San Francisco Film Office

San Francisco Film Cluster Economic Analysis

April, 2007

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About This Report

San Francisco's film industry has a long history of producing critically-acclaimed and financially successful motion pictures and television programs. Many of the motion picture industry's top directors, producers, and actors make their home in San Francisco or the Bay Area. While these facts may stake San Francisco's credentials in Hollywood, they are not sufficient in gauging the current, or potential, importance of film production to San Francisco's economy, or its impact on other sectors. The film industry, and the broader film cluster, has been severely challenged by significant new trends in the industry, and the emergence of aggressive new competition from cities across North America and the world.

To gauge San Francisco's opportunity in this changing environment, we need a solid understanding of the technological, market, and geographical trends in the industry. The San Francisco Film Office commissioned this report to guide future City policy for the industry.

This report has five chapters:

- Chapter 1 reviews official government statistics to examine the recent decline in San Francisco's film industry, the role and performance of other industries in the broader film cluster, and the economic impact of a declining film industry on San Francisco.
- Chapter 2 reviews recent trends in the media industry, focusing on growth markets, geographic patterns of growth, and technological changes in the industry.
- Chapter 3 reports on the results of a survey of filmmakers and other industry employers and employees in San Francisco, focusing on their educational background, market focus, perceptions of the local business climate, and recommended policy areas.
- Chapter 4 presents a detailed review of film industry development strategies in other jurisdictions in the U.S., and around the world.
- Chapter 5 offers goals and recommended actions to advance the development of the film cluster in San Francisco and the Bay Area.

Chapter 1: Economic Impact of the San Francisco Film Cluster

This chapter profiles and reviews the economic impact of the film industry and broader film cluster in San Francisco. Although the past few years have been difficult ones for the film industry in San Francisco, the City possesses many advantages and is well-suited to capitalize on significant trends affecting film, the broader media landscape, and the Internet. These advantages, and the challenges that remain to be solved in order to fully capitalize upon them, will be discussed in full in later reports.

One important aim of this report is to establish valid and objective estimates of the size and characteristics of the film industry in San Francisco, using official government statistics. Three such data sources are used in this report:

The *Quarterly Census of Employed Workers* (CEW), produced by the Bureau of Labor Statistics, which reports establishment, employment, and payroll data by industry for counties in the United States. This information is built from unemployment insurance forms submitted by companies, and includes only employees who are covered by unemployment insurance (called "salaried" employment in this report).

Non-Employer Statistics, released by the Census Bureau, which reports the number of non-employer establishments (essentially, self-employed individuals) by industry for counties in the United States. It also includes the total gross receipts for non-employers in the industry and county. This data is by the Census from IRS income tax returns.

The Canadian *Labour Force Survey* is an equivalent Canadian survey to the U.S. Census of Employed Workers. It reports full- and part-time employment by industries for Canadian provinces.

Structure of the Film Industry Today

Employment by Segment

The federal government reports industry statistics through the use of North American Industrial Classification System (NAICS) codes, which organize companies into sectors and detailed industries such as manufacturing, services, information, and trade. NAICS codes range from 2 to 6 digits, with more industry detail available with more digits.

Most companies and independent operators in the film industry are classified under NAICS 5121, "Motion Picture and Video Production". Within this four-digit industry, there are five six-digit NAICS codes for which data on establishments, salaried employees, and averages wages are available for San Francisco and other areas in the United States. The segments are:

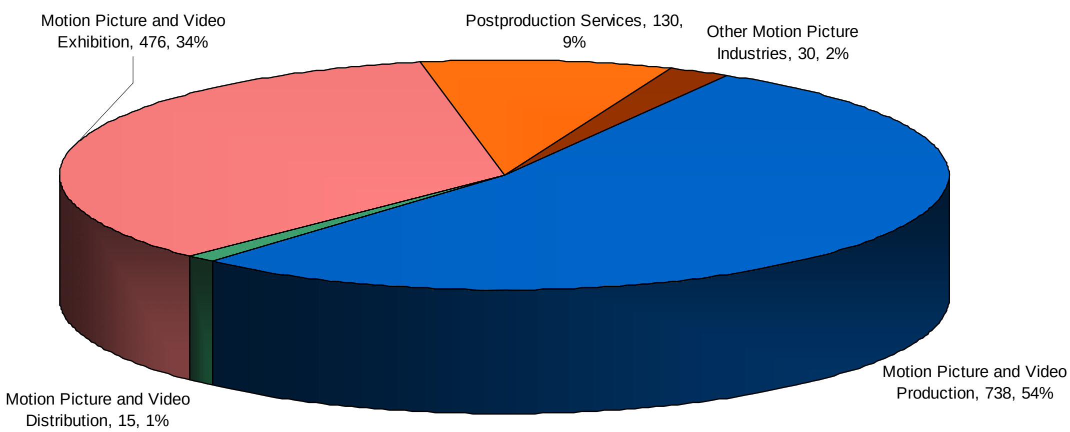
- *Motion Picture and Video Production* (512110), consisting of "establishments primarily engaged in producing, or producing and distributing motion pictures, videos, television programs, or television commercials."
- *Motion Picture and Video Distribution* (512120), consisting of "establishments primarily engaged in acquiring distribution rights and distributing film and video productions to motion picture theaters, television networks and stations, and exhibitors".
- *Motion Picture and Video Exhibition* (512130), consisting of "establishments primarily engaged in operating motion picture theaters and/or exhibiting motion pictures or videos at film festivals". This segment has little to do with the level of production and distribution employment in a city, so it will not be extensively considered in this report.

- *Post-production Services* (512191), consisting of "establishments primarily engaged in providing specialized motion picture or video postproduction services, such as editing, film/tape transfers, subtitling, credits, closed captioning, and animation and special effects."
- *Other Motion Pictures Industries* (512199) consisting of uncategorized supporting film services, including film libraries, film laboratories, booking agencies, and reproduction services. There is no way to get government information on these sub-industries individually.

2004 is the most recent year for which annual industry data is available for San Francisco. In that year, the full film industry (NAICS 5121) directly provided 1,389 salaried jobs in San Francisco. Figure 1 below provides the employment totals for each six-digit segment of the industry.

Figure 1

Employment Composition of San Francisco Motion Picture and Video Industry, 2004



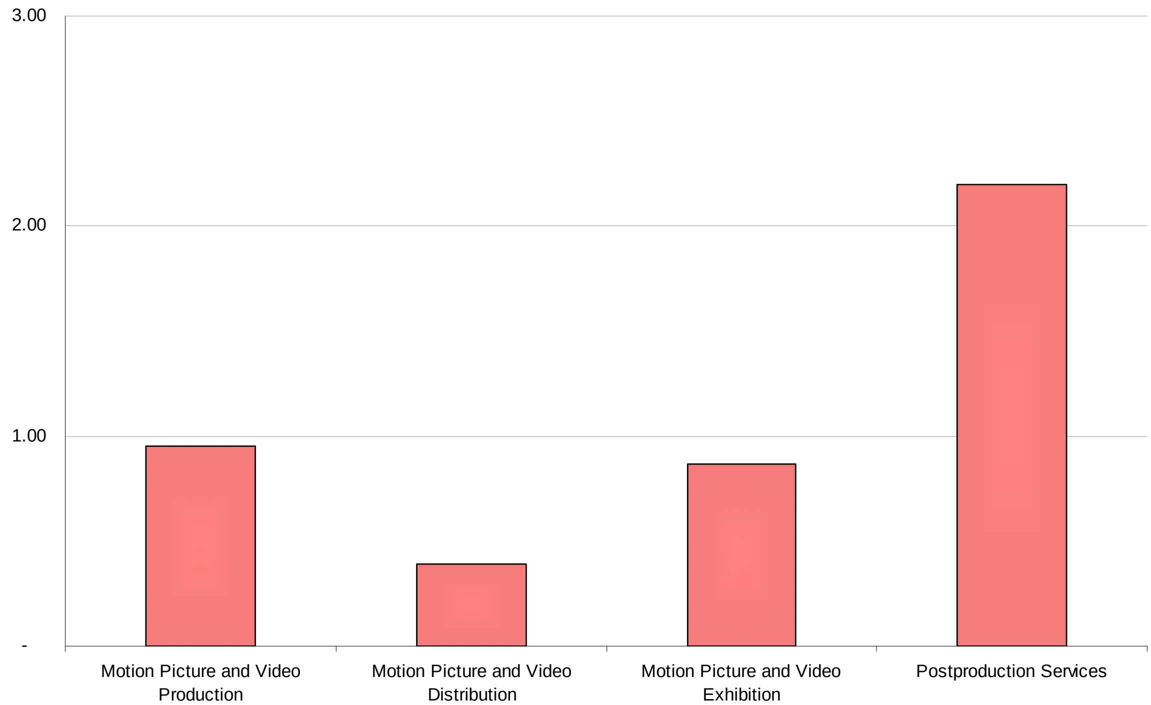
Source: Bureau of Labor Statistics, Census of Employed Workers, 2004

The bulk of San Francisco's employment is in the core production industry, which surpasses even its employment in the exhibition (movie theatres) segment of the industry. Distribution is a very small share of the industry in San Francisco; however post-Production is relatively large, accounting for over 100 employees.

One way to understand how San Francisco's film industry is different from those in other cities in the United States is through the use of location quotients. Location quotients are indicators of industry concentration: they tell us how much employment San Francisco has, relative to a typical U.S. city of the same size. Numerically, a location quotient of 1.0 indicates that a city has exactly the level of employment as a typical U.S. city of its size. Location quotients higher than 1.0 indicate a higher-than-average number of jobs, and those below 1.0 indicate a relatively low number of jobs. Figure 2 shows the location quotient of the major film industry segments in San Francisco, in 2004.

Figure 2

Location Quotients of San Francisco Film Industry Segments, 2004



Source: Bureau of Labor Statistics, Census of Employed Workers, 2004

Location quotients are important indicators in cluster strategic planning because they indicate local sources of competitive advantage and disadvantage. When a city has a high location in a particular activity, it suggests there is some local factor that is attracting investment in that activity, encouraging the development of new firms, or fostering the survival and growth of firms that already exist. Conversely, low location quotients indicate sources of disadvantage that repel investment, inhibit start-ups, and prevent firm growth and survival.

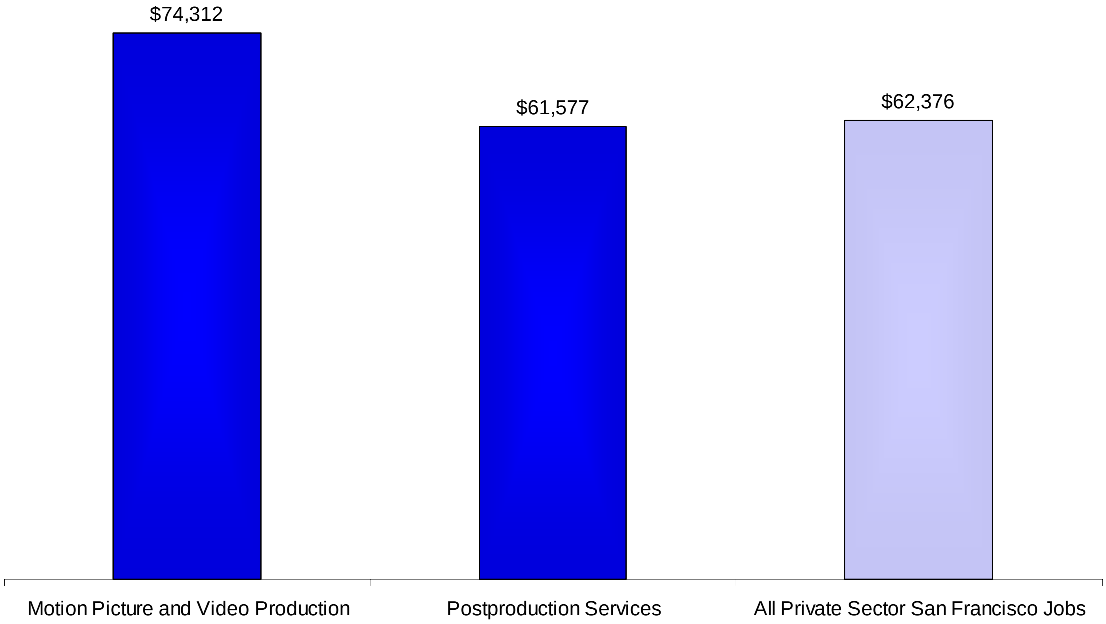
It is striking that San Francisco now has a location quotient below 1.0 in the core segment of motion picture and video production. *This means that San Francisco, despite its legacy of film production and its array of natural advantages, actually has less film employment that the typical U.S. city of its size. Far from being a film production center, San Francisco is now below the U.S. average.*

The one bright spot, relatively speaking, is post-production services. Despite being a small segment that employs only 130 people, San Francisco has twice the national average level of employment in this industry. The reasons why San Francisco has strength in post-production but weakness in production will be explored in later analysis.

Another important dimension of the film industry is the wages it pays. As Figure 3 below indicates, wages paid in the film industry are significantly above the City average.

Figure 3

Average Annual Salary, 2004:
Film Industry Segments Compared with the San Francisco Average



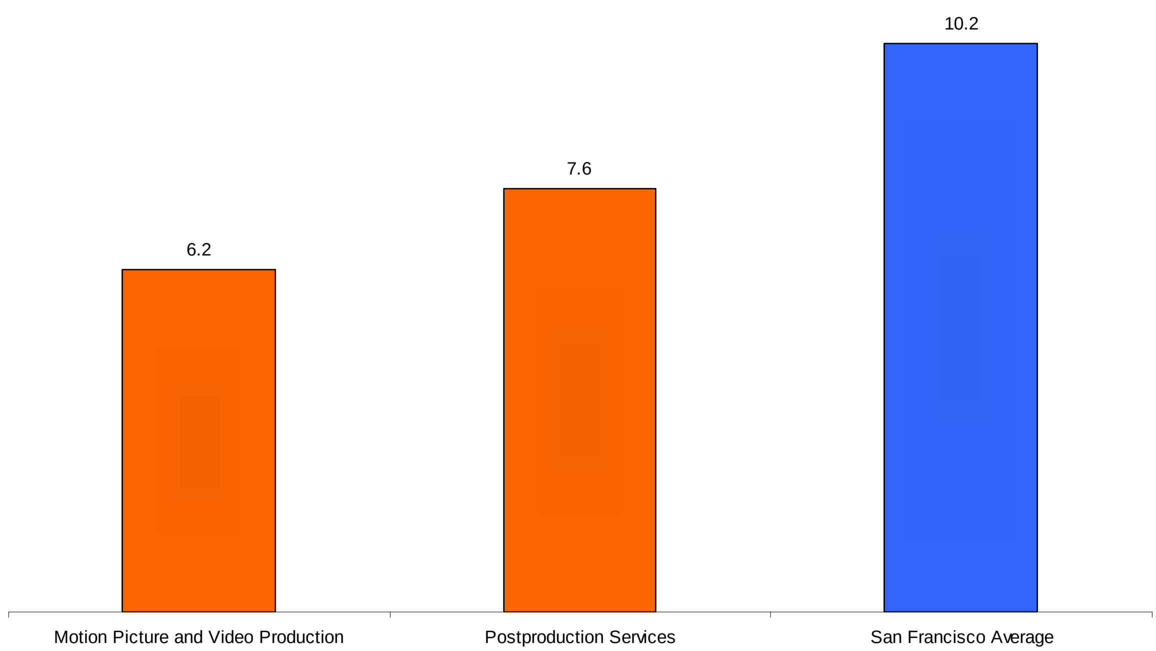
Source: Bureau of Labor Statistics, Census of Employed Workers, 2004

The largest segment in the industry, production companies, pays on average $74,000 a year. This is about $13,000 a year more than the average salaried job across all industries in the City. The average salary for the much-smaller post-production services is slightly less than the city average, at $61,577 in 2004.

Another important aspect of the film industry in San Francisco is the importance of small firms. Many firms in the industry are partnerships or small teams that have come together for a single project. The number of large production companies in San Francisco is quite small.

Figure 4

Average Establishment Size of San Francisco Film Industry Segments, 2004



Source: Bureau of Labor Statistics, Census of Employed Workers, 2004

The San Francisco economy as a whole is heavily reliant on small firms: the average establishment in San Francisco has only 10 employees. In the film industry, however, the size is much smaller still. The average film production company has only six employees in San Francisco, and the average post-production company has between seven and eight. As the next section will make clear, these firms size numbers have declined significantly over the past decade, as very small film production teams have become more viable.

Non-employer establishments (essentially, self-employed individuals) are even smaller establishments, with zero employees. They are another significant source of employment in the industry, which have not been included in the preceding analysis. According to the Census Bureau's Non-Employer statistics, in 2003 San Francisco had 545 non-employing establishments in the film industry[1] in 2003, earning gross receipts of $22.7 million.

Combining the salaried employment and self-employed leads to a total employment of almost 2,000 people in the film industry. The self-employed component of the workforce is nearly 30% of the total—a relatively percentage, that emphasizes the importance of short-term work, contingent labor, and personal networks in organizing the San Francisco film industry.

[1] NAICS 5121, which includes all of the segments discussed in this section.

Unfortunately, government statistics cannot provide us any more detail about the activities of these self-employed film industry workers, or their relationship to formal establishments. These questions will be addressed through interviews and surveys later in the project.

The Film Industry and the Film Cluster

The core film industry described in the previous section is part of a nexus of inter-related industries that share key inputs, labor force skills, and suppliers. Economists call these agglomerations industry clusters, and they have become an important frame of reference for economic development policy in recent years.

Clusters are important to economic development because they refer to export-oriented industries that comprise the economic base of a city and drive economic growth, but also include the local suppliers and supporting institutions that can be critical for competitiveness.

For example, production companies produce films that are "exported", i.e. seen and earn income from around the world. Many of their service providers do not generally export, such as specialized photographers. These suppliers nonetheless enable their clients to produce a wider variety of films for export, thus strengthening the "top-tier" film production companies.

Clusters also include other complementary industries that share critical suppliers and infrastructure with the film. Growth in these complementary industries is also synergistic with the film industry—as they grow, they attract skilled workers, develop infrastructure, and build industry knowledge and contacts that can spill over to and benefit the film industry.

The NAICS codes do an adequate job of capturing many complementary industries in the film industry; they do a poorer job for suppliers, many of which are simply recorded in the film industry itself. In San Francisco, key complementary industries include:

- Internet publishing and broadcasting (NAICS 516)—this industry includes establishments companies that produce digital multimedia content exclusively for the internet. There are significant skill overlaps between this industry and the film industry, particularly post-production activities.
- Software publishers (NAICS 5112) —this very diverse industry includes companies that develop and publish software "products" for multiple consumers, within San Francisco and beyond. Of particular interest to the film cluster are:
  - Video game makers, which increasingly use film techniques (if not the film medium itself) to incorporate live-action elements into their content. Video game developers and publishers are counted as software publishers in the government statistics.
  - Animation and digital effect tool companies: San Francisco and the Bay Area have a tradition of innovation in software that allows users to create and manipulate digital content. These technologies have become increasingly important to the film industry as it has increasingly moved to a digital medium, at least for some parts of the process.

  These two industries are local suppliers to the film industry in San Francisco and elsewhere, but are also top-tier exporters in their own right. Unfortunately, it is not possible to separate out video-game producers and tool companies from every other company in San Francisco that produces software products or "packages" (as opposed to providing systems integration services or custom programming).
- Sound Recording Industries (NAICS 5122)—This industry comprises companies and individuals who produce musical recordings, which is an obvious input into the film industry as well as being a top-tier industry in its own right.

- Broadcasting, except internet (NAICS 515)—this industry comprises radio and television broadcasters, including cable television. This industry includes the creation of local programming content, but only for broadcast, not for taped distribution. There are significant overlaps in the skill needs of these industries to the film industry.
- Performing Arts companies (NAICS 7111)—this industry includes theaters, which have several areas of overlapping skill needs with the film industry, in both creative and production areas. It also includes musical and dance groups, and freelance musicians.
- Independent Artists, Writers, and Performers (NAICS 7115)—this industry includes independent (freelance) artists, writers, and entertainers, who are an important source of talent for the film industry.

Companies in these industries could be considered the top-level of the film cluster, because they produce products that are consumed outside of San Francisco. Performing Arts falls into that category because it is part of San Francisco's tourism product.

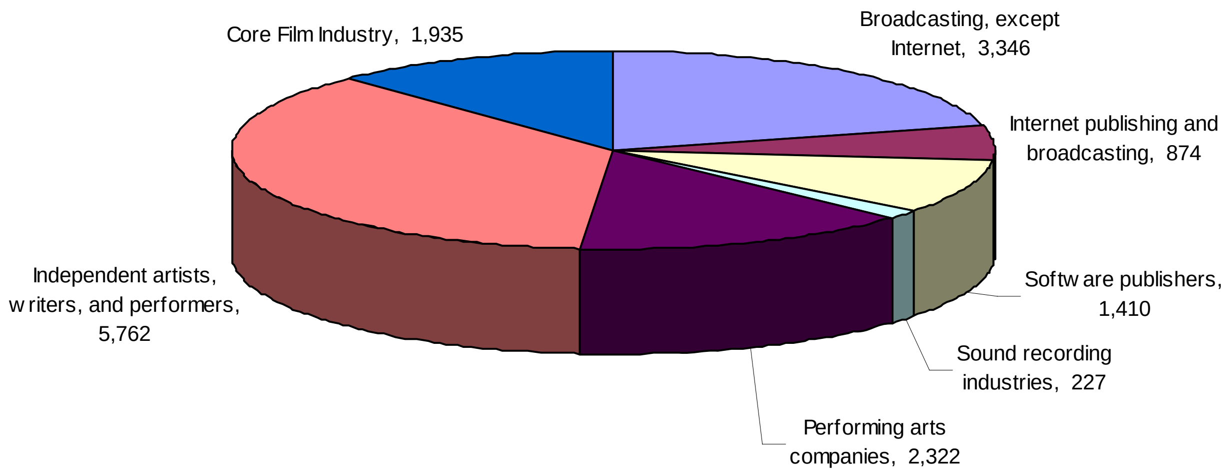
Many suppliers to the film industry and the other top-level industries in the film cluster are actually counted within the film industry itself, particularly if their work is so specialized that effectively all of their business comes from the film industry. Therefore the best way to estimate the suppliers of the film industry and cluster is by looking at their indirect economic impacts (throughout their supply chain in every industry) and representing that in occupational rather than industry terms. This analysis is found in the concluding section.

