Kansas in 1995. He served as an advisor to the state of Alabama's Department of Revenue in 1996. He has served as Associate Editor of the *Journal of Education Finance* and the *Texas Business Review.* His work has been published in numerous journals such as the *National Tax Association Proceedings, State and Local Government, Public Finance Quarterly, Growth and Change, Natural Resources Journal, Journal of Energy and Development,* and *Journal of Economic Dynamics and Control.*

Dr. Richardson also participates in the preparation of the Louisiana Economic Outlook, a two-year forecast of the Louisiana Economy published by the E. J. Ourso College of Business Administration at Louisiana State University. The Louisiana Economic Outlook has been published, and Dr. Richardson has participated in the publication, since 1983.

Dr. Richardson has completed two major studies about post-Katrina Louisiana, The Post-Katrina Gulf Coast Economy: How and When Will It Recover and Accelerating the Katrina Recovery. He has appeared before the Financial Services Committee of the US House of Representatives regarding housing and the recovery in the New Orleans region.

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Economic Impact of State Tax Credits for Infrastructure and Production Expenditures for State-Certified Musical and/or Theatrical Productions

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I. Introduction

Senate Bill 218 has been introduced for the 2007 Regular Session of the Louisiana Legislature proposing refundable corporate and/or personal income tax credits related to "certified and approved production expenditures" of a "state-certified musical or theatrical production" and "certified and approved expenditures in the state" for a "state-certified musical or theatrical facility infrastructure project." Musical or theatrical productions are defined as the producing, rehearsing, marketing, administration, and/or performing of a musical or theatrical performance in the state before a live audience. Such live performances include, but are not necessarily limited to, drama, comedy, comedy revues, opera, ballet, jazz, cabaret, and variety entertainment.

The tax credits are proposed as follows: (1) 10 percent if the base investment is between \$100,000 and \$300,000; (2) 20 percent if the base investment is between \$300,000 and \$1 million; and, (3) 25 percent if the base investment is over \$1 million. A 10 percent tax credit for payroll for Louisiana residents is also allowed with any amount paid to one person in excess of \$1 million being excluded. In addition, a transportation tax credit of 100 percent through 2010, 50 percent in 2011, and 25 percent in 2012 is provided so musical and theatrical productions can commence immediately and not be delayed until a sufficient industrial structure has developed in Louisiana. As an added incentive to hire Louisiana students there is a tax credit of 1 percent of the amount expended to employ students enrolled in Louisiana colleges, universities, and vocational-technical schools in a state-certified musical or theatrical production.

The purpose of this bill is to encourage a favorable financial climate for the development of the arts throughout the state; to create an economic growth engine for the state's economy and its fiscal base; to create a favorable environment for the development of new industries and professions throughout the state; and to promote the redevelopment of New Orleans after the destruction and devastation of Hurricane Katrina. In April 2005, Mr. Michael Butler, a partner in Logistical Solutions, Inc. and a participant in the Governor's 2005 Conference on Economic Development, stated that a win-win partnership between the state and the industry should lead to an <u>incentive package being self-funding</u>. That is, the state provides tax credits to encourage the growth of an industry, but eventually the economic impact associated with the new industry will generate tax dollars to offset the tax credits granted by the state. The state

[1] Dr. Richardson was assisted by Mr. Roy Heidelberg, a graduate student in the Master of Public Administration program at Louisiana State University.

tax credits are an investment by the state and the state should receive a return on this investment. The ultimate outcome of this legislation is to augment the state's fiscal base, not diminish it.

This report has the following sections: (1) a summary of the process by which this economic growth engine will operate; (2) the importance of the tourist industry to underwrite the success of these projects and the economic impact of the expanded tourist industry; (3) an examination of the New Orleans economy post-Katrina and the significance of the leisure and hospitality industry to the New Orleans Metropolitan Area; (4) the expected base investments in the musical and theatrical infrastructure and the expected base production expenditures during the course of a year, (5) the projected economic impact of this activity on the state's economy, (6) the comparison of tax credits provided relative to enhanced state tax revenues due to the economic impact of the expanded musical and theatrical activities; and, (7) the cultural atmosphere that can provide the link to advances in other industries.

II. Summary of Performing Arts and Economic Development

Economic development is a process—not one event that suddenly creates jobs, earnings, and state and local revenues. The development of the performing arts is conducive to and supportive of economic development in the following ways:

- Rehabilitation of infrastructure leads to new construction and capital expenditures

- Arts and Entertainment serving as economic stimulus/new jobs created

- Rejuvenation of Tourist Industry; for example New Orleans,
  - ~ Another reason to visit New Orleans
  - ~ Another reason to hold a convention in the city
  - ~ Another reason for cruise ships to berth at Port of New Orleans

- Development of new hotels, restaurants, retail, and commercial space equal new performing arts centers

- New cultural offering leading to new professions and industries relocating to state - "the Creative Class"

Every region of the state can take advantage of the tax credit opportunities to generate the development of a performing arts district in their region. Some regions such as Shreveport with The Strand Theater, the Shaw Theater in Baton Rouge, and the Grand Opera House in Crowley will leap over the construction stage and focus on production of musical and theatrical productions that qualify for the state tax credits as defined in Senate Bill 218.

Every region of the state has a tourist attraction—a theater district will enhance this quality. Statewide, tourism is a significant industry; it is vital for the redevelopment of New Orleans.

III. Tourism and the Louisiana Economy

The *2004 Louisiana Tourism Satellite Account* highlighted the significant role the tourism industry plays in the Louisiana State economy.[2] In 2004, the Travel and Tourism industry accounted for 3.8 percent of Gross State Product, 175,000 direct jobs, and generated just under 8 percent of the state's total tax revenues. Key observations about the tourist industry and the Louisiana economy as reported by the Louisiana Tourism Satellite Account are listed below. These data are from the year 2004, the most recent year unaffected by Hurricanes Katrina and Rita.

- Louisiana visitors spent almost $10 billion in 2004
- Over 175,000 Louisiana residents were directly employed in Travel & Tourism in 2004, which translates into 9.4 percent of the workforce
- In terms of production, $5.9 billion of Louisiana production (3.8 percent of Gross State Product) in 2004 was directly attributable to expenditures in Travel and Tourism
- In terms of tax revenues, visitor spending accounted for $677 million of 2004 Louisiana revenues, or 8.3 percent of the 2004 budget
- 2004 Travel and Tourism Expenditures for New Orleans Metropolitan Area accounted for over $5.6 billion and 58.8 percent of Louisiana's total visitor spending
- 56 cents out of every dollar in visitor spending stays in Louisiana

The almost 176,000 Travel and Tourism jobs are spread widely across the Louisiana economy as illustrated in Table 1. The largest component consists of food services workers, accounting for 56,855 jobs or 32 percent of all Travel and Tourism employment. The table also reveals that numerous jobs in various retail and transportation sectors are attributable to travel and tourism.

[2] Report submitted to Louisiana Department of Culture, Recreation, and Tourism and the Office of the Lieutenant Governor by the University of New Orleans, Louisiana State University at Baton Rouge, McNeese State University, and Louisiana State University at Shreveport.

Table 1
Composition of Direct 2004 Travel &Tourism Employment by Sector

Rank	Industry	Employment	% of Total
1	Food services and drinking places	56,855	32.4%
2	Hotels, motels, and other accommodations	24,990	14.2%
3	Transportation services	15,604	8.9%
4	Other amusement, gambling, and recreation industries	13,270	7.6%
5	Gasoline stations	10,628	6.0%
6	General merchandise stores	8,922	5.1%
7	Food and beverage stores	5,697	3.2%
8	Commercial and institutional buildings	5,681	3.2%
9	Real estate	5,675	3.2%
10	Miscellaneous store retailers	5,398	3.1%
	All Others	22,977	13.1%
	Total	**175,696**	**100.0%**

Source: 2004 Louisiana Tourism Satellite Account.

In Table 2, Louisiana state tax revenues generated from the Travel and Tourism sector of the economy for the year 2004 are presented. Some of these revenue sources, such as Auto Rental Excise, are the result of taxes directly on visitor spending. Others, such as individual income taxes, occur later as workers or firms pay additional taxes on earnings created by visitors. Overall, over $670 million in Louisiana revenue is attributed to the Travel and Tourism sector. This implies that the sector accounted for 7.9% of the 2004 Louisiana state budget. The Travel and Tourism sector also generates substantial revenues for local governments. With slightly higher sales tax rates than the state, local governments received in excess of $220 million in sales tax revenues alone.

Table 2
2004 Louisiana State Tax Revenues Attributable to the Travel and Tourism Sector (in millions)

Revenue Category	Visitor Taxes
Alcohol Beverage	$0.5
Beer Tax	$1.2
Gasoline Tax	$93.8
Corporate Income Tax	$18.0
Individual Income Tax	$77.5
Auto Rental Excise	$4.0
Sales Tax	$220.1
Land based Casino	$19.0
Video Draw Poker	$51.6
Motor Vehicle Licenses	$8.2
Riverboat Gaming	$182.8
Total	**$676.7**

Source: same as Table 7.

