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Economics Research Associates

Project Report

**Nebraska Film Industry Development Study**

Prepared for

**State of Nebraska  
Department of Economic Development  
Nebraska Film Office**

Prepared by

**Economics Research Associates**

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# TABLE OF CONTENTS

<u>Section</u>		<u>Page</u>
I	INTRODUCTION .....	I- 1
II	EXECUTIVE SUMMARY.....	II- 1
	Introduction.....	II- 1
	Nebraska’s Film Industry.....	II- 1
	Recommendations for Nebraska’s Film Industry .....	II- 2
	Conclusion .....	II- 5
III	A REVIEW OF FILM INDUSTRY ECONOMICS.....	III- 1
	Introduction.....	III- 1
	Key Characteristics and Trends in Film Production .....	III- 1
	Geographic and Locational Factors in Film Production .....	III-14
	Factors Driving the Globalization of Film Production .....	III-15
	Summary and Implications for the Film Industry in Nebraska	III-17
IV	THE FILM INDUSTRY IN NEBRASKA .....	IV- 1
	Introduction.....	IV- 1
	Industry Employment in Nebraska .....	IV- 4
	Film Production Activity in Nebraska .....	IV- 9
V	OVERVIEW OF GLOBAL FILM INDUSTRIAL POLICIES ANALYSIS.....	V- 1
	Introduction.....	V- 1
	Rationale Behind Industrial Support of Film Production ...	V- 1
	Types of Global Government Programs .....	V- 2
	National Film Policies by Country .....	V- 3
	Implications for Nebraska Film Industry .....	V-18
VI	FILM PRODUCTION PROGRAMS AND INCENTIVES IN THE UNITED STATES .....	VI- 1
	Introduction.....	VI- 1
	Federal Incentives/Programs for Film Production.....	VI- 1
	Current State Production Incentives .....	VI- 2
	Summary and Implications for Nebraska.....	VI-11

**TABLE OF CONTENTS**  
**(continued)**

<u>Section</u>	<u>Page</u>
VII	
ECONOMIC DEVELOPMENT STRATEGY AND IMPLEMENTATION RECOMMENDATIONS FOR NEBRASKA .....	VII- 1
Introduction.....	VII- 1
Film Industry Development .....	VII- 1
Policy Recommendations for Nebraska’s Film Industry ....	VII-12
Conclusion .....	VII-20
Appendix Tables .....	A- 1

## LIST OF TABLES

<u>Number</u>		<u>Page</u>
II- 1	Feature Films Released in the U.S., New Films .....	II- 7
II- 2	Map of Crew Locations Within Nebraska .....	II-13
II- 3	Map of Production Company Locations Within Nebraska.....	II-14
II- 4	Analysis of Nebraska as a Potential Center of Film Production...	II-25
III- 1	U.S. Entertainment Industry, Historical Developments .....	III- 3
III- 2	U.S. Theatrical Data Average Production Cost per Feature, Major Studio Releases .....	III- 5
III- 3	U.S. Theatrical Data Average Marketing Cost of New Feature Films .....	III- 6
III- 4	Feature Films Released in the U.S., New Films .....	III- 8
III- 5	Television Trend Summary .....	III-11
III- 6	Steps in Digital Vs. Film Production.....	III-13
V- 1	Federal Business and Tax Incentives for Film Production .....	V- 4
V- 2	Film Production Subsidy and Incentive Programs, Historic and Current .....	V- 6
V- 3	Canadian Federal Incentives for Indigenous Film Production .....	V-11
V- 4	Production Infrastructure Canadian Provinces .....	V-13
V- 5	Canadian Tax Incentives and Rates, Secondary Production Centers.....	V-14
V- 6	Production Infrastructure, Canadian Provinces .....	V-15
VII- 1	Typologies in Building a Regional Film Production Industry .....	VII- 7

## TABLE OF CONTENTS (Continued)

<u>Section</u>		<u>Page</u>
VII- 2	Analysis of Nebraska as a Potential Center of Film Production...	VII-11
VII- 3	U.S. State Film Production Tax Incentives and Programs, 2002 .	VII-18

## **Section I. INTRODUCTION**

The Nebraska Film Office (NFO) has commissioned Economics Research Associates (ERA) to perform an economic analysis of the state's motion picture production industry. The NFO and local film commissions in Nebraska have been working to attract motion picture production as a means of stimulating and diversifying the economy in Nebraska, in addition to providing employment opportunities for local skilled labor.

Both film and television production, whether for cultural or economic purposes, stimulates economic development through the employment of a local workforce whose wages are generally higher than wages for comparable work elsewhere, the local provision of materials and supplies, the generation of room nights at area hotels, and increased restaurant and retail revenues. Other secondary impacts of motion picture production include ancillary benefits such as increased tourism and public exposure to the location of filming.

In today's global production environment, motion production is increasingly being outsourced to low-cost production centers such as Canada and Australia which offer a combination of skilled labor and infrastructure in addition to an aggressive industrial policy which subsidizes production through tax incentives and similar approaches. This places competitive pressure not only on the primary production centers in the U.S. such as Los Angeles and New York, but also on the secondary centers such as Nebraska. To remain competitive, several U.S. states already have motion picture incentive programs in place such as sales tax or labor tax credits.

This report identifies trends in the global film production industry as they are likely to impact secondary production centers like Nebraska (Section III), provides an analysis of the motion picture industry in Nebraska (Section IV), and provides an overview of global incentive programs (Section V) and those in the U.S. (Section VI). Having identified the strengths, constraints and competitive challenges that the industry in Nebraska currently faces, ERA has outlined a series of recommendations for the future development of the industry in the state (Section VII).

This report has been prepared by David Bergman, Principal, and Anne Wurts, Senior Associate. The Los Angeles-based consulting team undertook three visits to Nebraska for project initiation, data collection and research purposes. Every reasonable effort has been made to present the information most currently available. All sources utilized in this report are noted in the appropriate tables.

The following section represents a summary of our findings and outlines our recommendations.

## **Section II. EXECUTIVE SUMMARY**

### **Introduction and Recommendations**

Both film and television production, whether for cultural or economic purposes, stimulates economic development through the employment of a local workforce whose wages are generally higher than wages for comparable work elsewhere, the local provision of materials and supplies, the generation of room nights at area hotels, and increased restaurant and retail revenues. Other secondary impacts of motion picture production include ancillary benefits, such as increased tourism and public exposure to the location of filming.

Motion picture production is increasingly being outsourced to low-cost production locations such as Canada and Australia that offer a combination of skilled labor and infrastructure in addition to an aggressive industrial policy which subsidizes production through tax incentives and similar approaches. This places competitive pressure not only on the primary production centers in the U.S. such as Los Angeles and New York, but also on secondary centers such as Nebraska.

This report identifies trends in the global film production industry as they are likely to impact Nebraska, analyzes the motion picture industry in the state, and provides an overview of global incentive programs and those in the U.S. Having identified the strengths, constraints and competitive challenges that the industry in Nebraska currently faces, ERA has outlined a series of recommendations for the future development of the industry in the state.

#### ***Key findings***

Nebraska is presently home to a small, but viable motion picture production industry. The industry plays an important role in the overall efforts to diversify the economy of the state and to retain a skilled labor force. The sector is complementary to the state's overall goal of attracting and retaining technology and information-based economic activities. The film industry can play a critical role as a catalyst for the development of future high wage, high skill jobs. However, the film industry in Nebraska is currently threatened by a wide variety of competitive factors both internal to the economics of the industry and from neighboring states that have targeted motion picture production as part of their overall economic development strategy.

In order for the industry in Nebraska to remain viable, it is imperative that the state develop supportive public policy to encourage its future development. A sustainable motion picture production industry in Nebraska will require a close collaboration and a coordinated course of action between state agencies engaged in various economic development functions, trade promotion, and the state's leading cultural arts and educational institutions.

At present, the film industry and related activities are a source of high wage, high skill jobs for Nebraskans. The inability to meet the competitive challenges in the marketplace through appropriate public policy interventions is likely to result in a loss of these good quality jobs and further contribute to the state's ongoing "brain drain." As surrounding states focus their efforts on integrating the motion picture industry with information, technology, media and culture industries, as a key facet in their economic development planning, Nebraska risks losing this small but vibrant sector to both regional competitors and locations outside of the U.S.

### **Recommendations**

ERA has developed a series of recommendations for actions by stakeholders in the film industry including the State of Nebraska, Department of Economic Development, the Nebraska Film Office, and other appropriate state agencies, educational and cultural institutions, and private employers. These recommendations center on the following broad areas:

1. Development of markets
2. Development of the labor force
3. Development of public/private partnerships
4. Becoming competitive with neighboring states

The following assumes that the state's Film Office will continue to exist with at least its current level of activity. An essential base program, which is currently being provided, includes maintaining a good relationship with the film industry; providing location and services information to producers interested in considering projects in the state; and providing direct assistance to accommodate projects when they occur. The recommendations are actions that we believe will improve the state's effectiveness in this arena.

While specific actions are outlined in both the Executive Summary and the main body of the report, the most critical challenges listed below in a rough order of priority that both reflects their need and their likely effectiveness.

1. ***Continue marketing Nebraska to non-Nebraska producers as a location for film products.*** Presently, the Film Office has established a national branding identity in the major production centers of Los Angeles and New York. This effort should be continued, refined, and recapitalized on an ongoing basis. At the same time, ERA finds opportunities to focus more closely on regional production centers, particularly for generation of commercial and other smaller-budget projects that originate out of Denver and Minneapolis. Also the Film Office and other influential organs of state government should focus on keeping local production spending at home. This can be accomplished by working with Nebraska corporations on using Nebraska producers for commercials, PSAs, training videos, etc. Continual effort should be placed on marketing at trade shows and film festivals, which attract key

decisionmakers within the industry. The Film Office should continue its focus on marketing a variety of locations in Nebraska – urban settings, rural and farm settings and the western frontier theme.

2. ***Enter into public/private partnerships for productions and infrastructure.*** A number of innovative approaches that involve state arts and educational institutions may be employed to help originate productions and investment in motion pictures in the state. The state should be receptive to supporting these initiatives where possible, and seek to find innovative ways to leverage existing programs into economic development initiatives centered around the motion picture production industry.
3. ***Encourage the development of film-related education and training programs.*** Already some of the state's leading higher educational institutions such as UNL and UNO have targeted media as part of their educational curriculum. These initiatives can be strengthened, encouraged, and further developed to include a range of key skills to be developed within the local labor force.
4. ***View motion picture production as part of the state's industrial attraction programming.*** In October of 2000, the Nebraska Department of Economic Development commissioned a study from the Finance Group of Deloitte & Touche Fantus that identified a number of sectors that should be targeted in efforts to diversify and grow the state's economy. Motion picture production and the related activities should be added to the list. The motion picture industry in particular, and the culture industries generally, offer a similar profile in terms of employment potential and needs as key sectors identified in that research effort, such as biotech and software development. The motion picture production industry and related services need to be on the state's radar screen in a similar manner. In addition, industrial development efforts can also include encouraging the start-up and growth of indigenous producers as part of their work program.
5. ***Explore the initiation of incentives that would make Nebraska competitive with surrounding states.*** At present, Nebraska is at a severe competitive disadvantage, vis-à-vis the production incentives offered by neighboring states. U.S. locations for motion picture production are struggling to compete with large-scale incentive programs offered by international competitors. As a result, a number of states have taken on the development of incentive programs to support the industry with varying degrees of aggressiveness. At present, a number of the states that surround Nebraska have at least modest inducements in place to support production.
6. ***Partner with arts, educational, and cultural organizations in film and film-related development.*** At present, Nebraska has a significant infrastructure of cultural and educational institutions involved in the arts. The focus of these groups has typically been on the enrichment of the quality of life for Nebraska's citizens by presenting and preserving the state's cultural heritage and patrimony. However, the

film industry offers a fulcrum to transform these efforts into a focused economic development program that will yield tangible results in terms of employment and new economic activity within the state.

