Film & Visual Media in Austin

prepared for

The City of Austin

July 23, 2004

TEXAS PERSPECTIVES INC.

1310 South First
Austin, TX 78704
512-328-8300
www.txp.com

Table of Contents

Summary…………………………………………………………..………………………. 3

Introduction……………………... 7

Section 1 – The Current Economic and Fiscal Impact of Film in Austin……….. 9

Section 2 – Visual Media Initiatives Elsewhere……………………………..……. 13

Section 3 – Findings and Recommendations.. 15

Conclusion……………………………………………………………………………. 19

Appendix 1: Detailed Economic Impact Information…………………………….. 20

Appendix 2: Review of Selected Regions

- California………………………………………………………………………. 23
- Illinois…………………………………………………………………………. 25
- Louisiana……………………………………………………………………….. 26
- North Carolina………………………………………………………………… 28
- New Mexico……………………………………………………………………. 30
- Canada………………………………………………………………………… 32

Appendix 3: Partial List of People Interviewed.…………………………..……….... 38

Summary

Introduction

- Austin's film industry benefits from a number of distinct advantages: geographic diversity, a deep pool of talented crew members, several well-known, locally-based directors, and a handful of major film festivals. The strong presence of related creative sectors, resources available from the University of Texas, and the area's famous quality of life further add to the desirability of the region.

- Statewide production budgets for films, television productions and commercials, and corporate and sports production totaled $2.8 billion from 1993-2003. Since 1999, 56% of the total film dollars spent in Texas have been spent in Austin. 2003 was a record-breaking year for the city, as the $192.7 million spent on film production locally represented 84% of the dollars spent statewide.

- Even with these distinct advantages, the burgeoning market in entertainment production has created intense competition among regions in the U.S. and Canada. "Runaway productions" (projects targeted at a particular audience but produced elsewhere) are a major concern, and various communities have responded with inducements to reduce production costs. These can include tax incentive packages, wage concessions, and subsidies.

Economic and Fiscal Impacts of Film in Austin

- In 2003, $192.7 million of film production occurred in Austin, and an estimated $15.1 million worth of commercials were made. Along with $9.3 million from film festival tourism in the same year, these three aspects of the film industry accounted for $217.1 million of direct economic effects.

- The total economic impact of the visual media in Austin in 2003 is summarized in the following table. These numbers are the sum total of direct effects (direct spending), indirect effects (amount of new sales generated by regional business to support direct activity), and induced effects (increased spending by regional households).

	Film Production	Film-Related Tourism	Commercial Production	Total Visual Media Impact
Economic Activity	$322,976,881	$13,178,077	$23,449,925	$359,604,883
Labor Compensation	$88,610,113	$4,138,012	$9,153,927	$101,902,052
Employment	3,059	206	248	3,512
City Tax Revenue	$975,941	$76,319	$285,661	$1,337,921

- As shown above, the visual media industry accounted for over $359 million in economic activity for the Austin area. The industry also accounted for just under $102 million of economic effects due to labor compensation (the value of all compensation received by employees) and generated activity to support 3,512 permanent jobs. The City of Austin realized over $1.3 million in total tax revenue as a result of local visual media.

Film Initiatives Elsewhere

- Regions that are considered at the forefront of aggressively pursuing visual media production have all taken certain common steps. These include the adoption of wage and tax concessions, which must be balanced against the additional revenue and economic impact visual media brings to an area. In order to compete, 24 states have waived or significantly reduced their State Sales and Use Taxes for qualifying productions, and oftentimes local hotel taxes are foregone as well when a production team will be in town for an extended period of time.
- Nationwide in 1997, motion picture and video production generated more than $20 billion in sales revenue, met payrolls approaching $5 billion, and employed almost 84,000 persons. California dominates the industry in all of the above categories, but has seen its position erode in recent years from increasing competition.
- Three interrelated key parameters are considered by a prospective filmmaker when considering a production location. The first is location characteristics, including topography, urban, suburban and rural profiles, unique buildings, etc. The second key parameter is talent and suppliers; to reduce costs, producers rely on the selected location to provide ancillary support, including technical personnel directly involved in production and the supporting companies that feed and house filmworkers and assist in post-production.
- The final parameter considered by filmmakers is cost considerations and the “working environment.” This includes financial inducements offered by governmental entities, differences in wage and price levels, and exchange rates between countries. In addition to cost, however, the quality and scope of available facilities, as well as a community’s perceived “film-friendly” status are vital and can make a significant difference.
- Successful regions act as facilitators for local and out-of-area production companies through publicly or privately operated film commissions or agencies. These commissions offer one-stop shopping for services such as permitting, local selection, linking with local talent, etc. Stable funding for these programs is vital to their success.
- Successful regions are also proactive. They have Hollywood representatives who market their region to producers and directors, and are able to mobilize third-party resources for any given production, thereby alleviating concerns of non-local producers. These regions also make publicly owned property available to production companies, either free or at a nominal cost, thereby generating tax revenue not previously realized.
- Successful regions preserve and cultivate the local human and physical infrastructure by coordinating with local educational institutions and professional organizations to provide targeted training programs designed to assure an adequate supply of local support personnel. This can include curriculum development, tuition support and financial incentives for production companies to employ trainees at both entry and advancement levels.

- Lastly, most successful regions look at financial incentives as a last resort, to some extent. Most have location characteristics and local support infrastructure that are state-of-the-art, and do not feel obligated to match or exceed incentives offered by competing areas (such as Canada).

Major Findings and Recommendations

1. The economic impact of visual media, as with many creative industries, extends beyond the calculations. As a place that appreciates creativity in a variety of forms, Austin is well-positioned to appeal to the "creative class." Film-related activity adds to Austin's cachet and helps to attract and retain talented people.

2. Although the playing field tilts in Austin's favor on many of the factors that determine where films are produced, Austin does not have the direct financial incentives available in some competitor regions. However, continued investment in the film-related "infrastructure" of Austin will help offset the relatively low level of available incentives.

3. Staff at Austin Studios at the old Robert Mueller Airport site believe that the average volume of film production could decline as much as 35-40% over the next five years without upgrading one or more studios with soundproofing and air conditioning. Over these five years, the lost business from the current baseline would total just over $146 million. Upgrading one of the smaller of the five studios would cost approximately $1 million, and upgrading two studios (the second being slightly larger) would cost approximately $2.2 million.

4. The working environment for film production in Austin, while not necessarily an impediment, could be improved. Film industry stakeholders perceive the City of Austin as not especially welcoming, in part because of the fragmented nature of the interaction with a variety of City departments. Whether or not this belief is valid is almost beside the point – in an industry where perception is reality and word of mouth is especially important, a reputation of being hard to work with could easily have negative consequences.

5. The competitive environment will remain heightened for the foreseeable future. As a result, Austin should be as proactive and coordinated as possible in marketing itself to the visual media community. With many other states and communities ramping up their efforts to attract the film industry, it would be a mistake to take Austin's recent success for granted. The advantages of filming in Austin need to be clearly communicated and understood; therefore, resources should be devoted to marketing and relationship-building.

Additional Recommendations

6. The complex, multi-departmental nature of visual media production's interaction with the City warrants a single "functional" point of contact, as well as a designated person in the City Manager's office as a backup.

7. The City's website could serve several visual media purposes, including providing a promotional venue for locally-produced clips, having a special section facilitating functional interaction between a film production and the City, and providing a list of visual media related resources.

8. City shared investment policy could support visual media in several ways, including direct support for private production facilities and the inclusion of funding for film and visual media in the "public good" category of new developments.

9. The City should attempt to serve a catalytic role in the development of visual media in Austin. This could take several forms:

   - helping to facilitate meetings between film-related companies, technology-related companies, digital and video gaming-related companies, animation companies, and special effects companies to look for synergy;
   - coordinating the efforts of various organizations that seek to enhance local visual media, including not-for-profits, educational institutions, ACVB, and the Greater Chamber, and others;
   - taking the lead in working to secure additional funding from other sources, including the state and federal government, as well as corporate and charitable giving; and
   - work with various education providers to make sure that the workforce of Austin meets the needs of the visual media industry.

Introduction

The buzz on film in Austin reached a new level earlier this spring, as *Moviemaker* magazine's designation of Austin as the best place in the U.S. to make films caps off a record year for local film production. *Moviemaker* was positively glowing in its assessment:

> If it's not careful, Austin may wake up one day to discover it's become the new Mecca of American moviemaking. Or has that day already arrived? Inching up on our list for four years in a row, it seemed only a matter of time before the City of the Violet Crown wrangled the top spot. What's so amazing is that Austin is still in its indie film production infancy, at least compared to long-established moviemaking megalopolises like Los Angeles and New York.

The magazine went on to identify the primary advantages Austin offers film production. One of the foremost was the tremendous diversity of potential locations within a 30-mile radius of downtown. "Austin is geographically diverse, and rife with aesthetic appeal. It provides moviemakers with a variety of looks, all within a relatively small area—from grassy flatlands and rivers to deserts and hills . . .what it can give you is a slew of surrounding small towns, a number of which are great for period pieces; others are ideal for representing Any Town, USA." The deep pool of talented crew members was also cited, along with the presence of several well-known locally-based directors who prefer to work in Austin. In addition, Austin is home to several major film festivals, including South by Southwest and the Austin Film Festival (and a number of smaller events as well). When the strong local presence of other related creative sectors (such as commercial production), resources available to the creative community at-large (including UT), and the area's famous quality of life are worked into the equation, its no surprise that Austin has become a highly desirable place for the indigenous and visiting film industry.

Visual media has a long track record in Austin and Texas as a whole, with the Texas Film Commission reporting that more than 1,000 pictures have been made here since 1910.[1] Working with filmmakers since 1971, the Commission indicates that total statewide production budgets for the categories of visual media it tracks, including studio feature and independent films, television productions and commercials, and corporate and sports production, totaled $2.8 billion from 1993-2003. Austin has been fortunate to receive a disproportionate share of this activity, as just over 56% of the total film dollars spent in Texas since 1999 have been spent here. As mentioned above, last year was record-breaking, as the $192.7 million spent on film production locally represented 84% of the dollars spent statewide. While the impact of *The Alamo* and its $100 million budget tends to distort these figures, it seems clear that Austin has become the film capital of Texas.