The tourist industry is important to the state of Louisiana. Every region of the state has a certain uniqueness – activities attracting visitors from out-of-state, offering persons on business in a region to stay an extra day, and providing families driving through the state a chance to see a different side of Louisiana. The numbers speak for themselves—over 175,000 jobs related to tourist trade and almost $700 million in state tax revenues related to the tourist industry. While it is clear that the tourist industry is important to the state's economy, it is especially significant to the New Orleans region as it continues its recovery from the devastation of Katrina.

City of New Orleans

New Orleans, the home of both jazz and the fusion of French and Spanish cuisine, has ranked as one of the most popular tourist destinations in the US, ranking third in the country and ranking as the number two family vacation spot in the south after Orlando, Florida. New Orleans is a special and unique destination for travelers around the world. Ten million people visited New Orleans in 2004, including 500,000 international visitors. International tourists alone spent $425 million throughout Louisiana in 2004. New Orleans has formal tourist bases – the Ernest P. Morial Convention Center, which helps to attract convention attendees as illustrated in Table 3; the cruise ship business associated with the Port of New Orleans; the visitors associated with the casinos along the Mississippi Gulf Coast; and the special annual events in New Orleans, including Mardi Gras, Jazz Fest, the Essence Festival, and the Sugar Bowl.

The convention activities accounted for over 2,000,000 hotel nights in New Orleans pre-Katrina or just about 20 percent of the hotel business in the city. Post-Katrina the major conventions are projected to account for about 10 percent of the hotel nights in 2007 and 2008. This indicates that hotel rooms will be available, but it also reveals a concern – how does the City of New Orleans get the core convention business back? Broadway South opens up a new attraction to entice the major conventions to put New Orleans on their list of "cannot miss" cities.

Table 3
Convention Attendees
In New Orleans, 2003-2008

Year	Convention Attendees	Estimated Hotel Nights
2003	518,225	2,072,900
2004	509,050	2,197,700
2005	306,400	1,528,100
2006	394,816	1,795,496
2007, projected	262,450	1,230,950
2008, projected	258,488	1,223,164

Source: Information derived from data supplied by NO Convention Center.

The cruise ships in 2004 made 160 calls at the New Orleans Cruise Terminal. These ships carried more than 334,000 passengers and generated more than 320,000 tourist visits throughout the New Orleans region.[3] Over 60 percent of these visitors chose to spend an extra day in New Orleans either before the cruise or after the cruise. It is estimated that the cruise ship visitors used almost 110,000 hotel nights or about one percent of all hotel nights in New Orleans in 2004. Cruise ships are retuning to the Port of New Orleans after Katrina, but the recovery has been relatively slow. Broadway South provides another reason for the cruise ships to return.

Events unique to New Orleans also provide a reason for large numbers of tourists to visit New Orleans. These special events are topped by Mardi Gras, Jazz Fest, major sports events such as the Bayou Classic and the Sugar Bowl along with concomitant festivities, , the Essence Music Festival, professional sports events featuring the Saints, the Hornets, and the Voodoo, along with many others. In addition to these national events, there are other events that will attract a smaller, more distinct demographic set of visitors, such as the French Quarter Festival, the Tennessee Williams New Orleans Literary Festival, major golfing events, activities associated with universities located within the city, and other such events.

Conventions, major citywide events, cruise ships, and the other small, unique events do not, by themselves, provide sufficient tourists for New Orleans. Hotels, restaurants, the New Orleans tourist industry, and others must promote the beauty and charm of the city in order to maintain a steady and sufficient number of tourists to yield close to a 70 percent occupancy rate for the city's 38,000 (pre-Katrina) hotel rooms.

Broadway South, focusing on the theater and live entertainment with choices and options for everyone, provides a spark to the recovery of the tourist industry in New Orleans. Broadway South will supplement the return of the convention business, the demand for more cruise ships, and provide reasons to stay a few days before or after another major event in New Orleans. Broadway South will also become another reason to visit New Orleans—a reason that has not existed until this time.

IV. Why Tourism is Important to Louisiana and Post-Katrina New Orleans

Hurricane Katrina created havoc in the New Orleans Metropolitan Area. The New Orleans MSA includes seven parishes, Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. John the Baptist, and St. Tammany. Five of these parishes were severely damaged by Katrina: Jefferson, Orleans, Plaquemines, St. Bernard, and St. Tammany. Population estimates, pre and post-Katrina, in these parishes and in the New Orleans Metro are illustrated in Table 4.

[3] **Economic Impact Analysis of the New Orleans Cruise Sector,** prepared for Port of New Orleans, February 2005. Business Research and Economic Advisors.

The New Orleans Metropolitan Area, pre-Katrina, represented 29 percent of the state's population. The most severely damaged parishes represented about 27 percent of the state's population. The 2006 population estimates indicate that the New Orleans Metro has lost almost 300,000 persons. The population loss occurred mainly in Orleans, Plaquemines, and St. Bernard parishes. Presently, the New Orleans metropolitan area represents about 24 percent of the state's population and the five most damaged parishes represent just over 21 percent of the state's population.

Table 4
Pre and Post-Katrina Population in New Orleans Metropolitan Area
(shaded areas being most heavily damaged parishes)

Parishes	Population, July 2004	Population, July 2005	Population, July 2006
Jefferson	453,590	458,029	431,361
Orleans	452,269	458,393	223,388
Plaquemines	28,969	29,432	22,512
St. Bernard	65,554	67,419	15,514
St. Charles	50,073	48,359	52,761
St. John the Baptist	45,581	44,590	48,537
St. Tammany	213,553	213,633	230,605
Total, NO Metro	1,309,585	1,319,860	1,024,678
Total, Damaged Parishes	1,213,935	1,226,911	923,380
Louisiana	4,516,770	4,507,331	4,287,768
NO Metro, % of State	29.0%	29.3%	23.9%
Damaged, % of State	26.8%	27.2%	21.5%

Source: US Bureau of Census

Industrial Significance in New Orleans Region

Business activity in New Orleans relative to the rest of the state is compared in Tables 5 through 7 with business activity being measured in terms of business establishments, employment, and payroll. Business activity is also divided into various industries as defined by the US Department of Commerce. The shaded rows in the tables indicate the industries in the New Orleans region that are proportionately larger than the region's population is to the state's population.

Manufacturing and mining employment is significant, but these sectors of the economy do not have as many people as the population of the area would project. There are major employers, however, that are key players in the New Orleans area. Northrop Grumman Ship Systems is in Jefferson Parish and had over 7,000 employees pre-Katrina. Lockheed Martin Aerospace Program in New Orleans East had 2,300 employees. There are six refineries in this region: Conoco-Phillips, Murphy, Marathon, Motiva Enterprises, Chalmette Refining, and Valero St Charles Refinery. These refineries have 42.5 percent of the refining capacity in Louisiana.[4] This is equivalent to about 7 percent of the nation's refining capacity. Conoco-Phillips, Chalmette, and Murphy were shut down due to Katrina, but all of the refineries re-opened operations in 2005 and 2006.[5] Textron Marine and Land produces vehicles for combat duty in Iraq. The facility in New Orleans had about 1,400 employees on its payroll. Its facilities were damaged by the hurricane and its production had dropped from about 30 vehicles per month to eight per month.[6] It currently has about 400 employees.[7] Shell Oil with its presence in the central business district has over 1,000 employees in the New Orleans area. These companies are important because of the large number of employees associated with them.

The significance of service industries in the New Orleans region is illustrated by several comparisons. The damaged parishes, pre-Katrina, had 26.8 percent of the state's population; but, these seven parishes had 48.4 percent of total state wages earned in "Accommodations and Food Services"; 45 percent of total state wages earned in "Professional and Technical Services"; 44.8 percent of total state wages earned in "Arts, Entertainment, and Recreation"; 41.6 percent of total state wages earned in "Finance and Insurance"; 41.2 percent of total state wages earned in "Management of Companies"; and, 40.3 percent of total state wages earned in "Administrative and Waste Services." The New Orleans region also had a large role in educational services, healthcare services, and wholesale trade based on the comparison of the region's population compared to the wages paid in these industries.

These industries that dominated the New Orleans region pre-Katrina are the industries that will be crucial to its immediate recovery. The focus is on (1) large employers that stand out in terms of the number of persons who work directly for them plus the multiplier impact of their presence in the local economy and (2) the service sector including tourist industries such as accommodations and food service and arts, entertainment, and recreation and business services such as professional and technical services, management of companies, and administrative and waste services. The focus will also be on educational services, especially the private and public universities in New Orleans, health care activities, including the LSU and Tulane Medical Schools, and the wholesale trade industry. Service-related industries are typically labor-intensive meaning to be successful these companies must get a large number of workers back to the New Orleans region. This return of the labor force will also drive the emergence of support-industries that are required to service the population.

This pre-Katrina snapshot of the New Orleans economy illustrates the industries that will be most important in getting jobs and economic activities back to this region as quickly as possible. New Orleans will build on the established base at least in the short to middle time horizon. New industries will not lead the comeback of New Orleans;

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[4] www.lmoga.com, Louisiana Refineries.

[5] New Orleans **Times-Picayune,** February 12, 2006.