These and other recommendations are detailed both in this Executive Summary and in the body of the report as a whole.

What is clear from this analysis is that inaction is not an option if the State of Nebraska wants to maintain its position in the motion picture production industry and retain the jobs, investment, and skilled labor force that are currently in place. The growth and preservation of the motion picture production industry in the state will require long-term and committed engagement by a variety of stakeholders in order to secure the state's competitive position.

## Review of Film Industry Trends

The process of film production is an industrial enterprise that comprises three separate but interdependent activities: (1) production, (2) distribution, and (3) exhibition. This report focuses primarily on the production sector.

Like any other industry at the beginning of the 21st century, the motion picture production industry has moved towards globalized production as a strategy to maximize combinations of labor rates and capital costs. As a result, Nebraska, along with many other secondary production centers, finds itself trying to attract production activity within an increasingly competitive environment.

### ***Feature Films***

Today, there are three levels of production and distribution in the feature film industry: (1) the studios that control all aspects of feature film production and produce primarily high-budget products, (2) the mini-majors that are owned by the studios and produce smaller-budgeted features backed by studio marketing dollars; and (3) the independents that either produce, distribute, or perform both functions for even lower-budget, story-driven, and foreign films.

### **Hollywood Studios**

Commonly referred to as the "majors," Hollywood studios have become, via a series of mergers and acquisitions, huge media conglomerates that operate both production and distribution chains in film, television, video, music, and publishing. According to recently released statistics from the Motion Picture Association of America (MPAA), between 1980 and 2001, the production cost of the average studio feature film rose from \$9.4 million to \$47.7 million. It should be noted that: (a) this figure excludes marketing costs (e.g., print

and advertising); and (b) this figure represents a decrease of \$7.1 million, or 13 percent from the previous year. This decline is an indication that studios are exercising fiscal restraint.

In 2001, however, marketing costs increased to \$31 million in 2001, bringing the average total combined cost of the average Hollywood feature film in 2001 to more than \$78 million. While marketing costs increased, the total combined cost to make a studio feature film decreased by 4 percent between 2000 and 2001.

In general, a studio film today must gross three times its negative cost to break even. Therefore, a film that was made for \$10 million must gross \$30 million or more to break even. As a result, studios have become increasingly cost conscious and are less likely to approve potential projects unless they see large-scale commercial viability in the product.

### **Mini-Majors**

Currently there are six independent film companies considered major independents or "mini-majors." While referred to as "independent" companies, they are all affiliated with major studios as follows:

- New Line/Fine Line Features (AOL/Time Warner)
- Fox Searchlight (20th Century Fox)
- USA Films (formerly at Universal as "Gramercy Pictures" and "October Films")
- Miramax (Disney)
- Paramount Classics (Paramount)
- Sony Pictures Classics (Sony Pictures Entertainment)

These companies typically produce features with production budgets between \$5 million and \$10 million, which is considerably lower than that of the studios (approximately \$55 million). Some larger mini-major companies, such as Miramax, produce features with budgets as high as \$30 million. The mini-major companies tend to focus more on good scripts that attract strong casts who work for reduced rates.

### **Independent Film**

These smaller production companies typically produce features with much lower budgets than the majors and mini-majors. Depending on their size and capital resources, budgets can vary from several hundred thousand to several million dollars. These films tend to focus more on scripts that attract strong casts to produce compelling films at much lower capital investment levels, or, alternatively, to produce low-budget, "semi-disposable" films that depend on a stock genre that will guarantee an audience and later distribution on cable

TV and video. Due to their low budgets, independent film productions are frequently dependent upon hiring local crews versus importing labor from other areas.

Table II-1 lists the number of studio productions (MPAA) and all other feature film productions released in the U.S. over a 20-year period between 1980 and 2000. As shown, while the number of studio films increased by more than 40 percent during this period, the number of non-studio feature film releases was even greater at nearly 400 percent. Output from studios peaked in 1998 and has been decreasing in subsequent years due to budget constraints. To help spread the financial risk associated with feature film production, studios are increasingly co-financing productions between independents and/or other studios.

The independent filmmaker's greatest source of funding recently has come from foreign sales. Due to the recent poor attendance at major film markets and the slow selling climate, however, there is currently an oversupply of film projects without distribution agreements. Should this trend continue, the number of "guerrilla" filmmakers outside of film schools may decrease in the future. It should be noted that "guerrilla" is a term that refers to ultra low-budget filmmakers, frequently film school students or film enthusiasts, who shoot with limited cash, supplies and resources. Examples of guerrilla filmmakers in Nebraska would include either film students or many filmmakers associated with the Nebraska Independent Film Projects, a nonprofit corporation that was founded in 1990. The organization currently has 150 paid members and an additional 300 participants on its distribution list.

### **Digital Filmmaking**

Digital technology is reducing the overall cost of production and is having the net effect of luring more entrants into the film industry. The lower costs associated with digital filmmaking allow a filmmaker to inexpensively and directly edit their product without having to use expensive editing systems. Many observers see a "democratization" of the industry in coming years spurred by technological advances. This may support the rise of regional industries which would have increasing need for on-location production. In many ways, this new "democratizing" technology is creating an independent production explosion that is similar to what occurred in independent film production during the late 1980s and early 1990s; that is, filmmakers began creating low-budget products (*e.g.*, *Sex, Lies and Videotape*) in hopes of finding a distributor. Inevitably, only those aspiring filmmakers with business acumen and distribution connections will be able to create a viable, low-budget business model. As previously noted, there is currently an oversupply of independent film projects seeking distribution.

### **Television Production Trends in the U.S.**

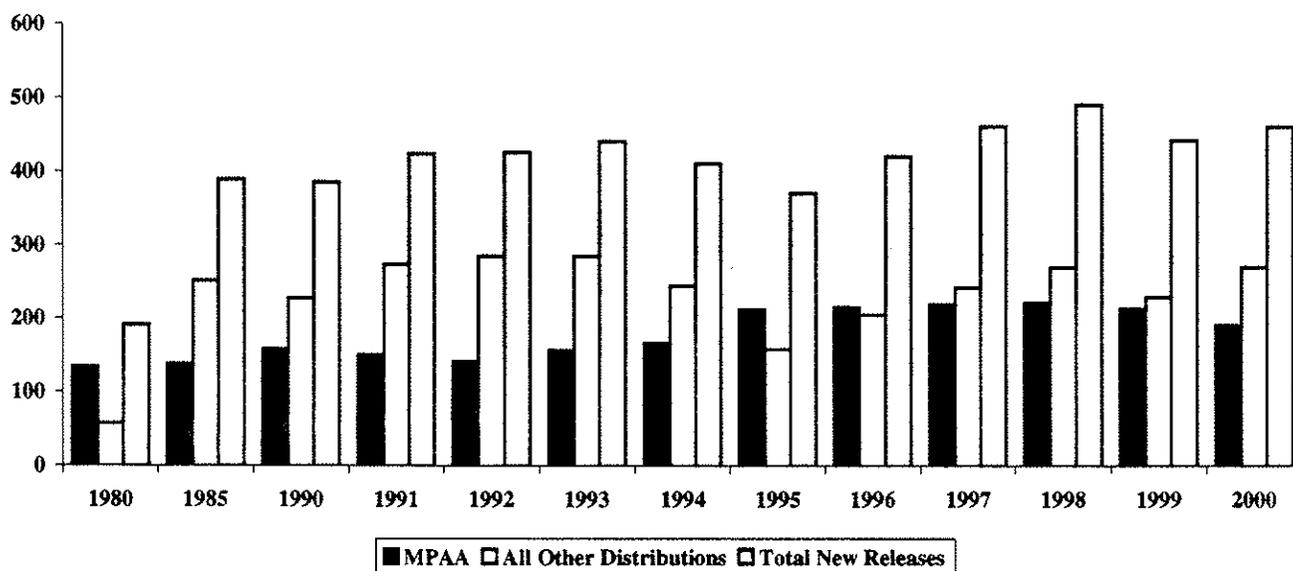
While the film industry initially considered the television and video industries as threatening competitors, what has emerged is a pattern of mutual dependence as the explosive growth in the number of television channels has fueled the demand for new,

**Table II-1**

**FEATURE FILMS RELEASED IN THE U.S.  
NEW FILMS**

Year	MPAA	% Yearly Change	All Other Features	% Yearly Change	Total New Releases	% Yearly Change
2000	191	-10.3%	270	17.9%	461	4.3%
1999	213	-3.6%	229	-14.9%	442	-9.8%
1998	221	0.9%	269	11.2%	490	6.3%
1997	219	1.9%	242	18.0%	461	9.8%
1996	215	1.4%	205	29.7%	420	13.5%
1995	212	27.7%	158	-35.2%	370	-9.8%
1994	166	6.4%	244	-14.1%	410	-6.8%
1993	156	10.6%	284	0.0%	440	3.5%
1992	141	-6.0%	284	4.0%	425	0.5%
1991	150	-5.1%	273	20.3%	423	9.9%
1990	158	2.7%	227	-2.0%	385	-0.2%
1985	138	0.6%	251	34.5%	389	15.3%
1980	134	--	57	--	191	--
Average 1990-2000	186		244		430	
% Change 1990-2000	21%		19%		20%	
% Change 1995-2000	-10%		71%		25%	
% Change 1990-1995	34%		-30%		-4%	✕

**New Feature Films Released in the U.S.**



Source: Motion Picture Association Worldwide Market Research 2000

original, made-for-television/cable material and films that were initially made for theatrical release but did not receive distribution. In general, all productions are television-driven in today's market.

Television programs have a similar pattern of production to film. The main difference is that production runs can potentially be more stable, lasting years rather than weeks. While the networks act in a similar capacity to the old-style movie studios, their direct production of shows has declined steadily as their previous dominance over the television broadcast industry has been broken by cable and independent networks. Each one of these shows is a semi-autonomous production unit that offers employment to workers only as long as the specific show that they work on is in demand.

### **Television Network Trends**

Following years of explosive growth, broadcast television has been strongly impacted by recent economic trends; specifically: (1) a steadily decreasing portion of their market share to cable and independent networks; and (2) decreasing advertising revenues. For instance, the network television ad market is down by approximately \$1 billion, compared with revenue for the 2000-01 season. The end result has been the need to "downsize" or lower production costs in this increasingly competitive environment. Consequently, the major broadcast networks have purchased fewer scripts and decreased the number of deals they have with writers and producers.

