

A Permanent Presence of the Film Industry in Kansas,

The Sequel

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A Permanent Presence of the Film Industry in Kansas – The Sequel

During the 2004 Legislative session, the Lights, Camera, Action (LCA) House Subcommittee asked Kansas, Inc. to assist with issues identification and assessment of options available to the state to pursue and develop a permanent film industry presence. The earlier paper concluded the Legislative timeframe for 2004 was too short for making decisions or developing initiatives and that a more substantial review was needed. Through the support and assistance of the Kansas Department of Commerce and the Kansas Film Commission, this “sequel” to the first study presents a further review of the industry and its potential for development in Kansas.

The film industry does not fit neatly into standard economic development models that rely on identifiable job creation or retention for funding justifications. It is an industry rich in independent, creative entrepreneurs who pursue a craft and an art, but who rarely approach their work as a business. In Kansas, it is an industry largely populated by young people; programs to support film may benefit from a perspective of developing and retaining young people in a cultural and arts arena, it is unlikely support can be justified purely based on job creation alone.

In addition to the members of the LCA subcommittee, many people assisted Kansas, Inc. including: the Kansas Film Commission which was helpful and supportive; the Commission’s quality staff Peter Jasso and Lindsay Howgill; Kansas Department of Commerce professionals Steve Kelly, Matt Jordan, Scott Allegrucci, and Bill Thompson provided suggestions and ideas to insure the report took an economic development approach to analyzing this industry. I am grateful to those interviewed from out of state, particularly the people of Austin, who willingly participated and shared ideas. Kansas, Inc. staff Sean Tomb and Debby Fitzhugh helped create a team effort in completing this work.

Finally, thank you to the Kansas independent filmmakers and other industry professionals who shared their dreams, hopes and enthusiasm for an often-fickle industry that has a substantial entertainment impact on most Kansans.

Jerry Lonergan,
President
Kansas, Inc.

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EXECUTIVE SUMMARY

The Kansas Film Commission estimates 2004 film industry expenditures in Kansas of just under \$7 million. During the 2004 Legislative session, the Lights, Camera, Action Subcommittee of the Kansas House Economic Development Committee asked Kansas, Inc. to provide an overview of the film industry and prepare a set of recommendations that could result in an increased presence of this industry in the state. The research was supported in part with funding from the Kansas Department of Commerce and Kansas Film Commission.

Based on that review, Kansas, Inc. recommends that, if the state wants to pursue a film initiative, Kansas should focus resources on independent filmmakers with state ties as opposed to a reliance on tax cuts or rebates to recruit out-of-state productions. The development of an independent film industry will provide Kansas with the ability to attract and retain young professionals in an industry expected to grow substantially and is one rich in technology expansion and innovation. With an independent film strategy, Kansas has the competitive advantages of a well-respected film school at the University of Kansas, a growing reputation enhanced by filmmakers who are beginning to draw national attention for their work, and ready links to promote these initiatives from Kansans already aligned with the film industry.

Kansas, Inc. recommends funding a base program of \$1 million the first year and \$450,000 per year for the following 3 years. Recommendations center on programs that guarantee funds are spent in Kansas and that the state contribution is a smaller percentage of total filmmaking expenses in the state. Broadly these programs include: competitions designed to promote early-career filmmakers; a low-interest revolving loan fund for mid-career filmmakers; rebates of a percent of Kansas expenditures made by in-state independent film productions; establishing a film and music festival; and, staff and service enhancements at the Kansas Film Commission.

Interviews conducted drew parallels between the Lawrence region today and Austin, Texas. In the early 1990's two young filmmakers, with growing reputations, made commitments to work and make films in Austin. Their decisions to stay in Austin, coupled with the existence of a very fine film program at the University of Texas, were two major steps to developing a film industry that today has an estimated \$350 million annual economic impact on the region.

Kansas, Inc. also recommends the Film Commission consider benefits and options associated with re-locating from the Department of Commerce. Best estimates are even with substantial direct expenditures the job creation impacts of the industry are small with approximately 10 jobs in the film industry per \$1 million in direct film and visual industry expenditures. If film programs are required to be judged as most economic development programs – jobs created per state investment - the Film Commission will continue to struggle to achieve adequate funding for implementing new initiatives.

Outside of the standard economic development evaluation constraints, film investments can be judged on the ability to attract and retain young people interested in filmmaking and the industry value in promoting state image and enhancing cultural opportunities, goals that are important to the state's future.

I. Film Industry Conclusions and Recommendations

Summary

The initial charge to Kansas, Inc. was to develop an understanding of the film industry¹ and prepare a set of recommendations that could result in a permanent and growing presence of the industry in the state. Kansas, Inc. prepared this report and recommendations on the basis that there was interest in developing the industry and that some state investment would be required.

Why invest in the filmmaking industry?

Employment in the motion picture and video industries is projected to grow 31% from 2002 to 2012; double the 16% growth projected for all industries combined ... **Motion Picture and Video Industry, Outlook**; Bureau of Labor Statistics at <http://www.bls.gov/oco/cg/cgs038.htm>

- Programs can be structured to insure any state investments are spent in Kansas;
- Film, video, television, computer gaming are rapid growth industries;
- It is an industry comprised largely of young professionals - a Kansas strategy that focuses on film will help with retention and attraction of young people;
- Filmmakers are entrepreneurs and risk takers two groups that have been a focus of recent economic development initiatives;
- The industry is undergoing massive technology change and innovation leading to new inventions and products, again areas of Kansas economic development focus;
- People, throughout the state are excited about the film industry; those associated with film feel Kansas's image will be enhanced by a well-designed and successful initiative.

Why an independent film strategy?