In San Francisco, the complementary industries in the film cluster, as a group, employ more people than the film industry itself. This is not uncommon for most cities, since film production nationally is highly concentrated in the Los Angeles and New York areas.

As Figure 5 indicates, the core film industry, which was reviewed in the last section, is only about 12% of the total cluster jobs of 15,876. There are well over 5,000 independent artists, writers, and performers in San Francisco, as well as over 3,000 people in Broadcasting and over 2,000 in performing arts companies.

Figure 5

Jobs in Complementary Industries of the Film Cluster, 2004*: Salaried and Self-Employed



* Self-employment data is for 2003.

Source: Bureau of Labor Statistics, Census of Employed Workers, 2004; U.S. Census Bureau, Non-Employer Statistics

Trends in Employments and Establishments

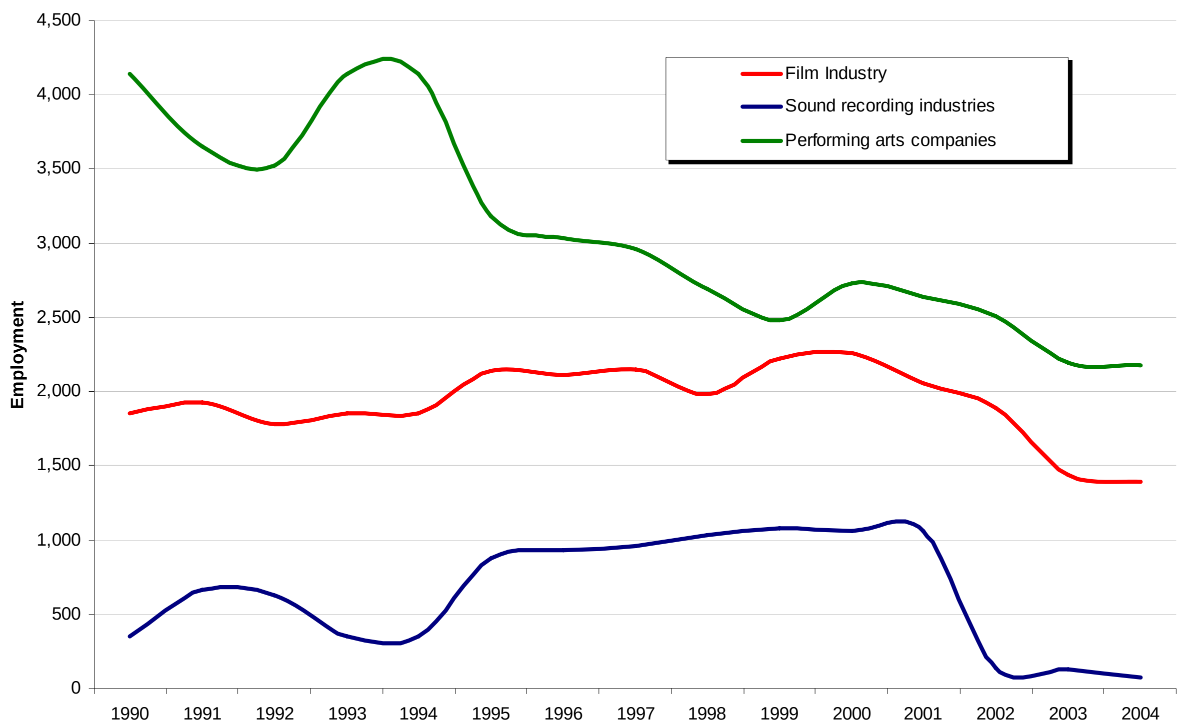
Over time, different segments of the cluster in San Francisco have grown at different rates. Several industries in the cluster, including film, have declined in San Francisco since 1990. In the case of the film and sound recording industries, this decline has been especially pronounced after 1999, when employment peaked. However, film, sound recording, and performing arts all had fewer employees in 2004 than they did in 1990.

Figure 6 below illustrates the employment trends (excluding self-employment) in the film, sound recording, and performing arts industries in San Francisco. While film and sound recording did experience slight growth during the 1990s, their decline after 1999 more than took it away. There is a clear connection between the two industries and it is highly likely that their joint decline after 1999 is due to the loss of film production in the City beginning at that time.

Performing arts has been on a pronounced decline since 1990 at least. Its 2004 employment is less than half the jobs it offered in San Francisco in 1990. While the decline of performing arts in the City is probably not directly tied to the loss of film production, since it predates it by several years, it is of concern to the long-run competitiveness of the entire cluster. Many production and talent roles in the theatrical, music, and dance fields are readily transferable to film, and the loss of these jobs undermines the skill base available to film.

Figure 6

Employment in San Francisco's Film, Sound Recording, and Performing Arts Industries

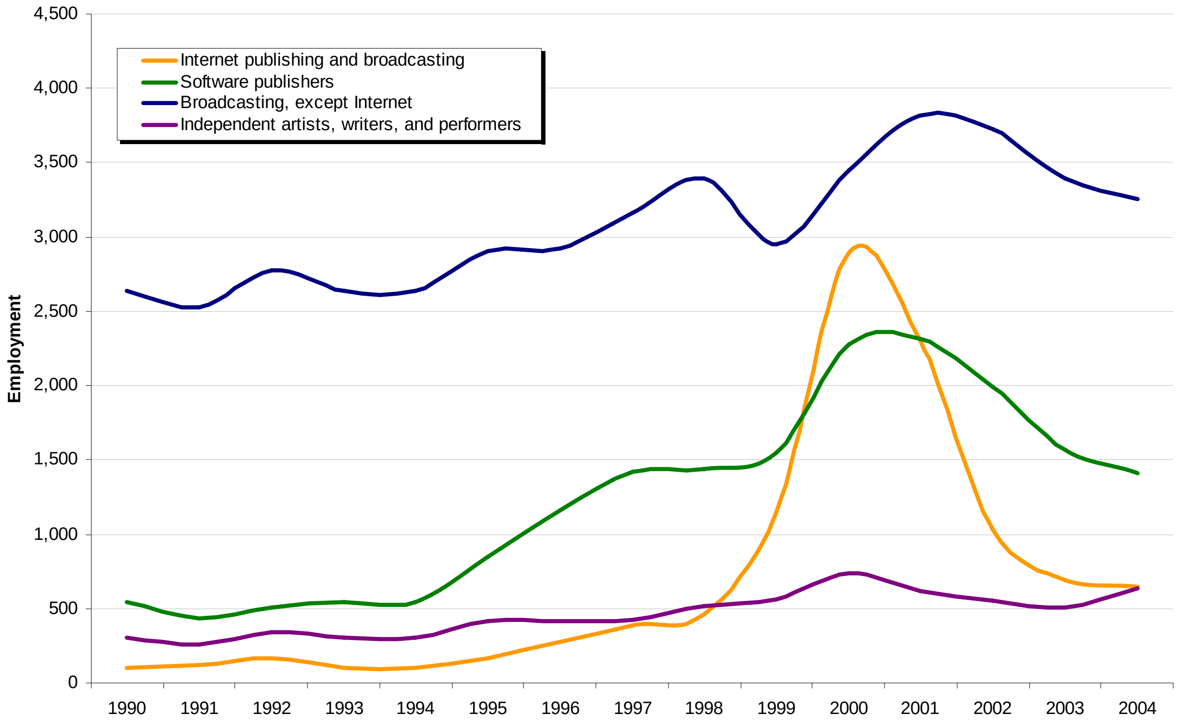


Source: Bureau of Labor Statistics, Census of Employed Workers, 1990-2004

However, there are segments of the film cluster that have been growing in San Francisco over the past fifteen years. Figure 7 below indicates the (salaried) employment in the Internet publishing, software, and broadcasting industries in the City, and also the number of independent artists, writers, and performers.

Figure 7

Employment in Growing Segments of San Francisco's Film Cluster, 1990-2004



Source: Bureau of Labor Statistics, Census of Employed Workers, 1990-2004

The software and Internet publishing industries grew significantly during the late 1990s. Despite both industries suffering a significant decline from a peak 2000, by 2004 their employment had fallen only to its 1999 levels. Thus, both of the information technology-based segments of the film industry have grown significantly in the City over fifteen year periods.

Another industry that has grown, albeit more moderately, is radio and television broadcasting. It is impossible to determine from the government statistics if this growth (nearly 25% from 1990 to 2004) is due to an increase in local programming, or simply an increase in outlets broadcasting programming from elsewhere.

Finally, the number of independent artists, writers, and performers in San Francisco has more than doubled since 1990. This is an interesting trend for several reasons. There has been a common perception in the City that the number of artists has declined, particularly during the late 1990s with the run up in commercial real estate prices. The decline in performing arts employment is likely connected to that, for example. Yet independent freelance artists have defied that trend.

One thing that film and performing arts have in common is a need for a specialized, affordable, infrastructure in which to work, such as theaters, soundstages, recording studios, etc. This is not something that the software or (most) Internet companies need; they use ordinary commercial space with high speed telecommunications capacity. Many freelance artists, such as writers, can work alone without a need for specialized infrastructure.

This suggests a possible explanation for why some segments of the cluster are growing while others are declining. San Francisco has developed an international reputation as a highly attractive place for creative talent to live, such as independent artists and writers, for example. However, it has not expanded—and in fact it has contracted the amount of specialized space that *some* of segments of the cluster need to produce and grow. Hence the price of production has risen, making San Francisco uncompetitive in competing for film production, forcing a contraction in the local performing arts, and driving down employment in both industries.

If this is true, then it suggests that the fundamentals for film cluster development in San Francisco are positive, but severe challenges in infrastructure are limiting and distorting its growth. If this trend continues, San Francisco can expect a continuing decline in middle-income, “below-the-line” production jobs that essentially build, operate and manage this specialized infrastructure. It remains to be seen—and is a critical question for this study—as to whether or not this weakness harms the entire cluster and undermines, over the long run, even the ability for independent workers in creative and technical fields to succeed in San Francisco.

The fact that this nexus of inter-related industries can grow at such different rates is evidence that the relationship between them is complex. As complementary top-level industries in the cluster, industries like software, Internet publishing, and (to some extent) broadcasting serve distinct markets to film, and hence can thrive in the short term as film declines. Nevertheless, these industries are interdependent and their growth can support one another, though not in lieu of the necessary infrastructure or other critical success factors.

Spending, Employment, and Fiscal Impact of the Decline in the Film Industry

As discussed above, San Francisco's wage and salary employment peaked in the year 2000. After a period of relatively healthy growth during the 1990s, employment has declined consistently since then. This job loss is one benchmark which can be used to estimate, in dollar and employment terms, the overall negative economic impact San Francisco has suffered from the decline of its film industry.

Job losses in film, like any other export-oriented industry which draws income from outside the region, generates multiplier effects that create jobs throughout the supply chain. Both runaway and local productions create jobs in transportation, catering, accommodations, professional services, and a host of other local and neighboring-serving businesses. The direct wages paid to these workers generate further rounds of economic impacts, called multiplier effects.

It is possible to measure, using specialized economic impact software called IMPLAN, what the gains to the San Francisco economy would have been if the film industry had remained at its 2000 levels over the next six years, through 2006. As the next chapter will discuss, San Francisco is not alone in suffering declines in film employment, but nevertheless it is an illuminating picture of what could have been important economic growth during a major downturn facing other industries in San Francisco.

According to IMPLAN calculations, every job lost in the film industry has a net spending impact of about $112,000 in the San Francisco economy. This breaks down to:

- $56,000 of lost direct salary on average (based on 2001 numbers)
- $37,000 in lost indirect spending (by film production companies, on a per employee basis)
- $18,000 in lost induced spending, the multiplier effects of the lost direct salary that are spent within San Francisco.

This loss of spending translates into additional job losses as well. Every job lost in the film industry translates into 1.76 total jobs lost, considering the indirect and induced effects just discussed. In addition, this lost economic activity has a fiscal impact on the city and the state, which IMPLAN can measure[2]. Every job lost in the film industry translates into a tax loss of approximately $7,650.

With these multipliers, the total economic impact of recent job decline in San Francisco's film industry can be quantified. The table below indicates that the loss of 1,099 film industry jobs by 2006 has led to the loss of over $123 million in spending from San Francisco, the total loss of 1,936 jobs, and the loss of over $8.4 million in tax revenue to the state and local governments.

Table 1

	Actual Employment	2000 Level	Difference	Total Spending Impact	Total Jobs Impact	Total Fiscal Impact
2001	2,056	2,263	207	$23,243,669	365	$1,585,469
2002	1,894	2,263	369	$41,434,366	650	$2,826,270
2003	1,438	2,263	825	$92,637,810	1,453	$6,318,897
2004	1,390	2,263	873	$98,027,646	1,538	$6,686,542
2005	1,272	2,263	991	$111,277,660	1,746	$7,590,336
2006 (est.)	1,164	2,263	1,099	$123,402,852	1,936	$8,417,404

While 1,936 jobs may seem like a small amount in a city with about 540,000 total jobs, it should be kept in mind that the *total* loss in private sector employment between the end of 2000 and mid-2006 was less than 60,000 jobs.

Despite the magnitude of these impacts, it is quite likely that the true economic impact of the declining film industry is quite a bit larger than these numbers indicate. This is because IMPLAN cannot calculate the strategic value of the film industry as a source of marketing, and a source of funding, for San Francisco's experience economy. Tourism is one of the major drivers of the San Francisco economy, and tourism marketing officials in San Francisco and elsewhere consistently stress the value of media visibility in differentiating a tourism destination. In San Francisco's case, there is reason to think that the special character of the tourism product—the urban experience of San Francisco, is uniquely communicated through a visual, narrative medium like a film. Television and print advertising, in other words, has a hard time communicating what is worth experiencing in San Francisco in the same way that a film set here can.

Secondly, film and the other industries in the broader cluster are at the heart of San Francisco's creative industries, which are rapidly affecting other knowledge-based and experience-based industries throughout

[2] Unfortunately, IMPLAN does not distinguish between state and local tax impacts.

the City's economic base. Film, media, arts, and design industries all share common institutions, skills, networks, and communities, and the capacity to improve the way companies, in any industry, communicate and design is increasingly vital to their competitive advantage. A sustainable film industry is a critical element of a healthy economy based on experience and knowledge.

Chapter 2: Change in the Film Industry: Markets, Technologies, Regions

One of the major reasons why an industry cluster perspective to film industry strategy is crucial at the moment is the pace and character of change in film and related media industries. On the market side, the past 20 years have seen a large increase in the film business, but a fragmentation of markets and significantly greater growth for independent films. Television has always been an important complementary industry to film, and the explosion of cable, digital, and satellite options have greatly expanded the range of content in the market and the distribution options available. Video games are another rapidly-growing market for many of the same skill sets used in film, as is, to some extent, content for web and wireless networks.

New technologies of motion picture production and distribution have the potential to radically transform the industry in the upcoming decades, with the shift to digital media and web-based distribution leading to dramatically reduced costs and barriers to entry.

These changes will challenge established film clusters, including San Francisco's, which is still the fourth largest in the United States in employment terms. San Francisco has traditionally competed on the basis of its very high-quality locations, and its high-quality skill set—two competitive advantages that persist to this day, as the survey discussed in the next chapter will indicate. Technological changes and the growth of new markets impact the demand for these skills, and to some extent restrict or limit the demand for the high-budget, high-ticket projects which have funded the local industry in the past.

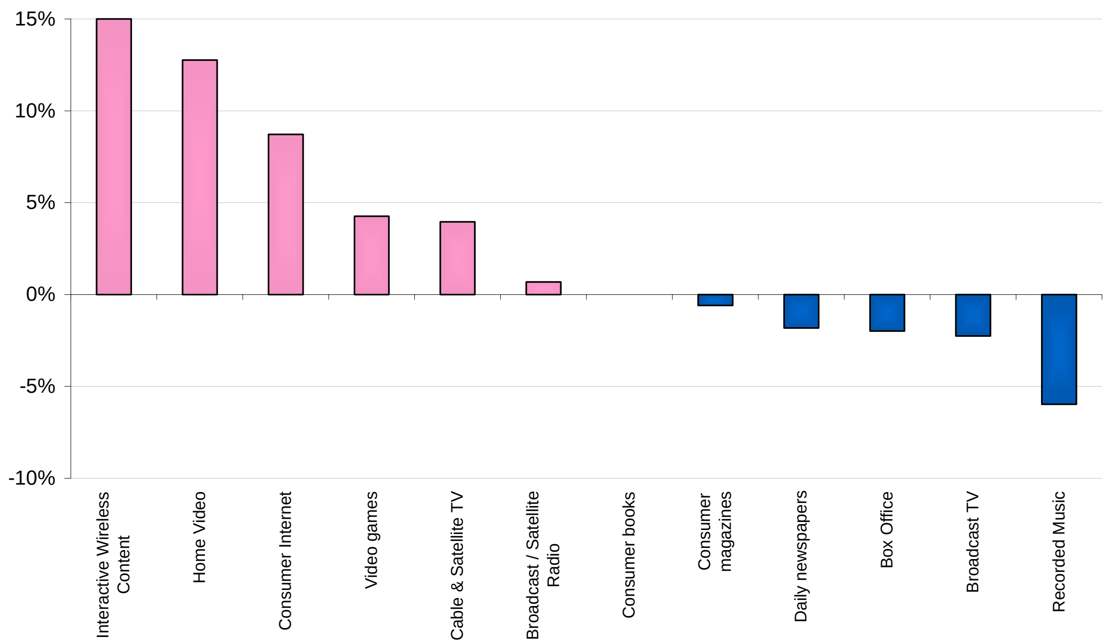
The evidence suggests that we are moving into a media world of many smaller projects, covering a wider expanse of distribution options, tailored at ever more specifically-defined (or self-defined) demographics. The big budget project that requires high-grade skills is not going away, however, and there is significant reason to suspect the places that attract that investment will be the ones that will be most successful at shaping the future technological direction of the industry.

The New Media Landscape

The past five years have witnessed dramatic changes in how U.S. consumers allocate their media consumption time and budget. Figure 8 below illustrates how the time the average U.S. consumer spends viewing different media options has changed during this decade.

Figure 8

Annual Percent Change in Hours of Media Consumption per Person per Year, by Medium, United States, 2001-2005



"Old media", such as newspapers, magazines, broadcast television—and films in theatrical release—have declined as entertainment options of Americans. In its place has emerged a variety of new media, from the Internet and wireless content, to cable and satellite broadcasting, to home video and video games.

What these new media have in common is a much broader base of content options that provides expanded choice for audiences. The expansion of cable and satellite television has created many new channels and viewing options that have stimulated viewership. There are, of course, thousands of commercial internet sites. The content possibility opened up by virtually unlimited distribution options is a much more differentiated marketplace, serving increasingly distinctive market niches and communities.

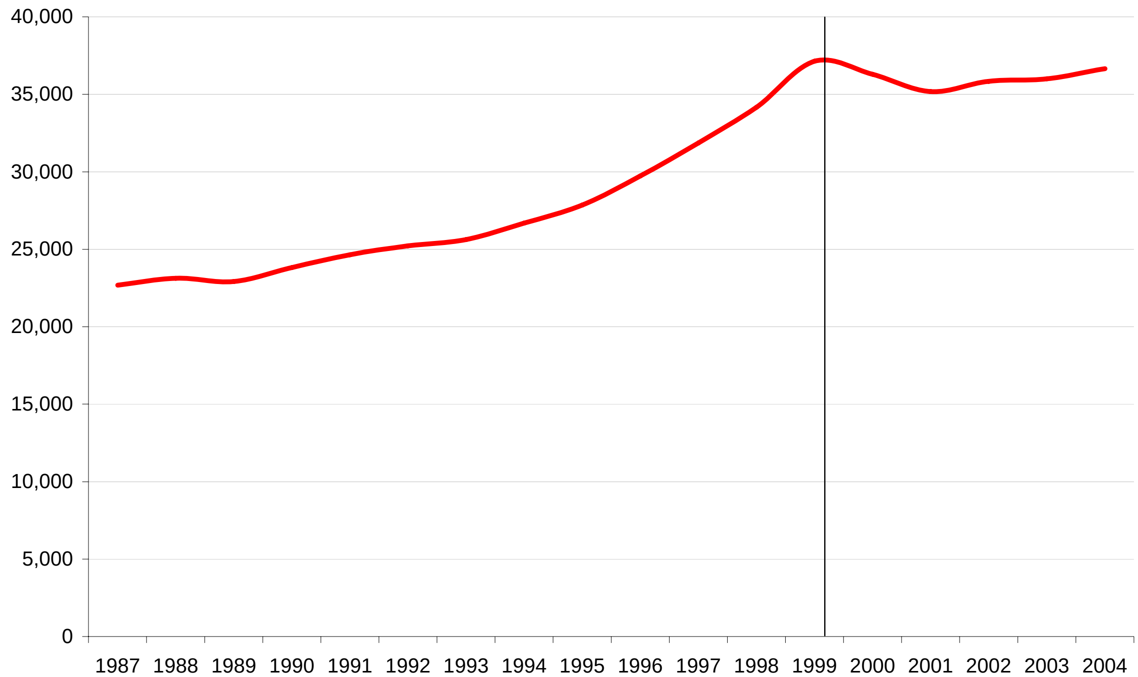
Other growing media – like video games and home video– are fundamentally tied to new information and communications innovations, which have expanded the quality and value these entertainment options offer to the audience. The growth of consumer media sites on the Internet is due to both reasons—a radically expanded set of options and progressive increases in the quality of the content itself.

Older and more traditional media, such as magazines, newspapers, broadcast television, and film have declined in terms of per capita audience hours (though they continue to benefit from a growing population). Although traditional box office cinema has declined in terms of audience attention, most of the expanding areas of the new media universe relate to film and video production and are part of the broader cluster. Of course, these two trends are related, and can be interpreted as new media's displacement of old media, as the number of households with broadband internet, satellite television and radio, and home theater systems began to grow after 2000.