The average price of an hour-long network series now costs as much as \$2 million per episode, and half-hour sitcoms can cost as much as \$1 million per show. Programming costs have increased by an estimated 20 percent during the last three years. On average, more than 50 percent of a television production's budget is spent on below-the-line costs, and the remainder on post-production, administrative, and publicity expenses. Television series that place a heavy emphasis on special effects, such as *Witchblade* (TNT) or *Farscape* (SCI-FI) place a higher percentage of their budget on below-the-line costs, such as special effects, costumes, and production design; whereas a popular, prime-time series, such as *Friends* has higher above-the-line costs for talent. Not coincidentally, to save money *Farscape* is shot in Australia at Fox Studios Sydney.

To lower production costs, certain programs made for first-run syndication, cable, and new broadcast networks are frequently forced to shoot their productions abroad, most notably in Canada. MGM Television, for instance, shoots all the television shows that they distribute (e.g., *The Outer Limits*, *Poltergeist: The Legacy*, and *Stargate: SG-1*), all of which are effects-driven shows, at the Bridge Studios in Vancouver, British Columbia, Canada.

### **Broadcast Television Trends**

Another recent trend in network television has been the proliferation of reality programming, which has reduced the number of episodic, script-written comedies and drama shows, and has significantly reduced demand for television movies, which in the

past had been the mainstay of production activities in secondary production centers in Nebraska. Reality programming is less expensive to produce since it does not require actors and has fewer directors and producers. In general, competitive pressures and industrywide cost-cutting have made reality programming essential since scripted shows are more costly.

### **Cable Television Trends**

There are two types of cable television: basic cable and premium channels (*e.g.*, HBO, Showtime, etc.). The expansion in the cable market has taken up much of the downturn in the made-for-television network market (*e.g.*, Movies-of-the-Week). In addition, both theatrical filmmakers and international producers are benefiting from the expansion in the U.S. cable movie market. Multi-million dollar cable productions, such as HBO's *Band of Brothers* now compete for viewership with theatrical releases.

This new outlet benefits both traditional television and theatrical film producers who have been impacted by network cost cutting and decreased production at the studio level. HBO Films, for example, now makes between 10 and 12 original films per year with budgets ranging from \$3 to \$15 million. Many of these cable movie productions also are attracting top-name, above-the-line talent. Some cable networks, such as Showtime even allow producers a certain period of time in which to complete a theatrical distribution deal. Examples include *Gods and Monsters* and *The House of Mirth* which were produced by Showtime and acquired by a theatrical distributor.

Many cable television companies are producing films that are similar in budget and quality to those produced by independent feature film companies. For instance, the most well-received films that premiered at the Sundance Film Festival this year (2002) were made by pay-TV and cable companies, such as HBO and the Independent Film Channel.

### **Factors Driving the Globalization of Film Production**

During the "studio system era," principal photography was primarily done on studio lots and backlots, and elaborate sets were constructed that resembled foreign locations. In this manner, a studio could oversee and control all aspects of production from development and pre-production through post-production. As film production has become a "virtual" business with production teams combining forces for a particular project, disbanding, and moving on to separate projects thereafter, the process of film production has become increasingly mobile as well.

Driving the globalization of production are economic factors, which in turn are facilitated by technological advances in film production that allow film product to be shot outside of the major production centers, as well as the recent emergence of new production centers with highly developed production infrastructure (*e.g.*, stages and ancillary services) and crews.

## **Economic Factors**

Given increasing pressure on studios, independent filmmakers, and producers of episodic television and MOWs to decrease production costs, a diverse knowledge of international macroeconomics, tax credits, production incentives, and monetary exchange rates becomes an important issue on a cost-revenue basis. Many foreign locations gain an immediate advantage in terms of lowering production costs with the strength of their home currencies in international markets. This is particularly true for U.S. producers.

Some of the primary economic drivers behind the localization of production include:

- Monetary exchange rates
- Tax incentives
- Less expensive labor
- Less expensive infrastructure
- Less expensive set construction

## **Technological Advances in Film Production**

One factor driving the globalization of film production is the technological advancement of film production equipment. Similar to other industries, advances in technology have impacted the nature of film production by allowing filmmakers to take their productions to foreign locations.

Technology has provided filmmakers with more choices and flexibility regarding the location for principal photography during a film shoot. The impact of this new technology and the flexibility that it offers producers will likely have an effect on location production in regions, such as Nebraska. There are two countervailing forces at work that need to be resolved before any clear trend can be delineated.

In the first place, new technology will allow for the creation of so-called “virtual locations.” The improved ability for digital masking and special effects may lead to an overall reduction in location filming as filmmakers are more realistically able to portray a scene without having to be physically present.

However, as a countervailing tendency, this new technology is reducing the overall cost of production and having the net effect of luring more entrants into the film industry. Many observers expect that the ongoing democratization of the industry in coming years will be reinforced by technological advances. This may support the rise of regional industries that would have increasing need for on-location production.

Within Nebraska, educational projects and institutions, such as the Peter Kiewit Institute have become increasingly focused on the potential combinations from media and new technology. The Peter Kiewit Institute is a research facility that is part of the University of

Nebraska system, and is jointly operated by the University of Nebraska at Omaha and the University of Nebraska-Lincoln. The Peter Kiewit Institute has an interest in developing itself as a resource for the media industries and communication technologies, more from the perspective of training labor for employment in multimedia and traditional media industries. As the program grows there may be opportunities for these graduates to remain in the Nebraska region to pursue entertainment industry-related activities by using this emerging body of technologies.

### **The Development of Global Production Centers**

Recognizing the direct and indirect economic impacts that a large U.S. studio production can have on their local economy, several countries, most notably Canada, have recently enacted legislation and/or provided funding to develop their production infrastructure. This involves both the training and development of their crew base, or the establishment of production facilities and sound stages. A recent UCLA Anderson Quarterly Forecast on the entertainment industry estimates that one in four U.S.-developed projects are shot out of the country each year.

Canada has been the most aggressive country in terms of pursuing U.S.-based production, though some countries that have emerged as Canada's potential competitors include: Australia, United Kingdom, Ireland, Mexico, New Zealand, South Africa, and the Czech Republic. Many countries outside of North America that compete to attract off-shore production possess state-of-the-art production facilities that rival many of those in the U.S. and Canada. The strong U.S. dollar also has played a key role in attracting U.S.-based productions. Fox Studios Australia in Sydney, for instance, has scheduled back-to-back, high-budget, feature film productions, such as Fox Studios' *Moulin Rouge*, and Lucasfilm's *Star Wars: Episode II*.

With the vast number of foreign production facilities, both existing and proposed, Hollywood's dominance as a production center is being challenged. The production "pie" is being split up and is sought after by production centers outside of North America.

# The Film Industry in Nebraska

Although the film industry in Nebraska is of limited scale, it still is a significant source of good quality employment within the state. Most jobs in the industry are concentrated in the eastern two-thirds of the state and in the metropolitan areas of Lincoln and Omaha. Yet, there still is an appreciable percentage of the total employment in the sector throughout the state.

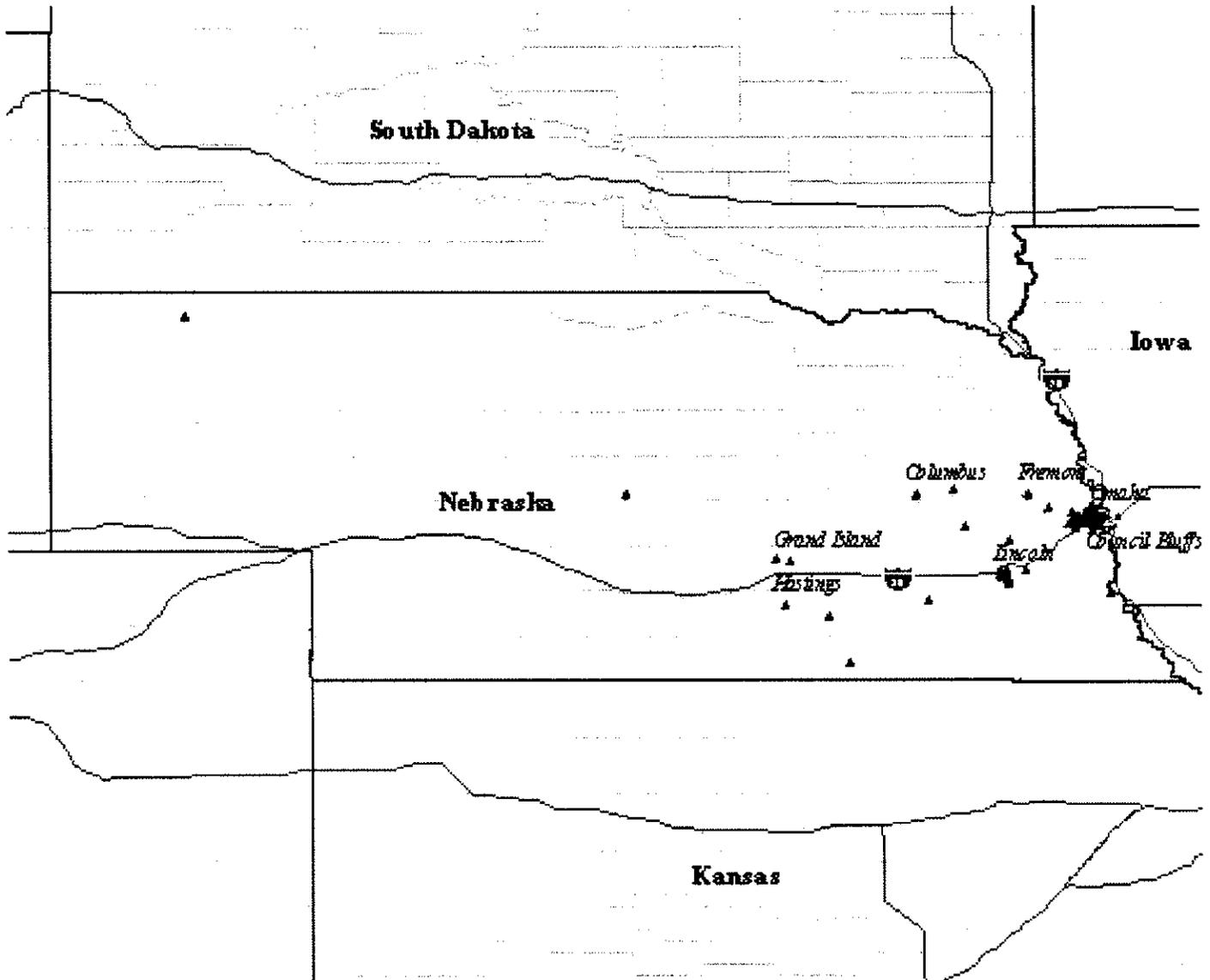
In 2000, 37 firms reported paying wages of more than \$4.8 million to area workers. The total wage bill for SIC781 (motion picture production) in the state has grown an average rate of 7.9 percent between 1993 and 2000. Table II-2 shows the distribution of employment in the state, and as illustrated on Table II-3 shows the distribution of wages and employers. Note that these figures are based on ES202 data provided by the Labor Market Information Division of the State of Nebraska, and only covers wage and salary employment. Other employment made up of owner proprietors and workers paid by distributions from profits are an important segment of overall economic activity in the sector and are not represented in these figures. Other data sources, such as credit records and the *Film Production Guide* published by the Nebraska Film Office are used in the report to address these issues of data coverage which are detailed in the body of the report. The observations about the industry and the state include the following:

## Employment

- The motion picture industry in Nebraska represents a small, but viable industry with significant concentrations of firms in the metropolitan areas of Lincoln and Omaha.
- The percentage change in average annual employment in the motion picture industry has outpaced that of the average for all industries, with the exception of Lincoln where it has decreased by nearly 12 percent. In the Lincoln Metropolitan Statistical Area, however, the average annual wages for the motion picture industry (SIC 78) were more than twice the average for all industries. This would indicate that while industry employment in Lincoln may have decreased, the wages per worker increased significantly.
- For motion picture production (SIC 781), in 2000 more than 50 percent of firms in this industry were situated in the Omaha area. During the seven-year period the number of motion production-related firms in Lincoln has more than doubled while the number remained steady in Omaha. Thus, while the number of employees involved in the broad category of motion picture production (SIC 78) decreased in Lincoln, employees involved in the production sector actually increased. Total wages per unit for the motion picture production industry increased by a greater percentage than all industries, in general, with the exception of the rural areas where they decreased.