While Austin's competitive position on film has perhaps never been stronger, the future is by no means secure. The visual media industry has been revolutionized over the past several

[1] See the Texas Film Commission's website (http://www.governor.state.tx.us/film) and the Austin Convention & Visitor's Bureau website (http://www.austintexas.org/mfo_film.html) for more information on current state and local activity.

decades, as cable and direct satellite technologies have exponentially increased the number of channels (“distribution outlets”) available to consumers and producers alike. The advent of digital image-capturing technologies has significantly reduced the cost of making digital videos that rival or match the quality of 35-millimeter films. Partially as a result, there is now a burgeoning market in entertainment production, resulting in heated competition between communities, states, and regions in the U.S., Canada, and elsewhere to attract filmmakers to their area. This competition is not limited to the relatively small number of big-budget films produced annually by the U.S.-based visual media industry, but extends to the downstream aspects of filmmaking, as communities vie to be able as to provide the ancillary technical support services, infrastructure and reduced costs for production projects of all types, sizes and durations, whether produced by domestic or international concerns.

A significant concern of the U.S. film industry today is the problem of “runaway productions.” These are visual media projects – films, commercials, television shows, etc. – that, while primarily targeted at a domestic audience, are produced elsewhere for either creative or economic reasons. At the national level, Canada has managed to siphon off a substantial number of production projects over the last decade by offering economic inducements to producers on a breadth and scale typically unavailable in the U.S., and Australia has followed Canada’s lead. These inducements include both tax incentive packages and wage concessions or subsidies to reduce production costs. Actual estimates of the direct and indirect losses to the U.S. economy from these runaway productions vary widely, but there is no doubt that they have been substantial.

Within the U.S. itself, more and more states and cities are setting their sights on carving out a piece of the visual media production pie historically dominated by California and, to a much smaller extent, New York. In light of this increasingly competitive environment, it is crucial that Austin maintain its focus on growing its local visual media industry. To that end, step one is a developing a benchmark understanding of just what it means to the community - while it is evident that film is vital to Austin, the nature and scope of its role in the local economy is not clear. As a result, the first section of the report is devoted to measuring the economic and fiscal impact visual media has on the local economy. The second section reviews relevant economic development efforts underway elsewhere, with an emphasis on the public sector. Once the current status and context are set, section three integrates this information with insight gleaned from numerous local stakeholders to generate overall findings and recommendations aimed at protecting and enhancing Austin’s visual media industry.[2] The report’s conclusion forms the final section.

[2] For purposes of this study, visual media includes film, television and TV commercial production, and film festival tourism. It does not include games or other forms of visual entertainment.

Section 1 – The Current Economic and Fiscal Impact of Film in Austin

The economic impacts of film and visual media in Austin are far-reaching and dynamic, as "visual media industry" is an umbrella term under which many apparently unrelated activities could fit. Education is a good example, as most of the institutions of higher learning in the Austin area offer classes related to film, meaning that those who teach these classes are, in the largest sense, in the film industry. By the same token, movie theaters all over town employ people to take tickets and sell popcorn to patrons who have come to watch films.

For purposes of this analysis, the local visual media industry is defined as film and commercial production and film festival tourism. In contrast to consumer-driven industries such as local movie theaters, each of these segments is an area where Austin is in active competition with other cities, and each represents a net injection of funds into the local economy.

In addition to the $192.7 million of film production that occurred in Austin during 2003, the Film Commission estimates that approximately $100 million worth of commercials were shot last year in Texas. While city-specific information is not available, Austin is home to just over 15% of those working in advertising in Texas. Using this information, it is estimated that $15.1 million worth of commercials were made in Austin in 2003. Finally, data on attendance and spending patterns at South by Southwest and the Austin Film Festival, along with input from other festival organizers, were used as the basis of estimating the overall level of 2003 film festival tourism at $9.3 million.[3] These three estimates were used as inputs into the economic impact model.[4]

Economic Impact Methodology

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: 1) Direct; 2) Indirect; and 3) Induced.

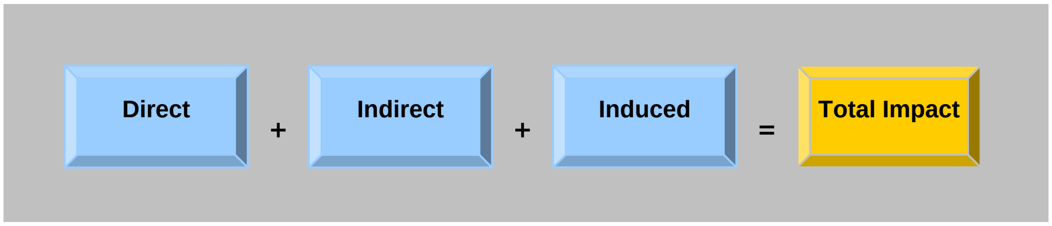
1. Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.
2. Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output due to the increased investment. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

[3] The film portion of South by Southwest and the Austin Film Festival were estimated to account for 75% of the film festival tourism annually in Austin. Overall, there at least 10 local film festivals each year.

[4] The IMPLAN model of the Travis County economy was used as the basis of the economic impact analysis, although the specific information on the actual level of local spending was used to validate and calibrate the results. For example, approximately 45% of each film's production budget is spent in the local economy, with two-thirds of that spending going for direct wages. This information was also helpful in calculating the fiscal impact, in that different sectors have different initial tax impacts.

3. Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent by them in the local economy.

Figure 1: The Effects of an Initial Change in Economic Activity



An economy can be measured in a number of ways. Three of the most common are "Output," which describes total economic activity, and is equivalent to a firm's gross sales, "Labor Compensation," which includes the value of all compensation received by employees, and "Employment," which refers to permanent jobs that have been created in the local economy. In order to provide an accurate basis of comparison, all dollar-denominated results are expressed in constant 2003 figures. The interdependence between different sectors of the economy is reflected in the concept of a "multiplier." An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every $1,000 injected into the economy, another $400 in output is produced in all sectors.

The statewide results of running the increased spending levels through the IMPLAN model are delineated in the following tables, with detailed information for each region provided in the Appendix. The statewide data in each table is divided into four main categories:

- **Direct Effects** – direct spending in each category
- **Indirect Effects** – amount of new sales generated by regional business to support direct activity
- **Induced Effects** – increased spending by regional households
- **Total Impact** – aggregate impact on the region

More detailed segment-specific results are provided in the Appendix 1.

The Total Economic Impact of Visual Media in Austin

Table 1: Summary

	Film Production	Film-Related Tourism	Commercial Production	Total Visual Media Impact
Economic Activity	$322,976,881	$13,178,077	$23,449,925	$359,604,883
Labor Compensation	$88,610,113	$4,138,012	$9,153,927	$101,902,052
Employment	3,059	206	248	3,512

Combining the results from three model simulations indicates the scope of the measurable economic impact of visual media in Austin. The results of the model simulation indicate that $216.4 million in direct economic activity translates into a total of $359.6 million, implying a overall multiplier of 1.66. The labor compensation and employment patterns are similar, as $58.6 million in direct activity yields total earnings of $101.9 million, while direct employment of 2,014 creates an additional 1,498 positions for a total employment impact of 3,512 jobs. The following tables provide a detailed breakdown by sector of the economy for each of these areas of economic impact.

Table 2: Total Economic Activity by Sector

Texas Total	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$152,771	$457,084	$609,855
Construction	$0	$1,003,993	$488,755	$1,492,748
Manufacturing	$0	$3,751,130	$2,924,320	$6,675,450
Transportation & Utilities	$0	$12,887,472	$3,583,785	$16,471,257
Wholesale Trade	$0	$2,462,842	$4,254,516	$6,717,358
Retail Trade	$235,725	$877,640	$8,290,469	$9,403,834
Finance & Real Estate	$0	$7,284,318	$9,726,017	$17,010,335
Services	$216,162,692	$58,779,047	$23,514,877	$298,456,616
Government/Miscellaneous	$568	$1,179,348	$1,587,514	$2,767,430
TOTAL	$216,398,985	$88,378,561	$54,827,337	$359,604,883

Table 3: Total Labor Compensation by Sector

Texas Total	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$15,963	$40,793	$56,756
Construction	$0	$370,922	$176,061	$546,983
Manufacturing	$0	$1,049,135	$589,717	$1,638,852
Transportation & Utilities	$0	$3,639,498	$901,562	$4,541,060
Wholesale Trade	$0	$888,801	$1,535,388	$2,424,189
Retail Trade	$113,286	$372,060	$3,401,295	$3,886,641
Finance & Real Estate	$0	$1,127,214	$1,985,355	$3,112,569
Services	$58,468,156	$17,617,365	$9,004,223	$85,089,744
Government/Miscellaneous	$237	$249,122	$355,899	$605,258
TOTAL	$58,581,679	$25,330,080	$17,990,293	$101,902,052

Table 4: Total Employment by Sector

Texas Total	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	0	2	5	7
Construction	0	12	6	18
Manufacturing	0	25	12	37
Transportation & Utilities	0	82	24	106
Wholesale Trade	0	9	17	26
Retail Trade	6	17	154	177
Finance & Real Estate	0	50	67	117
Services	2,009	621	384	3,014
Government/Miscellaneous	0	5	7	12
TOTAL	2,014	821	677	3,512

Fiscal Impacts

The visual media industry also supports local governments in the Austin area. In addition to applicable transaction taxes that occur with tourism and retail trade, the economic activity associated with film also helps to support both firms and individuals who pay property taxes. At the same time, the ripple effects (the indirect and induced impacts outlined in the tables above) will also generate revenue; an increase in household expenditures, for example, flows through to the tax base as well. The following table summarizes the fiscal impacts.