The decline in the amount of time (per capita) spent viewing box office films has not translated into a decline in the market in value terms, although revenue growth has slowed. Figure 9 provides an indicator of that: a steady number of theatrical screens in the U.S. after 1999. Interestingly, 1999 was the peak year for employment in San Francisco's film industry, and in fact was the high water mark in job terms for the entire U.S. industry as well.

Figure 9

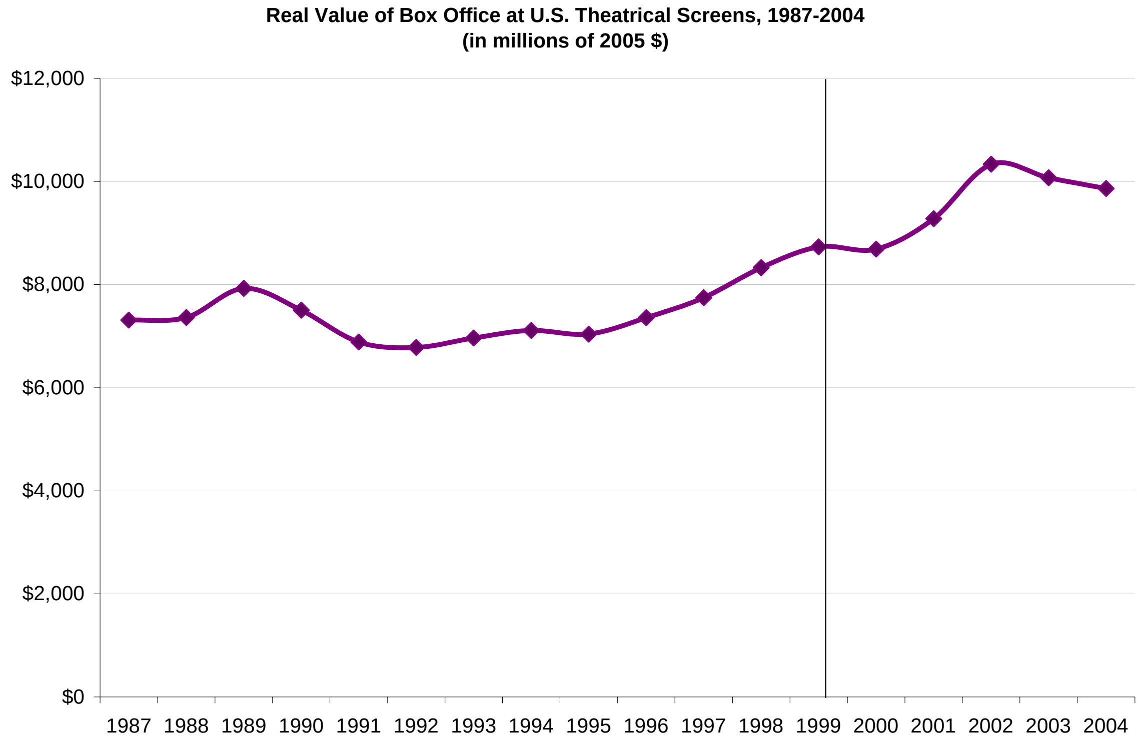
Number of Theatrical Screens in the United States, 1987-2004



The number of theatrical screens in the U.S. grew significantly during the 1980s and 1990s, corresponding to a large increase in overall box office gross during that period. In 1987, 22,000 screens drew $7.3 billion in box office (in today's dollars). By 1999, over 37,000 screens had drawn over $8.7 million in today's dollars.

As stated above, the number of screens peaked in 1999, and has not yet recovered to that level. However—and this is critical—box office has continued to rise. Figure 10 indicates that the inflation-adjusted increase from 1999 to 2004 was $1.1 billion – greater than the gain from the previous ten years from 1989 to 1999, despite the decline in the number of screens.

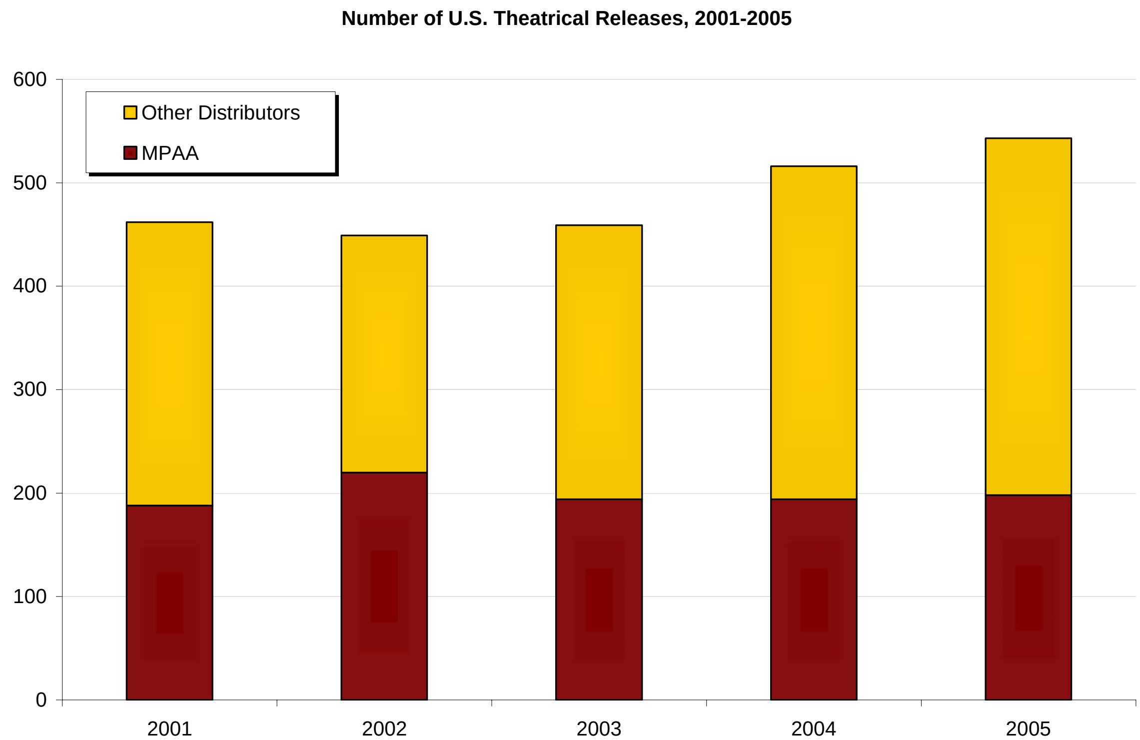
Figure 10



Greater box office per screen comes from three factors: higher ticket prices, larger average theater size, and higher average occupancy in the theater. The first factor, in particular, requires the film industry to tilt against the trend in the broader media industry and offer a higher quality product, to offset and justify higher prices.

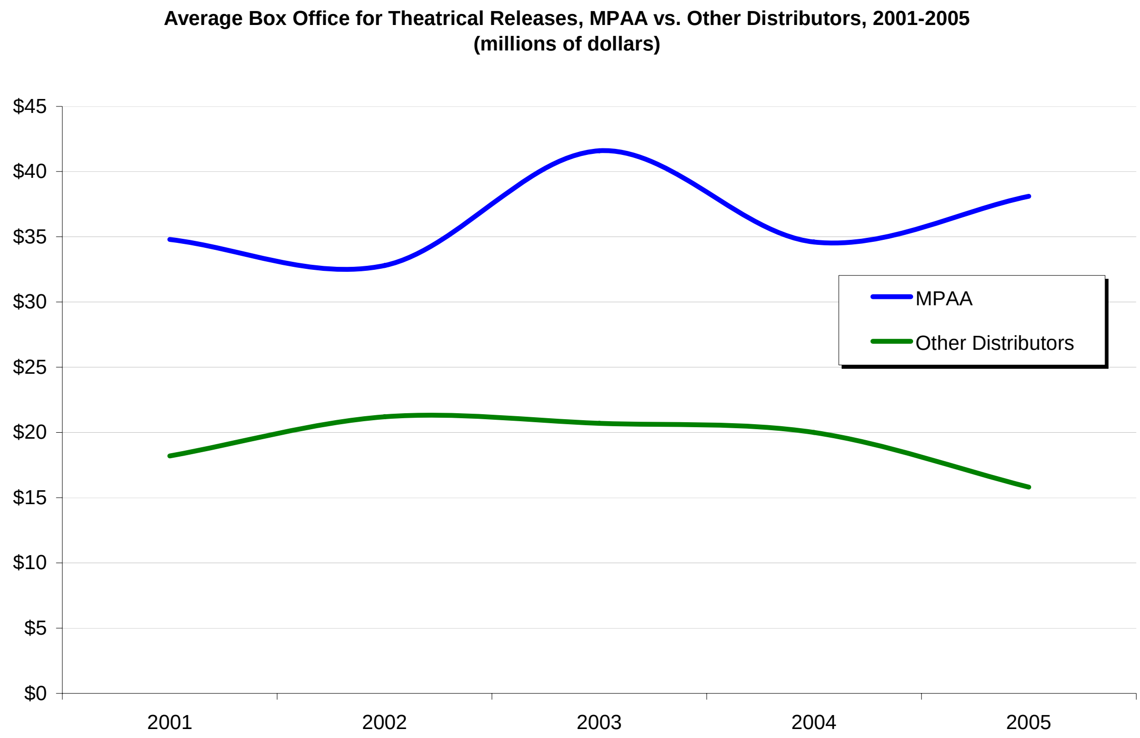
Increasingly, the film marketplace is composed of productions distributed outside of the traditional major MPAA studios. These trends—illustrated by Figure 11—suggest that the increasing diversification of media distribution opportunities is taking place in the film industry, as well as outside of it.

Figure 11



However, the MPAA-distributed pictures continue to have, on average, a significantly larger average box office than the independents – over twice the average box office in 2005, for example. Figure 12 shows the average box office of MPAA and non-MPAA features from 2001-2005. These larger box office pictures tend to have larger production and marketing budgets as well, indicating a more significant economic impact for the regions that are able to attract them and add value to the production process.

Figure 12



The Regional Distribution of Film Industry Employment

The San Francisco Bay Area has been one of the major U.S. film production centers for several decades. Indeed, many technical innovations and artistic achievements in the history of film occurred here, including Eadweard Muybridge's first famous motion picture, made for Leland Stanford, showing a horse in motion. Fremont was the home to Essanay Film Manufacturing Studios in the 1910s, one of the leading production companies in the country, and the California Motion Picture Company was based in San Rafael. San Francisco of course has been an iconic location for U.S. cinema for decades, and much of the production in the City has always been drawn by its setting. As recently as 2004, industry analysts were asserting that the Bay Area was the third largest film production center in North America, behind Los Angeles and New York, but ahead of Vancouver and Toronto[3].

However, the recent statistics tell another story. The previous section detailed the falling film employment in San Francisco, while the industry continued to grow in California and across North America. Figure 13 illustrates how wage and salaried employment in the film industry has changed in San Francisco, California, and the United States since 1990. Film industry employment in each of the three jurisdictions (San Francisco, California, and the U.S.) was indexed at its 1990 level to facilitate a comparison of how each subsequently changed.

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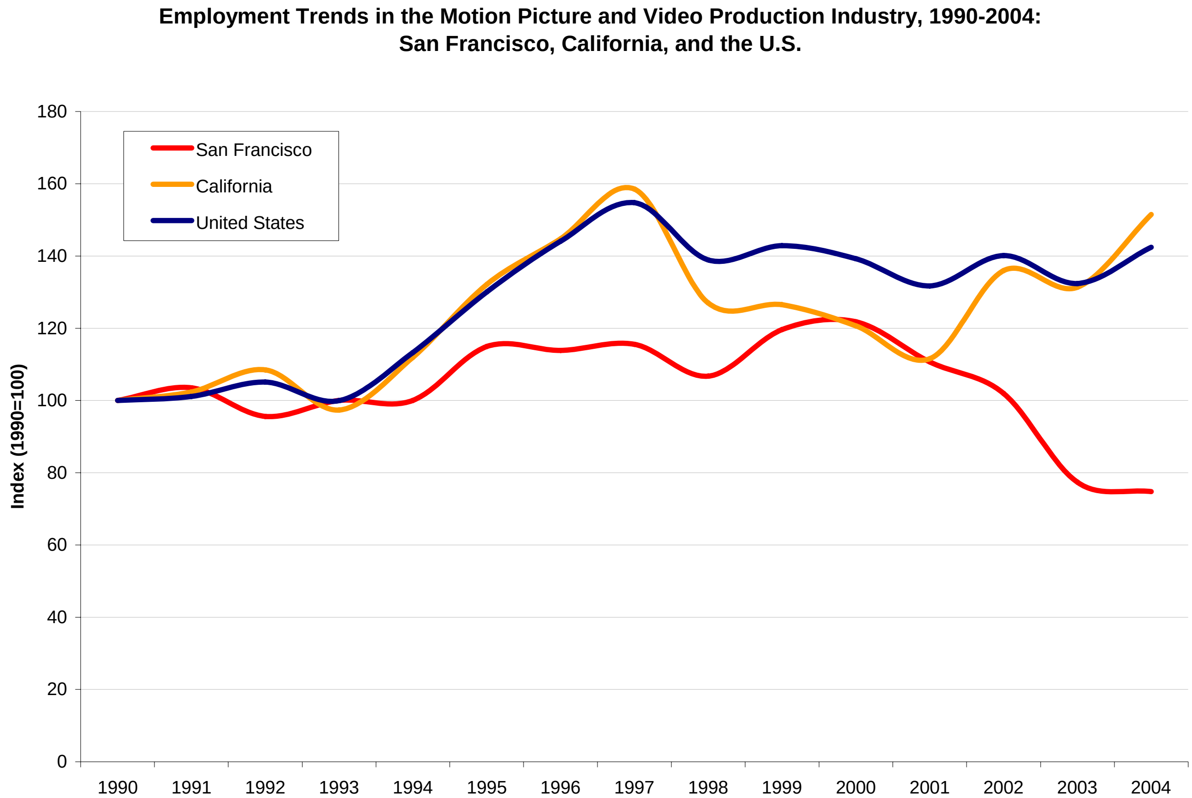
[3] Lubinkeal, C. 1998. "Reel-to-Real Urban Geographies: The Top Five Cinematic Cities in North America." *California Geographer* 38: 64-78.

Figure 13



Source: Bureau of Labor Statistics, Census of Employed Workers, 1990-2004

Led by Los Angeles, of course, the state of California is a significant share of the U.S. total, and for that reason California's employment has tracked closely to that of the U.S. for most of the past fifteen years. By 2004, California had over 50% more employment in the film production industry than it did in 1990, and the U.S. had increased by over 40%. Beginning in 1997, film production in California and the U.S. began to drop, and drop dramatically in California. However, after 2001, the industry bounced back in the state and nationally and approached all-time high levels of employment in 2004.

San Francisco, by contrast, had 20% less employment in film production in 1990 with an especially severe drop between 2001 and 2004, which was precisely the time the industry was recovering across the state. San Francisco's peak film industry employment occurred in 2000, and the City experienced a decline of over one-third in only three years subsequent to that.

However, San Francisco is not alone across the U.S. in losing film industry employment after the national industry peaked in 1999. Table 2 below indicates how film industry employment has changed, since 2000, for the top ten leading film centers in the U.S. (as of 2005). The data clearly shows the overwhelming power of the Los Angeles area. Aside from the fact that it employs almost four times as many people in the industry as the next largest area (New York), it was the *only* major center to gain jobs during the 2000s. The amount of jobs gained by Los Angeles is over three times the total employment base of the entire Bay Area.

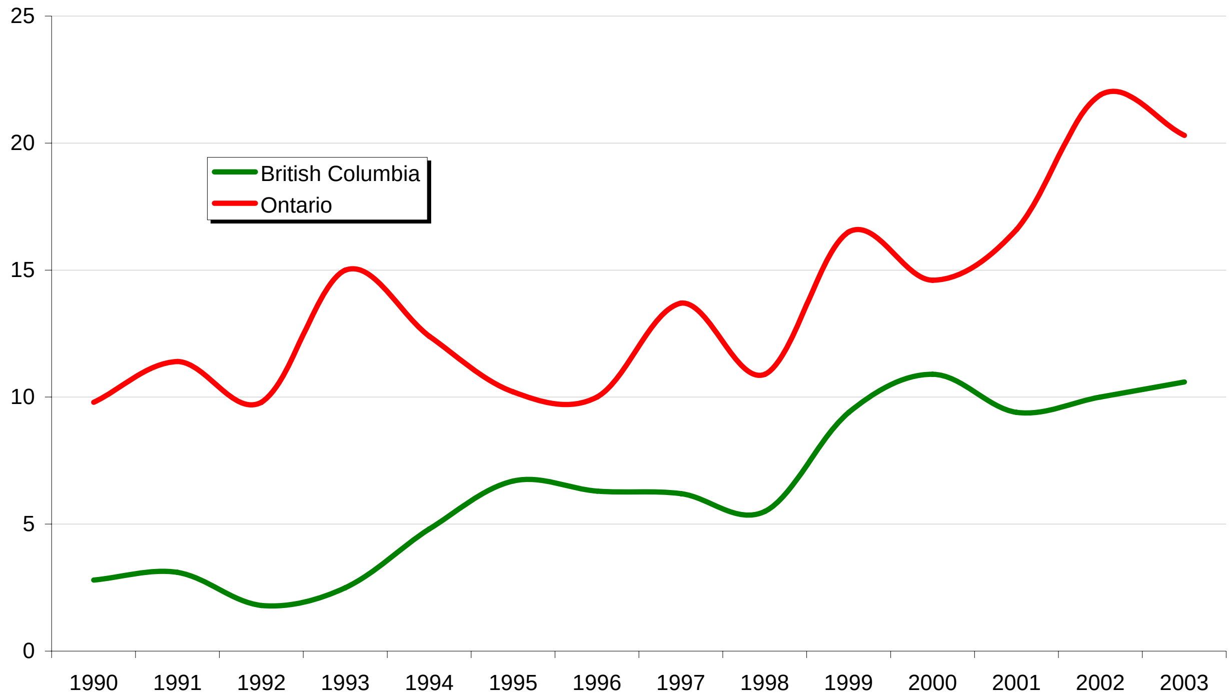
Table 2

Area Title	2005 Employment in the Film Industry	2000 Employment in the Film Industry	Change, 2000-2005
Los Angeles-Long Beach-Santa Ana, CA MSA	127,671	103,494	24,177
New York-Northern New Jersey-Long Island, NY-NJ-PA MSA	32,118	41,938	-9,820
Chicago-Naperville-Joliet, IL-IN-WI MSA	7,121	7,969	-848
San Francisco-Oakland-Fremont, CA MSA	6,782	7,059	-277
Dallas-Fort Worth-Arlington, TX MSA	6,182	6,576	-394
Miami-Fort Lauderdale-Miami Beach, FL MSA	5,576	5,813	-237
Washington-Arlington-Alexandria, DC-VA-MD-WV MSA	4,579	4,738	-159
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	3,837	N/A	N/A
Atlanta-Sandy Springs-Marietta, GA MSA	3,630	4,049	-419
Nashville-Davidson--Murfreesboro, TN MSA	3,461	4,303	-842

Two major areas in Canada, however, have successfully bucked the trend of increasing employment concentration in Los Angeles, and the manner in which they did it is instructive. Canadian provinces have been particularly aggressive at attracting runaway production from California, and supporting the domestic film industry through tax policies, local content requirements, and direct subsidy. As Figure 14 indicates, the two leading Canadian Provinces, Ontario and British Columbia, have each more than doubled their film industry employment over the same period that San Francisco’s has declined significantly. The decline in the Canadian dollar in the late 1990s accelerated this trend, but it has not abated despite the subsequent rise in the value of the Canadian dollar since 2000.

Figure 14

Full- and Part-time Employment in the Motion Picture and Video Production Industry (NAICS 5112) in Two Canadian Provinces, 1990-2003 (thousands)



Source: Statistics Canada, Labour Force Survey, various years.

What is more important is what has happened to these film clusters since their initial successes at attracting runaway productions. Toronto—long the home to the Canadian Broadcasting Corporation and feature production exclusively for the Canadian market, has began to produce more content for the North American market. The Toronto Film Festival has become one of the world's "A List" events, and has led to an increasing amount of products originating out of Canada. Both Vancouver and Toronto have thriving new media, post-production, and digital media clusters, which in Vancouver's case has evolved to include one of the world's most dynamic video game clusters.

In other words, both Vancouver and Toronto have been successful at leveraging runaway production into the building of a durable competitive advantage that has translated into continuing growth, even when much of their original cost advantage has evaporated.

San Francisco’s declining employment, in an industry that is rapidly growing nationally, points to a serious—and sudden—deterioration in its competitive position relative to these centers. Statistics alone cannot highlight the reason for that deterioration, but anecdotal evidence and widespread perception point to two factors, which will be further considered during this study.

First, production costs have reportedly seriously risen in the City in recent years, in line with the acceleration in housing costs, wages, and other good and services used in production. Secondly, the City has reportedly not kept pace with the many jurisdictions, in North America and around the world, which have recognized the strategic value of film and other creative industries and aggressively targeted the industry with marketing efforts, tax cuts, and other incentives.

Much of San Francisco's historic strength in film production comes from the iconic status of the City as a film location. While the City has always been a high-cost production location, it is increasingly easy for other regions to reap the economic benefits of productions nominally "set" in the City, with only a few establishing shots requiring an actual presence in San Francisco.

The increasing digitization of the film production process also has implications—potentially both positive and negative—for San Francisco's future in the industry. On one hand, the move to digitization radically transforms the production/development process and supply chain, lessening if not eliminating many of the advantages of an established labor pool skilled in working with the film medium. Productions set in San Francisco can now leverage an archive of digitized footage of San Francisco and computerized editing technology gives directors a powerful set of tools to embed San Francisco in their work without ever even visiting the City.

At the same time, however, the trend towards digitization undoubtedly plays to many of the strengths of San Francisco and the Bay Area. Digital production is significantly cheaper than film, and the shift to digital effectively lowers the cost of production and barriers to entry into the industry. For San Francisco, this means its high production costs become less important, in aggregate, than how attractive film-makers perceive it as a living and working environment. To the extent that the digitization of film content is connected with the fragmentation of media markets, the rise of the Internet as a distribution channel, and the growth of independent productions, San Francisco may thrive in the future with a swarm of small independent producers.