**Table II-2**

**Map of Crew Location Within Nebraska**

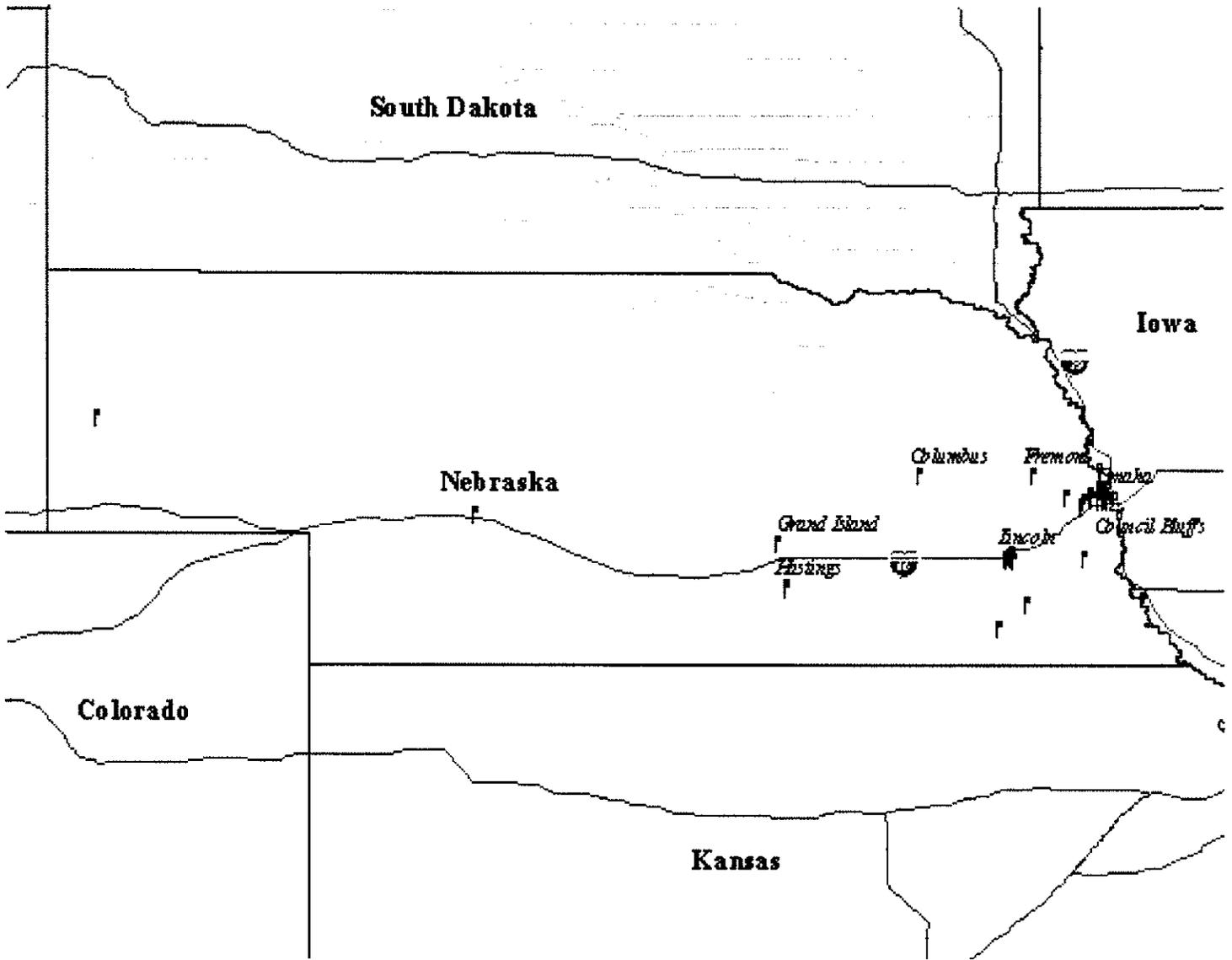


▲ Crew Locations  
Counties

Source: Nebraska Film Office: Production Guide, 2001-2002

**Table II-3**

**Map of Production Company Locations within Nebraska**



▣ Production Company Locations  
Counties

Source: Nebraska Film Office: Production Guide, 2001-2002

- While the total number of employees involved in the motion picture distribution sector in Nebraska (SIC 782) has been decreasing, at the same time, the average annual wages for persons working in this sector appear to have grown significantly.

### ***Direct Expenditures Associated with Film Production***

The other sets of data that ERA has utilized in this analysis include information provided by the Nebraska Film Office (NFO) and the Internet Movie Database, which tracks the locations and film and television productions.

The NFO estimates that between 1991 and 1998, the estimated direct expenditures associated with feature film and commercial productions were more than \$21 million. This represents money that was actually spent in Nebraska. As shown below, the direct expenditures associated with productions ranged from \$15,000 (*Real Stories of the Highway Patrol*) to as high as \$8 million for the studio feature film *To Wong Foo*. Among the 15 projects listed on the following page, the average direct expenditure is approximately \$1.4 million.

Estimating the economic impact of productions shot in Nebraska between 1999 and 2001, the NFO places the figure at approximately \$11 million.

Upon review of the data provided by the NFO, it is important to note that the Film Office does not require permits to shoot in the state. Therefore, the data from the NFO does not necessarily reflect the total number of productions shot in the state. In other words, smaller low-budget and/or student-related projects may not be accounted for.

### ***Recent Production Activity in the Contiguous States***

Looking at data available on IMDB between 1990 and 2001, while the states of Kansas and Missouri continue to lead in production volume, Nebraska has actually hosted more projects during this period (36) than Iowa (30) and Wyoming (10).

Between 1990 and 1995, both Nebraska and Iowa, which share many similar physical and locational characteristics, averaged slightly more than two projects annually. Between 1995 and 2000, however, Nebraska doubled the number of annual projects shot in the state to an average of four per year. The increased number of projects that Nebraska was able to attract is a positive development. However, the competition is likely to intensify as other states enact production incentives designed to attract outside producers.

**Direct Expenditures  
Feature Film and Commercial Productions in Nebraska (1991-  
2001)**

<b>Year</b>	<b>Title</b>	<b>Revenue Generated</b>
1991	Indian Runner	\$5,500,000
1991	Sarah Plain and Tall	\$ 250,000
1992	O'Pioneers	\$2,500,000
1993	Omaha...the movie	\$50,000
1994	My Antonia	\$ 500,000
1994	To Wong Foo, Thanks for Everything...	\$8,000,000
1995	Citizen Ruth	\$1,500,000
1995	Gone in the Night	\$1,000,000
1996	Adidas Commercial	\$ 25,000
1996	Real Stories of the Highway Patrol	\$ 15,000
1996	1996 Women's PGA	\$ 70,000
1997	Various commercials	\$ 125,000
1997	Love from Ground Zero	\$ 123,025
1997	Election	\$1,252,840
1998	Kolobos <sup>1</sup>	\$ 130,000
1998	Nebraska Supersonio <sup>1</sup>	\$ 25,000
1999	Tully	\$ 270,000
2000	Coke advertisement	\$ 200,000
2000	Carpula, from here to Turbidity <sup>1</sup>	\$ 50,000
2000	Private Public <sup>1</sup>	\$ 50,000
2000	Easter	\$ 125,000
2001	Alegent Health Advertisement	\$ 85,000
2001	Richman Gordman Advertisement <sup>1</sup>	NA
2001	VW Television Advertisement	\$ 200,000
2001	Skins	\$ 400,000
2001	Full Ride <sup>1</sup>	\$1,600,000
2001	About Schmidt	\$8,000,000
<b>Total Estimated Economic Impact</b>		<b>\$32,045,865</b>

<sup>1</sup>Refers to projects produced by a local company.

Source: Nebraska Film Office, and Economics Research Associates

**TOTAL FILM-RELATED PROJECTS BY YEAR  
SURROUNDING STATES (1990-2001)**

Year	SOUTH					
	NEBRASKA	KANSAS	WYOMING	DAKOTA	MISSOURI	IOWA
1990	1	2	2	1	6	1
1991	2	5	1	1	3	2
1992	4	4	1	4	4	4
1993	0	5	1	1	4	2
1994	3	3	0	5	2	1
1995	3	6	0	0	5	4
1996	3	7	0	0	7	4
1997	2	7	2	1	6	3
1998	5	2	0	2	5	2
1999	5	7	1	1	6	4
2000	6	2	1	0	7	2
2001	2	3	1	1	7	1
Total	36	53	10	17	62	30
Annual Aver.	3.0	4.4	0.8	1.4	5.2	2.5
Aver. 1990-1995	2.2	4.2	0.8	2.0	4.0	2.3
Aver. 1995-2000	4.0	5.2	0.7	0.7	6.0	3.2

Source: Internet Movie Database ([www.proimdb.com](http://www.proimdb.com)), and Economics Research Associates.

**Global and State Film Industrial Policies**

In an effort to stimulate the competitiveness of their indigenous film industries and to promote domestic culture, many national and regional governments have instituted policies that support their respective film production sectors. Such active support reflects the recognition that film production can form part of a regional industrial policy, providing employment for a skilled labor force and driving substantial economic activity. To further the development of the film industry, governments have either (a) provided grants, tax breaks, and other sources of support to local filmmakers, or (b) offered incentives to outside (primarily U.S.-based) producers to utilize or train local crew persons, and shoot locally, or (c) a hybrid of the two. Details of such programs, as discussed in this section, are important to future development of the film industry in both Nebraska and other secondary production centers.

U.S.-based productions that have been shot outside of the country primarily for economic reasons (*e.g.*, less expensive labor and other cost inputs) are referred to as “runaway” productions, defined as films shot outside of the U.S. As the issue of runaway production has evolved from a local to a national issue, both the primary and smaller production centers throughout the U.S. have been creating incentives to attract producers. The following section focuses on existing and pending programs in the film industry that are in place in various states throughout the U.S., including a discussion of the incentives that are currently in place in Nebraska’s neighboring states.