Table 5: The Fiscal Impact of Visual Media in Austin

	Direct	Indirect	Induced	Total
Film Production	$193,673	$277,191	$505,078	$975,941
Commercial Production	$15,145	$21,676	$39,497	$76,319
Festival Tourism	$249,132	$12,944	$23,585	$285,661
Total	$457,950	$311,811	$568,160	$1,337,921

Section 2 – Visual Media Initiatives Elsewhere

The purpose of this section is to generally discuss the actions taken and incentives offered by those governmental entities considered to be at the forefront of aggressively pursuing visual media production. Appendix 2 provides a more detailed review of these regions individually. Regardless of the level of government involved, they have all taken certain common steps. Foremost among these is the adoption of wage and tax concessions targeted at the visual media production industry. The level of these fiscal incentives must be balanced against the additional revenues and economic impact visual media production projects can be expected to bring to the area. In order to compete in this growing economic sector, 24 states have waived or significantly reduced their State Sales and Use Taxes for qualifying visual media production companies or individuals. Local hotel taxes are also often foregone when the production team will be in town for an extended period of time.

Key Parameters

There are three main – and highly interrelated – parameters a prospective filmmaker considers in determining where to base production:

- ***Location Characteristics:*** Some areas can simply get by on their looks – topography; urban, suburban and rural profiles; unique buildings, etc. The basic tradeoff here is between the artistic vision and the costs of producing something at least close to it on the screen.
- ***Talent and Suppliers:*** If only for budgetary reasons, the typical production company look to minimize the involvement of outside creative and high-level technical and, to a lesser extent, artistic personnel, and rely on the selected location to provide ancillary support, including technical personnel directly involved in production and the supporting companies that feed and house filmworkers as well as assist in post-production.
- ***Cost Considerations and the "Working Environment.":*** A given production dollar can buy more or less services and supplies, depending on where it is spent. This is both a function of exchange rates between countries and differences in wage and price levels between and within countries. Governments at all levels can also tilt the financial scales when comparing one area with another by offering targeted financial inducements. By the same token, the quality and scope of available facilities, as well as the interface between a film production and the local public responsible for direct oversight (permitting, street closure, etc.) can make a significant difference a community's perceived "film-friendly" status.

Regions that have been successful in attracting and retaining visual media business have recognized the interdependency of these three factors. Governments have only limited control of the physical/geographical characteristics of the environments over which they exercise jurisdiction, but they can directly influence the availability of crew and suppliers as well as shape the environment in which a production would operate.

Each of the areas reviewed has also sought to cultivate local support industries vital to this sector, and to showcase other community attributes likely to be of interest to domestic and foreign filmmakers – historical buildings and neighborhoods, unique geographical attributes and attractions, and the like.

Lessons Learned from Other Regions

There is, of course, no guaranteed formula for developing and sustaining a healthy visual media industry in any given political jurisdiction. However, areas which, year in and year out, are successful in hosting significant numbers and scales of production projects do some things in common. These efforts all involve the three primary and interdependent areas of interest to prospective filmmakers discussed earlier: location characteristics, physical and human infrastructure, and financial incentives.

First and foremost, successful areas are facilitators for local and out-of-area production companies. They have publicly or privately operated film commissions or agencies which offer one-stop shopping for services such as permitting, location selection, linking with local creative and technical talent, and troubleshooting once production has begun. Stable funding for these organizations is critical to long-term success. Producers who have positive experiences in the area in terms of getting their creative visions on film are much more likely to come back for future projects. Coordination with local fire and public safety departments is often required to achieve this objective, and this requires communication with these groups on a regular basis.

Successful areas are also proactive. They recognize that Hollywood is the center of this particular universe, and will continue to be so for the foreseeable future. Accordingly, they have Hollywood representatives – permanent or periodically visiting – who keep tabs on what is going on in the industry in terms of emerging projects, “schmooze” with the producers and directors who determine where to shoot their films, and identify projects that their home region could support. They are able to mobilize third-party local resources to confirm the suitability of their region for any given production and assuage the concerns of non-local producers.

Many areas have publicly-owned property readily available to production companies, either free or at nominal cost. This often turns out to be a win-win situation, where stagnant properties on the public rolls that currently generate no tax revenue are upgraded by production companies, subsequently becoming economically attractive once the shoot is wrapped, and can then be sold to private investors or individuals with little public money being involved in the upgrade. Local governments have frequently seen property improvements that have cost them as little as 10 cents on the dollar through the incentive programs they offer. The increase in re-sale value often far exceeds the cost of these incentives.

Preservation and cultivation of the local human and physical infrastructure is critical. Prosperous filmmaking jurisdictions coordinate with local educational institutions and professional organizations to provide targeted training programs designed to assure an adequate local supply of support personnel. These efforts include curriculum development, tuition support, and financial incentives for production companies to employ trainees at both the entry and advancement levels. As part of the inventory process leading to production and updating of a film directory, regions also can identify properties that can be easily and at low cost upgraded to conditions that would make them useful to production firms.

Financial incentives are presently at center stage because of the lead set by Canada which produced a tidal wave of runaway productions in the 1990s. Successful jurisdictions look at incentives as a last resort, to some extent. They have location characteristics and local support infrastructure that are state-of-the-art, and do not feel obligated to match or exceed incentives offered by competing areas.

Section 3 - Findings and Recommendations

Major Findings and Recommendations

1. **The economic impact of visual media, as with many creative industries, extends beyond the calculations.**

There is no doubt that film and film-related activity make a very positive contribution to the Austin area economy, as the total impact extends into the hundreds of millions of dollars annually, while supporting thousands of jobs. That having been said, the non-measurable impacts may be even greater. Much energy and effort in the recent past has gone into analyzing the reasons that the "creative class" finds Austin so appealing, with the widespread availability of unusual and/or indigenous visual media clearly a major piece of the puzzle. Austin is a place that appreciates creativity in a variety of forms, and the incredible diversity of local film activity (including both production and appreciation) undoubtedly serves to both attract and retain talented people.

The other area where visual media has an influence on the economy is in promoting the community to the outside world - to the extent that Austin is shown in the locations where films are shot, the "brand" of the community is enhanced.

2. **While the playing field tilts in Austin's favor on many of the factors that determine where films are produced, Austin does not have the direct financial incentives available in some competitor regions.**

As mentioned above, the main factors that determine how attractive an area is for film production are locations, talent (especially crew), costs, and work environment, which includes the interaction with the local public sector. By all accounts, Austin is well-positioned on the first two. In addition, there are several unique assets that often times make Austin first among equals, not the least of which is the fact that both talent and decision-makers seem to genuinely enjoy taking advantage of the area's lifestyle amenities while in town. UT is another significant element, both in terms of the resources it offers and its ability to attract talented students who then find ways to live and/or work in Central Texas. For example, the Burnt Orange initiative, where the University has taken the lead in creating an ongoing independent film production capacity, is both innovative and unique, and is an indication of "outside the box" thinking that promises to serve the community well in coming years. Meanwhile, the commitment of UT graduates (several of whom are well-know in the industry) to pursue their craft here whenever possible is not an accident, as they are echoing the desire of many who attend UT to never leave town. In many ways, this ongoing pool of talent may be one of the Austin's strongest visual media assets.

The picture changes somewhat when cost considerations are put into the mix. When compared with urban areas such as Los Angeles and New York, Austin stacks up pretty well on basic costs, and the strong locally-based crew and talent can reduce travel expenses. On the other hand, the direct financial support available is more limited than in many other parts of the world. A number of areas have essentially tried to buy film production "market-share" in recent years through generous incentives, with mixed success. Typically, an aggressive incentive program (which may or may not make financial sense for those offering the inducements) will attract some initial attention, and a number of productions will shoot in that area. However, it is tough to sustain a film production presence based on costs alone; cost savings might get a film to come, but a successful overall experience is what generates repeat business and positive word-of-mouth. At this point, there is yet to be a community in the U.S. that has successfully transitioned from using lower costs as an inducement to establishing a mature visual media infrastructure that will be attractive on an ongoing basis.

Austin and Texas in general are not especially competitive when it comes to the provision of direct financial incentives to the visual media industry. There are a number of reasons for this situation, not the least being the structure of the state and local tax code. Unlike many other states (and localities), Texas has a fairly low overall tax burden, mitigating some of the need for incentives. By classifying filmmaking as a manufacturing industry, Texas does offer at least partial exemption from sales taxes related to visual media production, and exemptions are offered from hotel/motel taxes for extended stays. However, the Texas Legislature has not chosen to go significantly beyond this point in offering inducements, although a visual media production facility in theory could be eligible for support from the Texas Enterprise Fund.

3. Continued investment in the film-related "infrastructure" of Austin will help offset any incentive and cost-related disadvantage.

Four years ago, the visual media infrastructure of Austin was perceived to be have been significantly upgraded with the opening of Austin Studios at the old Robert Mueller Airport site. There is no question that the Studios have been successful to date, with demand often being greater than available capacity. In an industry that is very much about "what have you done for me lately," however, the shortcomings of the facility are beginning to cause concern. Specifically, the Studios are neither soundproofed nor climate controlled, leading some to refer to them as "column-free indoor space."

To date, there have been few consequences of not being able to offer soundproofing or air conditioning. Staff at Austin Studios believe, however, that the situation may change in the near future, as several recent productions have been at least somewhat disappointed with what they found. By way of illustration, the average annual volume of film production since the opening of the Studios has been approximately $122 million. If the Studios are not upgraded, staff believes that the average volume could decline by as much as 35-40% over the next five years, putting annual volume in the fifth year at just over $75 million. Over this period, the lost business from the current baseline would total just over $146 million, with a present value (assuming a six percent discount rate) of $118.9 million. Assuming soundproofing, minimal climate control, and other related upgrades are installed at one studio (at an approximate cost of $1 million), staff believes that the current four-year average of $122 million annually can be at least maintained, effectively adding $146 million and almost 1,300 jobs to the local economy. City tax revenues associated with the difference between the two scenarios would be approximately $723,000, with a present value of $588,000.