Furthermore, the fact that many of technological milestones, and key technologies, in digital media were invented in the Bay Area gives San Francisco a profound advantage over other competitors. It is significant, we believe, that San Francisco today has a greater strength in post-production than it does in production. This is likely testament to our cutting-edge skills in digital post-production that have the potential to develop into a top-tier, export-oriented segment of the cluster in its own right. As the ability to manipulate digital images becomes an increasingly large share of the "value" of a film, a competitive advantage in this segment of the industry could have decisive effects on San Francisco's overall competitiveness in the cluster.

Clearly a range of cost and revenue factors, in a changing technological environment, tend to both encourage and discourage film production in San Francisco and the growth of the broader film cluster. What vitally needs to be understood is the linkages among the different segments in the cluster and how these changes have impacted them. It may be the case that San Francisco can ride the wave of a new media revolution and re-invent itself as a center of independent production. On the other hand, it may be the case that the infrastructure, skills, and networks that *any* film cluster requires can only be sustained, renewed, and extended by restoring San Francisco's competitiveness for attracting runaway productions. Answering this question will be the key challenge for this strategic plan.

Chapter 3: A Profile of the San Francisco Film Industry

Introduction

Important issues for the film cluster were initially explored through a series of over twenty one-to-one interviews with industry leaders. These individuals ranged from producers, to production managers, union officials, stages and studios, camera operators, film/equipment rental companies, expendables, writers, and supporting service providers, among many others. These interviews were designed to explore the individual's (or their company's) role in the industry, how the trends discussed in the previous chapter were affecting them, and what they believed San Francisco could do to reverse the negative trends in the industry.

After this initial set of interviews, it was decided that a far wider range of input could be gathered by condensing interview questions into a online survey format. This survey was created and distributed to hundreds of industry insiders, with the assistance of the Reel Directory, the region's leading industry directory. The survey was placed online from October until the end of December, 2006, and was taken by over 530 people. This very high response rate, given the size of the industry, allowed an in-depth analysis of the results, which are contained in this chapter.

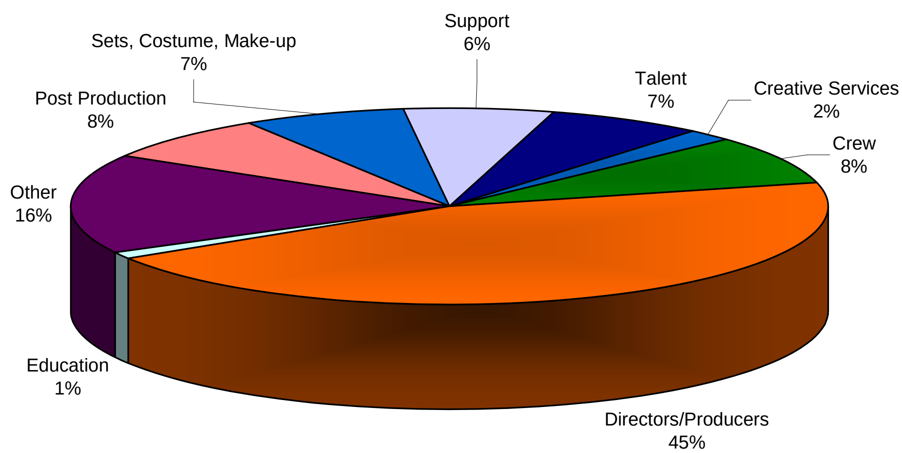
The results of this survey offer valuable insight into how the San Francisco film industry works, and what is holding it back. The survey results, when combined with the best practices review that is discussed in the next chapter, will directly inform the policy recommendations contained in the report's conclusion.

Occupation and Educational Attainment

Survey respondents were asked to describe their occupation in the film industry (or the focus of their firm, if they were an employee or owner/operator). The distribution of respondents is shown in Figure 15. The largest group of respondents were in the directors and producers, a group that includes producers, production managers, directors and assistant directors, casting directors, location scouts, and other managers.

Figure 15

Count of Survey Responses by Broad Film Occupation
(Out of 530 Responses indicating Occupation)



Other occupations are defined as follows:

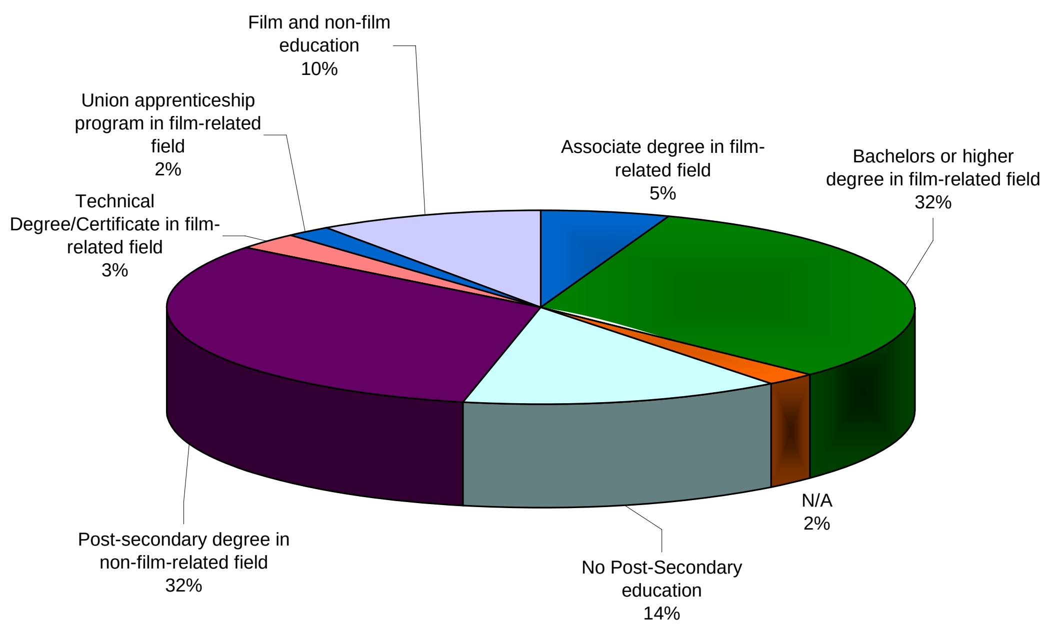
- Crew occupations include most of the “blue collar” film jobs, including electricians, gaffers, grips, steadicam operators, and stage and studio managers.
- Sets, costume, and make-up occupations are creative supporting occupations related to set and costume design, make-up, hair-styling, and dialog, vocal, and drama coaches.
- Support occupations include people not directly engaged in film-making but supporting the process, including caterers, accommodations, distributors, duplication and packaging, finance, equipment rental, insurance, legal services, and transportation.
- Post-production occupations include digital and visual effects, audio post-production, music, and film and video post-production, including editing.
- Creative services includes writers and other creative independent professionals, including script doctors, storyboard specialists, graphic artists, and photographers.
- The “other” category included open-ended descriptions that did not fit into the above categories.

While Figure 15 indicates the distribution of occupations among survey respondents, but should not be necessarily interpreted as representative of the distribution of occupations within the film industry in San Francisco.

The occupational structure of the industry is closely connected to the educational attainment of its workforce, and understanding the educational requirements of the film industry is an important element of supporting its growth. As shown in Figure 16, this survey confirms other official statistics in confirming that most people in the industry—about two-thirds—have a four-year university degree.

Figure 16

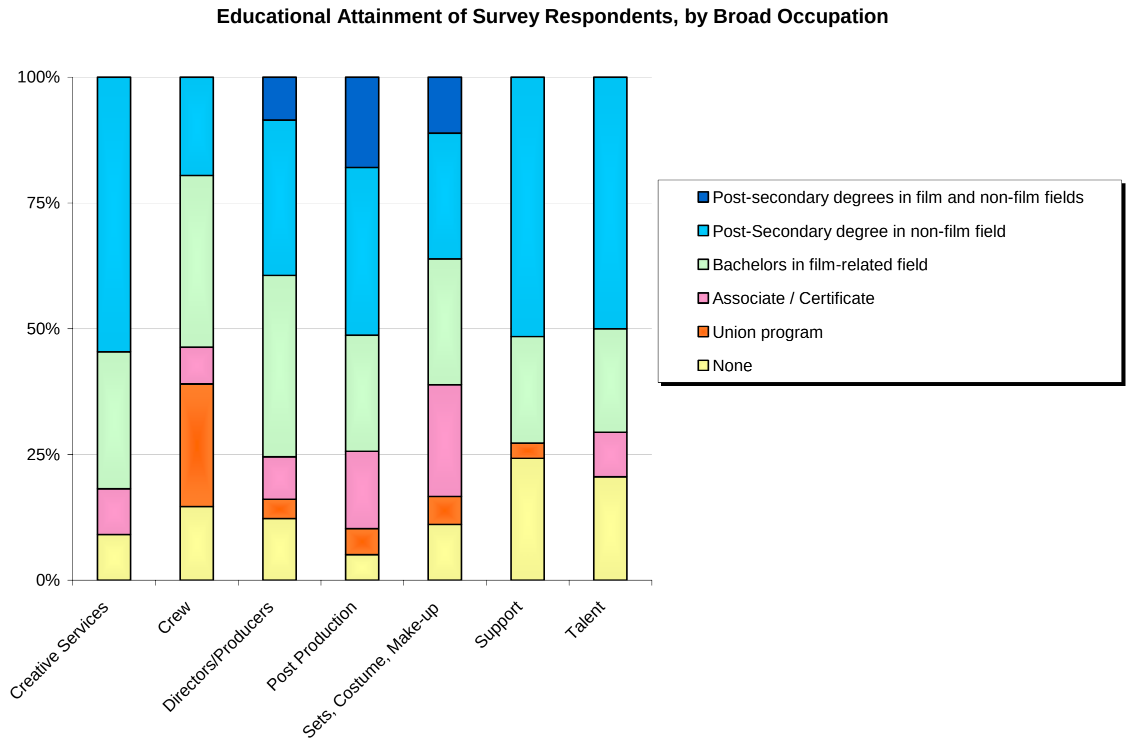
Educational Background of Film Survey Respondents



One of the most interesting features is the number of people whose education is in a non-film field. Only about a third of respondents have a bachelors or graduate degree in a film-related field; another third have a bachelors or graduate degree in a non-film field. 10% of respondents have multiple post-secondary degrees in both a film-related, and a non-film field. 14% of respondents have no post-secondary education, and another 10% have post-secondary education amounting to less than a four-year degree, including an Associate degree, technical certificate, or union training.

Within the broad film industry occupations, the crew occupations are the ones that are most open to people without a four-year degree. Even in those jobs, however, over 50% of the workers do have at least a bachelors degree, as Figure 17 shows. Sets, costume, and make-up workers have nearly the same opportunities for workers without a four-year degree.

Figure 17

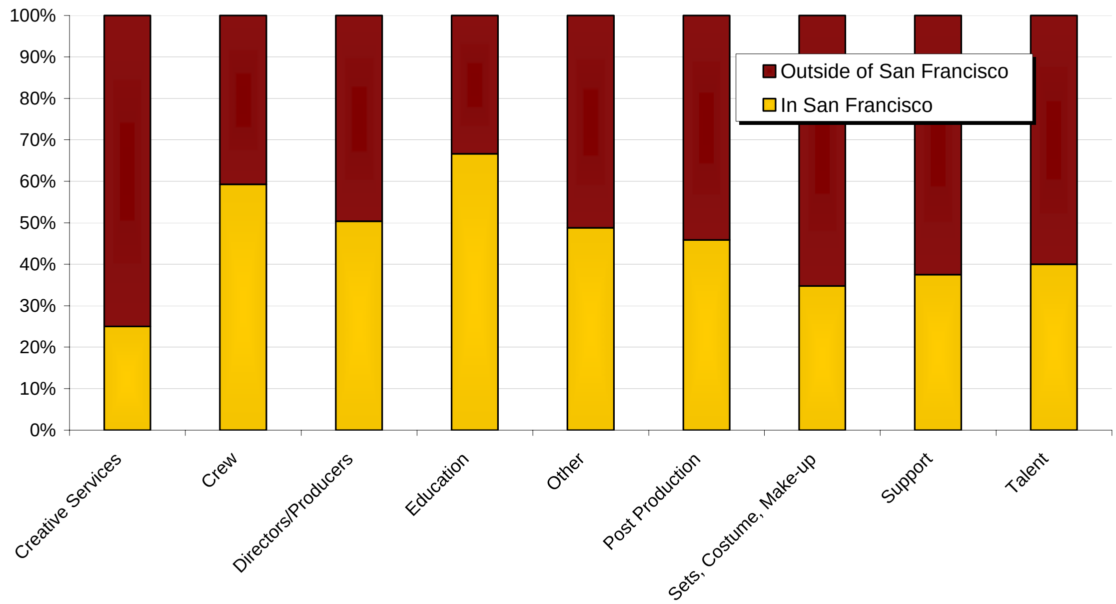


For jobs as directors and producers, talent, post-production, creative services, and most support services, around 75% of respondents had a four year degree. A film-related degree was most important to directors/producers, and post-production workers. In both cases, about 40% had at least one post-secondary degree in a film field.

The survey also asked respondents where they received their education. This question is important for two main reasons. First, it is a good indication of the uptake of local educational programs related to the film industry and secondly, it assesses the attractiveness of San Francisco as a work location for people educated elsewhere. The survey results for this question are detailed in Figure 18.

Figure 18

Where Film Survey Respondents Received Their Education and Training, By Occupation



Overall, about half of survey respondents with a post-secondary education received it in San Francisco. Crew and people in education (a small number of respondents) were most likely to receive their education locally. The creative occupations—creative services (writers), set design, costume, make up, and talent—are more likely to have been educated elsewhere and relocated to San Francisco.

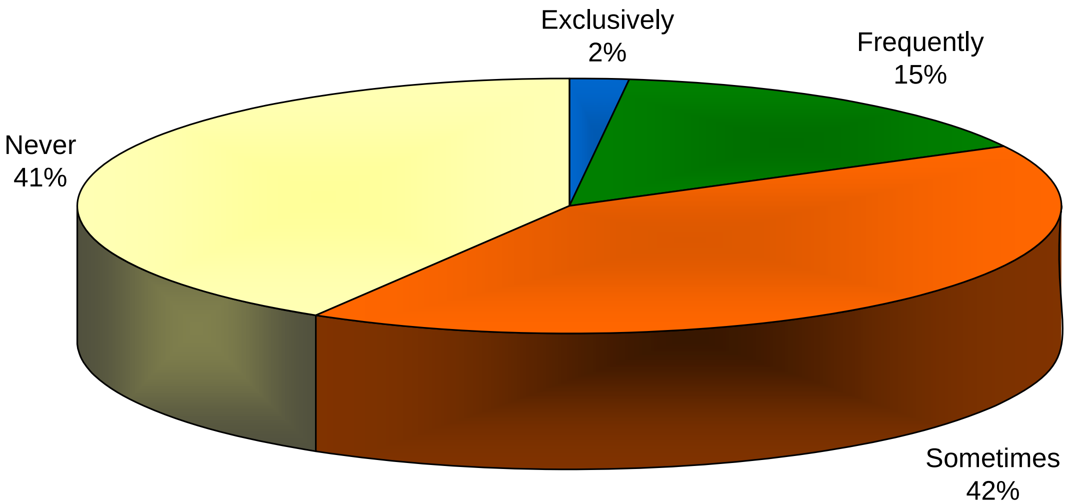
Market Segments and Work Location

Survey respondents were asked which film cluster market segments they typically worked on, and in what locations. In each case, the survey asked if the respondent worked exclusively, frequently, sometimes, or never, on different types of project, and in different locations around the world. The results are shows in Figure 19.

In most film clusters in North America, studio feature films—usually originating elsewhere—are an important source of work. Traditionally, San Francisco has been fairly competitive for this type of runaway production, and the fact that only 17% of respondents report working exclusively or frequently on these projects is a sign of the depressed state of the industry here. 41% of respondents have never worked on a studio feature.

Figure 19

How Frequently Do Respondents Work on Studio Features?

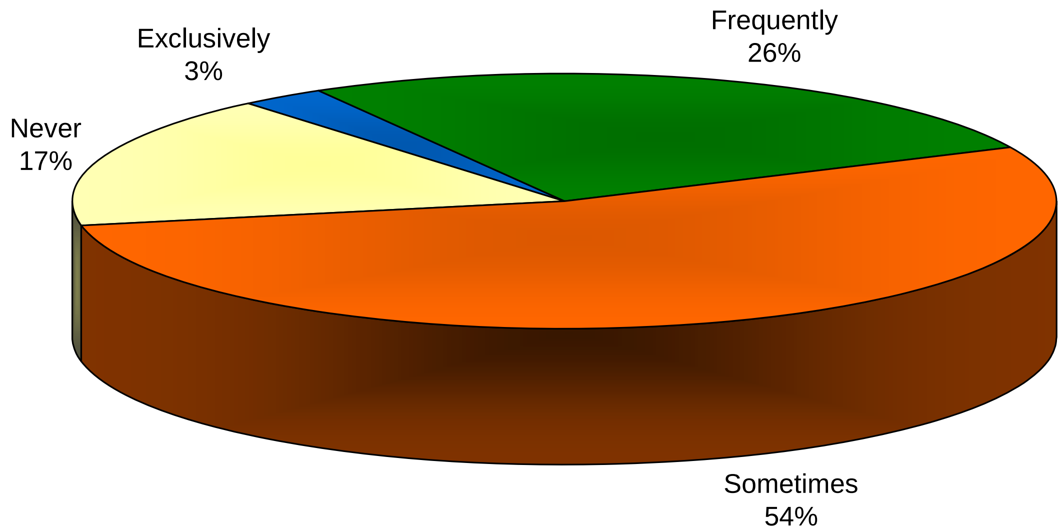


Studio features, as discussed in the previous chapter, tend to have larger budgets, and have a proportionately greater demand for the high-skill, high quality suppliers and inputs that San Francisco has developed over the years. In fact, crew occupations are more reliant on studio productions than other groups. 8% of crew respondents report working exclusively on studio pictures, and 32% work frequently on them.

By contrast, independent features (and, as shown below, documentaries and other smaller projects) are a much bigger part of the film scene in San Francisco today, as shown in Figure 20. Only 17% of respondents have never worked on an independent feature, and 29% reported working on them exclusively, or frequently.

Figure 20

How Frequently Do Respondents Work on Independent Features?

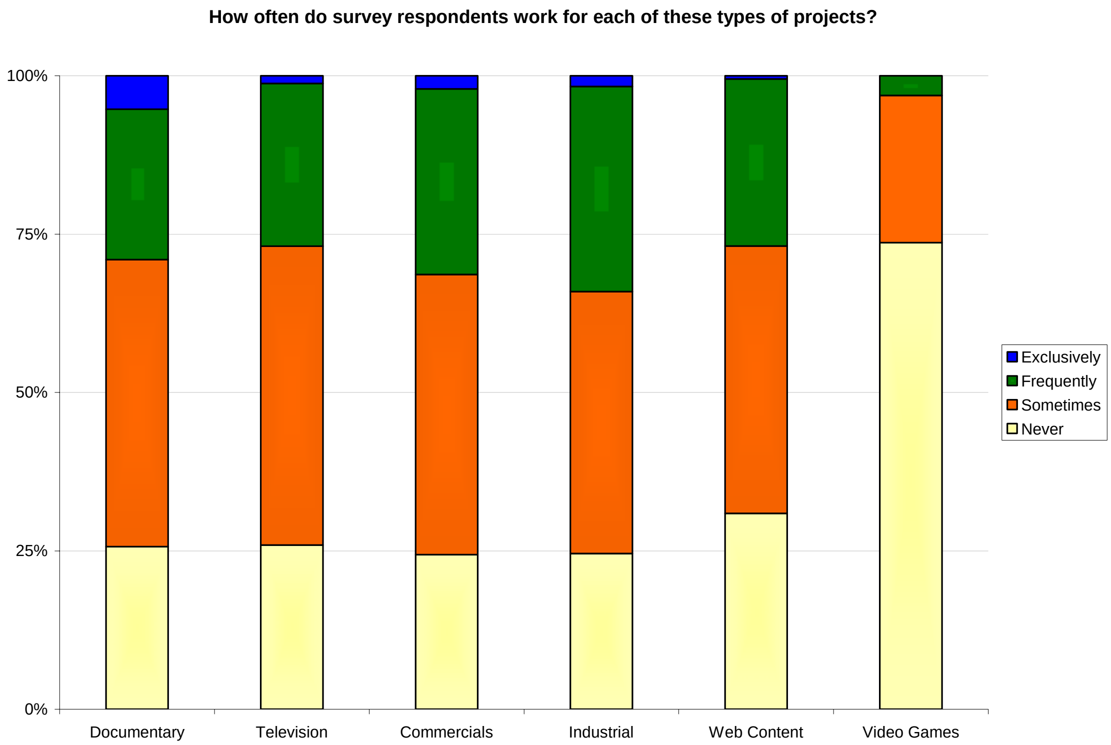


Independent films are becoming more numerous, but have smaller budgets and less economic impact per picture, as discussed in the previous chapter. This difference shows up in who works on independent features by occupation. Only 28% of crew occupations work exclusively or frequently on independent productions, compared with 40% who work exclusively or frequently on studio features. Conversely, 39% of directors/producers work exclusively or frequently on independent features, but only 9% work exclusively or frequently on studio features.

In other words, the industry's evolution towards a greater number of smaller budget films has great potential for San Francisco, which attracts many smaller filmmakers and documentary makers.

Other important market segments for survey respondents include documentaries, television programs, commercials, industrial films (training or promotional films produced for individual companies), and web content. In each of these markets, respondents reported working exclusively or frequently about 25% of the time, never about 25% of the time, and sometimes about 50% of the time, as shown in Figure 21.