- An independent film focus results in investment directly in Kansas and Kansans, *with long term potential impacts*;
- The plan will not require constant changes and the state can expect more public/private partnerships to result from this local growth strategy;

¹ "Film industry" for this analysis includes the entire video industry – commercial television production, video on demand, documentaries, computer gaming, and emerging cellular technologies.

- Investing in local filmmakers has the potential for Kansas to develop skilled technicians and professionals that are knowledgeable of the industry, which can make the state attractive for out-of-state production to seek Kansas locations;
- It is less likely a productions' recruitment strategy will result in a thriving independent film industry;
- A production recruitment focus, if successful can result in substantial, but not permanent, economic impacts; and,
- Recruitment of major film productions, while a viable film strategy in today's environment, is expensive and incentive packages undergo constant changes - to remain competitive, states must adjust and most likely *increase incentives*.

Does Kansas have a competitive advantage to pursue a local independent film industry?

Yes, because:

- The University of Kansas (KU) has an established and highly successful film school;
- There is a growing presence of increasingly successful Kansas filmmakers who want to stay in the state and tell Kansas stories;
- Historically, filming in Kansas presents the advantage of lower costs, cooperative communities, and fewer regulatory barriers for productions; and,
- Lawrence is a community with a growing reputation for a cultural-rich atmosphere conducive to film and music industry growth.

Kansas' advantages are similar to those found in Austin and Central Texas in the early 1990's.

Funding of an independent film initiative

The presentation that resulted in creating the Lights, Camera, Action (LCA) Subcommittee included a proposal to spend \$25 million over four years. While undoubtedly a bold initiative with upscale potential, support at that level with unclear direct economic impacts would not be defensible. However, an initiative that begins at a smaller level and allows for adjustments and increases as experience is gained and successes are documented might well be feasible.

Suggested is an initiative that totals \$1 million the first year and \$450,000 per year for three subsequent years to grow the current film industry in Kansas. While designed as an entire package, the recommendations can each stand alone as individual actions.

This is not to imply that coming up with \$2.35 million over a four-year test period is an easy task – money invested in a film industry initiative by the state will be competing with new and existing state programs. The film initiative should be evaluated for its effectiveness during the test period.

Recommendations

Kansas Film Commission

- 1) Assess benefits and present options to the Secretary of Commerce and the Governor’s Office of moving the Film Commission offices from its current location at the Kansas Department of Commerce.
- 2) Review whether the current mix of commissioners on the Film Commission, can be strengthened (e.g., adding legal counsel with entertainment experience).
- 3) Upgrade the Film Commission web site (e.g., location shots captured electronically and searchable data bases) and provide for ongoing maintenance in the future.
- 4) Work with Kansas Department of Commerce Business Development professionals to develop a network of potential investors interested in filmmaking.
- 5) Hire an additional Film Commission staff to assist with new initiatives and outreach.
- 6) Create a music and film festival in Lawrence. A combined film and music festival in Lawrence would be unique among the existing set of quality festivals - in addition to having a shared focus with music, it would celebrate KU filmmakers and industry professionals while promoting the Kansas Film Commission. The festival should work with other existing festivals throughout the state in scheduling and ensuring the various festivals support and enhance each other.
- 7) Monitor studio development, program growth, and partnerships with the KU Film School.

Independent Film Industry/Filmmakers (administered by Kansas Film Commission)

- 8) Short film competition – five awards of up to \$5,000 each to fund expenses associated with making a short film and other expenses for marketing to film festivals. Target first stage career professionals with Kansas ties.

Part of the selection criteria should be the candidate’s vision of how remaining in Kansas fits their personal career goals.

- 9) Create a competition for early-career Kansas filmmakers (local or those with quantifiable local ties) to seed the making of a feature-length film (eligible candidates are those who have made less than 5 feature length films). Five awards of \$15,000 each – award amount would be 50% or less of the film budget and state funds would be awarded only after all funds for making the movie are committed.
- 10) Create a reimbursement/rebate program (\$50,000) for Kansas independent filmmakers who have prior-approved budgets and would be eligible for rebating 25% in-state production expenditures up to \$20,000 per year for a filmmaker.

Revolving Loan Fund Program

- 11) Create a revolving loan fund for feature length filmmakers providing support for expenses related to actual production, distribution, or bridge expenses.

Budget Estimates

First Year = \$1,000,000

- \$150,000 music and film festival;
- \$20,000 website upgrade and enhancement – focus on location shot search engine and ongoing enhancement of Kansas Film Commission presentation packages;
- \$80,000 staff and associated expenses to Kansas Film Commission;
- \$100,000 in two filmmaker competitions;
- \$50,000 Reimbursement/Rebate (25% of all film expenses spent in Kansas);
- \$600,000 revolving loan fund, targeting production and/or working capital needs of independent filmmakers with capacity for repaying the loans.

Second through Fourth Year = \$450,000 per year and \$1,350,000 total for three years

- \$150,000 music and film festival;
- \$20,000 website maintenance and upgrade;
- \$80,000 staff and associated expenses to Kansas Film Commission;
- \$100,000 in filmmaker competition programs;
- \$50,000 Reimbursement/Rebate (25% share of all film expenses in Kansas);
- \$50,000 administration and operation expenses for Revolving Loan Fund

Economic Development Estimates

Dollar Return: The advanced film competition (#9) and the reimbursement program (#10) require recipients to match or spend money above the state investment. The advance film competition awards \$15,000, but this must be 50% or less of the film’s total budget. Therefore, *at a minimum, the state’s investment will be matched dollar for dollar*. The reimbursement program calls for the state to only reimburse 25% of eligible expenditures (those made on Kansas goods and services), the impact of the proposed \$50,000 rebate would total \$200,000.