A key challenge for Nebraska will be to remain competitive in terms of the production incentives offered by its immediate neighbors and by comparable states. While state governments in the U.S. do not have the same policy levers that national governments do in aggressively seeking to attract the film industry and developing their indigenous cultural industry sectors, the State of Nebraska does maintain the ability to influence its overall competitiveness in this industry by being actively engaged in supporting the motion picture sector.

### ***International Efforts***

Any efforts undertaken in Nebraska to improve the competitiveness of the motion picture production industry in the state will take place in the context of an increasingly competitive global marketplace. Several national governments have used cultural industry exceptions in multilateral trade frameworks, such as the World Trade Organization to continue to subsidize motion picture production as part of the national industrial policy. Among those countries most aggressively pursuing the industry are:

- Australia
- Canada
- Great Britain
- Ireland
- New Zealand
- South Africa
- The Czech Republic

Of the countries listed, Canada represents the most obvious direct competition for Nebraska. A combination of national and provincial production incentives has made Canada a very attractive market for movies of the week and other similar moderate- to low-budget productions coming from the U.S. to base themselves in Canada for filming.

## **State Policies**

As the issue of runaway production (meaning the relocation of U.S.-based productions to foreign venues for economic versus creative reasons) becomes an increasingly contentious issue in the U.S., many states have enacted, or are implementing reimbursement or rebate programs to counter some international initiatives. At the present, the most common types of state or municipal incentive programs to attract film production in the U.S. consist of sales tax rebates on equipment used during the course of a production, hotel tax rebates, and/or free permitting and use of public lands and properties. The principal aim of these incentives is to attract film production by reducing costs to the producer. It is unlikely that a state or local government in the U.S. will ever be able to offer the level of incentives available in other countries.

Due to the fact that national level incentives are not available to Nebraska (or any state in the U.S. for that matter due to the lack of a national industrial policy for the film industry in the U.S.), it is important to recognize the competitive environment in which the film industry operates. As noted, some U.S. states have some form of incentive program (*e.g.*, sales and hotel tax rebates, etc.) in place.

Finding a way to level the playing field with intermediate neighboring states will be an important factor of success for developing the production industry in Nebraska. It is a distinctly uneven playing field that will require a specialization approach towards attracting outside production to the state. It is clear from the analysis in the body of this report that the lack of such incentives in Nebraska puts the state at a competitive disadvantage vis-à-vis its neighbors and other midwestern states.

# **Nebraska Film Industry Development Strategy**

The stated objectives for the NFO, as defined in its work plan dated February 2000, are as follows:

1. To grow the film industry locally that will provide the infrastructure necessary to attract the larger independent and studio-driven projects; and
2. To market the state to the worldwide entertainment industry.

Having reviewed general trends in the film industry, analyzed the size and scope of the local motion picture production industry in Nebraska, interviewed stakeholders working in the industry, and examined other existing policies and incentives for film production in the U.S. and abroad, this section presents an economic development strategy for the motion picture production industry in the State of Nebraska.

The purpose of this strategy is twofold: (1) to build the local industry, and (2) to attract outside productions. Nebraska has a small, but viable industry that exists in an increasingly competitive environment. The state's active and sustained support and engagement in the industry will be a key requirement in the industry's continued viability in Nebraska.

The key is then to build a larger sustained industry that will, in turn, attract more outside production activity. To attract larger independent and studio-driven projects, an existing infrastructure must first be in place.

### ***Film Industry Development***

From an economic development perspective, the film industry presents unique challenges due to its strong dependence on a contingent labor force and its industrial structure. One key concept in the structure of production is flexible specialization wherein inputs are redeployed for a multitude of specialized tasks (*e.g.*, the ability to use the same equipment, cameras, sets, sound stages, etc., to be reassembled in a variety of ways to produce unique and different products). In Nebraska, a sustained effort by industry stakeholders from the public and private sectors will be required to maintain the key elements of the system.

In order for the film industry to be sustainable in a region, a critical pathway of development needs to be established within the local economy wherein key factors of production are sufficiently represented and able to flourish so that an industrial atmosphere based on exchanges of information, innovation, and a trained labor force can be sustained, nurtured, and allowed to continue to grow.

### **Critical Components in Film Industry Development**

As a system, the film and video production industries depend on the interaction of four critical factors, all of which must be sufficiently developed within a regional economy in order for the industry to take root. These factors, along with some examples of their constituent components, are as follows:

- **Infrastructure.** The basic, physical inputs that are required for production come under this category: airports, roads, services, such as hotels, restaurants, land availability, surrounding environment in terms of location opportunities, as well as a future production studio.
- **Labor force.** This includes a number of skilled workers, the breadth of skills that are present in an area, and the vibrancy and quality of the local arts community—which is often a source of supply for a reserve pool of labor, and supports other economic opportunities for entertainment industry workers between productions. With the appropriate training and apprenticeship programs, a region can develop its own crew base.
- **Markets.** This includes the number of local production companies in an area, which is frequently a function of the overall demand for products in a region. Production

companies will frequently generate their own production of filmed product. The size of the local media market also generates its own internal demands for filmed products, and frequently acts as training ground for a crew base.

- **Stakeholders.** This includes production companies, investors, the unions, and film commissions, all of which have a vested economic interest in pursuing the success of the film production industry within a region.

These four factors work as a positive feedback system with each element contributing to the growth and development of the other.

### **Film Production and Economic Development**

Film production, whether for cultural or economic purposes, stimulates economic development through:

- The employment of a local workforce
- The need for local materials and supplies
- The generation of room nights at area hotels
- Increased restaurant and retail revenues
- Future tourism in an area

Employment of a local workforce is particularly noteworthy since film production/crew jobs tend to pay higher wages than comparable employment using the same skills.

Another indirect benefit of film production is publicity, and the resulting awareness of areas, and increased tourism. Tourism is a long-term impact of local film production, particularly when it showcases cultural and/or natural resources. For example, Devil's Tower National Monument in northeast Wyoming had a 75 percent rise in tourism following the release of *Close Encounters of the Third Kind*. More recent examples of increased tourism following theatrical releases include *Field of Dreams* in Iowa, and *Steel Magnolias* in Louisiana. Tourism has the residual effect of producing additional revenue. In summary, film production is both a direct and indirect means of increasing state revenues.

### **Nebraska's Status within the Film Development Dynamic**

Having reviewed the four factors necessary for the development of a production center and having provided additional instances/scenarios in which an industry has developed and under what conditions, it is necessary to ascertain Nebraska's position within this development dynamic. While some of the four factors with the film production development dynamic are present in areas in Nebraska, others must be induced and developed.

The State of Nebraska, as a whole, possesses many of the necessary basic endowments that could allow the industry to increase. On the other hand, certain key segments that are necessary for production development are missing within the state.

## **Nebraska's Existing Infrastructure**

### ***Air Transportation***

Nebraska possesses a relatively good airport and roadway access for a state of its population density. Located in the center of the U.S., it is transected by federal interstate and state highway systems. This facilitates the transportation of production equipment and other goods into the area. Interstate 80, a major federal east and west highway cuts through the center portion of the state, and Interstate 29 serves the eastern border of the state, providing access to the north and south. However, Nebraska is a significant driving distance from most major cities in the United States that possess production infrastructure.

The majority of smaller cities outside of the Omaha and Lincoln MSA's in the western and central regions of the state have airfields that provide direct, daily commuter air service to Denver. Eppley Airfield in Omaha is the primary commercial airport for the eastern portion of the state, though regional airports are located throughout the state with daily non-stop flights to and from Denver. In 2001, a total of 3.7 million passengers traveled to and from Eppley Airfield in Omaha. The lack of non-stop flights to Nebraska from Los Angeles is an important impediment to the future growth of the industry.

### ***Hotel/Motel Infrastructure***

The NDED reports that more than 26,000 total hotel/motel rooms in the state had an average annual occupancy of 57 percent in 2000. There are approximately 7,700 hotel/motel rooms in the Omaha MSA, and more luxury hotels are currently being developed along the riverfront area. Upon completion, the Greater Omaha Convention & Visitors Bureau reports that the hotel/motel base will expand to 10,000 rooms. This will become a greater asset for Omaha in its ability to attract more film production since crewmembers and production companies prefer a variety of hotel stocks. The Lincoln area has an additional 3,000 hotel/motel rooms.

### ***Production Infrastructure***

As mentioned, the majority of Nebraska's motion picture production, distribution, and production-related services are concentrated in the metropolitan areas of Omaha and Lincoln. Few firms in the state, however, provide goods and services specifically for the industry. At present, there also is a lack of diverse equipment suppliers and dedicated stage space. According to the Society of Industrial and Office Realtors, which track commercial and industrial vacancy rates nationwide, both the 2001 vacancy rates for commercial and industrial real estate in Nebraska were relatively low at 6.5 and 7.7 percent, respectively.

### **Other Infrastructure**

In 1996, a redevelopment plan for a 33-square-block area of the downtown Omaha area was unveiled. At present, more than \$400 million of construction is underway, including a new 336,200-square-foot convention center, which is scheduled to open in August 2003. The city also is developing the waterfront region and converting many old factory buildings into art studios, luxury hotels, loft apartments, and retail space. By providing a greater variety of hotels and attractions (*e.g.*, artists studios and retail), the construction of the new Convention Center and riverfront area will likely have a positive impact both on the image of the city as a whole, as well as the development of the film production and tourism industries.

### **Nebraska's Existing Labor Force**

At present, Nebraska is able to provide most of one full crew for a feature production. Several key positions typically have to be imported into the region either from a primary production center, such as Los Angeles or New York, or from nearby metropolitan areas, such as Chicago, Denver, or Minneapolis. Strong areas for key labor force personnel in the state include production designers, construction coordinators, and editors. Rounding out a full complement of skilled, below-the-line labor is an ongoing issue for the state's film industry labor force.

### **Nebraska's Existing Markets**

At present, Nebraska serves as a production location for occasional script-driven feature film productions and other projects. There are several small production companies that are primarily based in Omaha and Lincoln. The *2001-2002 Production Guide* from the Nebraska Film Office lists 28 production companies working in the state. Of these existing companies, fifteen are situated in Omaha, four are in Lincoln, and the remaining nine are scattered throughout the state, and primarily perform work for local companies.

As the production community in Nebraska begins to grow, it is likely that the number of locally based production companies will grow in accordance.

### **Nebraska's Stakeholders**

Nebraska has an established film office that has earned wide respect among previous filmmakers and persons associated with the production community. The state's recent success in attracting productions can be largely attributed to several factors, including: (1) the state's diverse geology and historical features, (2) the professionalism and enthusiasm of the Nebraska Film Office, (3) the previous commitments of Alexander Payne, a native director who also has become a civic booster for Nebraska, and (4) local community commitments to the industry.