Figure 21

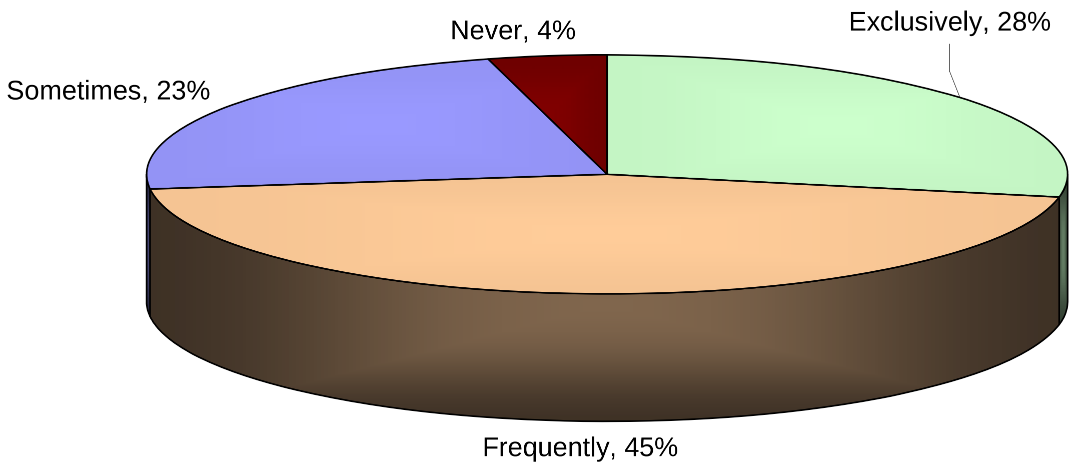


The video game industry uses many of the same skill sets as film, including live action filming, digital effects, and audio and video post-production. The great majority of survey respondents report never having worked on a video game, however.

Another important form of market segmentation in the film industry is by region. Not surprisingly, most survey respondents drew heavily on local work to support themselves. Nevertheless, the industry based in San Francisco works extensively across North America and around the world, as shown by Figure 22. 28% of respondents reported working exclusively on projects in San Francisco, and another 45% reported working on San Francisco projects frequently. Only 4% never worked on San Francisco projects.

Figure 22

How Often do Survey Respondents Work on Projects in San Francisco?

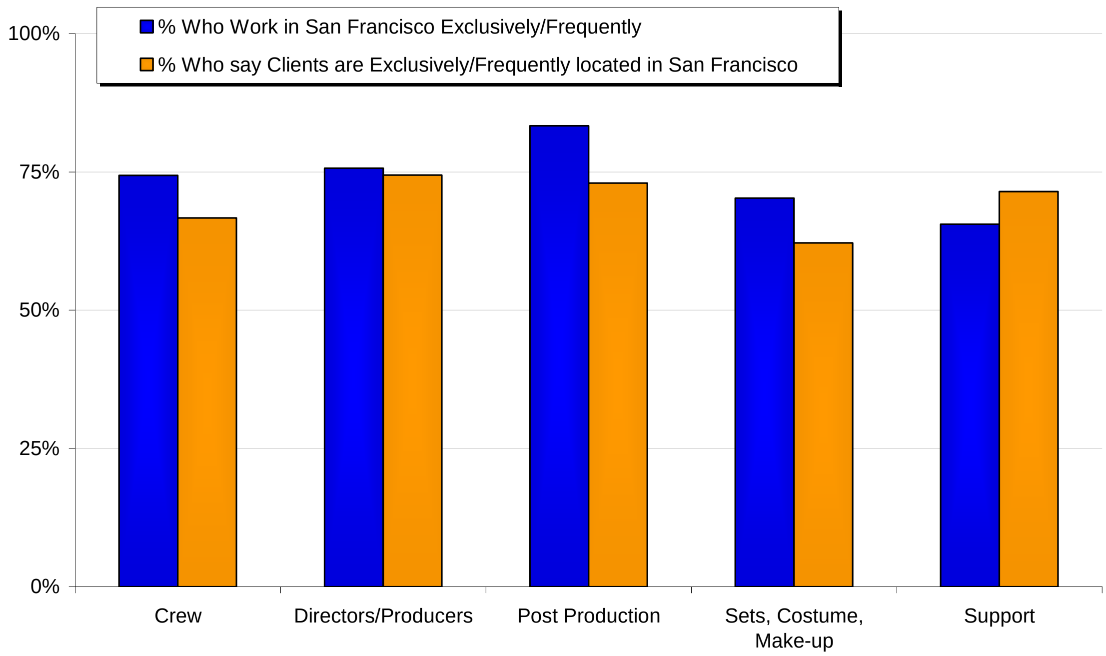


The dependent on San Francisco-based projects was felt across all of the occupations, although post-production was particularly dependent on San Francisco-based projects; post-production workers generally do not travel.

Note that a project in San Francisco is not the same thing as a client based in San Francisco. For example, a runaway Hollywood production filming in San Francisco would be a San Francisco project for a Los Angeles client. Figure 23 explores the difference between working in San Francisco, versus working for clients based in San Francisco. The difference is important because we need to understand the ability of different industry segments to attract work from distant clients (like runaway productions).

Figure 23

Respondents Who Work in San Francisco, Versus Clients Based in San Francisco



For example, respondents in post-production report a greater reliance on San Francisco projects than San Francisco-based clients, suggesting at least some local work on non-locally based projects. Similarly, crew largely work on San Francisco projects, but are somewhat less reliant on San Francisco clients. In both cases, the difference is created by their ability to attract work on projects based elsewhere.

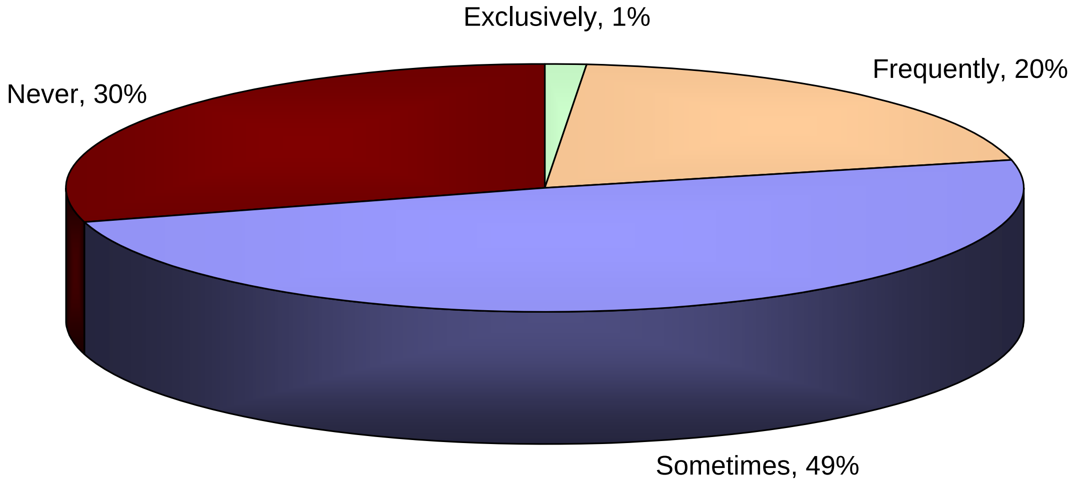
It is worth pointing out that directors and producers are about as reliant on San Francisco clients as they are on San Francisco projects, reinforcing the finding that they are comprising the City's new smaller, locally-based, independent film segment. Support occupations are even *more* dependent on San Francisco clients than on San Francisco projects, emphasizing the fact that these service providers support producers and other project decision-makers. This segment of the cluster needs more locally-based and locally-financed projects in order to grow.

Although the San Francisco market is hugely important for survey respondents, it is not the only significant one. Fully 70% of respondents report working on Los Angeles-based projects at least sometimes, as Figure 24 shows. Considering that Los Angeles is the only major growing film cluster in the United States at the moment—as Table 2 showed in the previous chapter[4]—San Francisco's proximity, and the networks that exist between the two places, should be seen as a potential source of growth for San Francisco.

[4] However, Vancouver and Toronto are major clusters in Canada that are growing. In addition, smaller film centers are rapidly emerging across the U.S., including in New Mexico and Louisiana. The policies these emerging centers have employed are discussed in the next chapter.

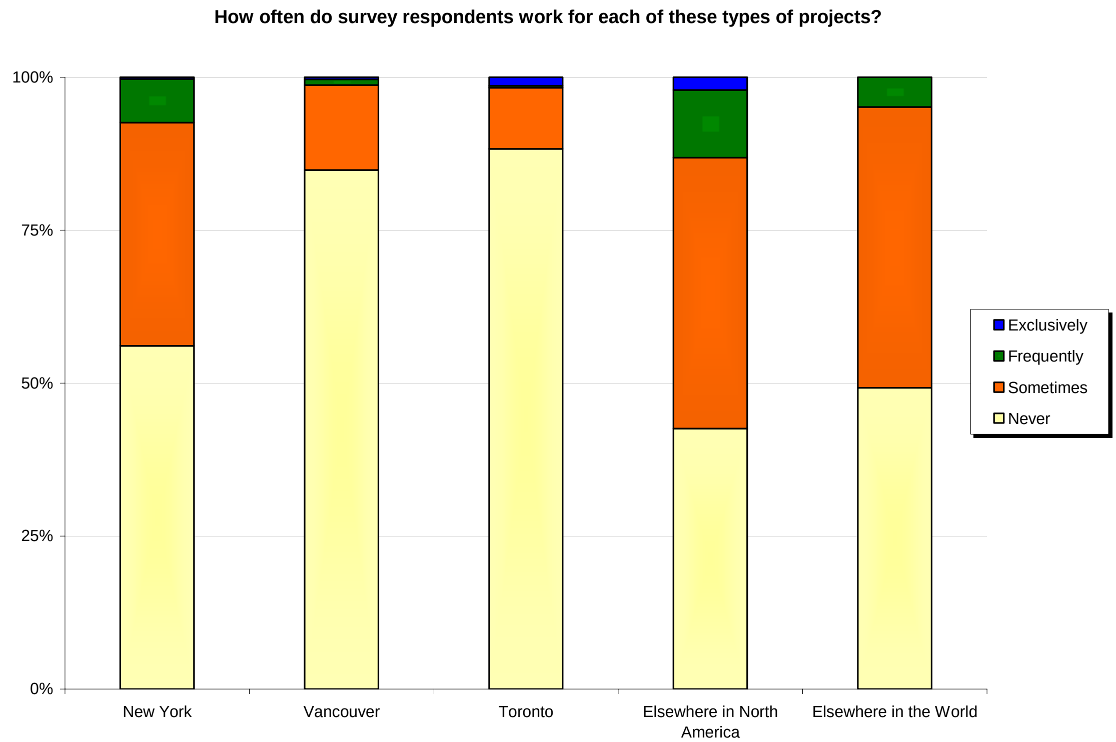
Figure 24

How Often do Survey Respondents Work on Projects in Los Angeles?



Beyond San Francisco and Los Angeles, other regional film clusters are not significant regional markets for the local industry, as Figure 25 shows. Only about 4% frequently work in New York, and over half have never worked there. Although Vancouver and Toronto are both large, rapidly growing, film centers, most San Franciscans have never worked there.

Figure 25

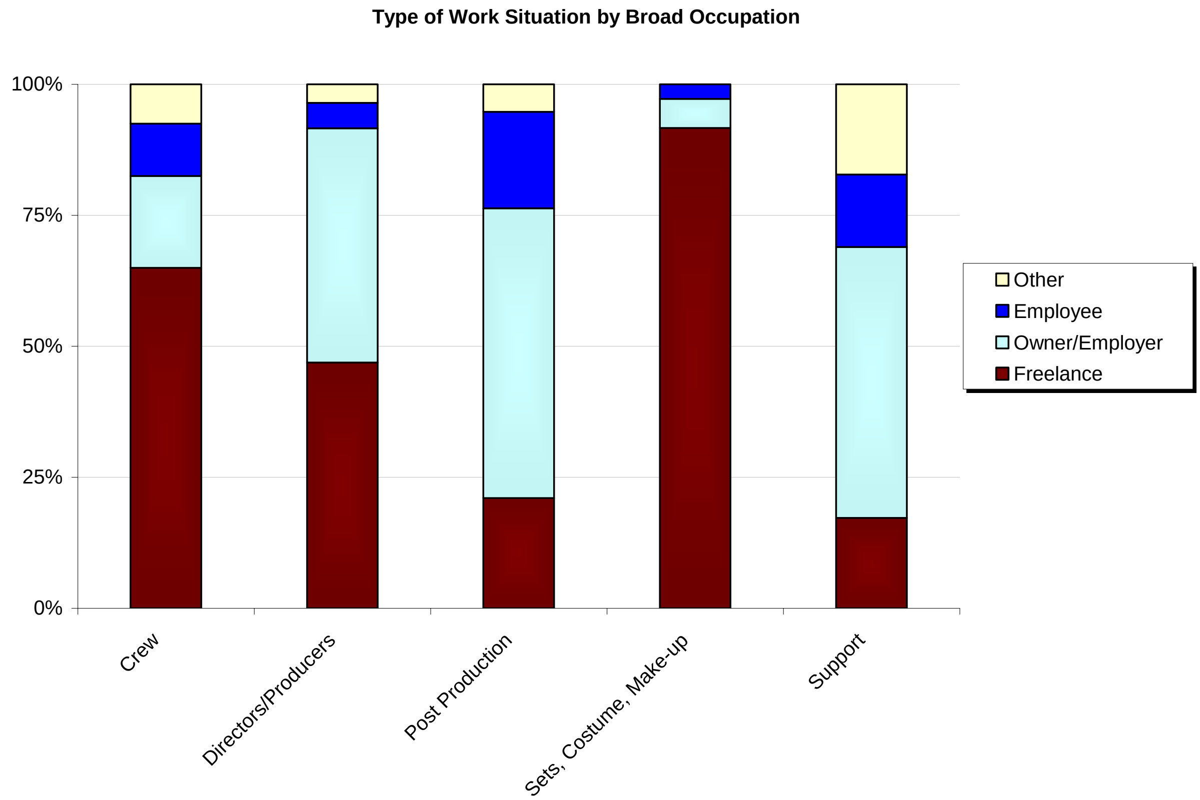


Interestingly, however, about 50% have worked at least sometimes on international projects. Post-production and directors/producers were most likely to have worked on an international project. This likely suggests that many smaller, independent, locally-generated productions often involve international shooting, but the post-production can take place here.

Industry Organization and Infrastructure Needs

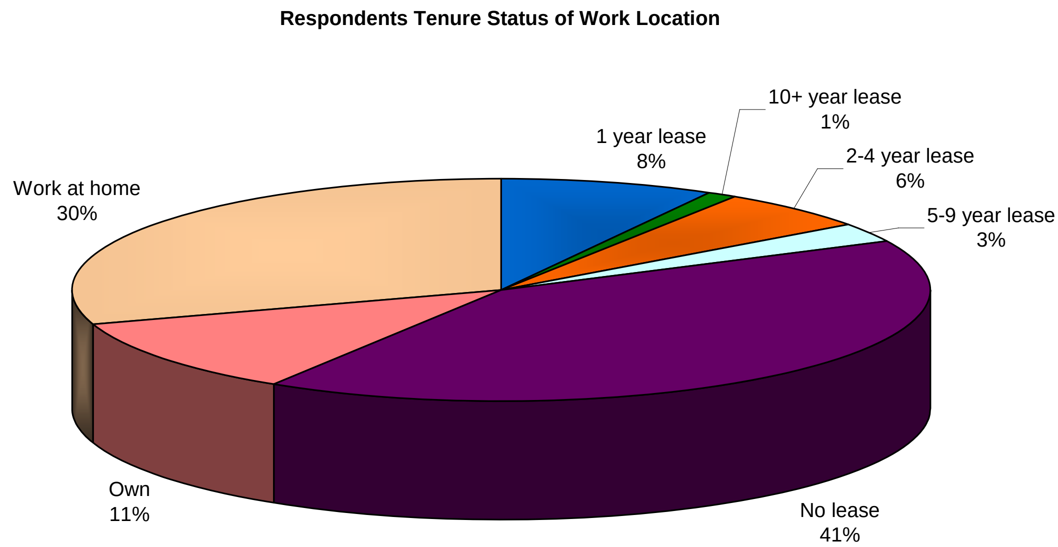
Most survey respondents are free-lancers, but there are significant differences by broad occupation. Figure 26 shows that a majority of crew and set/costume/make-up workers are freelancers, but directors/producers, post-production, and support workers are more likely to be owners of formal establishments or employees of such establishments.

Figure 26



The infrastructure needs of survey respondents reflects the high percentage of freelancers in the sample, as Figure 27 shows. 30% of respondents work at home, or out of their home at a location. Only 20% of respondents have a lease at their location, while 41% have no lease. The reliance of the majority of the industry on rented space, and the relatively large number who lack the security of a lease, suggest a certain vulnerability of the industry in the event of rising rents.

Figure 27



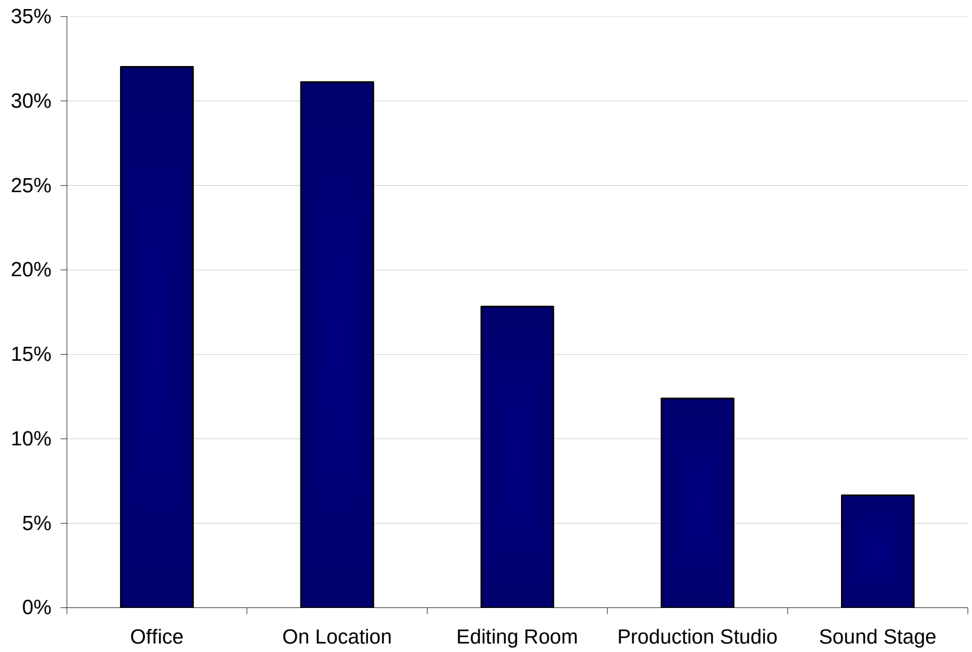
The survey asked respondents about the types of locations in which they did their work, to gauge demand for different types of space and potential infrastructure shortcomings. These results are shown in Figure 28[5].

About one-third respondents worked in an office without any specialized equipment, and about another third worked on location at least part of the time. 17% worked in an editing room – an office with editing equipment or a computer with digital editing software. 12% worked at least part of the time in a production studio shooting film, and 7% worked in a sound- and light-controlled sound-stage.

[5] Many respondents – over 40% in fact—work in more than one location, so the percentage of respondents working in each location sums to over 100%.

Figure 28

Space Requirements of Film Cluster Establishments:
Percent of Organizations Using Each Type of Space



Locational Factors and Policy Initiatives

The survey also asked respondents about the business climate for film in San Francisco and the Bay Area. These questions dealt with various sources of competitive advantage and disadvantage for Bay Area companies.

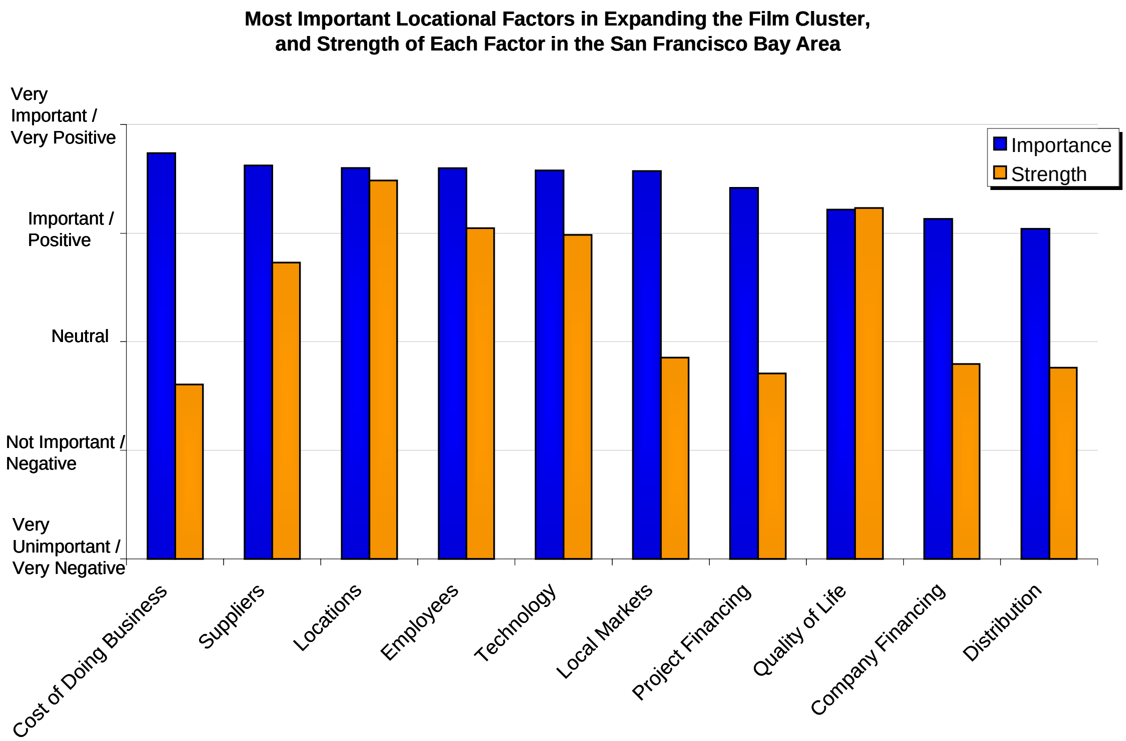
These factors included:

- the size of the local market
- the presence of skilled suppliers and contractors
- the presence of skilled employees
- the availability of technology and technical assistance
- the quality of life in San Francisco
- the natural beauty and quality of locations
- the cost of doing business
- access to distribution channels in San Francisco
- access to project financing
- access to company financing

Specifically, respondents first were asked if they felt each factor was important to a strong local film industry. Then, they were asked if the factor was currently a strength, or a weakness, for San Francisco.