Short film competition (5 awards of \$5,000, no match)	\$ 25,000
Advance film (5 awards of \$15,000)	\$ 75,000
<u>Expense reimbursement program</u>	<u>\$ 50,000</u>
<i>State Investment</i>	<i>\$150,000</i>
Advanced film competition MINIMUM MATCH	\$ 75,000
<u>Reimbursement program MATCH</u>	<u>\$150,000</u>
TOTAL Direct Impact	\$375,000
TOTAL Direct and Indirect (1.7 multiplier)	\$637,500

Tourism: The tourism impact on the investment in a major film and music festival has the potential, even in the first year, to be substantial. As direct experience is gained in hosting this type of event, the tourism impact should approach **over \$1 million economic impact** for a state investment of \$150,000 (an Austin, Texas impact study estimates the two well-established annual film festivals have a combined \$6.2 million impact on the local economy).

Revolving Loan Fund: Also recommended is creating a revolving loan fund for filmmakers with films seeking or in distribution, or requiring post-production bridge funds. Discussions with those involved in filmmaking in Kansas provide examples of expenses outside of filmmaking that can limit a filmmaker’s capacity to market and attract distributor interest in a film. Another example is post-production expenses associated with creating the final version of the film after it is accepted for distribution. Kansas filmmakers reported in interviews that financial advances rarely equal the total money necessary to cover expenses necessary to get the film to its final form.

Suggested is a first year program of \$600,000, allowing for a \$500,000 pool and the balance for a group to prepare start-up, rule making, and initial operation of the loan program. Also included is ongoing annual fund support of \$50,000 to help with administration of the program.

The fund would result in a one-time larger investment that is restored as loans are repaid and could be structured so part of the program operation is funded by fees and interest payments. Each time the \$500,000 pool rolls over it creates an **indirect and direct impact of \$850,000**.

Jobs Impact: Documenting job impacts of the entire visual arts industry is difficult. The best tools found were those that measured job and economic impacts where substantial production dollar expenditures already are prevalent. Each of three studies considered regions already with direct expenditures over \$300 million. Three separate firms using different methodologies each had similar estimates of between eight and ten jobs created for every \$1 million in direct production expenditures (this would include both private and public expenditures).

Kansas Film Commission staff estimate 2004 quantified state direct annual film expenditures at about \$7 million. Using the numbers above, a minimum employment level for the Kansas film industry is 65 to 75 full-time equivalents. However, since the total Kansas expenditures are orders of magnitude lower than the reviewed studies, the jobs created may be substantially higher due to the small fragmented nature of the state's industry. As the Kansas industry grows and approaches these larger expenditure levels and begins to capture economies of scale, it would be expected to approach the 10 jobs per \$1 million in direct expenditure. However, as was experienced in areas with an independent local focus, the public sector share of these larger direct expenditures becomes increasingly smaller.

Business Training A critical component of an independent film initiative would be that *all participants in the various programs be required to attend training seminars or workshops in business practices to enhance the business operations skill-set of filmmakers.*

II. Background

The work that culminates in this report began with formation of the Lights, Camera, Action (LCA) subcommittee in the Kansas House of Representatives. The subcommittee was formed as a result of two film related activities that generated interest Kansans have regarding the potential for an expanded presence of the film industry.

In January 2004, considerable excitement surfaced among film advocates in Kansas over the Sundance Film Festival's selection of University of Kansas professor Kevin Willmott's independent film *CSA: The Confederate States of America*² for showing at the festival. The film, written and directed by Professor Willmott, was shot in Kansas and completed using local resources and the filmmaker's personal commitment. After the festival, the film's rights were purchased by IFC Films Inc. for distribution in 2005.

In late-January, Charles Miller made presentations to committees of both the Kansas Senate (Commerce Committee) and Kansas House of Representatives (Committee on Economic Development). He described his organization, Kansas Connection, Inc., as a non-profit corporation that serves as a resource to provide contacts and generate opportunities for film industry professionals in Hollywood who have Kansas ties.

Kansas Connection started in response to challenges faced by film professionals who left Kansas feeling their best career opportunities were outside the state. A Kansas Connection internal assessment of program and activities concluded that for Kansas to build a successful film industry it required a level of "sustained production." And recommended "... Kansas become the new and permanent home for low-budget independent filmmaking in the world" (Mr. Miller's testimony, January 29th).

Proposed was a four-year \$25.8 million program where the Kansas Connection would produce 12 independent films with average budgets of \$2 million. The state would retain 50% revenue ownership and, besides being filmed in Kansas, at least one of those in "a primary creative role" (e.g. writer, director, producer or lead cast) would be a Kansan.

² *CSA: Confederate States of America* is described as a mock documentary that satirically examines how different life in the United States would be today if the Confederacy had won the Civil War.

The presentation by Mr. Miller and subsequent discussions led to the House Committee on Economic Development creating the LCA.

As LCA meetings were convened, another proposal surfaced regarding efforts to bring a full-scale production studio to the Kansas City area. As described February 20, 2004 in the *Kansas City Star*, the plan sought to produce annually up to five “mid-range” budget films (\$5 to \$10 million) with “known” actors participating. With this visible and active presence of film activity in the area the next step would be to build a “studio with eight to ten soundstages, editing suites, recording studios and 2,000 full-time employees.”

Representatives of that proposal’s development team made a presentation to the LCA. They suggested that the state’s role include: direct funding, letters of credit, or sales tax credits. The development team said that, as a film industry develops, construction of the studio facility and accompanying tourist attractions would begin. Preliminary estimates called for a \$150 million project. The project would seek funding through the STAR bonds program (funding mechanism similar to how the Kansas Speedway was financed).