[6] **Advancing in the Aftermath: Tracking the Recovery from Katrina and Rita,** Loren C. Scott, prepared for Hibernia National Bank and Capital One Financial Corporation.

[7] Textron Marine and Land website, April 19, 2007.

rather, industries that were key players in the New Orleans pre-Katrina will be the key players in the recovery of New Orleans. New Orleans was a tourist destination prior to Katrina and can and must regain this status post-Katrina.

Table 5
Industrial Make-up of Damaged Parishes in New Orleans Region
Commercial Establishments
(shaded rows indicate where percent of industry in damaged parishes exceeds percent of population in damaged parishes)

Industry	Number of Commercial Establishments in Damaged Parishes	Damaged Parishes As Percent Of State
Agriculture, Fisheries, Timber	78	5.2%
Mining	257	16.9%
Utilities	94	11.4%
Construction	2,570	25.9%
Manufacturing	1,061	26.1%
Wholesale Trade	2,734	35.9%
Retail Trade	4,710	27.8%
Transportation and Warehousing	1,093	25.2%
Information	543	32.5%
Finance and Insurance	2,236	28.9%
Real Estate	1,503	30.1%
Professional and Technical Services	4,218	36.0%
Management of Companies	170	31.8%
Administrative and Waste Services	1,952	35.5%
Educational Services	153	22.8%
Health and Social Services	3,210	29.0%
Arts, Entertainment, and Recreation	498	34.3%
Accommodations and Food Services	2,888	36.9%
Other Services	3,421	32.6%
Public Administration	387	12.5%
Total, New Orleans Region	34,340	29.9%

Source: Louisiana Wage and Employment, 2004, Louisiana Department of Labor.

Table 6
Industrial Make-up of Damaged Parishes in New Orleans Region
Employment
(shaded rows indicate where percent of industry in damaged parishes exceeds percent of population in damaged parishes)

Industry	Employment in Damaged Parishes	Damaged Parishes As Percent Of State
Agriculture, Fisheries, Timber	341	2.9%
Mining	8,329	20.0%
Utilities	3,974	27.5%
Construction	28,442	22.6%
Manufacturing	31,574	21.3%
Wholesale Trade	23,618	31.7%
Retail Trade	65,625	29.2%
Transportation and Warehousing	26,556	34.0%
Information	10,633	32.6%
Finance and Insurance	22,015	34.5%
Real Estate	10,963	30.7%
Professional and Technical Services	29,644	39.9%
Management of Companies	7,907	37.2%
Administrative and Waste Services	34,560	37.8%
Educational Services	34,566	28.7%
Health and Social Services	76,650	28.9%
Arts, Entertainment, and Recreation	15,152	34.2%
Accommodations and Food Services	67,148	40.3%
Other Services	17,176	32.7%
Public Administration	28,640	28.4%
Total, New Orleans Region	559,821	30.1%

Source: Louisiana Wage and Employment, 2004, Louisiana Department of Labor.

Table 7
Industrial Make-up of Damaged Parishes in New Orleans Region
Total Wages
(shaded rows indicate where percent of industry in damaged parishes exceeds percent of population in damaged parishes)

Industry	Total Wages in Region of Damaged Parishes (in millions)	Damaged Parishes As Percent Of State
Agriculture, Fisheries, Timber	$7.2	2.6%
Mining	$671.9	26.7%
Utilities	$204.7	29.2%
Construction	$1,012.7	23.9%
Manufacturing	$1,360.2	19.0%
Wholesale Trade	$1,110.8	35.6%
Retail Trade	$1.437.8	31.3%
Transportation and Warehousing	$1,127.3	35.6%
Information	$418.7	35.2%
Finance and Insurance	$1,068.5	41.6%
Real Estate	$331.7	29.7%
Professional and Technical Services	$1,491.3	45.0%
Management of Companies	$443.7	41.2%
Administrative and Waste Services	$842.0	40.3%
Educational Services	$1,320.5	34.8%
Health and Social Services	$2,704.9	32.3%
Arts, Entertainment, and Recreation	$473.8	44.8%
Accommodations and Food Services	$1,014.3	48.4%
Other Services	$421.7	34.5%
Public Administration	$1,151.7	32.3%
Total, New Orleans Region	$19,084.6	32.2%

Source: Louisiana Wage and Employment, 2004, Louisiana Department of Labor.

Interdependencies Among Parishes in New Orleans Metro

Workers live in one parish and work in another. This is a normal outcome of families searching for the right home, the right school for their children, the right neighborhood, and the right job. In the New Orleans region workers tend to commute from homes in St. Tammany, St. Bernard, Jefferson, and Plaquemines to other parishes for work. Orleans Parish had the lowest migration rate with only 21 percent of its work force traveling to other parishes to work. In St. Bernard Parish 58 percent of its work force left the parish on a daily basis to work in another parish. In Jefferson Parish 34 percent of the work force traveled to another parish to work. In St. Tammany Parish 36 percent of the work force traveled outside the parish to work. The destination of many of these workers is Orleans Parish.

This migration pattern suggests that work-related activities in Orleans Parish are essential to the well-being of the entire metropolitan area. Projects in Orleans Parish create benefits that transfer across parish lines. This migration across parish lines to live and work may become even more dominant in a post-Katrina world. One of the solutions to dealing with damaged housing is to commute.

Current Employer and Employment Estimates

Information on the number of establishments, employees, and payroll suggested New Orleans had a large number of the state's businesses and workers in the service sector, including leisure and hospitality. Tables 8 and 9 document the reduction in employers and employees in the leisure and hospitality industry since Katrina. Employers in Accommodation and Food Services fell from 2,399 in the second quarter 2005 to 1,955 in the second quarter 2006, or an 18 percent reduction. The overall number of employers fell from 27,645 in the second quarter of 2005 to 24,128 in the second quarter of 2006, or a 12.7 percent reduction. The number of retail trade employers fell by over 22 percent from the second quarter 2005 to the second quarter 2006. The employer data were compiled from information provided by employers to the Louisiana Department of Labor.

Table 8
Employers in Five Parish Area, Southeast Louisiana

Industry	2005, 2nd Quarter	2005,4th Quarter	2006, 2nd Quarter
Accommodation and Food Service	2,399	1,728	1,955
Arts, Entertainment, and Recreation	402	283	309
Retail Trade	3,926	2,811	3,040
Wholesale Trade	2,330	2,144	2,172
Total	27,645	23,279	24,128

Source: **A Report on the Impacts of Hurricanes Katrina and Rita on Louisiana Businesses: 2005 Q2 – 2006 Q-2,** Dek Terrell and Ryan Bilbo, 2007.

Employment data are presented in Table 9 as derived from the US Bureau of Labor Statistics. Employment in the leisure and hospitality industry fell from January and February of 2005 to January and February 2006 by almost 35,000 and then had increased by about 12,000 from January and February 2006 to January and February 2007. Eighteen months after Katrina, employment in leisure and hospitality in the New Orleans Metropolitan Area was still almost 27 percent lower than it was in early 2005.

Table 9
Employment in New Orleans Metropolitan Area

Industry	Jan/Feb, 2005	Jan/Feb, 2006	Jan/Feb, 2007
Leisure and Hospitality	83,600	49,300	61,100
Transportation and Trade	121,100	95,700	105,400
Manufacturing	38,000	33,200	35,600
Total	606,800	451,400	496,100

Source: **Bureau of Labor Statistics, 2007.**

Overall employment in the New Orleans Metro is down by about 18 percent from early 2005 to early 2007. The reduced employment is spread over many industries; however, the one industry that has been a significant export industry for New Orleans and Louisiana is the leisure and hospitality industry. This is also the industry that can grow quickly and provide an economic enhancement to the local economy. There is room to grow and there is a base on which to grow.

V. Broadway South: The New Orleans Example

The New Orleans economy is struggling to retain its economic vitality. One of the base industries of the pre-Katrina New Orleans economy was its leisure and hospitality industry, as suggested in the previous section. Broadway South envisions enhancing and augmenting the pre-Katrina leisure and hospitality industry in New Orleans by adding another attractive tourist destination. Hurricane Katrina caused significant physical damage to the theater district in New Orleans as well as to surrounding communities. Obviously, Katrina also affected the local market for theater events. Broadway South envisions a renewed theater district that will serve as a tourist attraction as well as provide cultural events to persons living in the New Orleans area.

The state tax credit program for certified musical and theatrical infrastructure and productions is important in the 2007 Legislature Session for New Orleans because the major federal tax advantage—that is, the GO Zone Bonus Depreciation--is, at least at this time, scheduled to expire as of December 31, 2010. Nonresidential real property must be placed in service prior to this date. This puts a premium on moving fast in damaged area at this time. It puts a premium on this tax credit being passed during the 2007 Louisiana Legislature Session.

The GO Zone Bonus Depreciation is a major upfront reduction in federal tax liability and can be applied to previous tax payments if it results in a net operating loss. The concept and attraction of Broadway South can be applied in Shreveport, Lake Charles, Lafayette, or Baton Rouge just as it can be applied in New Orleans. The application of the proposed state tax credit is statewide; the immediate focus is on the New Orleans market because of the federal tax advantage deadlines.