## **Policy Recommendations for Nebraska's Film Industry**

Nebraska is a small production center. As a result, key inputs and labor need to be imported from outside the state, which increases costs to producers. Nebraska's neighboring Midwestern states possess similar geography and resources. Competitive challenges in the region are likely to solidify as neighboring states increasingly find innovative means to attract production activity. Most states currently offer, at a minimum, either a sales tax rebate or hotel/motel tax exemption as a means to encourage production activity. In this respect, Nebraska is failing to remain competitive.

Table II-4 lists the key strengths, weaknesses, opportunities and threats for the future development of the film production industry in Nebraska.

### ***Develop Markets***

To date, the small film production community in Nebraska has been driven by either: (a) local companies requesting film production services, such as advertising, or (b) the occasional low- to mid-range budget feature films that have shot there. These films have been primarily story-driven and have not built or left any infrastructure upon their departure. Only recently have higher-budget fare, such as *To Wong Foo* and *About Schmidt* been shot locally, although Alexander Payne's previous two lower budget films *Election* and *Citizen Ruth* were all shot on location in Nebraska.

### **Types of Productions to Attract**

Thus, while Nebraska's economy has benefited from the occasional feature film, the film community has become dependent upon a highly cyclical form of production activity from outside producers. The good news is that locally based production companies in the metropolitan areas generate business from local companies, such as advertising business from Fortune 500 companies based in the metropolitan areas.

Therefore, the key is to build an industry that is less cyclical to outside producers, such as commercial production. Given current industry production trends, growth areas for Nebraska include types of productions that are less cyclical and cost-sensitive.

Commercial and music video productions are two such areas. The commercial and music video production industries are renowned for shooting on location and tend to be (a) less cyclical; and commercials, in particular, (b) have proportionately higher budgets than feature films for the amount of time required to produce the product.

Another advantage to attracting commercial and music video productions is that their numbers are higher in total annual products produced. While the Association of Independent Commercial Producers does not track the number of commercials shot in the U.S., they far exceed those of the Hollywood studios and other feature film product. Not only is this type of production less cyclical, but it provides a stream of production activity that ensures steadier employment and a stronger local labor base.

Table II-4

ANALYSIS OF NEBRASKA  
AS A POTENTIAL CENTER OF FILM PRODUCTION

Strengths	Weaknesses	Opportunities	Threats
<p>Diverse landscapes and historical sites.</p> <p>Nebraska is a right-to-work state which can offer significant competitive advantages, namely lower overall labor costs.</p> <p>No location burn-out as in major production centers.</p> <p>Lower cost environment (e.g., less expensive hotel costs<sup>1</sup>) relative to other major production centers.</p> <p>Communities are receptive to hosting film productions.</p>	<p>Few direct commercial flights.</p> <p>Lack of production infrastructure (e.g., stages and equipment). Few firms that are providing goods and services specifically for the motion picture industry.</p> <p>Distance from other production centers with more resources is a weakness.</p> <p>Weather is seasonal and not consistent, which can limit on-location shooting to various times of the year.</p> <p>Neighboring states possess similar geographic attributes.</p>	<p>University of Nebraska and other local educational institutions provide a potential expanded crew base.</p> <p>Attract more commercial production which is less cyclical and price-sensitive.</p> <p>Peter Kiewit Institute as potential training ground for "hi-tech" skills related to motion picture production.</p>	<p>Canadian tax incentives which lower production costs.</p> <p>Competition with nearby states, most notably Oklahoma, which currently has one of the most aggressive production incentives in the U.S. Advanced programs are in place in Missouri as well.</p>

<sup>1</sup> Based upon stakeholder interviews and conversations with the Greater Omaha CVB, it would appear that average daily hotel rates (ADRs) statewide range from as low as \$40 up to \$100 in the Metropolitan areas.

Sources: Individual stakeholder interviews (Appendix Table A) and Economics Research Associates.

Feature film producers seeking a small town or prairie look also can be targeted, although in this instance, Nebraska would be competing with neighboring states and the Canadian Prairie Provinces on cost. In other words, those production centers offering the most favorable labor costs will most likely win, unless the state can offer producers an inducement to film locally.

Television movies and pilots are entirely cost-sensitive and therefore Nebraska would not be able to compete with areas such as Canada for a share of this market. The only MOWs that have shot in Nebraska during the past ten years include *Gone in the Night*, *Sarah Plain and Tall* and *My Antonia*. Similar MOW productions that may otherwise have selected Nebraska or other Plains states have been increasingly shot in Canada in order to take advantage of tax incentives. Based upon conversations with film commissioners in other secondary production centers, this sector of their film production industry has been hardest hit as well.

Nebraska also is home to a number of firms that produce consumer products and sell directly to the public. There is an opportunity to use the good offices of the governor and the economic development efforts of the state to prevail on decisionmakers at these firms to consider using Nebraska firms and locations for their advertising needs. A strong effort geared at making local end users of production services aware of the high-quality labor production companies, and locations that are available in Nebraska, would be likely to open up new production opportunities during the long run. Likewise, a comprehensive review of the State of Nebraska's production needs in terms of public service announcements (PSAs) and other state-supported production needs also should be considered for a "stay-at-home-campaign" geared at preserving the state's production dollars within local economies.

## **Marketing Campaigns**

An effective marketing program must support the attributes of Nebraska and its resources. The NFO has done an excellent job of coordinating with producers who have requested information or location tours, however, in the increasingly competitive environment to attract production activity, continued marketing efforts at events, such as film festivals and trade shows should not be ignored. Moreover, marketing concepts, such as "one-stop shopping," "added value," and "uniqueness of product" all have applicability in creating an attractive, full-service sales package.

To diversify from its current position as a location for script-driven feature films and other occasional projects, the establishment of Nebraska as a secondary or tertiary production center can be viewed from an economic development perspective.

### **Key Actions:**

- At present, economic development efforts in the metropolitan areas of the state, such as Lincoln and Omaha are concerned with technology and creating and/or attracting more technology-based companies. Film production should be seen as a complementary

effort and added to the list. Nebraska is well-suited to attract such businesses in terms of job recruitment and quality of life, particularly with the recent development of the Peter Kiewit Institute, which could become a partner in training more technology-oriented jobs in film production and post-production.

- Engage the Nebraska Arts Council as a partner in film development. Artistic and film-related collaborations also should be encouraged to a stronger degree. Such collaborations provide exchanges of skills and labor between film production and cultural establishments in Nebraska (e.g., local theater companies).
- Pursue commercial producers in Minneapolis and Denver. The western portion of Nebraska has strong economic connections with Denver. Because of this, ERA recommends that the NFO explore partnerships and collaborations with Denver-based production companies and media outlets. Minneapolis is a major advertising production center with a focus on food products. Nebraska should seek to establish a strong brand image and presence to regional commercial producers in these markets.

### ***Develop a Labor Force***

The further development and localization of a stronger film production labor force will be one of the key issues in growth and establishment of a steady film production industry in Nebraska. The following represent two means by which Nebraska could potentially develop their crew base.

#### **Key Actions:**

- **Explore Alliances with Local Educational Institutions**

Nebraska possesses a potential labor pool from which to build the film production industry from the following sources:

ERA recommends that the NDED and NFO explore training opportunities and other synergies with some of these institutions. The NFO already has been active with the film school at the University of Nebraska-Lincoln campus in sponsoring activities, such as the Great Plains Film Festival. The event is co-sponsored in conjunction with the Mary Riepma Ross Film Theater, and the NFO has been a sponsor since 1997.

- **Explore Alliances with Cultural Institutions**

Artistic and film-related collaborations also should be encouraged to a stronger degree since such collaborations provide exchanges of skills and labor between film production and cultural establishments in Nebraska. In general, cities and communities throughout the U.S. that have a strong local film industry also have a strong arts community.

Both the highly-rated Lincoln Children's Museum and the Omaha Theater Company for Young People are not only cultural institutions in Nebraska, but sources of development of talent and skill. The Omaha Community Playhouse also is one of the largest community theaters in the country.

The Nebraska Arts Council should potentially play a more active role in the development of the film industry. As noted during ERA's meetings in Omaha, the Omaha Theater Company serves as a training ground for much of the area's local talent pool. In smaller production centers throughout the U.S., it is not uncommon for "below-the-line" talent, such as set decorators, prop masters, etc., in theater companies to work on film and television productions that are shooting locally. An exchange and transfer of talent and skills therefore occurs between film production and other cultural-related industries in a region.

Potential marketing strategies include continuing to get on the front end with producers to develop stories that are either (1) specific to Nebraska; (2) deal with Nebraska-based story lines; or (3) can use Nebraska for a variety of looks. The annual screenwriting workshops in Superior, Nebraska, hosted by former UCLA film school faculty member Lew Hunter are an excellent example. During his last workshop, 20 screenplays were produced, half of which were set in Nebraska, and one of which is currently being optioned by Fox Studios as a television series.

### ***Develop Public/Private Partnerships***

Another opportunity for the State of Nebraska is to use the coordinating function of the NFO and local film commissions to help with public/private partnerships for both film productions and investments in infrastructure. The following possible approaches might be taken.

#### **Key Actions:**

- **Initiate Public/Private Partnerships in Production**

One innovative approach that would fit well with Nebraska's comparative advantages is to solicit the development of children's episodic series to be shot in the state. This approach would take advantage of the state's cost structure, which is favorable for children's producers, as well as tie into some of the region's leading institutions such as the Omaha Theater Company for Young People and Nebraska Public Television. One can envision the local film commissions and the NFO in alliance with the Nebraska Arts Council and Nebraska Public Television generating matching funds for a qualified producer committed to bringing an episodic children's television program into the State of Nebraska. The RFP for such funds could seek proposals from qualified producers who have obtained distribution agreements for their product. The State of Nebraska, through agencies, such as Nebraska Arts Council and Nebraska Public Television, would need to certify that the program was educational in nature making it eligible to receive matching public funds in return for commitments to produce the series in Nebraska with a minimum percentage of the total budget for each episode being spent on Nebraska labor, goods, and services.

- **Initiate Public Private Partnerships for Infrastructure**

Another role that has been enacted in regions throughout North America has been to support private initiatives for sound stage development as part of overall urban

development objectives. Very often these products are supported through the provision of off-site public infrastructure (parking, street improvements, etc.), or through the economic development conveyance of developable land. In its present state, Nebraska's film industry has not reached a level of maturation that would be likely to sustain a sound stage complex as the industry is presently constructed. However, this opportunity may arise as the volume of production begins to increase over time.

### ***Become Competitive with Neighboring States***

In the absence of a strong indigenous film production industry, or a transplanted one with attached productions, government entities outside the U.S. have created financial or economic incentives to build their respective industries. Such support may either involve providing financial assistance to local filmmakers and production companies, or providing rebates to non-local productions for the employment and training of local labor.

#### **Key Actions:**

- Create an incentive, such as a sales tax exemption that attracts business the state would otherwise not receive. The incentive would have a neutral effect on revenue gain/loss because the state would be generating business that it would otherwise not have received.
- At present, Nebraska is not competitive with neighboring states. As shown, most states currently offer either a state sales or use tax exemption, in addition to a sales tax exemption on lodging after a certain period. Nebraska currently has a sales tax exemption on lodging after 30 continuous days, but offers no other direct incentives. Furthermore, this list excludes *indirect* incentives, such as the absence of state corporate or individual income tax (*e.g.*, Wyoming).