A more aggressive investment program would be to install similar improvements at two of the five studios (at a total cost of $2.2 million), making the facility more appealing to larger productions and creating greater flexibility and capacity. Under these conditions, staff believes that the average annual volume of production would increase by about $10 million annually, again effectively adding over five years about $196 million and 1,740 jobs to the economy. City tax revenues associated with the difference between the baseline decline and heightened level of investment would be just under $1 million, with a present value of $796,000.

4. **The working environment for film production in Austin, while not necessarily an impediment, could be improved.**

Over the course of dozens of conversations with stakeholders, it became clear that the day-to-day working relationship between the City of Austin and the visual media industry remains a work in progress. Part of the problem lies in the fragmented nature of the interaction, as a film may end up dealing with a variety of City departments and functions. Nevertheless, the City is perceived by many to be, if not actively unfriendly to film production, not especially welcoming.

Whether or nor this belief is valid is almost beside the point – in an industry where perception is reality and word of mouth is especially important, a reputation as being hard to work with could easily have negative consequences.

5. **The competitive environment will remain heightened for the foreseeable future. As a result, Austin should be as proactive and coordinated as possible in marketing itself to the visual media community.**

While 2003 was a record year for film in Austin, it would be a mistake to take this success for granted. The review of efforts to promote film in other areas indicates that many states and individual communities are ramping up their efforts to attract film production, with many offering incentives that Texas and Austin likely will be unable to match. International currency trends will provide some relief, as the relative weakness of the dollar works to the advantage of domestic production versus Canada or Europe, but many other states are better positioned to provide greater direct financial support.

Austin has advantages that can offset the relatively low level of incentives that can be offered. However, it is crucial that these advantages are clearly communicated, and that the benefits of filming in Austin are well understood. In that light, resources should be devoted to marketing in the broadest sense, with relationship-building a key focus. Whatever marketing initiatives are undertaken should be done in close coordination with all groups that seek to promote film in Austin.

Additional Recommendations

6. The complex, multi-department nature of visual media production's interaction with the City warrants a single "functional" point of contact, as well as a designated person in the City Manager's office as a backup.

Given the complex and fragmented nature of visual media production's interaction with the City, it makes sense for there to be to a single City point of contact to assist with any issue, along with a designated backup at a relatively senior level (perhaps in the City Manager's office or at the Assistant City Manager level) when cases arise that require special attention. That person should also be charged with regularly monitoring other regions to make sure that the City does not fall behind in the effort to keep City processes competitive.

7. The City's website could serve several visual media purposes:

- provide a promotional venue for locally-produced clips;
- have a specific section that facilitates electronic interaction between a production and the City to the greatest extent possible, especially for permitting and payment of fees; and
- provide a list of visual media related resources (talent, "film-friendly businesses," etc.)

Electronic permitting is but one area where a stronger web presence could improve the interaction between the City and the visual media industry.

8. City shared investment policy could include visual media production and exhibition space.

This could be done in several ways. Perhaps the most obvious is inclusion of film production in the list of targeted industries (which it currently is), meaning that any new production facility could potentially be the recipient of a shared investment. Another avenue is to include a fund to support film as part of the list of possible "public goods" that a project developer could include in the calculations base when applying for a shared investment. Similar in concept to the Vignette's proposal several years ago to create a music fund, a developer could get a partial offset on the project's tax bill, while the funds could be used for a variety of purposes.

9. The City should attempt to serve a catalytic role in the development of visual media in Austin. This could take several forms:

- helping to facilitate meetings between film-related companies, technology-related companies, digital and video gaming-related companies, animation companies, and special effects companies to look for synergy;
- coordinating the efforts of various organizations that seek to enhance local visual media, including not-for-profits, educational institutions, ACVB, and the Greater Chamber, and others;
- take the lead in working to secure additional funding from other sources, including the state and federal government, as well as corporate and charitable giving; and
- working with various education providers to make sure that the workforce of Austin meets the needs of the visual media industry.

Conclusions

Film and visual media has come a long way in Austin, as the community has evolved from a center of film appreciation to a place where the production of new media and visual entertainment is increasingly recognized internationally. The recent accolades and surge in activity actually are the culmination of many years of development - as with any developing industry, the local visual media growth curve has not been linear; when critical mass is achieved (as likely happened in the past several years) the rate of growth accelerates rapidly, masking the effort that has gone before. At this point, the fundamental elements necessary for success in film and visual entertainment are in place in Austin, and the community is fortunate to enjoy several unique assets that can only enhance its prospects going forward.

In many ways, the visual media industry in Austin is like the latest hot restaurant – attention to detail, commitment to customer service, and continued investment are what are required at this point in order to sustain the current buzz. Assuming this comes to pass, the hype about Austin being the new film Mecca may well become reality.

Appendix 1: Detailed Economic Impact Information

Film Production

Table 1: Total Economic Activity by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$112,668	$396,709	$509,377
Construction	$0	$883,842	$424,198	$1,308,040
Manufacturing	$0	$3,341,219	$2,538,062	$5,879,281
Transportation & Utilities	$0	$12,299,886	$3,110,419	$15,410,305
Wholesale Trade	$0	$2,127,180	$3,692,558	$5,819,738
Retail Trade	$0	$705,466	$7,195,417	$7,900,883
Finance & Real Estate	$0	$6,557,708	$8,441,359	$14,999,067
Services	$192,700,000	$55,633,914	$20,408,885	$268,742,799
Government/Miscellaneous	$0	$1,029,563	$1,377,828	$2,407,391
TOTAL	$192,700,000	$82,691,446	$47,585,435	$322,976,881

Table 2: Total Labor Compensation by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$13,261	$35,403	$48,664
Construction	$0	$326,477	$152,806	$479,283
Manufacturing	$0	$941,183	$511,827	$1,453,010
Transportation & Utilities	$0	$3,469,966	$782,481	$4,252,447
Wholesale Trade	$0	$767,666	$1,332,586	$2,100,252
Retail Trade	$0	$299,069	$2,952,031	$3,251,100
Finance & Real Estate	$0	$1,006,587	$1,723,117	$2,729,704
Services	$49,422,080	$16,534,418	$7,814,888	$73,771,386
Government/Miscellaneous	$0	$215,377	$308,890	$524,267
TOTAL	$49,422,080	$23,574,004	$15,614,029	$88,610,113

Table 3: Total Employment by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	0	1	5	6
Construction	0	10	5	15
Manufacturing	0	23	11	34
Transportation & Utilities	0	77	21	98
Wholesale Trade	0	8	14	22
Retail Trade	0	13	134	147
Finance & Real Estate	0	45	58	103
Services	1,708	581	334	2,623
Government/Miscellaneous	0	4	6	10
TOTAL	1,708	762	589	3,059

Film-Festival Tourism

Table 4: Total Economic Activity by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$33,552	$19,189	$52,741
Construction	$0	$76,693	$20,518	$97,211
Manufacturing	$0	$178,109	$122,763	$300,872
Transportation & Utilities	$0	$226,358	$150,450	$376,808
Wholesale Trade	$0	$217,590	$178,606	$396,196
Retail Trade	$235,725	$92,842	$348,040	$676,607
Finance & Real Estate	$0	$313,747	$408,298	$722,045
Services	$8,392,651	$1,002,913	$987,183	$10,382,747
Government/Miscellaneous	$568	$105,639	$66,643	$172,850
TOTAL	$8,628,944	$2,247,443	$2,301,690	$13,178,077

Table 5: Total Labor Compensation by Sector

Texas Total	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$1,976	$1,714	$3,690
Construction	$0	$28,433	$7,391	$35,824
Manufacturing	$0	$38,267	$24,760	$63,027
Transportation & Utilities	$0	$62,228	$37,847	$100,075
Wholesale Trade	$0	$78,525	$64,456	$142,981
Retail Trade	$113,286	$39,359	$142,790	$295,435
Finance & Real Estate	$0	$54,658	$83,347	$138,005
Services	$2,627,384	$314,749	$378,008	$3,320,141
Government/Miscellaneous	$237	$23,656	$14,941	$38,834
TOTAL	$2,740,907	$641,851	$755,254	$4,138,012

Table 6: Total Employment by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	0	1	0	1
Construction	0	1	0	1
Manufacturing	0	1	0	1
Transportation & Utilities	0	2	1	3
Wholesale Trade	0	1	1	2
Retail Trade	6	2	6	14
Finance & Real Estate	0	2	3	5
Services	152	12	16	179
Government/Miscellaneous	0	1	0	1
TOTAL	157	21	27	206

Commercial Production

Table 9: Total Economic Activity by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$6,551	$41,186	$47,737
Construction	$0	$43,458	$44,039	$87,497
Manufacturing	$0	$231,802	$263,495	$495,297
Transportation & Utilities	$0	$361,228	$322,916	$684,144
Wholesale Trade	$0	$118,072	$383,352	$501,424
Retail Trade	$0	$79,332	$747,012	$826,344
Finance & Real Estate	$0	$412,863	$876,360	$1,289,223
Services	$15,070,041	$2,142,220	$2,118,809	$19,331,070
Government/Miscellaneous	$0	$44,146	$143,043	$187,189
TOTAL	$15,070,041	$3,439,672	$4,940,212	$23,449,925

Table 10: Total Labor Compensation by Sector

	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	$0	$726	$3,676	$4,402
Construction	$0	$16,012	$15,864	$31,876
Manufacturing	$0	$69,685	$53,130	$122,815
Transportation & Utilities	$0	$107,304	$81,234	$188,538
Wholesale Trade	$0	$42,610	$138,346	$180,956
Retail Trade	$0	$33,632	$306,474	$340,106
Finance & Real Estate	$0	$65,969	$178,891	$244,860
Services	$6,418,692	$768,198	$811,327	$7,998,217
Government/Miscellaneous	$0	$10,089	$32,068	$42,157
TOTAL	$6,418,692	$1,114,225	$1,621,010	$9,153,927

Table 11: Total Employment by Sector

Texas Total	Direct Effect	Indirect Effect	Induced Effect	Total Impact
Agriculture/Mining	0	0	0	0
Construction	0	1	1	1
Manufacturing	0	1	1	2
Transportation & Utilities	0	3	2	5
Wholesale Trade	0	0	2	2
Retail Trade	0	2	14	15
Finance & Real Estate	0	3	6	9
Services	149	28	34	211
Government/Miscellaneous	0	0	1	1
TOTAL	149	37	60	246

Appendix 2: Film Promotion Activity Elsewhere

California

The stakes are high in this competition. As discussed in Section 2, the most recent Economic Census put Motion Picture and Video Production revenues for the U.S. as a whole at more than $20 billion in 1997. Over 70 percent of the direct production revenues were collected in California alone, but other states and countries have made inroads into this market since that time.