The Broadway South plan includes the following: (1) rehabilitating and enhancing four theaters along Canal Street in New Orleans—the Saenger, Loew's, the Orpheum, and Joy; (2) get national and regional productions and shows to appear at these theaters for six to eight months of the year with many of these productions being unique to the southeastern United States; (3) upgrade other facilities within the theater district, including parking garages, restaurants, retail operations, hotel space, and other related establishments; (4) create an improved cultural atmosphere in New Orleans so that other industries totally unrelated to arts and entertainment will find the social environment attractive to their employees and executives; and, (5) connect this cultural expansion in New Orleans to the rest of the state in terms of economic development projects and an enhanced cultural environment.

The first stage in the development of Broadway South is to rehabilitate and enhance the four theaters. It is estimated that the cost of acquiring, rehabilitating, and enhancing these theaters will be as follows: (1) Saenger - $12,000,000; (2) Loew's - $9,000,000; (3) the Orpheum - $5,000,000; and, (4) Joy - $4,000,000. The initial capital requirement is $30 million. It is projected that the capital financing will include 60 percent debt (or $18 million) to be conducted over ten years at an interest rate of 8 percent. Annual interest expenses to be paid on a quarterly basis are illustrated in Table 10.

The operations of these theaters are illustrated in Tables 10 and 11a-11e. The starting point, once the theaters are rehabilitated, is to attract productions that will attract customers across the southeastern United States to the theaters. It is projected that the four theaters could have six to eight month schedules with the sales ratio being 60 percent of all seats in the house. In New York typically 70 percent of all seats are sold over a 12 months period. Ticket prices, and these are average ticket prices across the theater, for the Saenger is estimated to be $50 per ticket; $40 for the Loew's; and $30 for the Orpheum and Joy.

The production activities are divided between the operations of the theater, illustrated in Table 10, and the actual production of the show, illustrated in Tables 11a-e. The operation of the theater includes the following financial information: (1) acquisition and rehabilitation costs of $12 million for the Saenger, $9 million for Loew's, $5 million for Orpheum, and $4 million for the Joy; (2) estimated 60 percent of the financing of the acquisition and rehabilitation of these theaters being debt-related and 40 percent being equity; (3) the debt will be financed over a ten year period with an interest rate of 8 percent with the payments being made quarterly; (4) the theater will receive 10 percent of the ticket receipts with these receipts being based on six months of activity with 60 percent attendance rates and the prices as previously listed; (5) the theater will also receive a facility fee of $3 per ticket; (6) the theater will make other income from agreements regarding parking revenues, merchandising within the theater, concessions, credit card differentials, and other such sources with this other income being estimated to be about 1 percent of the ticket receipts; (7) expenses include the interest expense associated with the debt and the annual cost of operating the theater unrelated to any shows performing at the theater; (8) an estimate of the production and labor tax credits as proposed in Senate Bill 218; and, (9) an estimate of net income before the application of the proposed state tax credits and after the application of the proposed state tax credits.

The estimated infrastructure tax credits add up to $5.8 million, about 29 percent of the rehabilitation costs—this is the state's up front contribution to the restoration of downtown New Orleans, and this is money the state will recover once the theaters are up and running. The only risk of this money is the timing of the recovery of the money by the state. Once these theaters are rehabilitated, shows and events will come. The only question is how quickly will these shows and events become a reality. The state tax credits associated with the ongoing production of shows that can be used by theater owners are estimated to be $725,000, or about 8 percent of total receipts of the theaters. The state will recover these dollars immediately if the theaters meet their attendance goals because of the increase in the tourists who will be visiting New Orleans.

Table 10
Financial Statement for Operation of Theaters
Six Months of Shows with 60% Capacity Rate at each Theater
Disclaimer: Estimates are made on Best Available Information, but cannot be guaranteed

Categories	Theaters in New Orleans			
	Saenger, Theatrical	Loew's Musical	Orpheum Live/Local	Joy Local/Live
Capital Expenditures and Infrastructure Tax Credit, 60% percent financed by debt at 8% over 10 years (estimated)				
Acquisition Costs	$4,000,000	$3,000,000	$2,000,000	$1,000,000
Rehabilitation Costs	$8,000,000	$6,000,000	$3,000,000	$3,000,000
Infrastructure Tax Credit	$2,320,000	$1,740,000	$870,000	$870,000
Projected Receipts Per Theater, 8 shows per week (estimated)				
Seat Capacity	2,700	3,700	1,900	1,500
Projected Seats Sold per show	1,620	2,220	1,140	900
Ticket Price	$50	$40	$30	$30
10% of Ticket Receipts to Theaters	$1,684,800	$1,847,040	$ 711,360	$561,600
Facility Fee, $3 per ticket	$1,010,880	$1,385,280	$711,360	$617,760
Other Income	$168,480	$184,704	$71,136	$56,160
Total Receipts	$ 2,864,160	$3,417,024	$1,493,856	$1,235,520
Projected Expenses for Operating Theater (estimated)				
Annual Theater Costs	$750,000	$750,000	$400,000	$400,000
Interest Expense	$1,052,805	$789,604	$432,668	$346,134
Fund for Repairs	$400,000	$500,000	$300,000	$250,000
Total Expenses	$2,202,805	$2,039,604	$1,132,668	$996,134
Recurring Tax Credits for Theater Operations (estimated)				
Production Tax Credit	$187,500	$187,500	$125,000	$125,000
Labor Credit	$30,000	$30,000	$20,000	$20,000
Total Credits	$217,500	$217,500	$145,000	$145,000
Net Income before and after tax credits (estimated)				
Net Income, before tax credits	$661,355	$1,377,420	$361,188	$239,386
Net Incomes, after production/labor tax credits	$878,855	$ 1,594,920	$506,188	$384,386
Percent of Total Receipts, Before Tax Credits	23.1%	40.3%	24.2%	19.3%
Percent of Net Receipts, After Tax Credits	30.7%	46.6%	33.9%	31.1%

Source: Author's estimates based on best available information. Estimates cannot be guaranteed.

The production and presentation of the show or event is the ultimate result to be achieved. This is the event that will bring the tourists back to New Orleans and Louisiana and will create the economic environment in which new industries might be attracted to southern Louisiana. The financial estimates associated with producing shows for six months in New Orleans at the four theaters from 2009 through 2012 are presented in Tables 11a through 11d with a summary of all theaters in Table 11e. Estimates are made for each theater for 2009, 2010, 2011, and 2012. The underlying assumptions used to derive these financial estimates are as follows: (1) ticket receipts are based on six months of shows with eight shows per week at average ticket prices of $50 for the Saenger, $40 for Loew's, and, $30 for the Orpheum and Joy with modest increases over the four year period and average attendance of 60 percent per show; (2) other income such as merchandise estimated to be 2.5 percent of ticket receipts; (3) expenses include the theater costs as identified in Table 10; (4) operating costs for the Saenger based on $285,000 per week per show and an upfront cost of putting the show together of about $165,000 per week (the producer will not recover all upfront costs from one city) with these costs increasing by 2 percent annually; (5) operating costs for Loew's, the Orpheum, and Joy based on guarantees to producers of the shows with a $500,000 guarantee for each week of shows at Loew's, $175,000 guarantee for each week of shows at the Orpheum, and $125,000 guarantee for each week of shows at Joy with these costs rising 2 percent each year; (6) marketing costs of $1.5 million for shows at the Saenger, $1.5 million for shows at Loew's, $1 million at the Orpheum, and $1 million at Joy with marketing costs rising by 3 percent per year; (7) transportation costs being estimated for each theater with these costs diminishing over time since the proposed legislation has an incentive to transfer work from other states to Louisiana; (7) state tax credits being based on production expenses and a fraction of the labor expenses with this fraction rising over time as more workers locate to Louisiana; (8) state transportation tax credits phasing out over four years; and, (9) net income before and after the tax credits recorded for each theater, comparing estimates to total receipts.

The state tax credits for production and labor are based on all of the expenditures in Louisiana—this assumption represents the maximum state tax credit that will initially become a financial liability to the state by itself without taking into account the economic activity that theater activity will stimulate. The labor tax credit gradually rises over time as more and more workers will be able to work in Louisiana. The state tax credit for transportation is a transitional tax credit that will phase out after four years. In the first two years the tax credit covers 100 percent of transportation costs; 50 percent in the third year; and 25 percent in the fourth and final year. There is no transportation tax credit after the fourth year of the program. This will serve to stimulate manufacturing and other industries in the city related to the providing of goods and services used in the process of initiating and operating a major musical or theatrical production. Four years will provide local industries ample time to acquire and provide supplies and services to the theater and musical community. Transportation tax credits will be able to offset corporate and personal income tax liability of various taxpayers. These tax credits are also refundable as well as transferable.

As indicated in both Tables 10 and 11a-e, these estimates are based on the best information available, including cost data from New York plays, estimates of costs associated with touring Broadway shows, and information from persons associated with the theater business. The estimates cannot be guaranteed. The net receipts are based on seat capacity plus estimates of potential ticket sales. These receipts are obviously subject to the realities of the market. The net receipts are predicated on a successful marketing of these shows and events in New Orleans to an audience from Texas east to Georgia and from Florida north to Tennessee. New Orleans does not have the population to support the creation of a theater district as proposed; tourists will be essential to make Broadway South work. This is not unusual. New York with its population of 8 million does not support its theater district with local residents. The New York theater district depends on tourists to be financially successful.