Figure 29 indicates the factors ranked in decreasing importance, from most important (cost of doing business) to least important (access to distribution channels). The blue bar indicates the average importance of the factor, and the orange bar indicates its average perceived strength in San Francisco. The gaps between the blue and orange bars are indicators of where there is a relative weakness on an important factor.

Figure 29



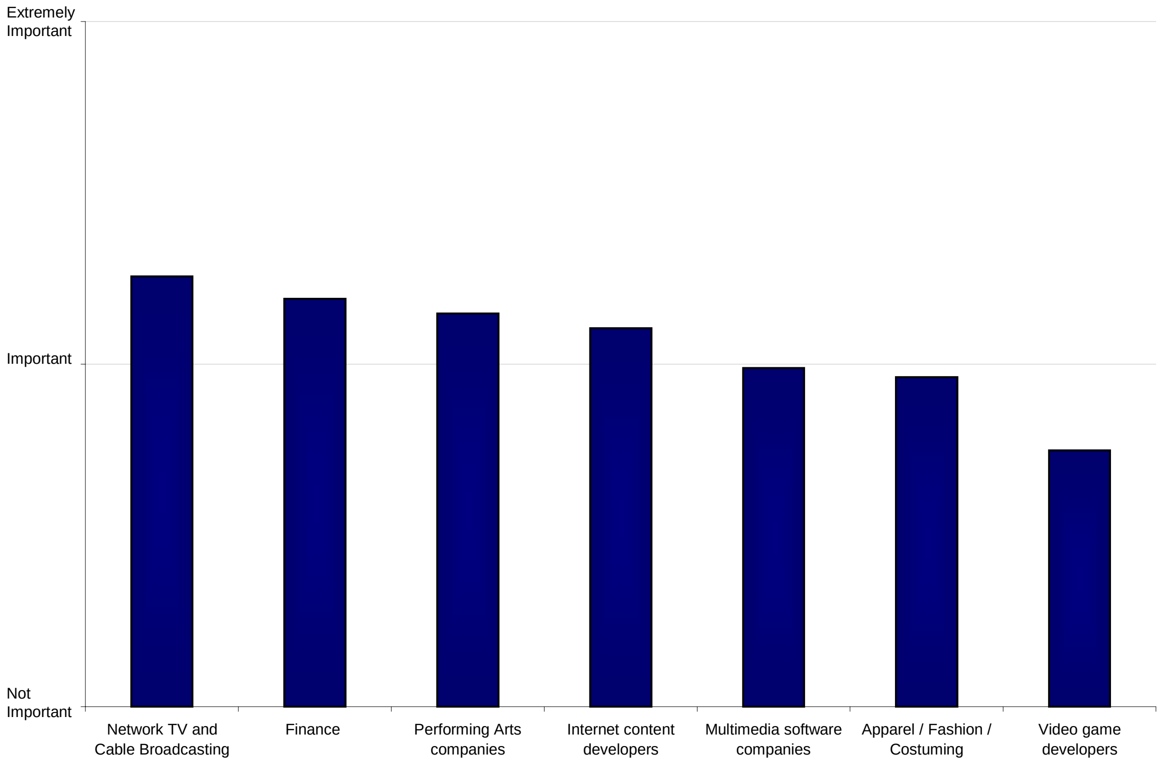
The cost of doing business is clearly the biggest shortcoming, both the most important factor, and the City's greatest weakness. Other than the cost of doing business, the size of the local market, financing for projects, and to a lesser extent for financing companies, were also seen as important factors, and current weaknesses.

On the other hand, factors like the locations and natural beauty of the area, and the quality of life, are seen as important and also strong positives for the local industry. These factors are attractive to runaway production, but are also fundamental for attracting and building a local pool of independent filmmakers. Other important factors, relating to technology, and skilled employees, are also seen as fairly significant strengths for San Francisco.

Recalling the complementary film cluster industries discussed in Chapter 1, the survey asked respondents their views on the importance of a local presence in several complementary industries, or to suggest others not listed. Figure 30 summarizes the average results.

Figure 30

Critical Complementary Industries in the Film Cluster

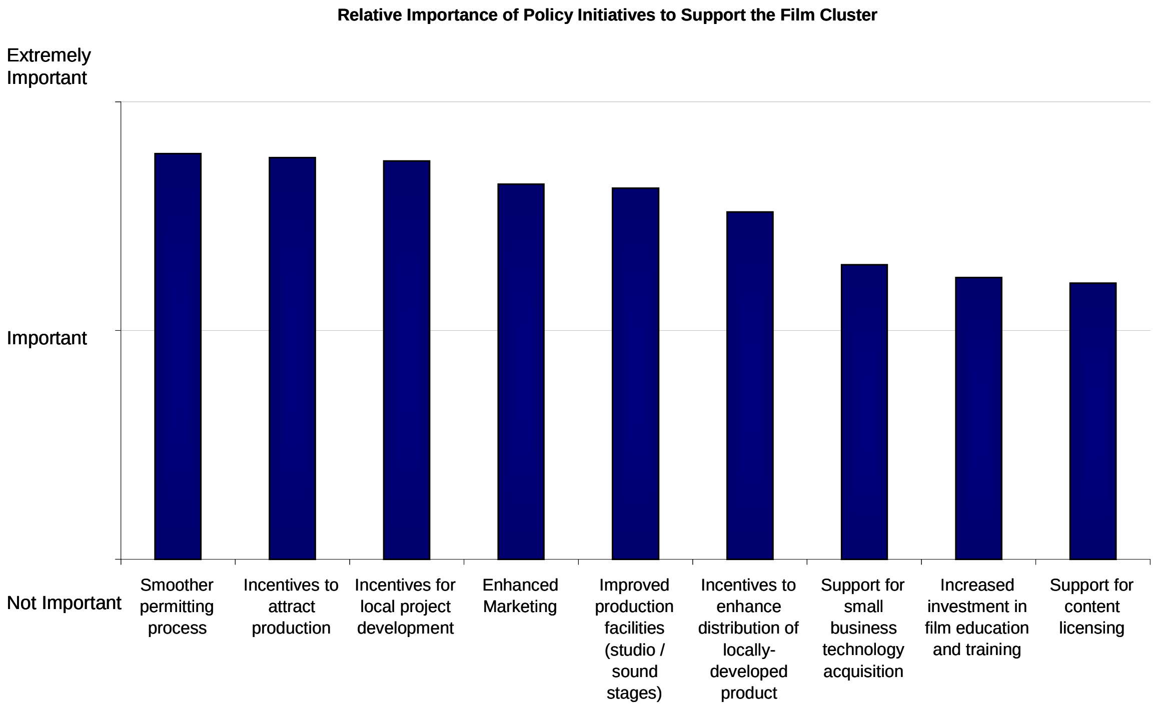


Among the complementary industries listed, television was seen as the most important, followed by finance, performing arts, and internet content developers. Less important complementary producers were multimedia software companies, apparel/costume makers, and video game developers.

In open-ended follow-up questions, survey respondents stressed the importance of, and relative lack of, other industries such as advertising agencies as local clients, art galleries and museums, film and video distributors, feature film studios and production companies, equipment and prop rental companies, and sound stages.

As a concluding question, respondents were asked to evaluate several possible policy initiatives that San Francisco could pursue to stimulate its film industry. These initiatives are based on the review of film cluster strategies conducted in other places, which are discussed in the next chapter. Figure 31 indicates the average importance that respondents placed on each potential policy.

Figure 31



The policies that respondents felt would be most important involved a smoother permitting process, greater incentives to attract runaway production, and greater incentives to stimulate local production.

A second tier of policies, which were rated slightly less important, involved enhanced marketing of San Francisco as a destination, improving production facilities in San Francisco, and incentives and programs to encourage the distribution of locally-produced content.

A third tier of policies, viewed as less important than the others on average, involved promoting technology acquisition by small businesses, increased investment in training and education, and support for content licensing.

Chapter 4: What the Competition is Doing

There is a growing effort among states and localities, in the U.S. and in other countries, to develop the film industry and benefit from its cultural and economic impact. The number of film commissions worldwide has grown 40 percent since 1990[6]. There are currently 181 film commissions in the U.S., 27 in Canada, and 120 throughout the rest of the world[7]. As more states and cities in the U.S. and abroad become serious about developing the film industry locally, and as they create well-organized film commissions and offer attractive financial incentives, production companies are able to shop on a much larger scale for the most economically suitable location that will also meet its script requirement. Among those working in the industry and those whose job it is to attract the industry, it is well known that location characteristics, including infrastructure requirements such as studio space, availability of experienced crews and talent, and the "film friendliness" of the city are the other primary factors, after strictly cost factors, that lead a production company to decide on a location.

The following section of this report discusses strategies that have been adopted to attract large productions, as well as strategies that are more specifically targeted at developing a stronger local film industry. To address the driving factors of location decisions, as well as the building of a strong film industry cluster, best practices are broken down into five critical categories:

- Film Commission Organizational Structure, Governance, and Activities
- Infrastructure
- Financial Incentives
- Business and Creative Development
- Workforce Development

Film Commissions

Film commissions or offices are an essential part of retaining and developing a local film industry. The majority of film commissions are members of the Association of Film Commissions International which serves as the official professional accreditation organization for film commissioners who assist film, television and video production throughout the world. To be considered an official film commission by the AFCI, specific criteria must be met. Such criteria includes providing without fee, core services including location scouting assistance; liaison services with industry facilities and services, augmentation research; and liaison services with the community, production companies and government.

A recent survey conducted by the AFCI, provides a general picture of film commission governance and activities[8]. The survey shows that about one-third of city or county film commissions in the U.S. were created in the last 10 years. About half of these are government agencies and half are nonprofit organizations. 69 percent of them are staffed with no more than one person, and 27 percent have 2-5 employees. Most rely heavily on local government funding. However, hotel taxes, chambers of commerce, private funding, and fundraising are also large contributors to film commission budgets. A

[6] *Association of Film Commissions International* (AFCI), 2006.

[7] *Association of Film Commissions International* (ACFI), 2006. Numbers represents only AFCI member entities. There are a number of other small film commissions that do not have ACFI membership.

[8] The 2005 AFCI survey represents 109 film commissions in the U.S. and 190 worldwide.

small percentage of budgets also consist of corporate sponsorships, membership fees, service and permit fees, and production guide fees.

As shown in Table 3, slightly over half of the film commissions in the U.S. have an operational budget up to $50,000, one-third have a budget from $50,000 to $150,000, and only 3 percent have a budget over $250,000.

Table 3

U.S. City/County Film Commission Operations Budgets in 2005

Operations Budget	Percent
≥ $50,000	53%
$51,000 - $150,000	31%
$151,000 - $250,000	13%
$251,000 - $400,000	1%
$400,000+	2%

Table 4 shows that 55% of these film commissions spend up to $10,000 on marketing, 25 percent spend between $10,000 and $30,000, 13 percent spend between $30,000 and $100,000, and 7 percent have marketing budgets of $100,000 or more. 9 percent of these film commissions maintain additional offices in Los Angeles or Europe.

Table 4

U.S. City/County Film Marketing Budgets in 2005

Marketing Budget	Percent
≥ $10,000	55%
$30,000 – $11,000	25%
$31,000 – $50,000	6%
\$51,000 – $100,000	7%
$100,000+	7%

Source: Association of Film Commissions International, Membership Profile Survey, 2005

Though the structure and level of activity of film commissions varies from place to place, generally commissioners are appointed volunteers, while a small staff carries out the daily responsibilities of providing services such as assisting production companies to find locations, crews, and talent, as well as to process permitting for shooting on location. While many commissions are there to provide these basic services, a growing number of them are working in coordination with local economic development offices, strategizing with industry representatives, and have produced business and marketing plans that set forth a strategy for developing and sustaining their region's role in the film industry.

The following section highlights some best practices in the organizational structure and activities of city, state, provincial, and national film commissions that have contributed to success.

Organizational Structure, Governance, and Activities

Louisiana

In 2002, the Louisiana Film Commission made a strategic move from the Office of Tourism to the state's Economic Development Department which claims the entertainment industry to be one of the states top economic development priorities. Now as the Governor's Office of Film and Television, their role as a film commission is secondary to their role as an agency focused on both attracting outside business and growing a strong indigenous film industry. Spurred from the success of their initial tax incentive program in 2002, the Office is now diligent about recruiting outside and in-state investors and projects from all segments of the film industry. They are also actively engaged as advisors to an educational consortium that is working on increasing film programs and curriculum in the state's educational institutes. In addition they regularly attend industry association meetings across the state to understand the current issues that the industry faces.

With a goal to recruit businesses and increase employment opportunities, the office recently conducted a baseline inventory of the film industry by looking across the state to gauge what is offered and available and understand the industry's strengths and weaknesses in Louisiana. This was done simultaneously to an impact study, conducted a year after their initial incentive program was in place.

The Office of Film and Television has an operations budget of slightly over $300,000 and currently staffs three people. The executive director has extensive experience in both the film industry and economic development. A recently proposed bill would create a Louisiana Office of Entertainment, combining film, television, digital media and music under one agency. Currently the Office of Film and Television and the Office of Music are separate entities. An important dimension to this new office is that it would employ private contractors who are industry professionals, instead of using volunteer commissioners as do most film commissions. They are currently formalizing a strategic plan to continue their current activities and merge with the digital media and music industries.

The newly formed office will continue its responsibility as an informational clearinghouse by maintaining a production guide and crew and location database, and will also continue to administer the state's incentive and technical assistance programs.

Ontario

The Ontario Media Development Corporation (OMDC) is an agency of the provincial Ministry of Culture responsible for the development of the province's cultural media cluster including book publishing, film and television, interactive digital media, magazine publishing and music industries. OMDC administers several industry initiatives, but also acts as a film commission. A chief executive officer oversees OMDC's activities in conjunction with the agency's board of directors to achieve the agency's mandate. Board members are appointed by the Governor General at the federal level for a term not exceeding three years.

There are a total of 55 employees and three main departments. The department for Business Affairs and Research coordinates strategic and business planning, agency operations and industry research and data collection. The group also coordinates annual operational support to the Toronto International Film Festival Group and the Canadian Film Centre. The department for Industry Development acts not only as Ontario's film commission whose responsibility is to attract and promote film production, but also provides technical assistance for cultural entrepreneurs to create and market new products, develop existing markets, and access new markets and grow their business. This department also maintains an office in Los Angeles whose aim is to build Ontario's profile as a film and television production center.

The third department administers tax credits and finance for Ontario's book publishing, film, television, digital media and sound recording tax credit programs

Each year, OMDC completes a comprehensive annual report that highlights their achievements and industry success stories and discloses their financial statements.
In 2004 the Ministry of Culture provided OMCD with approximately C$9.5 million in funding and in 2005 this dropped to slightly over C$6 million. This is revenue in addition to an approximate C$10,000-C$12,000 from tax credit administration fees and interest payments from technical assistance programs. About 87 percent of their revenue goes toward operating expenses which includes salaries, consulting services, and marketing efforts. Marketing expenses alone account for about four percent of their total revenue. The remaining expenses are industry development initiatives and grants.

The Ontario government has declared the entertainment and creative cluster as one of the top three growth industries for the province. This fueled the recent decision to provide OMDC with one-time C$23 million allocation for the development of a cluster strategy.

Illinois

Illinois Production Alliance (IPA), while not a film commission, provides a good example of how an industry association can compliment the efforts of a film commission to help grow and develop the industry. IPA is a diverse coalition including labor, production companies, commercial producers, studios, postproduction houses and filmmakers. The organization was set up to extend the capabilities of the Illinois Film Office which is housed in the state's Department of Commerce and Economic Opportunity. Working as volunteers for the Film Office the first year, they officially become the Illinois Production Alliance in April 2004. They are funded through private donations and membership fees.

While the Illinois Film Office remains the primary informational clearinghouse and administers the state's film tax incentive program, the IPA has been the primary entity to develop and follow through with a strategy for boosting feature as well as local independent production. Their 21-seat board is comprised of committees that work on their goal areas: diversity, legislative incentives, membership building, business development, strategic planning, and fundraising. They also arrange several community educational initiatives for the film community and are working to incorporate other areas of the visual media community into their efforts.

Marketing Activities

Many film commissions understand that it is important to build a positive image and send out a clear message that their office and the local film community are able to offer an abundance of resources, and that any production that comes to town will work in a "film friendly" environment. Though for most, spending on marketing represents a small percentage of over film commission budgets, some film commissions have strategically managed these resources for successful marketing activities. Attending trade show events, direct mail, advertising in industry publications, location brochures, production guides, and websites appear to be the most popular means of film commission public relations and marketing. One study shows that film commission websites are one of the primary sources for scouting best locations for film productions[9].

Many film commissions have additional offices in Los Angeles to maintain a strong presence and increase interaction among major studios. Film commissions also make periodic sales trips to attract producers and attend trade shows and other events in Los Angeles.

9 Arizona study.

New Zealand

In their annual marketing awards competition in which 150 film commissions participated, the Association of Film Commissions International awarded Film New Zealand first place for website design and content. The website includes basic information on doing business in New Zealand; a comprehensive production guide including information on tax incentives and other finance opportunities; a directory by alphabet or by search query; a locations galley that allows you to search by season, by region, key words, or category; and an exhaustive list of frequently asked questions. See www.filmnz.com.

Another recent marketing initiative of Film New Zealand includes the development of a New Zealand/Film New Zealand DVD that showcases location filming and filmmaking capabilities in New Zealand. This has been a useful tool for distribution at regional film offices, and is popular part of a marketing package that gets handed out at events with producers in Los Angeles.

In 2003, Film New Zealand spent a total of NZ$188,915 on marketing and communications, representing 34 percent of their total annual operating revenue[10]. This includes expenses for updating their website, production guide, and other marketing materials, the development and distribution of a newsletter, attending international marketing events, and publicizing the opening of a new studio facility.

Other ACFI award winning websites include the Busan Film Commission (www.bfc.or.kr), the Birmingham-Jefferson Film Office (www.filmbirmingham.org), and the Virginia Film Office (www.film.virginia.org).

Florida

Another impressive website includes the Florida Film Commission which uses an online form to match a producer's requests to relevant locations in Florida. It provides information on employment opportunities, unions and associations, and state labor laws. Its extensive online production guide is now available online with search capacity. It also has an extensive discounts and deals section which consists of production companies, hotels, and other businesses in Florida that offer discounts on film-related business. See www.filminflorida.com.

The Orlando Film Commission uses its website as a hub for posting casting notices, industry jobs, and used equipment. It also has an easy-to-remember website address, www.filmorlando.com.

British Columbia

British Columbia Film administers Passport to Markets, a program that supports the attendance of British Columbia film and television companies at key international markets, co-production and co–financing conferences. Applications are considered from British Columbia resident producers who have professional experience in the film and television industry and, where applicable, have been pre–selected by event organizers to participate at an eligible market site. In addition, applications are considered from British Columbia resident sales agents or distributors. British Columbia Film support offsets a portion of travel, accommodation and registration expenses.

Also organized by British Columbia Film, Tools of the Trade initiatives are a series of market-oriented events that act as "reverse trade missions" that bring the international marketplace to British Columbia. These sessions are designed to raise the profile of the British Columbia film and television industry, to develop and advance ongoing business relationships with international financiers, to secure project financing, and to provide up-to-date market intelligence to BC filmmakers.

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[10] *Film New Zealand*, Annual Report 2003-3004.

Infrastructure

The development of new large-scale film studios is a critical component of the new wave of film cluster development strategies, both in the U.S. and abroad. Large-scale studio development is occurring both in established film centers like New York, as a way to retain the film industry, as well as in greenfield locations like Louisiana and emerging film centers like New Mexico, as a way to offer productions new, cost-effective alternatives.

Most of these new studios are pursued to complement or leverage other strategies already in place such as tax incentives, workforce development, and business development. Oftentimes, these other strategies have come first, developing momentum behind a region's film industry, and then as the industry matures, developing adequate studios is seen as an essential next step in securing the region's role in the industry. City and state officials realize that having new state-of the-art studio space can be the decisive factor for productions that are shopping for the perfect locale, particularly when they can also show that there are other significant cost savings already in place via incentives and skilled but affordable crews. Therefore, attracting investment for state-of-the-art studios is often seen as the icing on the cake for film industry development strategies.

Many of the new studio projects are incorporated into other city redevelopment or growth plans to improve the quality of underused space, revitalize declining neighborhoods, and bring a variety of new jobs to the region's workforce. This has helped make the case for public-private deal-making.

Austin

Austin Studios was financed through a unique public/private partnership between the city of Austin and the Austin Film Society (AFS). The property, which is owned by the city, is a centrally located 20 acre film/video production facility contains a 10,000 square foot production office building and over 100,000 square feet for shooting space, production offices, and on-site production services for everything from studio films and commercials to independent and student films.

The project started when the husband-and-wife director/producer team of Robert Rodriguez and Elizabeth Avellan first commissioned a feasibility and financial study for the reuse of six hangars and two office building on the grounds of Austin's old airport. The study was handed to the AFS, a nonprofit organization that provides support for the local filmmakers and helps the film commission attract production to Austin. AFS drew up a proposal recommending that the city maintain ownership of the property and that AFS manage the property as studio complex. The Mayor and city council unanimously supported the proposal and AFS was given a 10-year lease (with an option for more time after 2010) at $100 per year.

Since its opening in 2000, the studio has housed 20 feature films and dozens of non-feature projects that have collectively spent $165 million in the city. The Austin Studio complex has attracted a large studio equipment rental company from Dallas, as well as a range of companies including grip/dolly, mobile editing, camera rental, transportation and props, among others. Because it operates as a nonprofit, the Austin Film Society is able to keep its rents low, attracting not only vendors, but also studio pictures that are looking to keep their costs down. Low rents have also proved to be an advantage for local independent and student filmmakers, who are offered high-quality production space on a sliding scale. The money that the Austin Film Society does take in goes into maintaining and improving the facilities such as subflooring, insulation, soundproofing, lighting grids, and flood proofing. AFS has considered rent abatement in exchange for improvements. One of the drawbacks of being a nonprofit is that this process of improvements can be slower than it would be if a for-profit business were able to convince investors to sink money into improvements.