Key programs that neighboring states currently offer that make them more competitive than Nebraska include:

- Kansas. The state offers both a state sales tax reimbursement program and waives transient occupancy taxes on hotel rooms for stays of 28 days or more.
- Missouri. The state offers a film production tax credit program that provides state income tax credits of up to 50 percent on a film production company's expenditures in Missouri, up to \$500,000. To become eligible, a production company must spend a minimum of \$300,000 in the state.
- Wyoming. The state waives taxes on hotel stays of 30 days or more, and offers a voluntary participation program by hotels and service businesses (*e.g.*, restaurants and retail) wherein a 10 percent discount may be available to producers.
- Oklahoma. While Oklahoma does not share a border with Nebraska, the Oklahoma Film Enhancement Rebate Program is one of the most aggressive state incentive programs in place. Under this program, a 15 percent rebate on production dollars spent

in the state is available, with a cap at \$2 million annually. Additionally, Oklahoma exempts sales tax on the purchase of tangible items that are used in production and the state sales tax is waived on hotel stays of more than 30 days.

## **Conclusion**

Currently, Nebraska is not a major production center due to the structure of key conditions in the state, however, it is the site of a small but viable industry. There are opportunities for Nebraska to improve its competitive positioning. Competitive challenges in the region are likely to intensify as neighboring states increasingly find innovative means to attract production activity. In other words, the State of Nebraska can choose to be passive in this regard and potentially miss out on opportunities to create higher paying jobs, fill hotel rooms, and promote tourism through film product that is shot in the region.

From an economic perspective, the film industry diversifies the economy. It also generates labor force retention and creates jobs that attract and retain creative, younger workers. This is important for Nebraska, which has traditionally relied on the agriculture and manufacturing sectors for economic development. Film production also is an industry involving global competition. In many countries, this sector is largely driven by policy intervention. Historically, this has not been the case in the U.S., although many states have now targeted this industry for economic development.

Supportive public policy is key to the future development of the industry. The continued growth of a local industry will require a close collaboration and coordinated course of action between all relevant state agencies, including the NDED, NFO, and the metropolitan CVBs and tourism councils. In the absence of committed productions, ERA has found that public engagement for the industry will be required during a period of several years in order to create a growing, dynamic and self-sustaining industry over the long-term.

## **Section III. A REVIEW OF FILM INDUSTRY ECONOMICS**

### **Introduction**

The process of film production is an industrial enterprise that comprises three separate but interdependent activities: (1) production, (2) distribution, and (3) exhibition. This section focuses primarily on the production sector.

The goal of this section is to identify, from both a local and global perspective, any relevant film industry trends and their potential impact on film production activity in Nebraska, and also to analyze the development of a local film industry. Like any other industry at the beginning of the 21st century, the motion picture production industry has moved towards globalized production as a strategy to maximize combinations of labor rates and capital costs. As a result, Nebraska, along with many other secondary production centers, finds itself trying to attract production activity within an increasingly competitive environment.

In our review, ERA divided this section into two subsections regarding film production as follows:

- Key characteristics and trends
- Geographic and locational trends

### **Key Characteristics and Trends in Film Production**

#### **The Evolution of Film Production**

The film production industry has evolved from the studio system under which all aspects of production fell under studio control in a manner of vertical integration (e.g., production, distribution, and exhibition), to one of vertical disintegration in which independent crew members and above-the-line talent produce a film which may or may not be financed by a Hollywood studio, and finally to a system of finance and production dominated by large multi-media conglomerates.

In many respects, film productions today can be thought of as “virtual” corporations in which key actors, directors, and producers negotiate deals to produce a film. Since the mid-1950s the film production industry has shifted from a mass production model, wherein the studio system employed a permanent staff of writers, technicians, and talent to a project-by-project model. Prior to this time nearly all phases of production and post-production were concentrated in Southern California.

#### ***The Production Team***

The production crew consists of *above-the-line* and *below-the-line* talent. Above-the line talent refers to the creative talent involved in a film (director, producer, writer and actors) while below-the-line talent involves all other crewmembers, including technical, professional and skilled tradespersons. The key people on most productions are a director of photography, sound mixer, gaffer, key grip, production designer; property master,

wardrobe master, key makeup artist, special effects expert, stunt coordinator, location manager, and still photographer. The producer, director, and production manager select these members of the crew based on three main criteria: (1) technical requirements; (2) budget; and (3) experience from past engagements/reputation or trust. This set of criteria is the basis for structuring the rest of the crew.

Today production teams are specially assembled, sometimes under the auspices of a major studio which provides distribution, marketing, and production facilities. However, a studio's participation is not required. Films are frequently produced by independent film companies which may or may not have financing and distribution agreements with a major studio. Furthermore, the production and post-production processes have been spread out on a global scale. Technological advances have made it easier and sometimes cheaper to shoot on location.

### ***Notable Events in the Evolution of the Industry***

Table III-1 outlines the evolution of the entertainment industry in the U.S. As shown, in the second half of the 20<sup>th</sup> century the most notable events were:

- The advent of television during the 1950s
- The advent of video and cable television during the 1980s

More recently, DVDs and other new technologies (digital filmmaking, etc.) have impacted the film industry as will be discussed later in this section.

With the exception of Movies of the Week (MOWs) which are specifically made for television, most movies that appear on television, video, and/or cable were originally made for a theatrical release. It is only in recent years that feature film-type television productions have been made specifically for television (*e.g.*, HBO's *Band of Brothers*).

The following is a brief overview of relevant trends in the film and television production industries.

### **Feature Film Production Trends**

Today, there are three levels of production and distribution in the feature film industry: (1) the studios which control all aspects of feature film production and produce primarily high-budget product, (2) the mini-majors which are owned by the studios and produce smaller-budgeted features backed by studio marketing dollars; and (3) the independents which either produce, distribute, or perform both functions for even lower-budget, story-driven, and foreign films.

Since non-studio product comprises an increasingly larger percentage of total feature film production in the U.S. each year (see section "Demand Volume Indicators"), ERA has included a brief review of the mini-majors and independent film companies.

Table III-1

**U.S. ENTERTAINMENT INDUSTRY  
HISTORICAL DEVELOPMENTS**

<b>Time Period</b>	<b>Event</b>
1890s	Film production emerges in France, Britain, and the United States. The French company, Pathe Freres, is the first major production and distribution company during this era. The industry is small-scale and locally-based.
1910s and 1920s	The major U.S. motion picture companies begin to form and vertically integrate production, distribution, and exhibition. Production becomes gradually large-scale and systematized.
1930s	American studios begin to dominate domestic and global box office.
1940s	Anti-trust legislation ( 1948) forces studios to divest exhibition interests. As a consequence, international markets become increasingly important to studios, which causes foreign governments to begin enacting legislation to support and protect their domestic industries.
1950s	Advent of television which competes for entertainment dollars.
1960s	Hollywood studio era ends and is replaced by agency and "package" system. Studios continue to control markets via distribution agreements, but production and exhibition sectors are less important.
1980s	Two significant events: (1) Video and pay-TV ancillary markets emerge, forming a secondary source of revenues for film product (including television). The largest revenue components for Hollywood product become video, theatrical and television. These new markets also stimulate the demand for more film product, and the production of film product increases dramatically, with the new independents and mini-majors supplying the majority of the increased output. Studios become horizontally integrated with producers and distributors. (2) The advent of the high-budget feature film which places upward pressure on marketing costs.
1985	Rupert Murdoch's News International buys Twentieth Century Fox to create synergies with its broadcast outlet. Murdoch also creates a fourth television network, Fox TV.
1990s	New era of studio system wherein studios merge with media giants (e.g., Time Warner/AOL) to form vertically and horizontally integrated companies in which film production and box office form part of a chain of gross receipts that include the sale of rights for network and broadcast television, sound track re-merchandise sales and advertising tie-ins, etc.

Source: Economics Research Associates.

### ***Hollywood Studios***

Commonly referred to as the “majors,” Hollywood studios have become, via series of mergers and acquisitions, huge media conglomerates that operate both production and distribution chains in film, television, video, music, and publishing. According to recently released statistics from the Motion Picture Association of America (MPAA), between 1980 and 2001, the production cost of the average studio feature film rose from \$9.4 million to \$47.7 million (Table III-2). It should be noted that: (a) this figure excludes marketing costs (e.g., print and advertising); and (b) this figure represents a decrease of \$7.1 million, or 13 percent over the previous year. This decline is an indication of the fact that studios are exercising fiscal restraint.

In 2001, however, marketing costs increased to \$31 million in 2001 (Table III-3), bringing the average total combined cost of the average Hollywood feature film in 2001 to more than \$78 million. While marketing costs increased, the total combined cost to make a studio feature film decreased by 4 percent between 2000 and 2001.

In general, a studio film today must gross three times its negative cost to break even. Therefore, a film that was made for \$10 million must gross \$30 million or more to break even. As a result, studios have become increasingly cost-conscious and are less likely to approve potential projects unless they see large-scale commercial viability in the product.

### ***Mini-Majors Production Trends***

There are currently six independent film companies considered major independents or “mini-majors.” While referred to as “independent” companies, they are all affiliated with major studios as follows:

- New Line/Fine Line Features (AOL/Time Warner)
- Fox Searchlight (20th Century Fox)
- USA Films (formerly at Universal as “Gramercy Pictures” and “October Films”)
- Miramax (Disney)
- Paramount Classics (Paramount)
- Sony Pictures Classics (Sony Pictures Entertainment)

These companies produce features with production budgets between \$5 million and \$10 million which is considerably lower than that of the studios (approximately \$55 million). Some of the larger mini-major companies such as Miramax produce features with budgets as high as \$30 million. The mini-major companies tend to focus more on good scripts that attract strong casts who work for reduced rates.