There are two very important lessons from this reliance on tourists. First, the theater owners and production companies will market the shows and events to a larger geographical unit than just southern Louisiana. The success and financial viability of Broadway South depend on it. Second, tourists will provide an extra lift to the Louisiana economy, sparking economic repercussions beyond the activity inspired by the production of the show in New Orleans.

Attracting customers to the New Orleans theater district will correlate with the existing tourist business base, including the convention business, the cruise ships, the companies that come to New Orleans for conferences, and the transient business and leisure industry, and the activities and promotions will be aimed at augmenting the tourist industry, not merely redirecting the spending patterns of current tourists coming to New Orleans. This tourist base allows extra days to be added to a person's visit to New Orleans; in addition, the availability of the theater district allows new motivation for other conventions, cruise ships, and company conferences to be held in New Orleans. Finally, the market for transient business and leisure visits will be improved by the availability of more attractions to the New Orleans area. Ideally, the shows will cater to other attractions occurring in New Orleans at the time—such as major musical events before and after Jazz Fest; major musical theater events to coincide with exhibits at the New Orleans Museum of Art or with activities at the universities in the region; events for children based around various holidays; and, other events at the theater aimed at expanding the customer base for existing New Orleans attractions.

To be successful, Broadway South must attract tourists; however, a successful Broadway South will provide a new and enhanced image for New Orleans—an artistic community that includes theater, dance, and cultural entertainment throughout the year. Broadway South fits in New Orleans because the city already has tourist appeal. but the theater district will do more by attracting a dynamic "creative class" to the city, new permanent residents distinguished by high-paying jobs. This will have a permanent impact on the city socially and economically.

Table 11a, the Saenger Theater
Financial Statement for Production of Shows at Saenger Theater in New Orleans
Six Months of Shows with 60% Capacity Rate at each Theater
Disclaimer: Estimates are made on Best Available Information, but cannot be guaranteed

Categories	Productions at the Saenger in New Orleans			
	2009	2010	2011	2012
Projected Receipts Per Theater, 8 shows per week (estimated)				
Seat Capacity	2,700	2,700	2,700	2,700
Projected Seats Sold per show	1,620	1,620	1,620	1,620
Ticket Price	$50	$52	$54	$55
Ticket Receipts to Theaters	$16,848,000	$17,521,920	$18,195,840	$18,532,800
Other Income	$421,200	$438,048	$454,896	$463,320
Total Receipts	$17,269,200	$17,959,968	$18,650,736	$18,996,120
Cost of Producing Shows (estimated)				
Theater Costs (see Table 10)	$1,684,800	$1,752,192	$1,819,584	$1,853,280
Operating Costs	$7,410,000	$7,558,200	$7,709,364	$7,863,551
Start-up Costs	$4,252,478	$4,337,528	$4,424,278	$4,512,764
Marketing	$1,500,000	$1,545,000	$1,591,350	$1,639,091
Transportation Costs	$1,250,000	$1,250,000	$1,000,000	$500,000
Total Costs	$16,097,278	$16,442,920	$16,544,576	$16,368,685
Recurring Tax Credits for Theater Operations (estimated)				
State Tax Credits for Start-Up	$1,169,431	$1,236,195	$1,305,162	$1,398,957
State Tax Credits for Production/Labor	$2,647,161	$2,730,960	$2,883,221	$2,993,332
Transportation Tax Credit, First Year	$1,250,000	$1,250,000	$500,000	$125,000
Total Credits	$5,066,592	$5,217,155	$4,688,383	$4,517,289
Net Income, before and after State Tax Credits (estimated)				
Net Income, before tax credits	$1,171,922	$1,517,048	$2,106,160	$2,627,435
Net Incomes, after tax credits	$6,238,514	$6,734,204	$6,794,543	$7,144,723
Percent of Total Receipts, before Tax Credits	6.8%	8.4%	11.3%	13.8%
Percent of Total Receipts, After Tax Credits	36.1%	37.5%	36.4%	37.6%

Source: Author's estimates based on best available information. Estimates cannot be guaranteed.

Table 11b, Loew's
Financial Statement for Production of Shows at Loew's in New Orleans
Six Months of Shows with 60% Capacity Rate at each Theater
Disclaimer: Estimates are made on Best Available Information, but cannot be guaranteed

Categories	Productions at Loew's in New Orleans			
	2009	2010	2011	2012
Projected Receipts Per Theater, 8 shows per week (estimated)				
Seat Capacity	3,700	3,700	3,700	3,700
Projected Seats Sold per show	2,220	2,220	2,220	2200
Ticket Price	$40	$42	$44	$45
Ticket Receipts to Theaters	$18,470,400	$19,393,920	$20,317,440	$20,537,088
Other Income	$461,760	$484,848	$507,936	$513,427
Total Receipts	$18,932,160	$19,878,768	$20,825,376	$21,050,515
Cost of Producing Shows (estimated)				
Theater Costs (see Table 10)	$1,847,040	$1,939,392	$2,031,744	$2,053,709
Operating Costs	$13,000,000	$13,260,000	$13,525,200	$13,795,704
Marketing	$1,500,000	$1,545,000	$1,591,350	$1,639,091
Transportation Costs	$1,000,000	$1,000,000	$750,000	$500,000
Total Costs	$17,347,040	$17,744,392	$17,898,294	$17,988,503
Recurring Tax Credits for Theater Operations (estimated)				
State Tax Credits for Production/Labor	$2,494,000	$2,961,000	$3,476,807	$3,820,112
Transportation Tax Credit, First Year	$1,000,000	$1,000,000	$375,000	$125,000
Total Credits	$3,494,000	$3,961,000	$3,851,807	$3,945,112
Net Income, before and after State Tax Credits (estimated)				
Net Income, before tax credits	$1,585,120	$2,134,376	$2,927,082	$3,062,012
Net Incomes, after tax credits	$5,079,120	$6,095,376	$6,778,889	$7,007,124
Percent of Total Receipts, before Tax Credits	8.4%	10.7%	14.1%	14.5%
Percent of Total Receipts, After Tax Credits	26.8%	30.7%	32.6%	33.3%

Source: Author's estimates based on best available information. Estimates cannot be guaranteed

Table 11c, the Orpheum
Financial Statement for Production of Shows at the Orpheum in New Orleans
Six Months of Shows with 60% Capacity Rate at each Theater
Disclaimer: Estimates are made on Best Available Information, but cannot be guaranteed

Categories	Productions at the Orpheum in New Orleans			
	2009	2010	2011	2012
Projected Receipts Per Theater, 8 shows per week (estimated)				
Seat Capacity	1,900	1,900	1,900	1,900
Projected Seats Sold per show	1,140	1,140	1,140	1,140
Ticket Price	$30	$32	$34	$36
Ticket Receipts to Theaters	$7,113,600	$7,587,840	$8,062,080	$8,536,320
Other Income	$177,840	$189,696	$201,552	$213,408
Total Receipts	$7,291,440	$7,777,536	$8,263,632	$8,749,728
Cost of Producing Shows (estimated)				
Theater Costs (see Table 10)	$711,360	$758,784	$806,208	$853,632
Operating Costs	$4,550,000	$4,641,000	$4,733,820	$4,828,496
Marketing	$1,000,000	$1,030,000	$1,060,900	$1,092,727
Transportation Costs	$750,000	$750,000	$500,000	$300,000
Total Costs	$7,011,360	$7,179,784	$7,100,928	$7,074,855
Recurring Tax Credits for Theater Operations (estimated)				
State Tax Credits for Production/Labor	$904,954	$1,079,957	$1,274,206	$1,406,327
Transportation Tax Credit, First Year	$750,000	$750,000	$250,000	$75,000
Total Credits	$1,654,954	$1,829,957	$1,524,206	$1,481,327
Net Income, before and after State Tax Credits (estimated)				
Net Income, before tax credits	$280,080	$597,752	$1,162,704	$1,674,873
Net Incomes, after tax credits	$1,935,034	$2,427,709	$2,686,910	$3,156,199
Percent of Total Receipts, before Tax Credits	3.8%	7.7%	14.1%	19.1%
Percent of Total Receipts, After Tax Credits	26.54%	31.21%	32.51%	36.07%

Source: Author's estimates based on best available information. Estimates cannot be guaranteed

Table 11d, the Joy
Financial Statement for Production of Shows at the Joy in New Orleans
Six Months of Shows with 60% Capacity Rate at each Theater
Disclaimer: Estimates are made on Best Available Information, but cannot be guaranteed