Glasgow, Scotland

In Glasgow, the Glasgow City Council, Strathclyde European Partnership, and Scottish Enterprise are developing the £3.5 million studio complex in an area of town undergoing redevelopment. The project, called Film City, was inspired by Copenhagen's Zentropa Studio. The project, which began in 2004 and is due for completion in 2008, is projected to create over 100 jobs directly involved in film, TV production, graphics, animation, web design, music and design. It will provide film studio space, a specialized post production film facility including a Dolby Premier sound production facility, the first approved sound production facility in Scotland, conference rooms, and low-cost space for the creative media sector. BBC Scotland and Scottish Media Group, a well-known British media company, are among the first tenants.

Brooklyn

Newly built from the ground up Steiner Studios opened in November 2004 on a 15-acre site at the historic Brooklyn Navy Yard. The $118 million project was funded out of pocket by shopping center financier, Douglas Steiner. The 285,000 square-foot studio complex provides New York City with its first Hollywood-style (and scale) production and support facility. Designed to the specifications of producers and facility operators in Los Angeles, Steiner Studios is a full-service, state-of-the-art "production factory," equipped for start-to-finish production of major motion pictures, independent films, television, music videos and broadcast commercials. The studio claims to be largest and most sophisticated studio complex outside of Hollywood, offering five soundstages ranging in size from 27,000 square feet to 16,200 square feet, ample office and support space, and parking for 1,000 vehicles.

City officials say that in addition to the "Made in NY" incentive program the studio has helped to stabilize and even boost New York's position as a major film production center.
Kaufman Astoria Studios in Queens, which held the title of the largest soundstage in the city until Steiner opened plans to add a 18,000-square-foot soundstage to complement his 300,000 square foot studio complex. The region's third major and largest production center, Silvercup Studios in Long Island City, with 18 soundstages, is also starting a major expansion to the existing 400,000 square feet.

Toronto

In 2004, Toronto's redevelopment authority, Toronto Economic Development Corporation (TEDCO), opened a bidding process for the development of a new studio to help revitalize the city's Port Lands. In late 2005, TEDCO together with Toronto Film Studios Inc. (TFS) and its parent Rose Corporation signed a land lease and other agreements to develop what will be Canada's largest film and media production complex. The new film and media complex is intended to serve as a catalyst that will revitalize the under-utilized Port Lands and help to transform the area into a creativity and innovation district for film, media, arts and knowledge-based industries. The site itself is contaminated from past industrial uses and is in need of remediation before construction can take place. The city will contribute C$10 million in support for remediation and the construction of foundations.

The 99-year lease agreement is for an initial 30 acre site with option rights on an adjacent 15 acres. In total, approximately 1.25 million square feet of building space will be constructed, including offices for film/media tenants, unions and guild offices; live-work spaces; a hotel and conference facilities; retail shops and restaurants; a film school; and a fitness center, creating a new media and film business district which is being called FilmPort.

While under development, the C$250 million project is expected to create 2,000 person-years of employment in the construction, manufacturing and service sectors. When completed, the complex is expected to annually induce direct and indirect economic impacts of over C$600 million in Ontario, and support up to 2,000 person-years of employment. The studio complex is also expected to generate C$4.3 million of additional property taxes for the city.

This initial phase will comprise 232,500 square feet of production facilities including six state-of-the-art sound stages totaling 123,000 square feet and over 100,000 square feet of production offices and support facilities. Phase 1 also includes a “mega-stage” that will be North America's largest, purpose-built sound stage. At 45,000 square feet, the state-of-the-art stage will have 65 feet of clear height and a floor space 180 feet wide by 250 feet long (over an acre in area)—entirely without columns. It will be large enough to house a full-sized replica of the Parthenon. When fully built the complex will encompass more than 750,000 square feet of professional studio facilities.

Construction on the FilmPort complex is scheduled to start in fall 2006, with completion in 2008.

Albuquerque

Pacifica Ventures, owners of the renowned Culver Studios in Culver City, California recently began construction on the first phases of the new Albuquerque Studios 50-acre project. The $74 million investment is expected to bring 500,000 square feet of buildings, including eight massive sound stages and 78,000 square feet of office space. When complete, the complex is expected to host movie, music video, television and other productions, which would rent the indoor and outdoor backlot spaces, equipment and services.

While Albuquerque has had a good deal of recent filming activity, most productions have been able to make use of Albuquerque for short durations, going elsewhere to complete production in places with suitable sound stages. The city’s economic development department and local industry specialists project that the new studio will draw productions to Albuquerque for more shooting days. They also expect it to create about 75 jobs initially and about 900 from the studio's construction. When complete they expect that the studio complex will have a base employment of about 2,000, but could handle up to 4,000 working on film projects at full capacity.

The studio's development is a part of a larger plan, the development of Albuquerque’s new 12,900 acre master-planned community, Mesa del Sol. The development of the studio is expected to speed construction of the community’s retail center and the development of 30,000 new homes many of which will be occupied by studio employees.

Pacifica Venture chief executive, Hal Karlinsky said he was lured to develop the studio complex in Albuquerque because of the state’s attractive incentive program. The location is conveniently located minutes from the Albuquerque airport and is a 90-minute flight from Hollywood.

Louisiana

Louisiana has had an upsurge in studio and soundstage development. This may be due to amendments in the state’s film tax credit legislation which not only revised the film production tax credit program to increase the percentage of the credit, but also created a new tax credit for investors in film studios and other production facilities in Louisiana. There are at least nine studios spread across the state that have recently been developed or are in the conceptual or planning phases. While most of these are reuse projects in the range of 30,000 to 45,000 square feet, there are several large-scale film complexes being planned from the ground up.

Among the larger projects is Sunset-Gower Studios, formerly known as Columbia Pictures, which plans to build a $20 million studio with five soundstages, 200,000 square feet of office space, and digital postproduction facilities on the Mississippi River in New Orleans. Since Hurricane Katrina these plans have been on hold.

Another large project is being pursued by Louisiana Cinema City Studios which plans to build a massive entertainment complex, including eight state-of-the-art soundstages and four broadcast stages. The complex would be the first professional sound stage to be built in Louisiana. The entertainment complex would have a post-production facility including a film laboratory, production offices as well as a five star suite hotel, several restaurants, shops, a multiplex theater, day-care center and health club. The stages will range in size from 18,000 square feet to over 38,000 square feet with the ability to combine multiple stages to create one of the largest sound stages in the world, with grid heights adjustable up to 40 feet. The developers are still looking for property but intend to build the complex within a 30-minute drive from New Orleans.

L.I.F.T. Productions, with Film Factory LLC, has just announced a 320,000 square foot film studio and trade school in New Orleans near a pubic housing complex. The project will include soundstages, post-production facilities, a back lot, offices, and a school. The $100 million movie production facility plans to have parts of the building ready for use by early 2008. It was the first project to receive the Bond Commission’s endorsement under the Gulf Opportunity Zone Act, a federal law that authorized $7.9 billion of tax-exempt bonds for businesses in Louisiana.

The Robert E. Nims Center is located just outside of New Orleans in the University of New Orleans' 79,000 square foot production complex with two sound stages totaling more the 30,000 square feet of production space. Nims Center Studios is a division of the University of New Orleans Foundation and is operated in cooperation with the Governor's Office of Film & Television Development, the New Orleans Office of Film & Video and the University of New Orleans. In addition to production facilities, it is a hub for internships and production assistantships as well as media education through the University’s Department of Film, Theatre and Communication Arts.

Chicago

A local Chicago developer partnered with the Santa Monica-based Raleigh Enterprises, and entered into a redevelopment agreement with the city of Chicago to build a $57 million film studio complex in Chicago. The city is selling an 11-acre site to the developer for $1.1 million. The city and state approved a $40 million Illinois empowerment zone bond, and $10,000 in city tax increment financing for construction costs.

The studio is planned for a site at a former illegal dumping ground. Plans are for five stages, including two 28,000 square foot stages and three 18,000 square foot stages, plus a three-story production office building and a 21,660 square foot mezzanine. It is supposed to be the largest studio located between the coasts.

The city projects that the complex will contribute more than $94 million annually to the city’s economy and 1,250 full and part-time jobs. The developers have committed to working with the mayor's Office of Workforce Development to train and employ resident from surrounding neighborhoods. Construction has not yet started.

Financial Incentives

In general, most jurisdictions that aggressively compete for film production offer some kind of financial incentive to attract large-budget productions with the hope that the aggregate spending of productions will significantly outweigh any loss in tax revenue to the jurisdiction. The benefits of implementing tax incentives can be increased employment opportunities and personal income, as well as increased tax revenue via employees’ income taxes, property taxes, and sales and use taxes, all resulting from production activities. Maintaining administrative and economic efficiency has proved to be critical for the benefits to outweigh the costs.

Today, there are 45 states, and very few cities in the U.S. offering some form of tax incentive. Twenty of those states offer either a tax credit or rebate, which are the most proactive incentives. In addition, alluring tax incentives for production are also common in Canada both at the federal and provincial level, as well as in New Zealand, Ireland, the UK, and Australia.

Tax credit. Tax credits are a dollar-for-dollar reduction applied directly to tax liability. They are often based on a percentage (ranging from 10-30 %) of a production company's expenditures while producing a qualified film, television, commercial, or digital media project. The amount of the credit is usually based on the amount of money spent on labor or other production expenses in the state. There are different ways to design the tax credit. Transferable credits allow companies to transfer or sell their credits to another tax payer in the same jurisdiction. This often means that industries outside of film are also able to take advantage of the incentive program, therefore distributing the benefits more broadly. A refundable credit means that a company can redeem the value of any unused credit, paid for by the jurisdiction that issued the credit. Some states prefer refundable, nontransferable tax credits because the benefits remain solely for film production companies.

Investor Tax Credit. The objective of an investor tax credit is typically to attract private investment in production companies. The credit is usually an income tax credit applicable to taxpayers that invest in qualified production companies. The credit is usually equal to a percentage of the investment amount and sometimes the amount spent on local labor or other production expenditures. While the investor tax credit rewards tax payers who invest in film productions or infrastructure, the more commonly used tax credit mentioned above rewards the actual production company.

Tax Rebate. Tax rebates are also generally based on investments, labor and other expenditures, but are issued as a cash reimbursement, not a credit.

Grant. Some states issues grants in instead of credits or rebates. As in the case of Pennsylvania discussed below, grant applicants submit an itemized list of production expenses to be incurred and grants are awarded prior to production activities. Grantees submit progress reports during production, and at the completion of the production grantees submit proof of expenditures.

Loan. Some states offer generous loan packages that can be used to finance full-length feature productions. Loan provisions vary.

Sales and Use Tax. The most common motion picture incentive offered by state governments is an incentive against sales and use taxes. Generally, a state will waive the state sales and use taxes on the purchase of goods and services by a motion picture production company. State laws differ on when the motion picture company can receive the exemption. Some states offer point-of-sale redemption, while others refund the taxes at the end of the year with rebates[11]. Thirty states offer some kind of sales and use tax incentive for film production.

Hotel Tax. Many states have programs designed to attract productions by easing their accommodation costs. States commonly will not impose taxes on transient lodging if the accommodations are rented for an extended period of time. Typically, the required stay is 30 days; however, a few states require longer periods[12].

The programs outlined in Table 5 below represent some of the most innovative film industry development incentives in North America, and around the world.

[11] *State Tax Notes.* Special Report. March 13, 2006

[12] Ibid

Table 5

Selected Financial Incentives Targeted for Large-Budget Productions

Tax Credit	Investor Tax Credit	Rebate	Grant	Loan	Sales and Use Tax Exemption	Hotel Tax	Exemption	Other
CT	30%, min. spend $50K	-	-	-	-	yes	yes	-
HI	15-20%, min. spend $200K	-	-	-	-	-	yes	royalties tax exemption
IL	15-20%, min. spend $50-100K	-	-	-	-	yes	yes	-
IN	10%	-	-	-	-	-	yes	-
LA	10-20%	15-25%, min. spend $300K	-	-	-	-	yes	venture capital fund; digital media and sound recording incentives
MA	20-25%, min. Spend $250K	-	-	-	-	-	yes	-
NJ	20%	-	-	-	yes	-	-	-
NM	-	-	25%, no min. spend requirement	-	yes	yes	yes	?
PA	-	-	-	yes	-	yes	yes	fee-free city property
RI	25%, min. spend $300K	15-25%,min. budget $300K-5m	-	-	-	-	-	-
Puerto Rico	-	40%	-	-	-	-	-	-
B.C.	3-30%	-	-	-	-	-	-	-
Ontario	18-30%	-	-	-	-	-	-	-

Connecticut

Connecticut has tax credits for the production of digital media and motion pictures. The legislation provides a tax credit equal to 30% of qualified digital media and motion picture production, preproduction and postproduction expenses incurred in the state that exceed $50,000. The credits apply to production expenses including compensation and services and purchases such as equipment, lighting, wardrobe and soundstages. The tax credits are transferable and can be applied against the corporation business tax. The Connecticut Commission on Culture and Tourism (Commission) and its new Digital Media and Motion Picture Division administer the program.

The Connecticut sales and use tax exemption applies to producers working on programs for television or radio broadcast for certain materials such as film stock and videotape stock; and for producers buying, renting or leasing motion picture or video production equipment or sound recording equipment for use in the state for commercial entertainment, commercial advertising or commercial education.

There is no hotel occupancy tax for hotel stays in excess of 30 days.

Hawaii

Hawaii provides a refundable income tax credit of 15% (for production in counties with a population greater than 700,000) or 20% (for production in counties with a population equal to or less than 700,000), which is deductible from net income tax liability, of the costs incurred in the state in the production of feature, short, or television films, commercials, music videos, interactive games, other various television productions. Qualified expenditures include labor, services, and other production expenses. The production is qualified if it spends at least $200,000 in qualifying expenditures. There is an overall cap of $8 million per production.

Hawaii's high-tech business investment credit is a credit equal to 100 percent of high-tech business investments made in Hawaii. It is an income tax credit applicable to Hawaii taxpayers that invest in qualified companies producing "performing arts products," including film and television productions. The credit is spread over five years, with the taxpayer receiving 35 percent of the credit in the year the investment is made, 25 percent a year later, 20 percent in year three, and 10 percent the remaining two years. There is a maximum amount that can be received in any one year. The credit is nonrefundable. However, if the credit is not used in the year it is earned, the taxpayer can carry it forward indefinitely.

Hawaii has the one of the most generous accommodation incentives. It gives motion picture companies a refundable tax credit of up to 7.25 percent on accommodation costs incurred in producing a motion picture or a television pilot, episode, or movie of the week.

Hawaii's royalties tax exemption provides that royalties derived from performing arts products are excluded from a Hawaii taxpayer's income and not subject to state income tax.

Illinois

Illinois provides a transferable 20% income tax credit for Illinois production expenditures, plus a 15% credit for Illinois labor expenditures capped at the first $100,000 in wages for each employee. For projects 29 minutes or under the spending requirement is $50,000 and for project over 29 minutes the spending must be $100,000. Qualified production expenditures are tangible personal property and services purchased from Illinois vendors and compensation paid to Illinois resident employees (up to a maximum of $100,000 for a single employee). Production companies must also be willing to promote diversity by making a "good – faith" effort to hire a percentage of minorities. They must also submit a diversity plan setting forth proactive steps they will take in achieving a crew that represents the diversity of the State.

Illinois provides a sales and use tax exemption for products of photo processing produced for use in motion pictures for public commercial exhibition.

The state offers a 14.9% hotel tax reimbursement for stays in excess of 30 days.

Indiana

Production related businesses with tax liability in Indiana can qualify for up to a 10% tax credit based on investment in equipment or buildings.

The state provides an exemption on hotel tax for stays of 30 days or longer.

Louisiana

Louisiana provides a transferable investor tax credit equal to 25 percent of the in-state investment made if it is in excess of $300,000 for capital and infrastructure projects related to motion picture film, videotape, digital, and television program productions. An investor is entitled to an extra 10 percent credit if the money is spent to employ a Louisiana resident. The additional employment credit is limited to the first $1 million paid to each employee each year on the project. The credits are applied against state income tax for Louisiana taxpayers. For credits that cannot be used in the year earned, any remaining credit may be carried forward and applied against income tax liabilities for the subsequent ten years.

Currently the credits are also transferable meaning that the credit can be transferred or sold to another Louisiana taxpayer. However, the Legislature was concerned that a middle market was developing in which brokers purchase credits from investors and sell them to third parties. To remedy that problem, beginning January 2007, the state will begin to purchase motion picture investor tax credits for 72 percent of their face value. The amount the state will pay increases by 2 percent every two years until the purchase amount reaches 80 percent. In other words, by 2015 the state will ensure an investor will receive in cash at least 80 percent of the value of a credit[13].

In 2005 amendments to the legislation removed the requirement that the investor had to be a Louisiana resident. Previously, an investor had to be domiciled in the state to qualify for the credit. Under the new provision, the investor must only be a Louisiana taxpayer. Thus, nonresident taxpayers may take advantage of the tax credit to reduce their liability for Louisiana income taxes.

To promote the development of a film infrastructure in Louisiana, the motion picture investor tax credit contains a semi-hidden provision that gives an investor a 15 percent credit on investments made in infrastructure projects. To qualify for the credit, the base investment in the project must be greater than $300,000. The infrastructure credit is given only to state-certified projects and expires January 1, 2008.

Under the state's new Digital Media Act, video game developers who set up shop in Louisiana receive a 20 percent tax credit provided they remain in operation for the long term and build working relationships with Louisiana universities. In addition, the state's new Sound Recording Investment Act provides a refundable 10, 15 or 20 percent tax credit for recording projects or infrastructure, with an annual cap on program costs and a maximum period of usage per company.

Finally, the state of Louisiana teamed with a Los Angeles-based production company to create a $ 50 million production fund called LA Squared. The fund was created to back 10-12 films, all of which are to be shot in Louisiana. The Louisiana Economic Development Corporation invested $3.5 million into the fund through the venture capital matching program administered by the agency. The Louisiana Institute of Film Technology (LIFT) arranged debt financing.

[13] *State Tax Notes*, March 13, 2006.

Massachusetts

Massachusetts offers a transferable 20% tax credit based on a production's total payroll in the state, with the exception of employees who make more than $1 million. Filmmakers are offered an additional 25% tax credit based on all production expenses in the state. To be eligible for the credits at least half of the film must be shot in Massachusetts, or half of the expenses must be spent in the state. For both credits qualifying productions include, feature-length film, video, television series, and television commercials. Companies can carry both tax credits forward for up to five years or sell to another corporate taxpayer. Both credits apply to any production spending more than $250,000 in the state, but total tax credits are capped at $7 million per production.

Any production spending more than $250,000 is also exempt from paying sales tax on equipment they buy in the state.

New Jersey

The New Jersey Film Production Assistance Act makes loan guarantees to certain film projects. The loan guarantees are limited to either 30 percent of the total amount borrowed or $1.5 million, whichever is less. To qualify for a loan guarantee, a motion picture production company must shoot at least 70 percent of the film in New Jersey, spend 50 percent of its total budget in the state, borrow at least one-half of its production budget from a third party, pay prevailing wages to film employees, and post completion bonds[14].

The state also provides a transferable corporate and income tax credit equal to 20% of in-state production related expenses for films, TV shows and series. Sixty percent of the total production expenses, excluding post-production costs, must be incurred in the state. The program is capped at $10 million per fiscal year and includes a roll-over provision.

New Mexico

New Mexico offers a 25% refundable income tax rebate on in-state film production and postproduction expenditures, including labor. Qualifying productions include feature films, television, national and regional commercials, documentaries and commercial audiovisual product. There is no minimum spending requirement per production to qualify. An interesting requirement for the rebate stipulates that the film shall contain an acknowledgment that the production was filmed in the State of New Mexico.

The state offers a sales tax exemption on all production costs including set construction, wardrobe, facility and equipment rental, all production and postproduction services. A special certificate is presented at the point of sale and no gross receipts tax is charged. This program is primarily intended for producers of local, regional, and national advertisements. It may not to be used in conjunction with the 25% tax rebate.

The State Investment Office offers loans for up to 100% of the estimated production costs, with participation in lieu of interest, capped at $15 million per project. Loan structures have to be "fully and unconditionally guaranteed" by an entity with an investment grade bond rating; and equity structures require presales/distribution. The loan program allows producers to "sell ownership" in their films rather than force them to "incur debt", as would be the case with a typical loan program.

Some of the key eligibility requirements include script requirements (no excessive or gratuitous violence or sexual content, hard language, drug abuse, culturally sensitive material), the film must be wholly or

[14] *State Tax Notes*, March 13, 2006.

substantially shot in New Mexico (at least 85% of principal photography); and 60% of below-the-line payroll must be allocated to New Mexico residents. The total budget must be at least $1 million. The state's accommodation incentive provides a waiver of the 4% lodgers tax for hotel accommodations of more than 30 days.

Pennsylvania

Pennsylvania provides up to a 20 percent Film Production Grant for film production expenses incurred in the state. The grant is available for feature films, television films, television pilots or each episode of a television series. In order to qualify for the grant, 60 percent of the total production expenses must be incurred in Pennsylvania. No more than $10 million per year is awarded.

Production expenses that are eligible for a grant include wages and salaries under a million dollars, construction, operations, editing, photography, sound synchronization, lighting, wardrobe and accessories, and the cost of rental of facilities and equipment. Marketing and advertising costs, development costs, story rights and music rights do not apply toward the grant.

Rhode Island

Rhode Island provides a 25% motion picture transferable tax credit for all Rhode Island production related expenditures. This also includes salaries for people working on the ground in the state. Film, television, commercials, and video game production qualify and must have a minimum budget of $300,000.

Additionally there is also a non-transferable investor tax credit for Rhode Island residents who invest in film, television, commercials, and video game produced primarily in Rhode Island. The investor receives a 15% tax credit (with a 3 year carryforward) for a production with a budget of $300,000-$5 million. If the investment is in a production with a budget over $5 million, it is a 25% tax credit (with a 3 year carryforward).

Puerto Rico

Puerto Rico offers up to a 40% investment tax credit for motion picture and television expenditures paid to Puerto Rico businesses or below the line talent if at least 50% principal photography is in Puerto Rico. The credit is available for projects first approved by the Film Commission once applicants pay a quarter of 1% of the film's budget for a license. Non-Puerto Rican based companies can partner with local investors to help them access the investment tax credit.