Over the past two decades, California has responded aggressively to the problem of runaway productions. The California Film Commission (CFC) was created in 1985, and has evolved into a one-stop shop for filmmakers based in the state or elsewhere. CFC issues permits for state-owned properties and provides production and troubleshooting assistance within California. The State of California offers free permits for state properties and charges no location fees for properties it permits.

Its benchmark incentive program, "Film California First" (FCF), was inaugurated by the California Film Commission in early 2001, and at the time was touted as the only program of its kind in the nation. FCF provided $45 million in incentives over a three-year period for films that are shot on public property. Filmmakers who take advantage of this program are able to use local, state and federal employees and be reimbursed for those costs, and they can benefit from significantly reduced location fees when filming on public property anywhere in the state. Up to $300,000 in reimbursements can be claimed for any single film project. The kinds of costs eligible for reimbursement include:

- State employee costs, including California Highway Patrol, State Park Rangers, University of California, and California State University
- Federal employee costs
- Federal, State, University of California and California State University film permits and public property use fees
- Local public entity costs for fire and public safety (including local police costs as of September 2002)
- Local public property use fees
- Public equipment mandated and owned by a public agency

Within two years of its inception, FCF had reimbursed some $16 million to 2,800 separate film projects, many of which would have left the state in the absence of the incentive. The program proved so popular with the production community that CFC was forced to announce in late February 2003 that it had already spent all the funds it had been allocated for the fiscal year ending four months later. Preliminary data for 2002 showed that beneficiaries of FCF reimbursements spent between $2 billion and $3 billion on productions, the bulk of which went back into the state's economy.

Unfortunately, this innovative – and, by all accounts, highly effective – program appears to have fallen victim to California's current budget woes. Former Governor Gray Davis had proposed allocating $8.2 million to the program for the fiscal year beginning July 1, 2003, but a visit to the program's interactive website (http://www.filmcafirst.com) reveals that Film California First is currently not funded.

CFC also administers the STAR (State Theatrical Arts Resources) partnership. This program makes state-owned properties available to filmmakers at little or no cost. Frequently, this makes available properties that are essentially blank slates on which producers and directors can flesh out their artistic objectives, resulting in the state receiving a much-improved and more valuable property at the end of shooting.

Working together, FCF and STAR certainly seem to have allowed California to attract and retain more production. According to CFC permitting records, the number of total film days shot in the state during the first three quarters of 2002 was up 48 percent over the preceding year, and feature film production days on state-owned properties more than doubled during the same time period.

The CFC offers filmmakers considerable support in finding suitable locations for filming through its Location Resource Center and the online CinemaScout (http://www.cinemascout.org). CinemaScout is a powerful resource that allows users to search a large and growing database of potential sites by attributes, location, and a multitude of other parameters; it includes, but is not limited to state-owned surplus property eligible for the FCF and STAR programs. CFC also serves as a central coordinating agent with some 55 local film offices and commissions throughout the state to facilitate site selection and project initiation.

There are three other types of tax incentives offered as inducements to filmmakers in California:

- There is no state hotel tax on occupancy, and most cities or counties that have a local hotel tax waive the charge for occupancies in excess of 30 days.
- There is no sales or use tax on production or postproduction services on motion pictures or TV films; writing, acting, directing, casting and storyboarding services are also exempted from the sales or use tax.
- The State of California offers a five percent sales tax exemption on the purchase or lease of postproduction equipment for qualified entities.

Governor Arnold Schwarzenegger has also signaled his intention to do what he can to protect the California film industry, even bragging during his campaign that he had personally intervened at the 11th hour to get production of *Terminator 3*, his latest movie, switched from Vancouver to Los Angeles in 2002. He has committed to eventually introducing fiscal incentives to stem the tide of runaway productions, while acknowledging that the current fiscal climate in the state precludes any short-term initiatives. Canadian filmmaking centers are troubled, not just by the new governor's ability to influence the California tax structure – which will likely be minimal until the fiscal crisis is alleviated – but more by his ability to exercise persuasion with other leading actors to get them to insist on filming in the Golden State.

Illinois

In a 2003 report, the Illinois Production Alliance (IPA) painted a dismal picture of the state of the film industry there.[5] Over the past two decades, the Alliance estimated that 57 major films with

[5] *Creating Visual Media in Illinois: A Plan for Sustained Growth 2003 and Beyond,* Illinois Production Alliance.

Chicago settings had been filmed in Canada, costing the state $1.9 billion in total economic impact and 17,500 full-time equivalent jobs. This trend appears to have been accelerating in recent years, with 18 "Chicago" films having been lost to Canada since 2001 alone.

This bleak assessment came just two years after then-Governor George Ryan had commended the Illinois film industry on its busiest and best year ever in 1999, with 49 major projects creating 17,000 temporary jobs and pumping $124 million into local economies throughout Illinois. By 2002, however, statewide production spending had dropped 77 percent to $27.6 million, its lowest level in 15 years, then fell again in 2003 to about $25.6 million.

The IPA report recommended a "balanced package" of tax incentives, wage-based rebates, and other measures to reduce production costs, but provided little in the way of specific proposals. It also supported more capitalization options and opportunities, including equity investment, investor incentives through private sector partnerships, and a full-throttle promotional blitz involving all of the major film offices and commissions in the state.

One of the greatest impediments to improving the competitive position of Illinois among major film production states is the Sales or Use Tax, which ranks among the highest of the states. Other production centers have chosen to waive this tax entirely or in large part for major film expenditure categories, but Illinois exempts only photoprocessing products that are made for use in films for public commercial exhibition, which reflect only a small part of film budgets. Recognizing this imbalance, small business owners and trades people affiliated with the Illinois production industry have unilaterally lowered their costs to try and lure more film projects, and industry union locals and guilds have followed suit by agreeing to lower rates and modified working conditions. These concessions have merely slowed the hemorrhaging, however.

The only major policy initiative affecting the film industry in Illinois since this downturn occurred in August of 2003, when Governor Rod Blagojevich signed into law Senate bill 785. This legislation provides a tax credit equal to 25 percent of wages paid to Illinois residents for films shot in the state, excluding the two highest-paid Illinois workers, and provided that the combined Illinois wages exceed $100,000 for features and TV programs, or $50,000 for advertising projects (30 minutes or less). The intent of this legislation is not just to attract and retain productions, but also to preserve and develop the local workforce, making Illinois more competitive down the road.

This law went into effect on January 1, 2004, but has already generated a lot of interest and optimism. In early February, Governor Blagojevich predicted that film revenues would rebound strongly in 2004, reaching at least twice the depressed $25.6 million figure for 2003. The director of the Illinois Film Office reported that inquiries from producers were up 500 percent in December and January. The new law also piqued considerable interest among commercial makers at the Association of Film Commissioners International Locations Trade Show in April of this year, according to the trade magazine *SHOOT*.[6]

[6] "Incentives Buzz Heard at Locations," *SHOOT*, April 23, 2004.

Many of the studios and production companies that the state hopes to attract through this program do not themselves have Illinois state income tax liabilities, so the financial incentive to them is not direct. The Illinois Department of Revenue has determined, however, that a partnership can be formed whereby these tax credits can be allocated to one specific partner whose sole purpose in the partnership is to acquire the tax credits, which for 2004 are expected to be in the range of $3-4 million. In an attempt to maximize the effectiveness of this new incentive, the Illinois Film Office has taken on the role of a matchmaker, actively seeking to locate potential purchasers of these credits who can be paired up with production entities that would otherwise not stand to gain anything from the program.

Louisiana

Between 1992 and 2000, film production in Louisiana was moribund, with production expenditures in the state totaling just $44 million – an average of $5.5 million per year. Determined to reverse this tide, state lawmakers crafted an incentive program in 2002 that already has come to serve as a model for other states interested in attracting or retaining film projects. The three components of this package cover virtually all economic aspects of the visual media production process. They include:

- A Sales and Use Tax Exclusion,
- An Employment/Labor Tax Credit, and
- An Investor Tax Credit.

The Sales and Use Tax Exclusion is available to production companies which anticipate expenditures in Louisiana which in the aggregate exceed $250,000 during any consecutive twelve month period. The actual expenditures must be made from a checking account with any financial institution in the state. This results in a flat savings of four percent of all expenditures for qualifying production companies – a minimum of $10,000 if the baseline aggregate expenditures requirement is just met. This incentive was originally scheduled to expire on January 1, 2007.

The Employment/Labor Tax Credit is extended to production firms that employ Louisiana residents in connection with production of a nationally distributed motion picture, video, television series, or commercial made in Louisiana. For projects with aggregate expenditures in the state between $300,000 and $1 million during the taxable year, the credit amounts to 10 percent of the company's Louisiana payroll; for larger projects the credit doubles to 20 percent of the Louisiana payroll. This provides a powerful motivation for filmmakers to maximize their use of local workers, leading to a more qualified and experienced labor force which itself reinforces the attractiveness of shooting in the state. This incentive has proven so attractive that some producers have been unable to hire as many local workers as they would want. This provision was originally scheduled to expire July 1, 2006.