Categories	Productions at the Joy in New Orleans			
	2009	2010	2011	2012
Projected Receipts Per Theater, 8 shows per week (estimated)				
Seat Capacity	1,500	1,500	1,500	1,500
Projected Seats Sold per show	900	900	900	900
Ticket Price	$30	$32	$34	$36
Ticket Receipts to Theaters	$5,616,000	$5,990,400	$6,364,800	$6,739,200
Other Income	$140,400	$149,760	$159,120	$168,480
Total Receipts	$5,756,400	$6,140,160	$6,523,920	$6,907,680
Cost of Producing Shows (estimated)				
Theater Costs (see Table 10)	$561,600	$599,040	$636,480	$673,920
Operating Costs	$3,250,000	$3,315,000	$3,381,300	$3,448,926
Marketing	$1,500,000	$1,545,000	$1,591,350	$1,639,091
Transportation Costs	$500,000	$500,000	$300,000	$300,000
Total Costs	$5,311,600	$5,459,040	$5,609,130	$5,761,937
Recurring Tax Credits for Theater Operations (estimated)				
State Tax Credits for Production/Labor	$655,595	$782,808	$924,089	$1,020,404
Transportation Tax Credit, First Year	$500,000	$500,000	$150,000	$75,000
Total Credits	$1,155,595	$1,282,808	$1,074,089	$1,095,404
Net Income, before and after State Tax Credits (estimated)				
Net Income, before tax credits	$444,800	$681,120	$914,790	$1,145,744
Net Incomes, after tax credits	$1,600,395	$1,963,928	$1,988,879	$2,241,148
Percent of Total Receipts, before Tax Credits	7.7%	11.1%	14.0%	16.6%
Percent of Total Receipts, After Tax Credits	27.80%	31.98%	30.49%	32.44%

Source: Author's estimates based on best available information. Estimates cannot be guaranteed

Table 11e, All Theaters
Financial Statement for Production of Shows at Four Theaters in New Orleans
Six Months of Shows with 60% Capacity Rate at each Theater
Disclaimer: Estimates are made on Best Available Information, but cannot be guaranteed

Categories	Productions at the Saenger, Loew's, Orephum, and Joy in New Orleans			
	2009	2010	2011	2012
Projected Receipts Per Theater, 8 shows per week (estimated)				
Seat Capacity	9,800	9,800	9,800	9,800
Projected Seats Sold per show	5,880	5,880	5,880	5,860
Ticket Price	$39	$41	$43	$45
Ticket Receipts to Theaters	$48,048,000	$50,494,080	$52,940,160	$54,345,408
Other Income	$1,201,200	$1,262,352	$1,323,504	$1,358,635
Total Receipts	$49,249,200	$51,756,432	$54,263,664	$55,704,043
Cost of Producing Shows (estimated)				
Theater Costs (see Table 10)	$4,804,800	$5,049,408	$5,294,016	$5,434,541
Operating Costs	$28,210,000	$28,774,200	$29,349,684	$29,936,678
Start-up Costs	$4,252,478	$4,337,528	$4,424,278	$4,512,764
Marketing	$5,500,000	$5,665,000	$5,834,950	$6,009,999
Transportation Costs	$3,500,000	$3,500,000	$2,550,000	$1,600,000
Total Costs	$46,267,278	$47,326,136	$47,452,928	$47,493,981
Recurring Tax Credits for Theater Operations (estimated)				
State Tax Credits for Start-Up	$1,169,431	$1,236,195	$1,305,162	$1,398,957
State Tax Credits for Production/Labor	$6,701,710	$7,554,725	$8,558,324	$9,240,175
Transportation Tax Credit, First Year	$3,500,000	$3,500,000	$1,275,000	$400,000
Total Credits	$11,371,142	$12,290,920	$11,138,486	$11,039,132
Net Income, before and after State Tax Credits (estimated)				
Net Income, before tax credits	$2,981,922	$4,430,296	$6,810,736	$8,210,063
Net Incomes, after tax credits	$14,353,064	$16,721,217	$17,949,222	$19,249,194
Percent of Total Receipts, before Tax Credits	6.1%	8.6%	12.6%	14.7%
Percent of Total Receipts, After Tax Credits	29.1%	32.3%	33.1%	34.6%

Source: Author's estimates based on best available information. Estimates cannot be guaranteed.

From a business perspective Broadway South, if it is able to market the seats to these productions, will provide net revenues for its participants. The Saenger will yield almost $900,000 in net income to the owner of the theater and $6.3 million to the company producing the show, rising to just over $7 million in 2012; the Loew's will yield over $1.5 million to the theater owner and over $5 million to the company producing the shows, increasing to over $7 million in 2012; the Orpheum will produce $500,000 for the owner of the theater and almost $2 million to the company producing the shows to just over $3 million in 2012; and the Joy will yield $500,000 to the owner and $1.6 million to the production company rising to over $2 million in 2012. In total the producers of the shows will earn about $8.2 million in 2012 from all theater productions without the tax credits and about $19 million with the tax credits. Broadway South has a major incentive to make these productions successful. The state tax credits provide a buffer to the productions companies—that is, the state tax credits are very important ingredients to encourage companies to take the necessary risks associated with creating Broadway South in Louisiana.

Broadway South has to establish linkages with the shows and get them to New Orleans. Next, Broadway South must market the shows from Texas to Florida, encouraging persons and families to visit the New Orleans area or encouraging persons to extend their stay in New Orleans. The private market must develop the private consumers. The state can use its Office of Culture, Recreation, and Tourism to market the productions as part of the New Orleans scene; the same is true for the New Orleans Convention and Visitors Bureau and other public and private agencies that try to inform the public of available attractions in New Orleans. The private market cannot wait for these state and local entities to make people outside of Louisiana aware of productions. Broadway South will have a pressing financial interest in making sure the southern region of the United States is clearly aware of the shows and productions appearing in New Orleans.

Performing Arts in Other Cities Around the State

The examples of how the tax credits will work have been related to four theaters in New Orleans—the Saenger, Loew's, the Orpheum, and Joy. Estimated revenues amount to about $47 million initially with these estimated revenues increasing to about $55 million in 2012. Tax credits associated with the musical and theatrical productions amount to $11 to $13 million. The revenues and tax credits are predicated on six months of shows with attendance over 1.2 million. The New Orleans effort to enhance the performing arts relies on an increase in tourism to fill the theaters for these productions. The performing arts will be available to the local market; families will be encouraged to attend; schools will get special tickets; but, ultimately, the financial success of Broadway South in New Orleans will depend on tourists.

Other cities in the state can make use of these tax credits to encourage state-certified musical and theatrical productions to be performed in their theaters. The productions may run for a week or two weeks. Most markets are simply not large enough to support a longer run. The average tax credit per week at the four theaters in New Orleans is estimated to be approximately $116,000. The expected revenue in a theater with 1,000 seats for eight performances is $400,000. A tax credit of close to $116,000 is almost 30 percent—a substantial incentive to take a show to another city in the state. These tax credits can allow other cities in the state to add to the cultural base—this enhancement of the cultural base by expanding the performing arts will provide opportunities for all cities in the state to expand their marketing efforts for other industries. The performing arts are appealing attributes of a city. The fiscal impact of these tax credits on the state's budget will be relatively small and will be fully covered by the activities in New Orleans. In this case, New Orleans will provide revenues to cover tax credits throughout the state.

Finally, if a city, using Shreveport as an example, chose to encourage major productions on a regular basis, then Shreveport must develop a group of persons willing to buy the tickets or market the tickets to persons in other states. The tax credit will augment an expanded tourist industry in Shreveport.

VI. Economic Impact of Broadway South—the First Step in the State's Cultural and Economic Development

Broadway South initializes the economic impact on the state and metropolitan economies by first rehabilitating and enhancing the theater district along Canal Street in New Orleans. Second, once the theaters are ready, Broadway South will bring shows to New Orleans. Finally, to make the productions financially successful, the tourist market will have to be expanded. Local residents are not able to fill the seats for these productions. New York residents are not the major supporters of the theater in New York—it is tourists that make the Broadway plays a financial success. The same will be true in New Orleans. The New Orleans Metropolitan Area is the example in this analysis since this is the first reference point in terms of making this industry vibrant in Louisiana.

Economic Impact of Construction Activities

The overall construction activity will be $18.5 million in rehabilitation and enhancement expenditures spent over twelve months--$8 million for the Saenger; $6 million for the Loew's; $3 million for the Orpheum; and, $1.5 million for the Joy. The construction work is projected to be completed within one year. This construction activity will lead to business activity in the New Orleans region of over $42 million, 350 new jobs, and household earnings of $13.7 million. The average pay per job is just over $39,000. Most of these jobs will be in the construction sector, but some jobs will be supported in trade and services. These jobs are temporary in nature.

The construction activity will also generate state tax receipts of almost $1 million and local tax receipts of about $600,000; thus, state and local tax collections will increase by about $1.6 million due to the construction activity. The economic impact of the construction activity is summarized in Table 12.

Table 12
Summary of Economic Impact of Capital Expenditures
Associated with Broadway South
(Rehabilitation Expenditures of $18.5 million over 12 Months)

Economic Activities	Estimated Economic Impact
Business Activity	$42 million
Household Earnings	$13.7 million
New Jobs Created	350 jobs
State and Local Tax Collections	$1.6 million

Source: Author and Regional Input/Output Model, II, US Department of Commerce.