British Columbia

Film Incentive BC (FIBC) Tax Credit is a labor-based tax incentive that provides refundable tax credits to British Columbia owned and controlled production companies based on eligible BC labor costs. The package includes four specific credits: 1) The basic tax credit (30%) encourages film and television production in British Columbia, 2) The regional tax credit (12.5%) stimulates production outside of Vancouver, 3) The training tax credit (3%) promotes the development of skilled workers in the industry, 4) The digital animation and visual effects tax credit (15%) assists the development of the digital animation and visual effects industry.

Film Production Services Tax Credit is a labor based tax incentive that provides refundable tax credits to Canadian or international film and television production corporations that have incurred costs in British Columbia. The company does not have to be a Canadian–owned corporation, and there is no requirement that it have an interest in the copyright. The package includes three specific credits: 1) The basic tax credit (18%) encourages film and television production in British Columbia, 2) The regional tax credit

(6%) stimulates production outside of Vancouver, 3) The digital animation and visual effects tax credit (15%) promotes the digital animation and visual effects industry in British Columbia.

All BC credits can be used in conjunction with the federal film production incentive programs.

Ontario

Ontario Film & Television Tax Credit is rebate of 30% on labor costs, available to Canadian-controlled, Ontario-based production companies. The Ontario Production Services Tax Credit is an 18% refundable tax credit on Ontario labor costs, available to foreign-based and domestic productions. A bonus of 3% is provided for projects with at least five production days in Ontario, and at least 85% of production days outside of the Greater Toronto Area.

Additionally, offers a 20% credit for computer animation, interactive digital media, and sound recording for Canadian-based businesses. The two former are for labor expenditures and the latter is for production and marketing expenditures for emerging artists.

All Ontario credits can be used in conjunction with the federal film production incentive programs.

Business and Creative Development

While attracting large productions from out of state or out of country is typically considered an essential strategy in building a local film cluster, significant effort has simultaneously been directed toward ensuring the viability of the local film industry by strengthening local resources like content development, production, distribution and marketing of home-grown productions. These technical assistance strategies have been pursued through innovative financing structures, education workshops, and connecting local producers and creative talent to national and international markets as well as connecting them to other local industries.

Illinois

The Illinois Production Alliance (IPA) formed the business development committee to facilitate indigenous business growth in all sectors of the visual media industry. The committee works on building collaboration between sectors. Part of the IPA's strategy calls for building a dialogue with Chicago's advertising community to stay on top of the evolving demand for new creative products and opportunities for new types of partnership between advertising agencies and high-quality, commercial production companies in Chicago.

Illinois Development Finance Authority offers a participation loan program funded to a limit of $500,000. The loans can help independent filmmakers finish their films by getting them made into a 35mm print. The state's preference, though, is to see five projects get made at $100,000 a piece rather than one at $500,000 in order to serve more companies[15].

To encourage creative development in the state, the Illinois Department of Commerce and Economic Opportunity along with the Illinois and Chicago Film Offices administers a screenwriting competition to offer aspiring screenwriters the opportunity to showcase their talents to the motion picture industry. A panel of local and national film industry professionals judge entries. The semi-finalists have the option of being added to a list that is provided to producers and production companies looking for scripts. Finalists receive a copy of their judges' notes and have the opportunity to revise their scripts. Winning scripts are sent to major studios and production companies in Los Angeles.

15 IPA White Paper

British Columbia

British Columbia Film provides opportunities for British Columbia producers and distributors/sales agents to participate at key international film and television markets.

British Columbia Film partners with other federal and provincial film agencies to provide business centers that facilitate sales and export development. Key international markets include the American Film Market (AFM), Cannes Marche du Film, MIPTV, and MIPCOM.

BC Film also provides several assistance programs for creative development. One noteworthy program is the Project Development Fund which helps attract marketplace investment by Canadian broadcasters to British Columbia and encourages Canadian broadcasters to support existing and emerging British Columbia companies on a project by project basis. The program provides financing for script development to feature films, dramatic or animated television projects or documentaries that have secured development commitments from a broadcaster or distributor. Funding is "market-triggered" and does not include a creative or selective assessment. A non-recoupable advance, matching of up to 50 percentage of the broadcast or distribution is available, to a maximum of C$30,000 per project. Applications are evaluated on a first come/first served basis, and funding is available until the budget for the program is expended. Applicants must be British Columbia owned and controlled production companies. International treaty or interprovincial co-productions are eligible.

The BC Film Slate Development Fund is targeted towards established producers who have demonstrated the capacity to sustain production in British Columbia. The program provides a financing envelope up to C$150,000 for the development and marketing of a slate of independent film and television productions. Slate financing is producer-directed and performance-based. Applicants must be British Columbia owned and controlled production companies. International treaty or interprovincial co-productions are eligible.

Another industry development program is the Feature Film Fund which ended in 2004. The Fund provided financing for the production of fictional, animated or documentary feature-length films. Funding was in the form of an equity investment up to a maximum of C$250,000 per project. British Columbia Film's financial involvement triggered additional financing from other public (federal) and private financiers. With the exception of low-budget films, projects were required to secure a theatrical release commitment from a Canadian distributor. Applicants had to be British Columbia owned and controlled production companies and international treaty or inter-provincial co-productions were eligible.

In addition to the financial assistance programs, BC Film has provided numerous workshops to facilitate creative development and enhance business acumen among producers, writers, and directors.

Toronto

The Ontario Media Development Corporation's Film Fund was been developed to increase the level of indigenous film production in Ontario. It provides support to Ontario producers for feature film projects in the final stages of development and production financing. The OMDC Film Fund consists of two components: development, which provides funding in the form of an interest-free loan of up to C$25,000 for the final development stage; and production, which provides funding in the form of a repayable advance of up to C$300,000 on a last-in basis to complete the financing of a feature film. Applicants must be Canadian-controlled corporations based in Ontario. Eligible projects must be dramatic or documentary feature films for theatrical release with a proposed length of over 75 minutes. Projects must be at a final stage of creative development and/or packaging, with a minimum projected production budget over C$1 million for dramatic and C$600,000 for documentary features.

Queensland, Australia

The Pacific Film and Television Commission (PFTC) offers 16 different financial assistance schemes to help Queensland-based filmmakers, including funding for short films, documentaries, digital film and marketing for national and international distribution. One noteworthy program is the Business Development Scheme which provides investment in a slate of film and television projects by Queensland residents. Funding decisions are based primarily on whether the business plan demonstrates that production output can be increased by 20 percent within three years and that the company can achieve sustainability within that period. Funding is provided as an investment in a slate of projects. PFTC recoups 105 percent of its investment from the first three projects produced (35% from each project) irrespective of whether the projects produced are included in the application's development slate. Producers are expected to structure production budgets to meet the recoupment requirements. PFTC takes an interest in the copyright of the projects submitted.

There are three levels of investment ranging from A$40,000 to A$100,000 for producers who have developed and financed between eight to 44 hours of television drama or documentary projects that were produced in Queensland and have been broadcast both in Australia and overseas or three feature films that were produced in Queensland and received a commercial release nationally and sold to international territories.

Ireland

The Irish Film Board (IFB) also has a number of financial assistance schemes aimed to help Ireland-based filmmakers, including development, production, and post-production funding for short films, documentaries, animation, digital film and marketing for national and international distribution. For 2006, the IFB has €13,729,000 for development and production loans and other capital programs. Loans range from 25-65 percent of a project's budget. Development loans do not exceed €75,000, and production loans not to exceed 50% of the production budget. The IFB prefers that applicants (producers, writers or directors) apply earlier in a project's trajectory when the project exists only as an idea, an outline or a treatment so that the IFB can get on board for shared development and support a project through production. Funding is intended to support films that might not otherwise be made without IFB's involvement[16].

Workforce Development

New Mexico

In 2004 Gov. Bill Richardson launched the New Mexico Media Industries Strategy Project (MISP) to contribute to building a media arts cluster. The ultimate intent of the strategy is to stimulate

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16 http://robinkellyuk.blogspot.com/2006/07/new-funding-policy-at-irish-film-board.html

entrepreneurial endeavors. MISP began with an initial $10 million in seed money to support a Film Training Initiative. $3 million of that went to University of New Mexico for the development of ARTSLab, a new digital media project that hopes to create high-wage, high-tech jobs. The lab's mission is to become a catalyst in education and research and offers continuing education classes in filmmaking, animation, production, screen writing. Funds also went to New Mexico State University, Santa Fe Community College and the Albuquerque Technical Vocational Institute (TVI) to develop skills for local film crews.

The Governor allocated $1 million of the seed money for the purchase of a "mobile" film equipment package to be used for student classrooms and production training on actual film projects. Named the Film Technicians Training Program, it was created by the New Mexico Film Office in collaboration with the International Alliance of Theater and Stage Employees (IATSE) Local 480. It is currently offered at four state colleges throughout New Mexico with plans to expand. After an introduction to the film industry, students choose a specific craft and work on actual short-form productions. The final semester is spent working on larger projects such as shorts and independent films under the supervision of experienced crew members.

In addition to MISP programs, the state's Department of Economic Development in collaboration with the International Alliance of Theater and Stage Employees (IATSE) Local 480, created the Film New Mexico Workforce Training and Mentorship Programs. The programs provide film training courses to New Mexico residents interested in entering the film industry or intermediate crew members looking to move up in their profession. The program collaborates with educational institutions in the design and implementation of curricula for all types of positions from production to postproduction. The Mentorship Program is for intermediate crew members who are ready to move up in job classification. Productions hiring graduates from either of these programs qualify for a 50 percent wage reimbursement for each trainee hired. The program is for production companies creating feature films, television programs, national commercials, documentaries, music videos, or public service announcements.

In addition, the New Mexico Film Office regularly offers specialized training courses for individuals interested in filling support roles in the production industry.

New York

The New York City Mayor's Office of Film, Theatre and Broadcasting and the city's Department of Small Business Services, established of a workforce training program to support independent film production in New York City. The objective of the program is to maximize the ability of independent film productions to provide on-the-job training for a variety of freelance workers to strengthen their skill sets. The Independent Film Training Grant Initiative provides eligible NYC-based production companies with grants to offset the costs associated with training eligible crew members to assume greater on-set responsibilities. Film production companies are able to access the program for only one film project and can receive a maximum of $25,000 per film production budgeted under $3 million. The city's Department of Small Business Services has allocated $150,000 in federal workforce training funds for the pilot program. It is administered by the nonprofit group, Independent Film Project, in conjunction with the NYC Mayor's Office of Film, Theatre and Broadcasting.

The expectation is that individuals participating in the program will go on to work on future film projects at a more advanced level of experience, thereby ensuring that NYC's indigenous crew base is fully employable and serves as a magnet for attracting productions to NYC.

In addition, the Workforce Development Corporation (WDC), a not-for-profit corporation affiliated with the city's Department of Small Business Services is expected to coordinate a hiring initiative with the new Steiner Studios and other film industry-related employers at the Brooklyn Navy Yard.

British Columbia

BC Film's Professional Internship Program facilitates "on the job" internship placements for emerging producers and writers with active BC film and television production companies. Experienced filmmakers act as mentors and participating companies provide matching funds throughout the term of the placement. Internships are for a period of up to 50 weeks. Applicants must be British Columbia residents with professional experience who show a high degree of commitment and interest in enhancing existing skills under the guidance of a veteran mentor. To launch the program each year, BC Film hosts a reception to introduce the interns to key contacts in the BC industry.

Scotland

In partnership with one of Scotland's major TV stations, Scottish Enterprise launched the IDEASFACTORY, a project aimed to foster new talent and ideas as well as develop new and existing production companies. The project offers a variety of classes, workshops, funding, and competitions across Scotland aimed at ages 16 to 34 designed to help individuals develop their skills. Steering groups at the local level involve local companies and universities which administer the projects and define topics of interest for the participating area. Topics have included documentary filmmaking, animation, and TV comedy. Finalists of the competitions have been awarded classes with industry professionals as well as professional consultation such legal advise, design consultations, and business advise to help jumpstart or grow their own businesses.

Other programs include the Writer's Factory and Television and Young People Initiative which are a part of the Edinburgh International Television Festival; a program to encourage filmmakers, animators and content providers opportunities to experiment with mobile technologies and create short films for delivery via mobile phones; and an industry-backed video games development competition for students at universities and art colleges.

Where San Francisco Stands

Film Commission

In 2004, San Francisco's Film Commission went through some changes, with Mayor Gavin Newsom taking the first steps to revitalize the city's film industry. What was called Newsom's 7-point plan included hiring a new executive director; an allocation of $350,000 to the Film Commission in order to create incentives for film makers and upgrade city film facilities; the identification of funds for capital improvements to facilities on Treasure Island; an executive order that calls for the appoint of a film liaison for key city departments; a film industry conference; support of a state senate bill for a state-wide tax incentive program; and the appointment of eight new film commissioners.

Organizational Structure, Governance, and Activities

Since the announcement of the plan the office hired a new executive director and two employees who provide core services including location scouting assistance and liaison services with industry facilities and services. They have initiated new communications collateral, including a new logo that won an award from the AFCI in 2006, as well as a new production guide to replace the out-dated and unattractive guide that was previously used.

San Francisco's staffing is relatively low compared to those in other major film centers. Film Office research has shown that Chicago, Philadelphia, Miami, and San Diego all have greater levels of staffing than San Francisco.

Financial Incentives

In April 2006, the San Francisco Board of Supervisors passed the first film and television incentive program for a California city. The incentive package includes a rebate of all city fees, payroll taxes, and hotel and sales taxes for productions that shoot 65 percent or more their principal photography in San Francisco. Smaller films, with a budget of $3 million or less, would only have to shoot 55 percent of their principal photography in San Francisco. Since 2006, one production has taken advantage of the incentive. While many cities offer some kind of hotel and sales and use taxes incentives, New York was the only jurisdiction at the city level that was identified as having a tax credit for wages and other expenditures.

However, while San Francisco is one of the few cities to offer film incentives, the City is at a disadvantage by the absence of film incentives at the State level. As this review has just shown, it has been state and not local governments that have had the capacity to use tax policy to make themselves competitive for productions.

While San Francisco is unusual in its film incentive program, it also imposes costs that act as financial disincentives for film producers. Research conducted by the San Francisco Film Office has shown that San Francisco's permit fee, business license fee, police charges (including an administrative fee) and street closure charges are higher in San Francisco than they are in competing cities such as Austin, Seattle, Boston, Philadelphia, or Chicago.

While these cost differences (with the possible exception of policing) run into the hundreds and not thousands of dollars and are not large parts of a production budget, they are emblematic of other cities' more aggressive attitude to solicit outside film production. As another example, San Francisco requires a Certificate of Insurance and Endorsement with every use agreement that it reaches with filmmakers. Most other cities—including New York—do not have such a requirement.

Infrastructure

Decommissioned military facilities were frequently converted to use for film production by U.S. cities during the 1990s. The navy's return of Naval Station Treasure Island to San Francisco in the mid-1990s gave the City badly-needed infrastructure to support film production at a time when capacity in the Los Angeles area was at a premium. During the mid-1990s, space at the former naval station was booked for a year in advance[17]. Since then, in keeping with the general industry trend in San Francisco, demand for the space at Treasure Island has declined significantly.

The Treasure Island Redevelopment Authority leases three large hangars that have been used for stage space. A 50,000 square-foot space (Building #2) currently has a tenant with a long-term lease with Island Creative, a company that provides backdrop scenery and lighting for theatrical productions. This building has 42-foot ceilings at the columns, rising to 65 feet at the center. It was used by the television program *Nash Bridges* from 1995 until its cancellation in 2001. In the early 1990s, the hangar was offered at a very low rent to the producers of the program, as an inducement for the program against Chicago, Los Angeles, Seattle and Vancouver[18]. However, by 2003, the rent had risen to $10,000 per shooting day.[19] By 2007, the daily location fee at Treasure Island is now $1,500 a day[20].

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17 "Hollywood Discovers Treasure: Island's huge unused airplane hangars in demand as sound stages for movies, TV", *San Francisco Chronicle,* June 25, 1996.

18 "Lights, camera and little action -- San Francisco's mayoral hopefuls address drop in movie production", *San Francisco Chronicle,* August 2, 2003.

Another hangar (Building #3) contains 65,000 square feet of shooting space, together with 79,000 square feet of office space. It also has 65-foot ceilings at the center, and was used by several major productions in the past, including several featuring Robin Williams, such as *Patch Adams*, *Flubber*, *Bicentennial Man*, and *The Hulk*. It was last used by a production company associated with a Pentecostal church, which defaulted on its lease.

The 40,000 square-foot space (Building 180) has two separate stage floors of 20,000 square feet and 32-foot ceilings, both of which are currently leased for storage. The last major production to utilize this facility was *Rent* in 2005. Each of the hangars has about an equal amount of attached office space.

Though Treasure Island offers is ample amount of additional office space and parking, the electrical capacity is low on Treasure Island, which requires productions to have to pay high prices to fulfill their electricity needs. So far, plans for capital improvement on the Treasure Island facilities have not materialized, and several of the buildings are in disrepair.

Area 51 in Alameda is the closest large-scale production facility to San Francisco. It has two multifunctional stages, each with 20,000 square feet, a 20 by 20 square-foot green screen for film and video, and a runway for parking or large-scale uses.

San Francisco has a handful of smaller stage space used mostly for small productions or as insert stages. Several have closed over the last few years.

[19] "Gone East: As filmmaking wanes in San Francisco, Oakland steps in as a competing location", *San Francisco Chronicle,* November 16, 2003.

[20] Treasure Island Development Authority "Film and Photo Reservation Packet".

Chapter 5: Conclusions and Recommendations

The analysis conducted for this report suggest several areas that San Francisco can focus on in order to realize the economic value of a revitalized film cluster. However, many of the trends facing the City cannot be counteracted with local action:

- The slow growth in studio pictures has led to stagnating employment across the U.S., and Los Angeles has a clear and irreversible lead, and advantage, over competing clusters like the Bay Area's.
- San Francisco has a high cost of production, for film and every other industry, and no set of tax incentives alone will make the City cost-competitive with New Mexico, Louisiana, North Carolina, Canada, and other states and countries with aggressive incentive packages.
- The kind of high-budget productions that have supported the very skilled, specialized, and experienced crew base in San Francisco are not the growing segment of the industry. Today's film production is smaller, faster, much cheaper, and far more numerous than it was only twenty years ago.
- The ongoing shift to digitization and away from film is part of this restructuring of the media landscape, and has profound consequences for the skills and infrastructure that film clusters in the future will, and will not, require.

Nevertheless, some jurisdictions have made a significant difference in their film industries, by taking advantage of these trends, and offering the right combination of marketing, tax incentives, financing assistance, and business and workforce development programs. Vancouver and Toronto are the two most significant examples of cities that parlayed federal and provincial tax incentives into robust and diverse film and new media clusters. Areas ranging from New Zealand to Scotland are trying to follow in their footsteps, and there is every reason to believe that San Francisco and the Bay Area can capitalize on its unique advantages to become a major center in the transforming 21st century film and media industries.

This analysis suggests that the city should focus on four primary goals to make this a reality.

Goal #1: Make San Francisco and the Bay Area more competitive for runaway productions

The loss of runaway productions, including studio features and network television series, is the leading cause of decline in San Francisco's film industry. These projects are a critical source of work for the unionized crew, sets, costume, and make-up occupations, which are the primary source of employment in the industry for people without a university degree. At the same time, these high-budget production continually test and expand the skills and competency of local suppliers, and by contrast their absence allows these skills and competencies to deteriorate.

Survey respondents particularly focused on the cost of production as the major deterrent to attracting runaway productions to San Francisco, and strongly recommended expanding incentives to offset those costs. Without minimizing that issue or the value of that policy, there are also many other things San Francisco and the region do not currently do that could be equally effective at attracting productions. These are summarized in the recommendations below:

- Form a regional film marketing body designed to attract major runaway productions. Should be funded by SF, Oakland, Alameda, Vallejo, San Rafael, and other cities with an interest in attracting film production.
- Irrespective of regional efforts, San Francisco can and should offer a seamless, and competitive, level of service re: permitting, location availabilities, and project planning.

- Establish regional parity in taxation/incentives for film. Consider the impact of incentives on competitiveness within North America, and create an incentives program that makes San Francisco competitive with other cities that offer incentives.

Goal #2: Promote locally-based production in San Francisco

San Francisco has naturally attracted a diverse range of independent filmmakers from around the world, and is surely a world leader in smaller film productions. Since this is a growing segment of the industry, it makes sense for San Francisco to try and foster a greater number of locally-originated projects. The survey results suggests that doing so will involve financing and networking initiatives:

- San Francisco should work with local foundations and other granting institutions to create a revolving small film development fund.
- San Francisco should follow the lead of other jurisdictions and offer significantly higher tax incentives for locally-based productions.
- San Francisco needs to expand the number of networking events available to independent filmmakers, and should particularly consider a forum or trade show setting where buyers and distributors from Los Angeles can quickly and cost-effectively examine local productions.

Goal #3: Link digital media and film industry development efforts

The future direction of technology is going to lead to an ever-closer relationship between film and digital media. San Francisco and the Bay Area, at the present time, is probably one of the five leading digital media centers in the world, and all of the trends in the broader media industry suggest these activities will grow in the future. Perhaps the most important areas where this synergy can develop is in education and workforce development.

- The City should promote an integrated workforce development efforts for film and digital media, involving unions, larger companies, universities and colleges, and local high schools.

Goal #4: Create the soft infrastructure before the hard infrastructure

Many survey respondents and interviewees highlighted the lack of professional-quality production and sound stage space in San Francisco or the Bay Area. Moreover, it is certainly true that major film industry development efforts in places like Toronto, Brooklyn, and Philadelphia have made use of redevelopment projects to build world-class indoor shooting locations, which San Francisco currently does not have.

- In the medium term, set aside and possibly redevelop space for professional-quality sound and production stages in San Francisco or nearby.
- Link this effort to a targeted marketing campaign to attract larger production houses to San Francisco. Fund and staff the Film Commission to a level corresponding to what competing jurisdictions are doing.
- Leverage the private sector interest in promoting film marketing in San Francisco by broadening industry representation on the film commission, to include industries which indirectly benefit from positive marketing, such as tourism.