The Investment Tax Credit grants a credit against state income taxes for taxpayers domiciled and headquartered in Louisiana, and is intended to attract private investment in all types of visual media projects undertaken in the state. If the total base investment in the project is between $300,000 and $8 million, each taxpayer is allowed a tax credit equal to 10 percent of that taxpayer's actual investment; for larger projects the credit increases to 15 percent of the taxpayer's actual investment. Unused credits in any given tax year can be carried forward and applied against state income tax liabilities for the subsequent ten years. The enabling legislation specified no expiration date for this provision.

Out-of-state production companies and investors with no Louisiana state income tax obligations can still take advantage of the employment and investment tax credit provisions by partnering with local entities that do have such liabilities. In effect, the Louisiana taxpayer became a part of the out-of-state production company. This tended to reduce participation because of the risk people unfamiliar with visual media production perceived. In July 2003, the legislation was amended to allow investment tax credits earned by filmmakers to be transferable to Louisiana taxpayers, and a series of supportive IRS rulings have bolstered confidence and expanded the market for these tax credits. Employment tax credits, however, still cannot be transferred. In practice, Louisiana taxpayers – often banks – pay about 80 cents on the dollar for these tax credits owned by out-of-state companies and investors. As more and more Louisiana taxpayers become aware of and comfortable with this process, it is likely that the price of these credits will be bid up, and the incentive for out-of-state companies to shoot in Louisiana will be all the greater as they get to retain a larger portion of the tax credits their production has generated.

State officials are enormously pleased with the effects of this incentive package. In the four years following its passage, they estimate that in-state visual media production outlays have soared to $248 million, or $62 million per year on average. This represents more than an eleven-fold increase over average annual production expenditures for the eight years prior to enactment of the legislation.   Other sources have put the average annual production revenues for 1992-2002 at $20-$30 million in movie and television productions, and the average since the tax breaks were enacted at about $200 million.[7]

In a special session during March of 2004, one state legislator urged the House Ways and Means Committee to extend the investment tax credit two years, through January 1, 2009. Impressed by the volume of production business this provision immediately generated, the panel instead recommended that it be made permanent.

Most of this increase appears to be new money brought into the state explicitly because of the incentive program. The end of 2003 marked the first time that two major studios – both from Hollywood – received millions of dollars in rebates from the Louisiana film tax credits program. Altogether, 20th Century Fox, Crusader Entertainment, New Regency Productions, and the Walt Disney Company – all California-based firms – have spent more than $200 million in Louisiana in the past several years, qualifying them for more than $30 million in tax credit deals.   Fox actually was set to shoot its film in Orlando, Florida until it learned of the Louisiana credits.

These incentives have had a profound effect on the availability of venture capital for the film industry in Louisiana. A prime example is LA Squared, Inc., a venture capital fund dedicated to financing motion pictures in the state. LA Squared uses this fund to finance Louisiana-based

[7] See http://www.lafilm.org/media/index.cfm?id=70.

projects produced by the Louisiana Institute of Film Production (LIFT)[8] and its Los Angeles-situated partners HIS Entertainment and Element Films. The Louisiana Economic Development Corporation has also invested $3.5 million in taxpayer money into the fund through a venture capital matching program administered by the agency. The fund received greater visibility in February 2004 when a point guard for the New Orleans Hornets NBA franchise, Baron Davis, announced his intention to invest in LA Squared. Leveraging his investment with other sources such as bank debt, this will enable LA Squared to finance an additional $5-$15 million dollars in production. LIFT and HIS have produced three major films in Louisiana since they formed their joint venture in 2002, and have announced plans to spend $100 million in Louisiana film production over a five-year period.

The ripple effects of this capital infusion are numerous. 20th Century Fox reported that it was favorably impressed by the skills of local workers and the cooperation and coordination provided by local and state officials and the film commission, but also said that it wanted to hire more local support personnel than it could. Community colleges have used state and federal funds to train more persons, and the state has reported an influx of more production personnel from other states as employment opportunities have expanded. As more and more local skilled personnel become available, many argue that the focus should be expanded to attract smaller independent films in addition to high-budget feature films so as to assure a steady supply of work for local production and post-production personnel.

North Carolina

With the possible exception of California, North Carolina has until recently relied more on its looks and existing infrastructure than any of the other states examined here. The only fiscal incentive North Carolina offered film producers – out-of-state or in-state – was a reduction of the state's Sales and Use Tax to just one percent, a savings of about four percent on all taxable transactions in the state. In addition, North Carolina charges no fees for the use of state-owned property for filming other than its out-of-pocket expenses, consistent with most other states that are interested in courting the film industry.

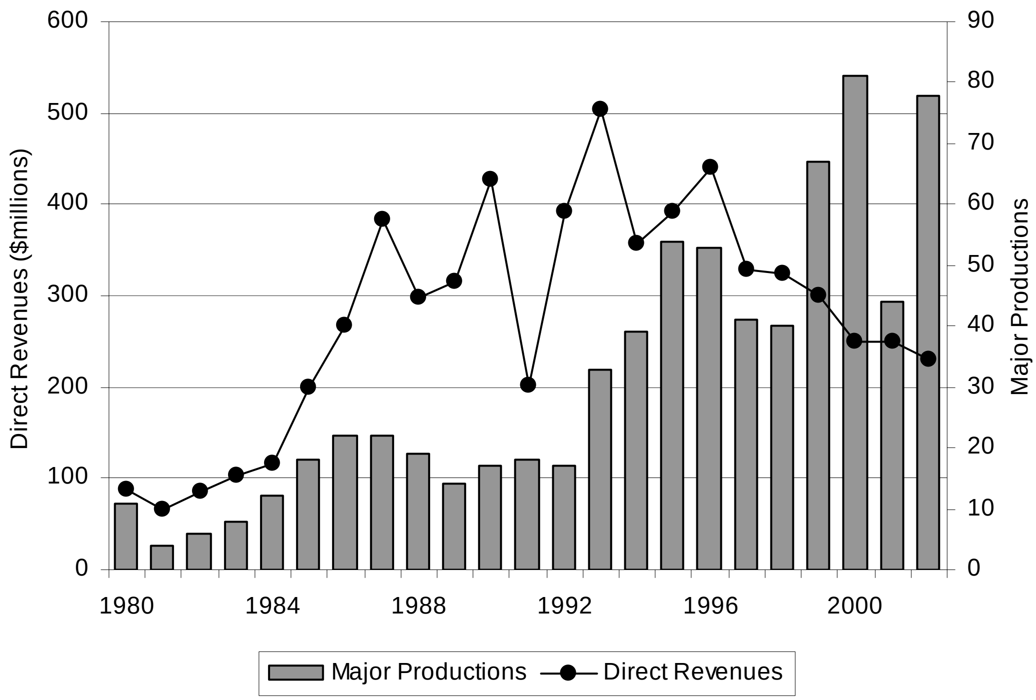
The Film Industry Development Account (FIDA) was established in 2000 with the objective of providing economic incentives to production companies for operations in North Carolina. Under this incentive program, a production company is eligible for a grant based on expenditures it has made in the state on a film project. The grant may not exceed fifteen percent of those expenditures, and cannot exceed $200,000. This program was amended in October 2002 to include the additional requirement that the production company have expenditures of at least $1 million in North Carolina, more narrowly targeting this incentive to larger productions.

The flexibility of the state in accommodating different types of visual media productions sets it apart. Figure A presents the number of major productions and revenues spent on film projects in the state from 1980 to 2002. For almost two decades now, North Carolina has ranked third

[8] LIFT provides manufacturer-certified training across the spectrum of production and post-production equipment. It is also a full-service production company creating feature films, music videos, and television spots for major distributors, record labels, and manufacturers. The opportunity to apprentice with LIFT on professional productions creates additional opportunities for Louisiana residents.

among all the states with respect to film production revenues, trailing only California and New York. But the impact of runaway productions has been felt severely in North Carolina, with revenues declining from a peak of $504 million in 1993 to just under $231 million in 2002 – even as the number of major projects were trending upward. By 2002, the average revenues generated by a project dipped below $3 million for the first time. Several productions and TV series have indicated a desire to film in North Carolina, but have put their work on hold pending anticipated legislative developments in North Carolina and competing states.

Figure A: North Carolina Film Productions: 1980-2002



Basically, TV and commercial production has increased in North Carolina over the past decade, while feature film production has fallen off. In 2002 alone, eight features generated revenues of just $9.1 million, down precipitously from the $41.6 million produced by 12 features the previous year. Television projects were up 63 percent in 2002, at $55.5 million, while commercials, shorts, industrials, and support service accounted for 72 percent of film industry revenues in the state that year.

In 2002, North Carolina film industry boosters set out to bolster the state's incentive structure for the film industry, including in particular the revision of FIDA to target larger productions. More recently, the industry has pushed for a revised incentive package that would offer tax credits and/or low interest loans for North Carolina-based production projects. The state's lawmakers have instead proposed a $5 million appropriation for FIDA and a study of the problem next year. There is a real concern with industry representatives and backers that North Carolina must move quickly to match the incentive packages offered by other political jurisdictions and assure the continued viability of what has long been a mainstay of the North Carolina economy.

While the legislature ponders its approach, the North Carolina Film Council, an advisory board for the governor, is seeking a $3 million grant from the Golden LEAF Foundation, an organization established with North Carolina's share of the national settlement with tobacco companies which makes grants intended to help local economies once dependent on tobacco growing.[9] The Film Council would prioritize projects that brought relief to rural counties, according to its application, which would encompass those areas most affected by reduced tobacco cultivation. The Council also stated that it would distribute the money among the state's regional film commissions, which would then use it to reimburse filmmakers for some on-location expenses, similar to the way FIDA works.