The convergence of these separate activities generated interest in what the state might do to promote a Kansas film industry.

In its first report to the LCA, Kansas Inc. noted the short timeframe and the dollar amounts associated with the proposals made Legislative action in 2004 impractical. With more time to review data and interview film advocates, a set of initiatives more inline with state budget realities could be crafted. The Kansas Film Commission requested between the sessions that Kansas, Inc. further review the industry and options open to the state to attract a larger and more permanent film industry.

III. Current Status of the Film Industry

The film industry is seen in states and in larger urban centers as attractive for both its economic impacts and image enhancement potential. States, regions, and individual communities have in place a myriad of options: from sales tax credits to actual direct investment in films; less expensive support includes assistance with finding specific locations and providing lists detailing persons or organizations with technical skills required for film production. Interviews and other analyses present a growing trend among states for adding to existing tax incentives for in-state production recruitment, with programs that provide direct cash or rebates to producers.

International Competition: Previously considered a competition among states, attracting movie production now has a global component that mirrors trends in the manufacturing and service sectors. Movie producers have found that they can either produce movies at significantly lower costs in countries that feature low production costs or take advantage of substantial incentives, abatements, and direct investments available in other countries, chiefly from Canada and Eastern Europe.

On August 26, 2004 a front page *Wall Street Journal* article described Hungary's plans to build the world's largest production studio. The article further notes that Hungary has developed incentives for film projects that are "viewed in Hollywood as among the most generous in the world." In discussing competition Hungary will face to recruit film production, the article mentions Canada and the European Union, but not California or any other states in this country. The studio project faces "worldwide competition heavily dependent on subsidies." For example, Ireland has income-tax deductions that on average reduce a producer's budget by 11%. Romania can attract films without a subsidy (*Cold Mountain*) claiming lower production costs that reduce budgets by as much as 30%.

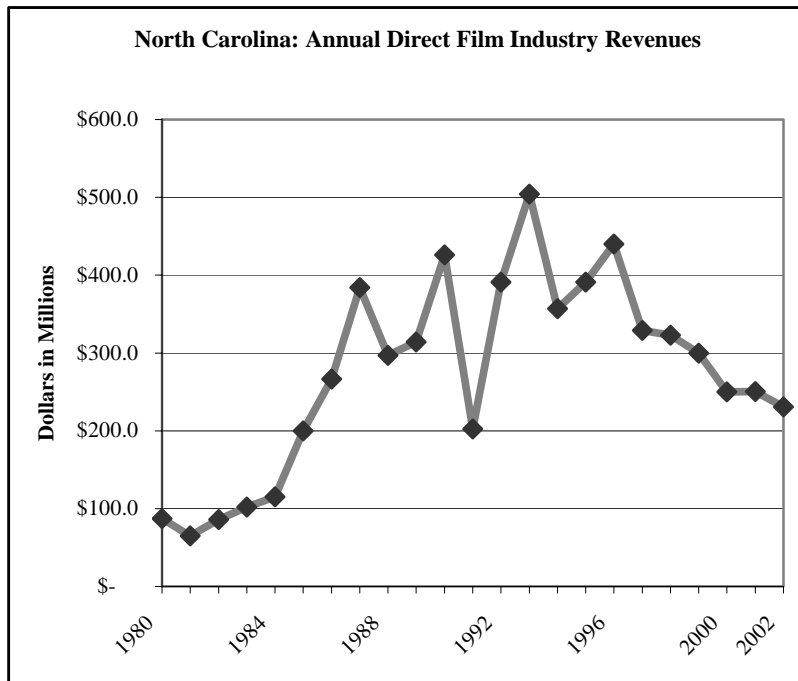
United States: In the past, the focus of various film commissions has been largely on attracting major film productions; with their sizable cash injections over multiple-day location shooting³ and the excitement national celebrities bring to an area. While lucrative, these activities are cyclical and impossible to predict with any accuracy. The continuing success of other countries in attracting production has made this strategy even more expensive and difficult to project expected revenues.

³ \$100,000 direct investment per day for major productions and \$85,000 per day for mid-range budget films as estimated by the Association of Film Commissioners International, although Kansas, Inc. was not able to receive information regarding how these estimates were derived – acceptable multipliers to capture total impact are in the "2" range for expenses that *actually* are made in the host community.

Successful film commissions are often best able to support and attract the film industry and local workforce professionals by creating an environment that allows for smaller productions like commercials, industry films, and music videos. Although, less glamorous, these efforts provide a base and ongoing support for the local industry and workforce during times when there are no mid-to-major film productions. States and regions are also beginning to adopt strategies to retain local film professionals and develop their local independent film industry.

North Carolina provides a dramatic example of the impact of two trends: 1) increased state competition and 2) less film production in the United States. A state that in the past was considered innovative and successful in developing a film industry where one did not exist previously, North Carolina has billed itself as

third in film production in the nation, behind California and New York. In 1993, the state had direct revenues from film production peak at over \$500 million. Citing “runaway” production costs as the major culprit, the state’s direct revenue from film production has decreased nearly 60% in nine years.



Given how sensitive producers are to costs, the American dollar falling against foreign currencies will present a short-term opportunity to capture some productions that may have filmed outside the United States. However, other countries will respond, as Canada is doing now, and will most likely expand incentive and tax breaks to remain the lower cost alternative.

Kansas: The state has been competitive in the past for television and film production and can point to multiple successes. The Kansas Film Commission has an engaged and effective board and the Department of Commerce has had, and continues to have, consistently high quality staff to conduct its film initiative.