The Infrastructure Tax Credit is projected to amount to $5.365 million. The credit applies only to the rehabilitation and enhancement construction expenditures. The infrastructure tax credit is an investment made by the state—there is no way the state tax collections associated with the construction activity will match the revenue foregone by the state in providing the refundable tax credits. The state with passage of these bills will grant infrastructure tax credits of $5.365 million—the state will receive an estimated one million dollars in additional state tax collections. This is the upfront investment by the state that is necessary to create the business environment for the expanded theater activities in the New Orleans area and the expanded tourist business.

Economic Impact of Ongoing Theater, Music, and Live Performances

The operation of the theaters will produce recurring economic benefits since the plays and performances will directly employ persons and require costumes, sets, advertising and marketing, insurance, food and housing, and other services. The initial ongoing receipts associated with the theatrical productions occurring at the four theaters will be $49.3 million--$17.3 million for the Saenger; $18.9 million for the Loew's; $7.3 million for the Orpheum; and $5.8 million for the Joy. These activities are projected to be recurring—that is, the New Orleans economy will benefit from the theatrical productions each and every year. Expenditures associated with these productions will be $14.8 million at the Saenger, $16.3 million at Loew's, $6.3 million at the Orpheum, and $4.8 million at Joy, not including transportation costs. These estimates are based on six months of shows with 60 percent average attendance each show. The theaters have the ability to extend the shows for more months and to increase the average attendance. All estimates will be based on the 60 percent average attendance and six months of shows—this is the more cautious forecast.

This ongoing theatrical activity will lead initially to business activity of almost $83 million with 1,107 new jobs with 550 jobs being directly related to the theater and arts and household earnings of $28.6 million. The average pay per job is approximately

$29,000. These jobs will be spread around the economy, including arts and entertainment, food services, retail trade, financial services, and other personal services. They are permanently supported by the theatrical productions being performed in the theaters of New Orleans. This economic activity does not include the additional tourists that will be attracted to New Orleans because of the ongoing theatrical and musical productions.

The economic activity associated with the ongoing theatrical productions will generate household earnings in the New Orleans area of $28.6 million along with the 1,107 jobs. The ongoing theatrical productions will also generate state tax receipts of almost $1.9 million and local tax receipts of about $1.3 million. State and local tax collections increase by $3.2 million each and every year due to the ongoing activity of the theatrical productions. The economic impact of the ongoing activity of Broadway South is summarized in Table 13.

Table 13
Summary of Economic Impact of Initial Ongoing Expenditures of Theatrical Productions Associated with Broadway South
(based on Net Expenditures of $43 million per year—Initial Year of Productions)

Economic Activities	Estimated Economic Impact
Business Activity	$82.9 million
Household Earnings	$28.6 million
New Jobs Created	1,107 jobs
State and Local Tax Collections	$3.2 million

Source: author

The proposed production, labor, and transportation tax credits are summarized by theater and year in Table 14. The tax credits will amount to just over $11 million for all of the theaters, including the production tax credit, the labor tax credit, and the transportation tax credit in the first year rising to over $12 million in the second year. Based on the industrial structure of the state and local economy at this time, the economic impact associated with the theatrical productions will generate state tax collections of about $1.7 million. The state tax credits will exceed any state tax collections due to the economic activity associated with the theatrical and musical productions. The state tax credits for production and labor will recur each and every year as illustrated in Table 14 just as will the ongoing expenditures associated with the production of the theatrical and musical productions and the subsequent economic activity in the state and regional economy. The transportation tax credits will decline to $1.275 million in the third year of theatrical and musical productions; $400,000 in the fourth year of theatrical and musical productions; and, the transportation tax credit will expire after four years. Ultimately, the state tax credits will be about $11 million per year.

Table 14
Projected Tax Credits Associated with Ongoing Operation of Broadway South
First Year of Production at Theaters
(in millions of dollars)

Theater	Production and Labor Tax Credits	Transportation Tax Credit	Total Tax Credits
First year of Theatrical and Musical Productions, projected 2009			
Saenger, Start-up Costs	$1.169		$1.169
Saenger, Operations	$2.647	$1.250	$3.897
Loew's	$2.494	$1.000	$3.494
Orephum	$0.905	$0.750	$1.654
Joy	$0.656	$0.500	$1.155
Total	$7.871	$3.500	$11.371
Second year of Theatrical and Musical Productions, projected 2010			
Saenger, Start-up Costs	$1.236		$1.236
Saenger, Operations	$2.731	$1.250	$3.981
Loew's	$2.961	$1.000	$3.961
Orephum	$1.080	$0.750	$1.750
Joy	$0.782	$0.500	$1.282
Total	$8.790	$3.500	$12.210
Third Year of Theatrical and Musical Productions, projected 2011			
Saenger, Start-up Costs	$1.305		$1.305
Saenger, Operations	$2.884	$0.500	$3.384
Loew's	$3.476	$0.375	$3.851
Orephum	$1.274	$0.250	$1.524
Joy	$0.924	$0.150	$1.074
Total	$9.863	$1.275	$11.138
Fourth year of Theatrical and Musical Productions, projected 2012			
Saenger, Start-up Costs	$1.398		$1.398
Saenger, Operations	$2.993	$0.125	$3.118
Loew's	$3.821	$0.125	$3.946
Orephum	$1.406	$0.075	$1.481
Joy	$1.021	$0.075	$1.096
Total	$10.639	$0.400	$11.039

Source: author based on information from cost breakdown by Broadway shows and touring companies.

Dynamic Analysis—Growth in Industrial Support Structure

Over time the economic structure of the state and local economy will change to accommodate live productions. There will be new costume shops, new set design and production shops, increased activity in the electronic needs of the stage, new prop design and production shops, advertising and marketing directed at the live productions, and so on. Workers in these areas of expertise will migrate to Louisiana. Louisiana colleges and universities will take advantage of the employment opportunities by directing their graduates to these jobs and by designing degree programs consistent with this industry. This means that over time the economic impact of the expenditures of the live productions will become more substantial for the state of Louisiana because the state will have the industries to provide the products and services required by the live production industry.

Table 15 illustrates the dynamics in the creation of the New Orleans performing arts industry from 2009 to 2013. In the beginning it is estimated that about 550 direct employees in Louisiana will be connected with the theatrical productions and other events. It is projected that over time the number of employees associated directly with live productions in the New Orleans region will grow to 3,000.[8] The increase in direct employees and the subsequent increase in the payroll will lead to an enhancement of overall economic activity. State tax collections will rise. Louisiana tax credits will be about \$11.4 million in 2009 and then stabilize at about \$10.5 million after the transportation tax credit has been eliminated and the Louisiana economy has reached equilibrium with respect to workers in the Arts and Entertainment field. The ratio of estimated state tax collections resulting from increased economic activity related to the new net spending from the theatrical productions and live entertainment events to state tax credits provided serving as the state's encouragement to the industry is also presented in Table 15. The Tax Credit Recovery Ratio in 2009 is estimated to be 16.6 percent in 2009 indicating the state will get back less than 20 cents for every dollar it puts up in the form of a state tax credit. The tax credit recovery ratio gradually rises to almost 100 percent as the number of direct employees in this industry becomes part of Louisiana employment and the transportation tax credit is eliminated. This means that the state, even without any assistance from the tourist industry impact, will get very close to breaking even with the state tax credits. It takes five years for this to occur, but obviously these are projections that may be subject to forecasting error.

By itself, based on a comparison between the estimated state revenues related to the direct spending of theatrical productions and live events and the state tax credits granted, one might decide that this is not a promising long-term investment for the state since it takes five years for the state to nearly break even on the program, and then projections are based on the best information available. However, the important point to always keep in mind is that the financial feasibility of Broadway South for both the private investors

[8] The expansion of the performing arts industry in Louisiana will complement the development of the Louisiana film industry as well.

involved and the state is directly related to the attraction of tourists to New Orleans. The financial feasibility of the state tax credit program depends on Broadway South serving as a magnet for tourists to come to the New Orleans area. The second round of analysis must include the estimated economic impact of these new tourists coming to New Orleans.

Table 15
Employment Associated with Theater and Event Productions
Employment, Income, and Taxes Related to Theater Industry
2009 through 2013

Year	Arts and Entertainment Employment	Total Employment	Total Income (millions)	State Revenues (millions)	Tax Credits (millions)	Tax Credit Recovery Ratio
2009	550	1,107	$28.6	$1.9	$11.4	16.6%
2010	1,100	2,214	$57.2	$3.8	$12.3	30.8%
2011	1,750	3,522	$90.9	$6.0	$11.5	51.7%
2012	2,500	5,032	$129.8	$8.6	$11.2	76.70%
2013	3,000	6,033	$155.6	$10.3	$11.2	92.0%

Source: author

Economic Impact of Attracting Tourists to New Orleans

The fundamental operational necessity is that Broadway South must attract productions that will, in turn, attract customers from across the southeastern United States. It is projected that the four theaters will have six to eight month schedules with the sales ratio being 60 percent of all seats in the house. In New York typically 70 percent of all seats are sold over a twelve-month period. Ticket prices for the Saenger are estimated to be $50 per ticket; $40 for the Loew's; and $30 for the Orpheum and Joy.