New Mexico

Sometimes the simplest solutions are the best. In 2003, for the third year running, New Mexico won the Best Film Directory award from the Association of Film Commissions International (AFCI). Directories are one of the most effective tools that local film-industry promoting organizations can employ. They not only provide information about how to communicate and contract with local technical support firms and personnel, but also a verbal and visual portfolio of the physical infrastructure available in the area. They can acquaint out-of-state filmmakers with the array of incentive programs offered by the state and local areas, and many other resources targeted at the visual media industry. For example, New Mexico has designated more than 800 government-owned properties and sites throughout the state that can be used for filming free of charge.

Ideally, directories are available in both hard copy and electronic formats. The online version of the New Mexico film directory is searchable by name, business, or type of service sought, ranging from Accommodations to Writers/Screenwriters.

New Mexico also puts its money where its mouth is. Qualifying productions can secure zero-interest loans of up to $7.5 million, repayable over a five-year term. They can then turn around and qualify for an up-front 15 percent tax credit on the money just borrowed, providing an immediate source of working capital for the project. This tax credit is also available to production firms that do not take advantage of the zero-interest loan program offered by the state.

Alternatively, production firms can choose to forego the 15 percent tax credit and opt instead for a waiver of the New Mexico gross receipts tax on qualifying expenditures. Depending on where shooting is taking place, this can result in an immediate savings of 5 to 7 percent of purchasing or leasing costs. This waiver has been in place for filmmakers since 1996 in New Mexico, and is aimed primarily at producers of local, regional and national commercials and advertisements as well as feature filmmakers. Examples of the kinds of expenditures that can be exempted from the gross receipts tax include:

- The cost of a story and scenario to be used for a film.

[9] "Film backers want share of state tobacco settlement," Associated Press, May 22, 2004. See http://www.wcnc.com/sharedcontent/APStories/stories/D82NO4HO2.html.

- Salaries of talent, management and labor – including payments to personal services corporations for services of qualified performing artists.
- Costs of construction and operations, wardrobe, accessories and related items and services.
- Costs of sound synchronization, lighting and related services.
- Costs of editing and related services.
- Rental of facilities and equipment, including location fees.
- Other direct costs of producing the film not including lodging, vehicle rentals, and catering.

Several other tax-related measures enacted by the New Mexico legislature in 2003 were not targeted specifically at the visual media industry, but nevertheless offer additional savings opportunities across the board. The top level of the state personal income tax was cut by 40 percent, and the capital gains tax will be cut in half over a five-year period. The state has essentially revamped its entire business tax code to become more commercially competitive with other states.

New Mexico has also made substantial efforts to develop its human resources for the film sector. The New Mexico Economic Development Department has joined forces with the local branch of the International Alliance of Theatrical Stage Employees to increase the number of qualified film support personnel in the state through a Workforce Training Program and a Mentorship Program, both of which have enjoyed considerable success. Both programs certify individual workers as “trainees.” When media arts production companies employ qualifying trainees, they can claim a 50 percent wage reimbursement through the Job Training Incentive Program. The Workforce Training Program collaborates with educational institutions in the design and implementation of curricula for all types of positions from production to post-production. The Mentorship Program is more directed at creating opportunities for crew members who already have film industry experience, but are ready to move up in job classification.

Also in the human resources development arena, the New Mexico Film Office regularly offers specialized training courses for individuals interested in filling support roles in the production industry. Their most recent offering was in April of this year, a 4-day course for camera assistants which was designed to train participants in the use and maintenance of modern image-capturing equipment, and to familiarize them with on-site procedures, roles and responsibilities of camera assistants. The thrust of this and similar efforts is to augment the supply of technical support personnel who can be employed by local or out-of-state producers.

The state also recently inaugurated the Governor’s Cup Film Festival, an annual statewide competition encouraging New Mexico filmmakers to produce original short films in any of three categories – Narrative, Documentary, or Student. Cash prizes are to be awarded at the regional and state levels, with the grand prize winner taking home the Governor’s Cup. The intent of this effort is to showcase local talent and encourage communities throughout the state to work together in promoting film industry development.

Canada

The Canadian film industry technically dates back to 1939, when the National Film Board was formed, but the country did not really have a *bona fide* feature film industry until the late 1960s. The key starting point in developing an encompassing federal policy came in 1967 with the creation of the Canadian Film Development Corporation, renamed Telefilm Canada in 1984 to better reflect the full range of its activities in television as well as feature films. Telefilm has since evolved into the principal federal government agency for administering a wide variety of programs, including most recently programs that seek to promote the Canadian music industry. Over the ensuing years, the federal government introduced a number of incentive programs:

- In 1974, the Capital Cost Allowance was established to assist firms in attracting private financing. This provision had some limited success in promoting production, but failed to address issues related to distribution or improved access to screens.
- In 1984, the federal government adopted its National Film and Video Policy, the main achievement of which was to create the Feature Film Fund two years later to support investment in high-quality, culturally significant Canadian films.
- The 1988 Feature Film Distribution Policy set foreign investment policy guidelines designed to shore up and protect Canadian-owned and controlled film distribution businesses, and limited the types of films that foreign distribution businesses could screen in Canada.
- In 1995, the Canadian Film or Video Production Tax Credit replaced the two-decades old Capital Cost Allowance. This was a better-targeted program that reimburses producers for a portion of their expenses – effectively, 12 percent of total eligible production costs can be recouped.
- In 1997, the Film or Video Production Services Tax Credit was introduced to encourage Canadian and foreign filmmakers to employ local workers by offering a tax credit equal to 11 percent of the Canadian labor costs. Also that year, the Canadian government created a program to provide stable and sustainable funding for national training initiatives in all aspects of the film industry.

None of these federal-level programs really directly affects the bottom line for foreign producers.[10] Their purpose is rather to foster Canadian-owned and based production and distribution firms, to encourage increased numbers of films and television programs with local content and culture, and to develop the human and physical infrastructure needed to assure a viable visual media industry over the long haul. Of course, many of these initiatives also have the secondary effect of making subcontracting with Canadian businesses and workers more attractive to foreign filmmakers.

The major financial inducements that have made Canada so successful in attracting runaway productions from the United States and elsewhere have been introduced at the provincial level. Provincial governments have established film and tax programs in British Columbia, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, and six provinces have also offered direct funding programs. The remainder of this section looks at what is going on in two of these

[10] Although the Film or Video Production Services Tax Credit is technically available to foreign filmmakers, it is offset by any other funding to be received that is tied to labor – provincial tax credits, in particular.

provinces – British Columbia and Ontario – that are home to the third and fourth largest urban production centers in North America – Vancouver and Toronto, respectively.

British Columbia

Vancouver is the seat of the British Columbia film industry and claims to be the third largest production center in North America. The 1990s boom in both domestic and international production is illustrated in Figure B. Total production dollars expended in the province reached almost $1.2 billion in 2000, triple the 1994 level.[11] This growth was fueled by three primary factors:

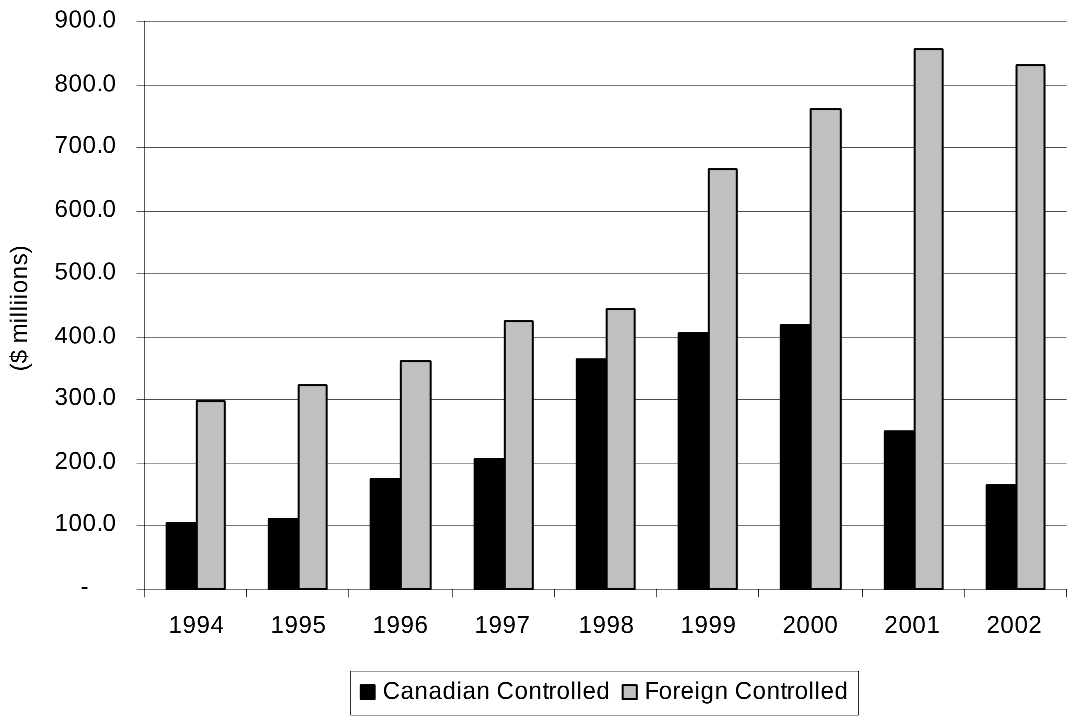
- Maturation of the physical and human infrastructures in the province,
- A weakening of the Canadian dollar compared to the U.S. dollar, and
- Provincial fiscal incentives.

Foreign production dominated domestic production throughout this period, but the domestic side made significant inroads. In 1994, foreign dollars were behind 74 percent of provincial production; a rapidly growing domestic industry reduced that to 55 percent by 1998, but reversals in the domestic industry brought the foreign share back up to a high of 84 percent in 2002.

British Columbia's film industry fortunes began to reverse after 2000, primarily because of a dramatic decline in domestic (Canadian-controlled) production – from an all-time high of $419 million in 2000 to $164 million in 2002 – the lowest level of domestic production since 1995. This decrease was largely driven by a serious downturn in the production of dramatic television series in the province, which has also afflicted other provinces throughout the country. Foreign production has also fallen off in recent years, due both to a stronger Canadian dollar and the SARS crisis which was felt particularly hard in western Canada.