At one time, Kansas had quite a bit of success targeting made-for-television movies (*The Day After*, *Murder Ordained*, *Sarah Plain and Tall*, etc.). But as happened throughout the United States, once Canada developed its film recruitment strategy, these movies are no longer produced in Kansas. In fact nearly all made-for-television movies are filmed in Canada.

Staff responding to this trend have focused efforts on assisting instate growth and smaller productions (commercials, music videos), while continuing outreach and education to studios regarding the benefits of Kansas for filming.

The film studies program in the Department of Theater and Film at the University of Kansas is well respected and has a growing national reputation. The film studies program is housed at Oldfather Studio, described as “a fully equipped film and video production facility featuring a soundstage, sound and editing suites, screening rooms and classrooms.” The studio is the former home of Centron Studios, at one time, a national producer of industrial, educational and military films (see box).

With the growing reputation and student interest in filmmaking, KU’s film department is beginning to feel the strain. They have an increased enrollment in a confined space and have begun to seek alternatives to handle the increased interest in its program.

Centron Studio

Lawrence, Kansas was a preeminent location for industrial, educational, and military films beginning in 1947 until the late 1980s. Centron Studio was named to combine the region’s central location with optimism of an electronic future. Its first film was a 10-minute instruction video titled “Sewing Simple Seams”. Over the next 40 years, relying on local actors and developing its own production professionals, the studio produced movies with titles that include: *Cheating*; *The Gossip*; *The Trouble Maker*; *Shake Hands with Danger* (safety film on the dangers of working with earth moving equipment); and *What About Juvenile Delinquency*.

The studio produced a short-documentary *The Leo Film* that was nominated for an academy award and a filmmaker with Centron wrote, directed and produced the cult-film classic *Carnival of Souls*.

While today the films may seem quaint and old-fashioned, the studio’s work still has many admirers, as one example “Centron films are full of unusual devices and experimentation ... never seem stamped out of a mold ... seem[s] to have nurtured a healthy streak of experimentalism, making films that pushed the acceptable boundaries of expression in the educational film business without ever sacrificing their good-natured, look-the-viewer-in-the-eyes style” (website notes from author Kevin Smith).

Technology improvements and lower production costs resulted in the industry moving away from 16-millimeter cameras and in-house production units proliferated. As the Centron partners neared retirement the choice was made to ride out contracts using the old technology rather than respond to the industry shift. Centron was sold in 1984; production closed down and the film library was sold or donated to collectors. The studio, built in the 1950s with a full sound stage and a vault used to secure films being produced for the Pentagon, was donated to the University of Kansas. Oldfather Studio is the present location for the KU Film Studies program.

The Kansas “film story” is not restricted to the University of Kansas or northeast Kansas. A growing number of independent filmmakers are opting to stay in Kansas or have come to the state to take advantage of the scenery, the cooperation available in most Kansas communities, and low costs coupled with a strong workforce and technical savvy.

Wamego filmmaker Steve Balderson, is another example of an independent filmmaker seeking to impact the industry while remaining in Kansas. His most recent film *Firecracker* was unveiled at the 2004 Raindance Film Festival in London. Mr. Balderson was featured in an interview available at the Entertainment Insiders website ⁴. In the interview he noted that, “part of his vision is working full time as a motion picture director while living in Kansas.”

“There is something I feel about taking Kansan talent, or writing stories about Kansas. I’m obsessed with this place. I think it is amazingly haunting and gorgeous at the same time.”

- Filmmaker Steve Balderson, Wamego

⁴ <http://www.einsiders.com/features/interviews/stevebalderson.php>

IV. Film Industry as Economic Development

Early on it was recognized that the film industry is not a traditional economic development activity. Some production-type employment exists with local agencies or television station, but it is an industry in Kansas largely dependent on contract for hire work at the local level or involves one or more independent filmmakers employed in other jobs. The Kansas Department of Commerce requested, Kansas, Inc. attempt to estimate job impacts associated with the direct investment in film industry. The job creation numbers are not as high as advocates would hope but they are the best estimates that exist – numerous discussions have revealed that maybe economic development impacts is not the best way to fund or evaluate film investments.

Job Estimates: Kansas, Inc. reviewed separate studies on the economic impacts of the film and visual arts industry for Austin, Texas and Portland, Oregon, and the states of Colorado and Oregon. Each report documented the difficulty in identifying and quantifying employment in the film and visual arts industry and relied on estimates to determine direct impacts.

TABLE 1 presents information relevant to this analysis: the estimates of jobs attributable to direct production expenditures by the industry. Using various methodologies and data collection the studies attributed between nine and ten fulltime equivalent jobs generated by film/video expenditures of \$1 million.

The studies reviewed noted that the film and video industry frequently relies on independent contractors hired part-time while a production is underway. In a number of instances, a single full-time-equivalent job may actually be 12 part-time jobs that last one month rather than a full-time permanent job.

TABLE I - Film Industry Jobs Impacts	
Austin, Texas	
\$216.4 million	Estimated Direct Expenditures
3,512	Estimated Fulltime Jobs
9.30	Jobs per Million Dollars of Direct Expenditures
<i>Source: "Film & Visual Media in Austin" Texas Perspectives Inc., Spring 2005, pg. 11</i>	
Portland & Multnomah County – Oregon	
\$331.8 million	Estimated Direct Expenditures
3,032	Estimated Fulltime Jobs
9.14	Jobs per Million Dollars of Direct Expenditures
<i>Source: "The Economic and Fiscal Impact of the Film & Video Industry on Portland and Multnomah County" ECONorthwest, August 2001, page 28</i>	
Colorado	
\$329.0 million	Estimated Direct Expenditures
2,667	Estimated Fulltime Jobs
8.10	Jobs per Million Dollars of Direct Expenditures
<i>Source: "The Impact of the Film Industry on Colorado" Business Research Division- Leeds School of Business – U. of Colorado, May 2003, page 3</i>	

The studies relied on multipliers that are traditionally much lower than those often assigned the film industry and these are probably more realistic. The Austin study relies on a 1.66 multiplier and Oregon uses 1.7 for film and video. For purposes of estimating indirect and induced impacts this research used 1.7 for its multiplier.