The theater district will complement the existing tourist industry, providing more reasons for conventioneers to want to come to New Orleans, enticing families to stay extra nights, augmenting the attractions already attractive to cruise ship companies, and simply providing yet another reason to visit the city. The shows can correspond with other major events, like the music festivals, annual sporting events, and other cultural activities. The district will be a new attraction for students and will help attract a distinctly different kind of tourist and resident. Ultimately, in order to achieve success, Broadway South must attract new tourists and it must witness a net increase in tourists. It cannot rely on the existing tourist base to alter their present activities.

The business plan calls for 1,223,040 seats to be sold each year at the low range of estimates and 1,599,360 at the high range. All estimates for theater receipts, expenditures, and generated tax credits were based on the low range of estimates (sixty percent of seats sold over six months; the high range extends this to eight months). The local market, defined as the New Orleans Metropolitan Area with a population of just over 1,000,000, is simply not large enough to support such a theater district. Even if the local market is expanded to include the Baton Rouge Metropolitan Area with its approximately 800,000 persons and all parishes to the east of East Baton Rouge and north of the New Orleans Metropolitan Area, this market could not support the theater district being proposed by Broadway South. This expanded market place will have less than 2,000,000 persons.

From a financial perspective Broadway South cannot be a program aimed at providing cultural events to the local population. Broadway South must encourage people to visit New Orleans for these shows. The local population will be encouraged to participate in the various shows. Broadway South is an ambitious program that, by its success, will energize the entire New Orleans Metropolitan Area and, in turn, the state of Louisiana.

Meeting the seating goal of 1,223,040 to 1,599,360 participants during the shows means that an estimated 611,520 to 799,680 consumer units will be visiting New Orleans since most theater patrons will come with a spouse or friend. It is estimated that, at least, 80 percent of these theater patrons will be from outside the New Orleans and Baton Rouge area. The New Orleans area has 489,216 to 639,744 new consumer units spending their dollars on hotel rooms, restaurants, entertainment activities, everyday shopping, rental cars, and so on. On average, each consumer unit spends about $675 per stay according to the **2004 Update Louisiana Tourism Satellite Account.** This suggests net new spending in the New Orleans area of between $330 million to $432 million that serves as the economic input that initiates re-spending in other parts of the New Orleans economy.

The economic impact of this increased tourist activity in the New Orleans area is summarized in Table 16. This ongoing tourist activity will lead to business activity of over $605 million to $793 million; almost 8,000 to over 10,000 new jobs; and household earnings of $190 million to almost $250 million. These jobs will be spread around the economy, including accommodations, arts and entertainment, food services, retail trade, financial services, and other personal services. These jobs are permanently supported by the enhanced tourist trade due to the theatrical productions being performed in the theaters in New Orleans. These are net new jobs in addition to the jobs created because of the direct expenditures by the productions of the shows.

The economic activity associated with the augmented tourist trade due to the ongoing theatrical productions will generate increased household earnings and more jobs, but it will also generate state tax receipts of almost $12.5 million to $16.5 million and local tax receipts of about $8.4 million to $11.0 million. State and local tax collections will increase by $21 million to $28 million each and every year due to the amplified tourist trade reacting to the enhanced tourist attractions. The economic impact of the ongoing activity of an improved tourist trade is summarized in Table 16.

Table 16
Summary of Economic Impact of Increased Tourist Activity Due to the Theatrical Productions Associated with Broadway South (net increase in spending ranges from $330 million to $432 million)

Economic Activities	Estimated Economic Impact
Business Activity	$605 to $793 million
Household Earnings	$190 to $249 million
New Jobs Created	7,846 to 10,283 jobs
State and Local Tax Collections	$21.0 to $28.0 million

Net Fiscal Impact of State Tax Credits for Live Productions

The state, by offering infrastructure tax credits associated with rehabilitating theaters and production tax credits associated with the production of the performing arts, will play a vital role in encouraging Broadway South to become an economic reality in New Orleans. The state views these tax credits as an investment—the economic activity related to the economic input of the live performances will create more state tax collections than the reduction in state collections due to the state tax credits. The state tax credits and projected revenues related to economic activity connected to the theater and other live performances are illustrated in Table 17 with economic activity being defined by the low range estimates.

In Table 17 the additional tax revenues, yielded by new economic activity connected to production and the additional state tax collections attributed to an increase in tourism, exceed the tax credits provided by the state by the first year of productions. This is true because the financial viability of the shows depends on having an increase in the number of visitors to New Orleans. The tourist impact assures the state's investment will be repaid. The state gains revenues each and every year after the initial investment in infrastructure rehabilitation. Over time as the industry grows in Louisiana the state's net gain in state tax collections will grow. By 2013 it is estimated that the state will be receiving twice as much in tax collections per year as it is providing in state tax credits.

Table 17
Employment Associated with Theater and Event Productions
Employment, Income, and Taxes Related to Theater Industry
Six Months of Shows and Performances

Year	Infrastructure Tax Credit (millions)	Production, Labor, and Transportation Tax Credits (millions)	Total Tax Credits (millions)	State Revenues: Theater Activity (millions)	State Revenues: Net New Tourists (millions)	Tax Credit Recovery Ratio
2008	$5.4	$0.0	$5.4	$1.0	$0.0	18.5%
2009	$0.0	$11.4	$11.4	$1.9	$12.5	126.3%
2010	$0.0	$11.2	$12.2	$3.8	$12.5	133.6%
2011	$0.0	$11.5	$11.2	$6.0	$12.5	165.2%
2012	$0.0	$10.6	$11.1	$8.6	$12.5	190.1%
2013	$0.0	$10.6	$11.1	$10.3	$12.5	205.0%

Source: author

These estimates will be even more favorable to the state if the theater attendance hits the eight months of shows or even nine months of shows with attendance approaching 70 percent of capacity, as opposed to only 60 percent of capacity. The estimates are based on using only a small part of the existing capacity. There is ample room for the industry to grow without any additional investments in the theater infrastructure.

The development of a theater district along Canal Street in New Orleans will lead to a net gain in state tax collections even allowing for an attractive tax credit program that will assist in attracting the productions necessary to make the program successful. By itself the development of the theater district is a positive gain for New Orleans and Louisiana. The development of the theater district has other very positive dimensions for New Orleans – it will improve an already important and successful tourist industry, and it creates another dimension to the cultural appeal of New Orleans. It will add to the charm and character of New Orleans and serves as a method of attracting an absolutely new industry to the region and state.

VII. Dynamic Impact on the New Orleans Economy: Building on the Old and Creating an Environment for the Absolutely New

The development of a regional theater district in New Orleans will have several positive effects that cannot be quantified at this point. These effects are real, but it is impossible to put numbers on the potential developments or to put a time dimension on these developments. However, these dimensions of Broadway South will probably dwarf the quantification of the benefits that can currently be demonstrated.

First, as stated previously, Broadway South will only be successful as a private venture if it augments the tourist industry in New Orleans. The energizing of the tourist base in New Orleans will also add to the growth in hotels, restaurants, retail establishments, and other service-related industries. These developments will add new construction to the region and ultimately a larger tourist base than the region had pre-Katrina. As an example, in the vicinity of the theater district, several hotels are struggling to map out their future. A thriving theater district will make their decisions simple. Hotel space close to the theater district will be valuable.

Second, Dr. Richard Florida argues that a new group of workers are emerging—a group of workers he refers to as the *Creative Class*. Florida defines the Creative Class as anyone whose job requires them to produce new ideas, new technology and/or creative content. The Creative Class includes people in engineering and science, architecture, education, music, arts and entertainment. This creative class will include brand new entrants into the labor force and also retrained members of the so-called "Old Economy."

Florida's findings are supported by other organizations and groups committed to urban renewal and strategic economic development. In June of 2002, the Greater Washington Initiative, a coalition of government and business executives, released a study that highlighted the importance of culture to the Washington DC metropolitan area's attractiveness. Similarly, according to the National Governors Association (NGA) cultural arts are "a potent source for economic development" and contribute to "a region's innovation habitat" by improving the quality of life and making the city and state more attractive to highly desirable knowledge-based employees. NGA cites cities such as Philadelphia, Charleston and Newark, which "have used the creation of arts districts as centerpieces in efforts to combat increasing crime and suburban flight by restoring vitality to downtown areas."[9]

States can talk about attracting the "New Economy," the knowledge based industries. Ultimately, the placement of such industries in a city is based on decisions made by individuals and these individuals react to the cultural attractiveness of a city. A well-developed cultural district will serve as a magnet in attracting such young professionals and artists. New industries will develop. It is impossible to project what that industry or those industries will be. The dynamics of the development of the Louisiana economy will take an entirely new projection—one that no can outline today.

Louisiana has a rich tradition in music, dance, food, and culture. Broadway South is just the next step in expanding the attractiveness of Louisiana as a top travel destination, a great place to live, and a terrific place to locate a business.

[9] Natasha Hamilton, Candidate for Master in Public Policy, John F. Kennedy School of Government, Harvard University, April 11, 2007. The title of her proposal was **Business Plan: The Redevelopment of Canal Street: Creation of a Performing Arts District.**

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