[11] British Columbia Film, Annual Report 2002/2003: For Period Ending March 31, 2003. Available at http://www.bcfilm.bc.ca/annreport.html.

Figure B: Film & Television Production in British Columbia



Responding to this crisis, the province took action that was welcomed by the industry in the Spring of 2003, introducing a number of enhancements to the existing tax credit program. The incentive program now includes the following four components:

- *Film Incentive BC (FIBC)*: This is a labor-based tax incentive that provides refundable tax credits to production companies based on eligible provincial labor costs incurred by British Columbia firms and their foreign partners. It includes four specific initiatives that stimulate employment throughout the province by giving a credit of 20 percent of qualified labor costs (capped at 9.6 percent of the total production cost), give incentives to productions outside Vancouver at a rate of 12.5 percent of qualified costs (capped at 6 percent of total costs), provide credits for training industry workers at three percent of qualified costs (capped at 30 percent of trainees' salaries), and support the emerging digital animation and visual effects part of the industry for the first time with a 15 percent credit on qualified labor used in this area.
- *Production Services Tax Credit (PSTC)*: The PSTC is a refundable corporate income tax credit for domestic and foreign production companies that have incurred qualifying labor expenses in British Columbia. There is no requirement that the business have an interest in the copyright on the production, in contrast to the FIBC.
- *Feature Film Production Fund (FFPF)*: The FFPF provides funding in the form of an equity investment not to exceed $250,000 per project involving fictional, animated, or documentary feature-length films. Applicants must be BC-owned and controlled production companies, but their foreign partners can also benefit.
- *The Development Fund*: The Development Fund provides development funding to feature films, dramatic or animated television projects or documentaries that have

secured recent development commitments from a broadcaster or distributor. A non-recoupable advance, matching a percentage of the broadcast or distribution commitment, to a maximum of $30,000 per project is available. Regional applicants from outside of Greater Vancouver may be eligible for a 10 percent bonus. As with the FFPF, applicants must be BC-owned and controlled production companies, but their foreign partners can also benefit.

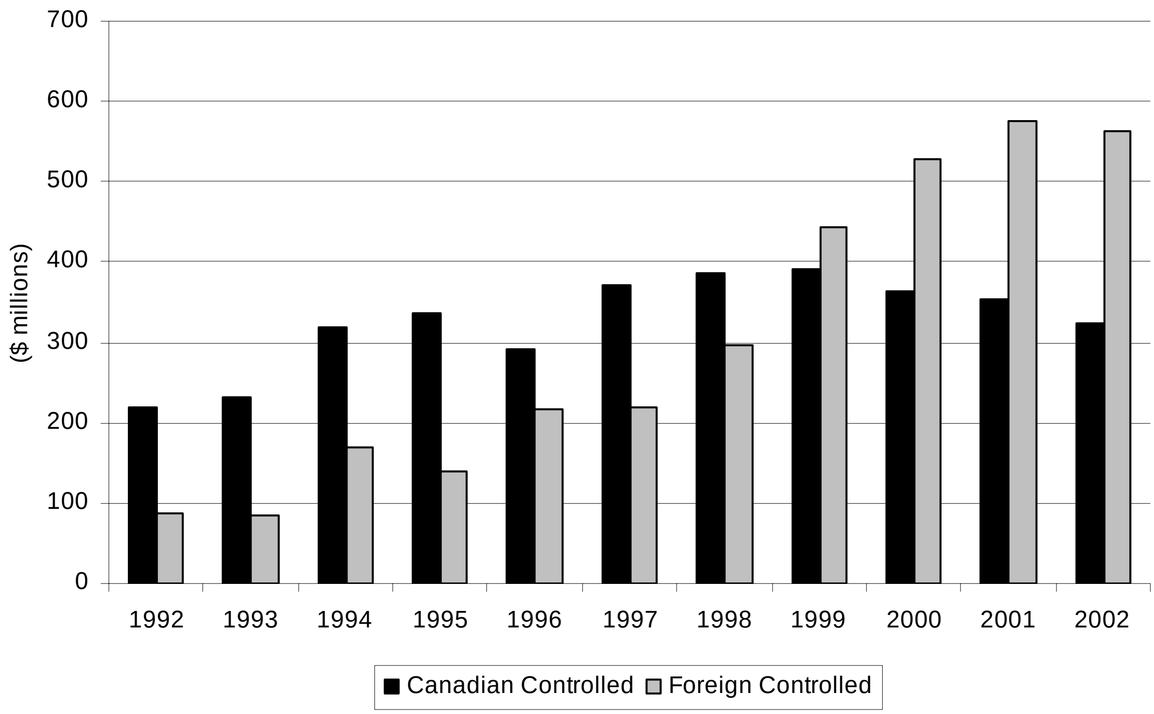
The overall effectiveness of these measures for British Columbia remains to be seen. On the surface, they do not seem to have much to add to the plate for foreign producers, but the ability to partner with local production firms still keeps that door open. As with many of the federal measures that remain in place, the recent revisions to British Columbia's incentive package seem more intent on cultivating local businesses and support workers than in attracting foreign production, although that objective remains in place.

Ontario

The City of Toronto is the heart and soul of Ontario's visual media industry. Figure C shows that Toronto's overall experience in filmmaking production is similar to that of the Province of British Columbia, but with some important differences. Aggregate production revenues have dipped in recent years, but the decline in domestic production revenues has not been as dramatic as in BC. Whereas foreign production dollars in British Columbia have generally been far greater than domestic, this has only been true for the last several years in Toronto. Although published data is not available, it has been reported that foreign service production in Ontario plummeted 36 percent in 2003.[12]

[12] See the Canadian Film and Television Production Association news release at http://www.cftpa.ca/newsroom/press/2004_05_18.html.

Figure C: Value of Major Production Spending in Toronto



The Province of Ontario offers three major tax credits for visual media production firms, which basically mirror similar provisions in British Columbia:

- The basic Ontario Film and Television Tax Credit also provides a credit of 20 percent of qualified local labor expenditures and has no cap as in BC. At 10 percent, the regional tax credit is somewhat lower than BC's for shoots that take place outside the major city, but first-time filmmakers are offered an additional 10 percent credit on the first $240,000 in qualified labor expenditures in Ontario.
- The Ontario Production Services Tax Credit is also 11 percent of qualified labor, and also has no cap; the regional tax credit is 3 percent if principal photography takes place outside the Greater Toronto area.
- The Ontario Computer Animation and Special Effects Tax Credit is more generous than the corresponding incentive in BC at 20 percent of qualified Ontario labor, but is capped at 9.6 percent of the net cost of eligible computer animation and special effects activities.

On May 18, 2004, the Ontario Finance Minister delivered more good news to the struggling provincial film production industry in that province. For productions that commenced principal photography after March 27, 2003, qualified labor expenditures covered in the domestic production tax credit would no longer be reduced by the amount of equity investments from Canadian government film agencies. The commencement time of a project was also extended to include qualifying labor costs incurred as early as two years before principal photography commences. A change was also made permitting a person other than the production company to hold an interest in a film or television production unless one of the investors is associated with a tax shelter.

As with British Columbia, it remains an open question whether these measures will help turn around this struggling industry. Again, there does not appear to be anything in these reforms that would directly benefit foreign filmmakers who do not partner with local production companies.

Appendix 3: Partial List of People Interviewed

- Tom Copeland – Head of Texas Film Commission
- Paul Alvarado-Dykstra – film producer and organizer of IFP/Austin
- Louis Black – founder of Austin Film Society
- Barbara Morgan – founder of Austin Film Festival
- Chip Bray – banker involved in film lending, past Board member of Austin Film Society
- Elise McMullen – Monument Productions – film producer
- Rebecca Campbell - Executive Director of Austin Film Society
- Suzanne Quinn – Director of Austin Studios
- Rick Triplett - Attorney and Board member of Austin Film Society
- Deborah Hill – film teacher at Austin Community College
- Jen White – head of Austin chapter of Association of Independent Video and Filmmakers
- Jeff Nightbyrd – head of Acclaim, a local talent agency
- Tom Schatz – head of UT Film Institute
- Carolyn Pfeiffer – head of Burnt Orange Productions, a film production company working with the UT Film Institute
- Sharon Strover – head of UT Radio-Television-Film Department
- Elizabeth Avellon – Robert Rodriguez' film producer and wife
- Bill Scott – Robert Rodriguez production assistant
- Sherry Mills – head of Reel Women
- Terry Lipman – working to put together company that would finance film development costs for films shot in Austin
- Krista Keosheyan and Rebecca Reed – Digital Filmmaking Resource Group
- Erica Shamaly and Ann Goetzmann – Motion Media Arts Center
- Gary Bond – film contact at Austin Convention and Visitors Bureau
- John Patterson, KJ Kernan, Steve White, Robbie Friedmann – film location experts
- Ralph McKay and Laurel Row – Cinematexas
- Jeff Gipson – Cine las Americas
- Cory Ryan – head of Flicker Austin
- John Villareal – head of ACTV
- Richard Kooris – head of 501 Studios
- Sharon Frerking and Jonathon Markley – US Economic Development Agency
- Tim McClure – film producer at GSDM
- Harry Lynch and Brady Dial – Trinity Films – film producers
- Brett Branon – actor working on IFP/Austin
- Juan Garcia – head of Student Film Showcase
- Layton Blaylock – Inferno Films – Producer – Commercials
- Mark Genfan – head of Acoustic Spaces – Post-production work, technical and design services
- George Sludge – Action Figure – Film production and design work
- Gary Walker – Tex Fx – visual effects
- Quincy Lowman – Elephant – corporate videos, television commercials
- Beth Sepko – casting agent
- Mike Nelson and Chris White – producers on current Mike Judge film