If Kansas has current annual film industry expenditures of \$7,000,000, that would suggest about 70 full-time or full-time equivalent jobs are attributable to state film and visual arts production. Most likely this understates the number of jobs in Kansas given the much larger size of film expenditures in the three studies. That is because smaller and startup industries historically have yet to reach economies of scale that would allow them to begin to capture job efficiencies. Additionally, this estimate does not include those working in local and regional television and the Film Commission's current tracking capability misses productions in Kansas that occur in the event the Commission is not contacted.

Over time it would be reasonable to expect as direct film expenditures increase in Kansas that 10 jobs per \$1 million in direct production expenses with a 1.7 multiplier would serve as reasonable estimates of economic impacts. But until direct expenditures and the industry grow in Kansas, these numbers should be used as guides rather than an actual count.

Cultural/Arts: As noted before, state investments for film promotion need to be justified for purposes other than traditional economic development reasons jobs per dollar investment. Supporters focus on total economic dollar impacts, youth retention and attraction, and small business entrepreneur startups and growth, and also arts and cultural impacts.

The Kansas Film Commissionboard is dedicated to seeing film become a major part of Kansas employment and income and they have a passion for filmmaking and its potential benefit to Kansas. Presented below are summaries of statements made by board members in response to the question: *Why Kansas should consider investing in the film industry?*

- Before Canada became so active in attracting production, Kansas was successful in recruiting numerous movie and made-for-television movies. The state had a good reputation for quality crews and effective and efficient staff to assist film productions.

- Recognizing the changes impacting our base industries (agriculture, aviation, oil and gas) the Legislature adopted a \$500 million project for biosciences. Kansas has multiple advantages as a film location and for considerably smaller investments can develop an industry presence and one that will continue to grow – the state may need to invest funds or forego income but the impacts will be just as substantial.
- Kansas has a rich history of providing past and present film talent, experience has shown that those with Kansas roots will be a resource to help bring production to the state.
- Quality of life impacts are substantial, communities and citizens are excited to have movies and well-know personalities in their areas. Films generate positive feedback both in the state and nationally when Kansas is portrayed in movies.
- Dollar and job impacts are significant and multiple ancillary jobs will grow (photography, music, graphic arts, etc.).
- The state has nothing to lose in encouraging more film production in Kansas – positive image, dollars brought into the state, Kansas improved reputation for business outreach and support.
- California is less attractive for many reasons for filmmakers, they are actively seeking alternative locations and many states and localities are stepping up to try and attract them.
- A film initiative has to be seen as a business model, it takes money and incentives to launch or expand an industry and filmmaking can be an industry Kansans can look to with pride and imagination.
- The industry is already important, but with investments smaller than the Kansas City, Kansas race track or the Bioscience Authority, the state can capture permanent and substantial economic gains.
- The Kansas film industry is full of young people and retaining and attracting them should be an important component of Kansas’s long-term economic growth strategy.

V. Recruitment Production Strategy

States with substantial incentive packages are usually those seeking to recruit studio production. Studio and computer technologies are increasingly making production locations neutral, providing amazing flexibility to make any place capable of replicating another location, therefore in most instances; producers can go where their costs are the lowest.

A production coming to a region has a significant impact on a community and, depending on the need and demand for specific locations, skills, or talent, those benefits can be spread over a larger region. The impacts are substantial; one industry standard notes (although Kansas, Inc. could not verify the methodology) a major movie production will spend an average of \$100,000 a day on location. The economic impacts last only while the actual production is underway, so they are temporary, but as a location's reputation for being a good place for filming grows, future production recruitment will naturally be enhanced.

Kansas Incentives: The primary incentive package offered by Kansas is for no hotel occupancy tax when a production stays longer than 28 days. Film Commission staff provide direct support similar to other commissions in being a resource to productions by helping with a multitude of film requirements – for example, location and building scouting, promotion of filming, contacting in-state technicians and acting professionals.

Tax Incentives and Credits: Until recently states relied on a fairly traditional set of incentive packages – sales tax elimination or reimbursements and job tax credits. However, states are now beginning to develop innovative and substantial incentives ranging from tax credits to direct investment in films. These efforts have greatly increased the cost associated with attracting a production to a state. However, the programs are often structured to insure that a production spends in the state a dollar amount equal to the amount the state invests, rebates, or gives up.

Louisiana is the current focus for states that are seriously entering the film production competition. In 2003, legislation was passed taking the film commission out of the state's Department of Economic Development (abolishing the Louisiana Film and Video Commission) and creating the Governor's Office of Film and Television. The Governor's office introduced and the Legislature passed a number of aggressive incentives and credits to encourage production in Louisiana. The three principal tax incentives are:

1. Targeting private investors who fund a film produced in Louisiana to receive tax credits against income tax owed Louisiana – a credit of 10% for investments between \$300 thousand and \$8 million, this increases to 15% for investments over \$8 million each year;
2. A credit of 10% if total payroll for employing Louisiana residents is between \$300 thousand to \$1 million, the credit increases to 20% for annual payroll over \$1 million The credit applies to any of the production company’s Louisiana’s income tax or corporation franchise tax liability;
3. Sales tax exclusion for film projects that will exceed \$250 thousand in one year when the payments are made using a check from a Louisiana bank.

A production with no Louisiana tax liability can sell tax credits to brokers, the state estimates studios are receiving between 65 cents and 70 cents on the dollar. State officials estimate the three incentive programs will result in \$30 to \$70 million loss in state revenues, but estimate an impact of as much as \$300 million spread throughout the state.

Louisiana officials point to *New York, Illinois, Oregon, and California* as expected to enter the incentive fray at a level comparable to Louisiana. They note they are ready with new ideas and incentives once other states catch up.

Direct Investments: Increasingly there is evidence that the next wave of film recruitment tools will involve direct provision of cash for productions and/or rebates.

New Mexico, with an \$8.6 billion severance tax endowment, developed a program of directly investing in films. A \$3.6 billion part of the endowment can be risked in more aggressive investment ideas and the New Mexico legislature voted to create a direct film investment program, using up to 2.5% of the fund (about \$90 million).

Recognizing how risky⁵ the film industry is, New Mexico opted for a maximum investment of \$7.5 million per film allowing for risk spreading among multiple films. State leadership expects the investments to make money and provide a greater return than the conservatively invested Severance Tax Permanent Fund receives.

⁵ “You must be a wild gambler to invest equity in a single film or even in a small slate of films ... The film industry has a voracious appetite for money. Overall the film industry could be viewed as a roving predator ever searching for the next victim to suck dry of cash” pages 12-13; *The Biz, the basic business, legal and financial aspects of the film industry*; Moore, Schuyler M.; Silman-James Press, 2002

In late 2004, New Mexico had invested in four films providing a percentage of the total production costs, although the legislation does allow for the state to be sole investor in a project if it chooses. The first movie, *Suspect Zero*, used \$7.5 million of New Mexico funds, representing about 25% of the total \$27 million budget. The film released in August 2004 has had disappointing results. In the first two months, worldwide grosses were just over \$9.2 million. It remains to be seen whether DVD sales will be sufficient for the project to make a profit.

The fund managers would like all projects to succeed and make profits, but the New Mexico direct investment program is setup through insurance to make sure at a minimum the state will recoup their initial investment within three to five years. Those seeking support from the direct investment program must follow strict guidelines and have a number of upfront guarantees and insurance before even being considered by the investment group. Additionally, the New Mexico investment board must approve the script following two reviews held for films that are expected to have “R” ratings.

Further support for the program is generated by the requirement that the production company must document that at a minimum it had in-state expenditures equal to the amount loaned by New Mexico. It is required that a specified percent of film workers be residents of New Mexico.

State film promoters note that since the direct investment program began, the demand for full-time employed film crews has increased from one crew to about four crews. This has resulted in the state undertaking a number of workforce training initiatives to insure an adequate number of skilled workers exist to assist with productions. With the growing, highly skilled workforce available in New Mexico, film productions now come to the state that are not seeking direct investment from the state. The entirely studio-backed remake of the movie *The Longest Yard* is estimated to have used 300 hotel rooms and 250 rental cars for the 30 days of filming in New Mexico.

Rebates for In-State Production: With a \$90 million pool, New Mexico clearly has the premium direct investment program. Arizona is among states considering a direct investment type program, but recognizes the competitive advantage New Mexico has. On a smaller, more administratively manageable level, states like *Florida, Oklahoma, and South Carolina* recently began programs to directly reimburse a portion of funds spent on film production.

The Florida Legislature appropriated \$2.5 million for cash rebates to productions. The state will reimburse 15% of all direct expenditures in Florida. The maximum rebate for motion pictures is capped at \$2 million; television programs, music videos, and commercials are eligible for lower rebates.

Requests for reimbursement must include receipts or other evidence of direct expenditures in the state. This past summer Florida attracted the sequel to *The Transporter*, which was originally planned for filming in Europe, but opted to film in Florida partially due to the new incentive. Expectations are, given this initial success, the Florida Legislature will be asked to appropriate an amount greater than the \$2.5 million during the next budget cycle.

Cash vs. Tax Credits: If Kansas is going to pursue a production recruitment strategy, it will in all likelihood have to adopt one of the cash-intensive programs noted above while being competitive with the other states in sales and job tax incentives and credits. While there is evidence that tax credits are beneficial to the producer's goal, lowering the cost of making the movie, it appears that increasingly the lure of cash, all things being equal, will be the preferred incentives.

It is possible to have both a production recruitment strategy and an independent film development plan. The independent film development strategy will be more time-intensive for staff and may make a dual approach difficult. In contrast production recruitment is not as time-intensive, but is more expensive.

It is possible, as has been experienced in other areas, to have an independent film effort lead to production recruitment – availability of technical and skilled workers and a set of professionals with filmmaking savvy.

VI. Independent Film Strategy

In some respects a strategy to promote the local independent film market is riskier than a production recruitment program, but an independent strategy will involve less funding from the state. While less money would be involved, it is also harder to quantify impacts and economic rewards could take longer to materialize.

The Austin Model: If Austin is any indication, once an area develops a reputation as a good place to film with a skilled workforce and a solid understanding of the needs of the film industry, producers begin seeking those places and can be somewhat indifferent to incentives and credits. Interviews in Austin reveal a genuine confidence that while aggressive action by other states to recruit film production may indeed lead to short term drops in production revenues, they do not expect a long term decline.

The city has experienced temporary declines before as other areas introduce new incentives. Eventually filmmakers return based on Austin's skilled technicians and professionals, and its movie making savvy. References were made to **"buying a movie industry"** which may work in the short run, but other states step in and replicate the new incentives creating a zero sum game. A permanent industry happens when an area has local commitment and experience to accommodate the industry and a quality skilled workforce.

The "Austin Model" began, quite simply, with the arrival of two young and creative filmmakers (Richard Linklater and Robert Rodriguez) in the 1990s whose intentions were to become successful and to live and make films in Austin. As their reputations and successes grew and their commitment to Austin remained firm, young people seeking them out for tutelage came to enroll at the University of Texas (UT) and learn to be filmmakers. Eventually actors in their movies who enjoyed the Austin lifestyle or were UT alumni began seeking out projects that could be made in and around Austin.

As this filmmaking niche was developing, UT expanded its already successful film studies program. Local residents also point to the city's national recognition for great nightlife around its live music district and its willingness to welcome and assimilate all types of creative and unique individuals.

Two substantial film festivals evolved over time, the largest (South by Southwest) began as a music festival and, consistent with Austin's reputation, later added film. The Austin impact study ("Film and Visual Media in Austin") estimates the two festivals account for a combined tourism expenditure impact of over \$6 million.

The city in the late 1990s' turned over the hangars at the abandoned Austin Municipal Airport to the Austin Film Society (AFS). These facilities allow movies to be shot in Austin involving scenes for everything from large yacht on a non-existent lake (*Secondhand Lions*) to national beauty pageants (*Miss Congeniality*). Through the re-investment of rental and other fees, AFS now has state-of-the-art sound stage technology and screening rooms.

While efforts are underway to secure grant funding for the hangars to be climate and sound controlled, it is important to remember that the city's reputation grew on the strength of its people and their "whatever it takes" attitude; to this point the **production studios remain, simply, old airplane hangar shells.**

The Austin film industry has grown from a small industry in the 1990's to, as reported in the Austin study, having a \$359 million total impact today which includes almost \$200 million in direct major-film production in 2003 (*The Alamo, Friday Night Lights, etc.*).

A final more recent initiative is at the UT Film Institute, which created a for-profit Burnt Orange Production Studio to make movies using increasingly larger numbers of UT graduate students in technical and creative roles. The leadership at the Film Institute recruited past UT film school alumni as investors and raised \$8 million for film production. The plan is to make eight movies over the next three years with each film having a \$1 million budget and to be cast with nationally known actors. The UT studio seeks to make money from the body of films to both reward investors and ongoing funding of film studio operation and future films.

The Lawrence/Kansas Parallel: Those most excited about Kansas's potential to develop a home-grown independent film industry point to the "Austin Model" in its early stage and the current situation in Lawrence and at KU. In addition to the presence of the Regents' only film studies program at KU and a growing regional reputation as having a highly creative music district in Lawrence – many people acknowledge the growing creative reputation of KU Film Professor Kevin Willmott and the success of his independent movie *CSA: Confederate States of America*. As noted earlier, the film is being prepared for international distribution. In the US the film is to premier in 2005 on the two coasts before moving to a broader national distribution.

Additionally, film advocates are enthused about the growing reputation of Wamego resident Steve Balderson who has expressed an equally strong commitment to make films in Kansas. On the strength of his independently made films *Pep Squad* and *Firecracker* (which is currently being shown at film festivals and is seeking a distributor), Mr. Balderson is developing his own growing national reputation. These two young and emerging filmmakers can play roles in Kansas comparable to Linklater and Rodriguez in Austin.

A focus on developing a permanent film industry should not be seen as restricted to Lawrence and Northeast Kansas. In Austin, the production studio serves as a central location with areas in a 400-mile radius benefiting. The recently released *Friday Night Lights* did central location work out of Austin and made the almost 400-mile trip to Odessa for filming at the town and high school featured in the story. There is no reason a Kansas filmmaker cannot develop and produce the story of the birth of drag strip racing with the film shot in Great Bend, Kansas. As Austin has demonstrated, an independent filmmaking strategy should be considered a statewide program.

Beyond the excitement generated at KU, there are filmmakers throughout the state that can take advantage of a film initiative. The existing base of independent filmmakers who are trying to make careers in Kansas would benefit from efforts to promote the industry. While it is typical, it is not necessary for independent filmmakers to be graduates of a film school. People from all professions are successfully engaged throughout the state in making unique, imaginative and exciting films. Many Kansas-based filmmakers want to stay in the state and a number are making movies here. Consistently, interviews revealed that a small investment in them and their craft would have a huge impact and could provide incentives for others to stay or even return.

Areas that surfaced, during multiple interviews, as important to helping these professionals included: small cash injections to cover costs with creating the first short film portfolios; partial assistance with the next major step in filmmaking – the feature-length film; capital assistance through loans to bridge gaps in post-production; networks; and communication/education assistance to understand how to get films distributed, develop networks to assist with finding investors, and training on the “business” side of being a filmmaker.

Retaining Youth: Finally, the independent film industry is stocked with many young people trying to make their dreams a reality while staying in Kansas. These are some of the states most creative citizens and many want to tell Kansas’s stories. As the state population base ages and efforts are put in place to attract and retain young people, an independent film initiative may be one strategy for achieving that goal.

KANSAS, INC.

Created by the 1986 Legislature, Kansas, Inc. is an independent, objective, and non-partisan agency designed to conduct economic development research and analysis with a goal of crafting policies and recommendations to insure the state's ongoing competitiveness for economic growth. This is achieved through these primary activities: 1) developing and implementing a proactive and aggressive research agenda; 2) identifying and promoting strategies and policies from the research; 3) conducting evaluation reviews and oversight of programs; and, 4) collaboration with economic development entities and outreach to potential partners. Kansas, Inc. is designed to be a public private partnership with expectations that state investments are leveraged with other funds to maintain a strong research portfolio.

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