### ***Independent Film Production Trends***

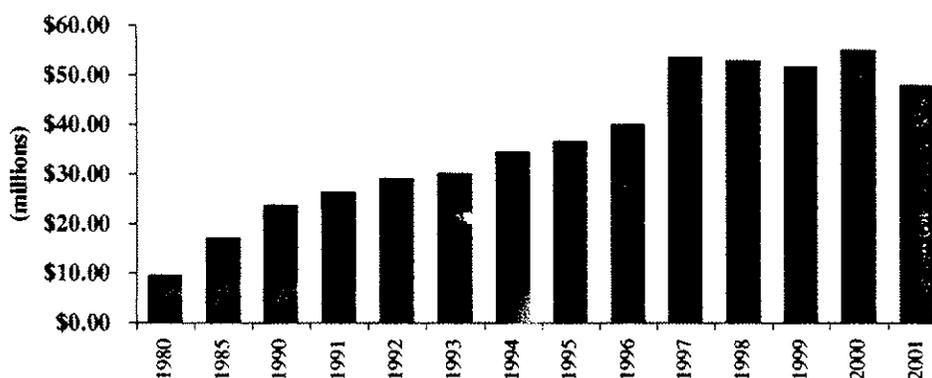
These smaller production companies typically produce features with much lower budgets than the majors and mini-majors. Depending on their size and capital resources, budgets

**Table III-2**

**U.S. THEATRICAL DATA  
AVERAGE PRODUCTION COST<sup>1</sup> PER FEATURE  
MAJOR STUDIO RELEASES  
(in millions US\$)**

<b>Year</b>	<b>Production Cost Per Feature</b>	<b>Yearly % Change</b>	<b>2001 Versus</b>
1980	\$9.40	--	407.4%
1985	\$16.80	16.4%	183.9%
1990	\$23.50	14.2%	103.0%
1991	\$26.10	-2.4%	82.8%
1992	\$28.90	10.4%	65.1%
1993	\$29.90	3.6%	59.5%
1994	\$34.30	14.6%	39.1%
1995	\$36.40	6.1%	31.0%
1996	\$39.80	9.5%	19.8%
1997	\$53.40	34.1%	-10.7%
1998	\$52.70	-1.4%	-9.5%
1999	\$51.50	-2.30%	-7.4%
2000	\$54.80	6.50%	-13.0%
2001	\$47.70	-12.96%	--

**Production Cost of Studio Feature Films**



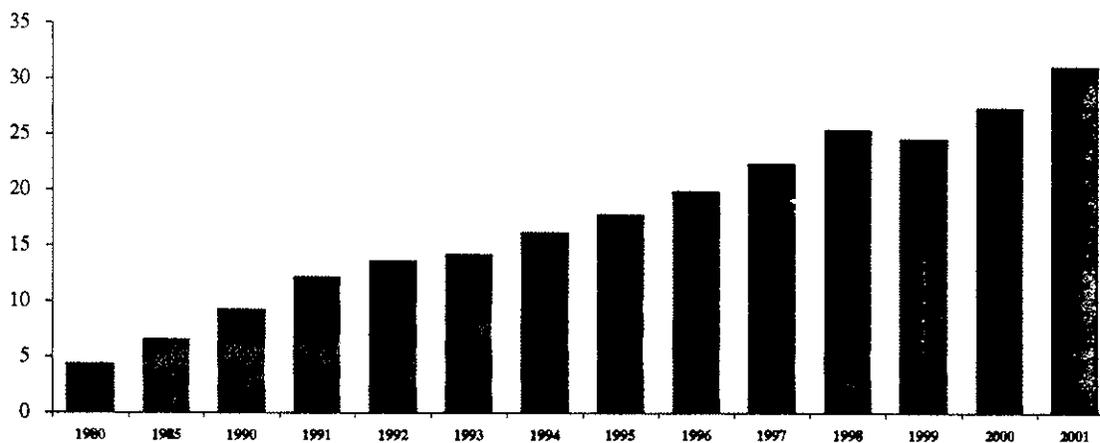
<sup>1</sup> Includes studio overhead and capitalized interest.

**Table III-3**

**U.S. THEATRICAL DATA  
AVERAGE MARKETING COST OF NEW FEATURE FILMS  
(in millions US\$)**

<b>Year</b>	<b>Total Print &amp; Advertising</b>	<b>Yearly % Change</b>	<b>2001 Versus</b>
1980	\$4.3	--	621%
1985	\$6.5	51%	377%
1990	\$9.2	42%	237%
1991	\$12.1	32%	156%
1992	\$13.5	12%	130%
1993	\$14.1	4%	120%
1994	\$16.1	14%	93%
1995	\$17.7	10%	75%
1996	\$19.8	12%	57%
1997	\$22.3	13%	39%
1998	\$25.3	13%	23%
1999	\$24.5	-3%	26%
2000	\$27.3	11%	14%
2001	\$31.0	14%	--

**Marketing Costs of Feature Films**



Source: Motion Picture Association Worldwide Market Research and Economics Research Associates

can vary from several hundred thousand to several million dollars. These films tend to focus more on scripts that attract strong casts to produce compelling films at much lower capital investment levels, or, alternatively, to produce low-budget, "semi-disposable" films that depend on a stock genre that will guarantee an audience and later distribution on cable TV and video. Due to their low budgets, independent film productions are frequently dependent upon hiring local crews versus importing labor from other areas.

Table III-4 lists the number of studio productions (MPAA) and all other feature film productions released in the U.S. over a 20-year period between 1980 and 2000. As shown, while the number of studio films increased by over 40 percent over the period, the number of non-studio feature film releases was even greater at nearly 400 percent. Output from studios peaked in 1998 and has been decreasing in subsequent years due to budget constraints. To help spread the financial risk associated with feature film production, studios are increasingly co-financing productions between independents and/or other studios.

The independent filmmaker's greatest source of funding recently has come from foreign sales. Due to the recent poor attendance at major film markets and the slow selling climate, however, there is currently an oversupply of film projects without distribution agreements. Should this trend continue, the number of "guerilla" filmmakers outside of film schools may decrease in the future. It should be noted that "guerilla" is a term that refers to ultra low-budget filmmakers, frequently film school students or film enthusiasts, who shoot with limited cash, supplies and resources. Examples of guerrilla filmmakers in Nebraska would include either film students or many of the filmmakers associated with the Nebraska Independent Film Projects (NIFP), a non-profit corporation that was founded in 1990. The organization currently has approximately 150 paid members and an additional 300 participants on its distribution list.

It should be further noted that while the studios and mini-majors dominate theatrical distribution, independent studios are a force in lower-budget niche movies and are continuing to diversify themselves beyond simply producing filmed entertainment. Other areas of expansion include commercials, music videos, Internet entertainment, and computer games.

### **Television Production Trends in the U.S.**

While the film industry initially considered the television and video industries as threatening competitors, what has emerged is a pattern of mutual dependence as the explosive growth in the number of television channels has fueled the demand for new, original, made-for-television/cable material and films that were initially made for theatrical release but did not receive distribution. In general, all productions are television-driven in today's market.

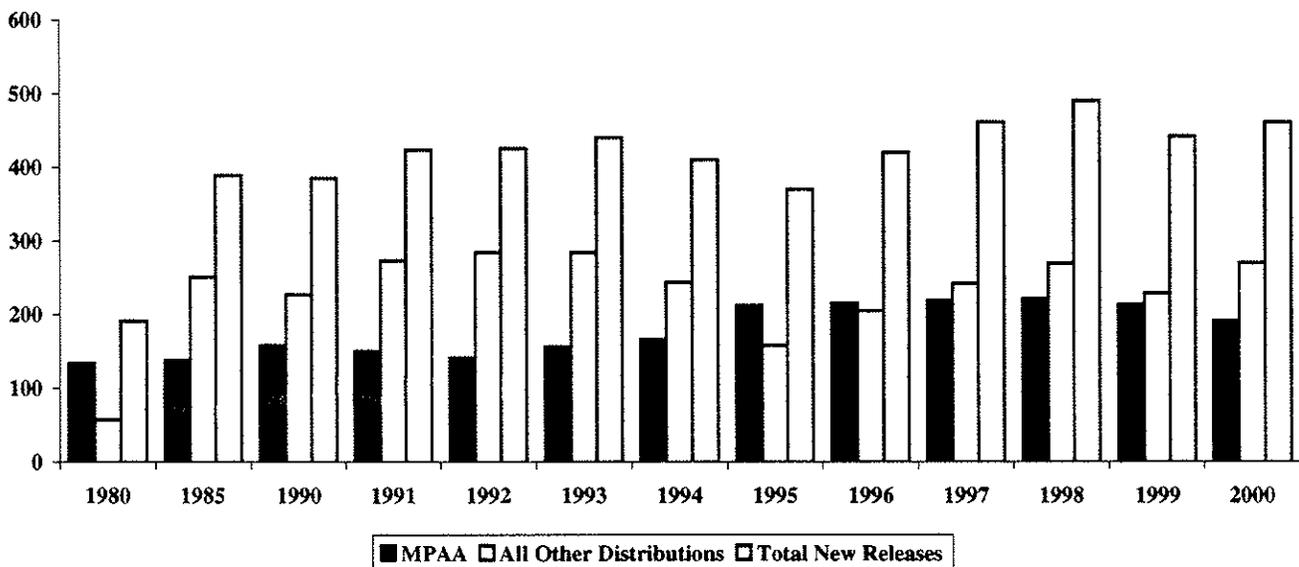
Television programs have a similar pattern of production to film. The main difference is that production runs can potentially be more stable, lasting years rather than weeks. While the networks act in a similar capacity to the old-style movie studios, their direct production of shows has declined steadily as their previous hegemony over the television broadcast industry has been broken by cable and independent networks. Each one of these shows is a

**Table III-4**

**FEATURE FILMS RELEASED IN THE U.S.  
NEW FILMS**

Year	MPAA	% Yearly Change	All Other Features	% Yearly Change	Total New Releases	% Yearly Change
2000	191	-10.3%	270	17.9%	461	4.3%
1999	213	-3.6%	229	-14.9%	442	-9.8%
1998	221	0.9%	269	11.2%	490	6.3%
1997	219	1.9%	242	18.0%	461	9.8%
1996	215	1.4%	205	29.7%	420	13.5%
1995	212	27.7%	158	-35.2%	370	-9.8%
1994	166	6.4%	244	-14.1%	410	-6.8%
1993	156	10.6%	284	0.0%	440	3.5%
1992	141	-6.0%	284	4.0%	425	0.5%
1991	150	-5.1%	273	20.3%	423	9.9%
1990	158	2.7%	227	-2.0%	385	-0.2%
1985	138	0.6%	251	34.5%	389	15.3%
1980	134	--	57	--	191	--
Average 1990-2000	186		244		430	
% Change 1990-2000	21%		19%		20%	
% Change 1995-2000	-10%		71%		25%	
% Change 1990-1995	34%		-30%		-4%	

**New Feature Films Released in the U.S.**



Source: Motion Picture Association Worldwide Market Research 2000

semi-autonomous production unit that offers employment to workers only as long as the specific show that they work on is in demand.

### **Television Network Trends**

Following years of explosive growth, broadcast television has been strongly impacted by recent economic trends; specifically: (1) a steadily decreasing portion of their market share to cable and independent networks; and (2) decreasing advertising revenues. For instance, the network television ad market is down by approximately \$1 billion, compared with revenue for the 2000-01 season. The end result has been the need to “downsize” or lower production costs in this increasingly competitive environment. As a consequence, the major broadcast networks have been purchasing fewer scripts and decreasing the number of deals they have with writers and producers.

The average price of an hour-long network series now ranges as much as \$2 million per episode, and half-hour sitcoms can cost as much as \$1 million per show. Programming costs have increased by an estimated 20 percent during the last three years. On average, over 50 percent of a television production’s budget is spent on below-the-line costs, and the remainder on post-production, administrative, and publicity expenses. Television series that place a heavy emphasis on special effects such as *Witchblade* (TNT) or *Farscape* (SCI-FI) place a higher percentage of their budget on below-the-line costs such as special effects, costumes, and production design; whereas a popular, prime-time series such as *Friends* has higher above-the-line costs for talent. Not coincidentally, to save money *Farscape* is shot in Australia at Fox Studios Sydney.

To lower production costs, certain programs made for first-run syndication, cable, and new broadcast networks are frequently forced to shoot their productions abroad, most notably in Canada. MGM Television, for instance, shoots all the television shows that they distribute (e.g., *The Outer Limits*, *Poltergeist: The Legacy*, and *Stargate: SG-1*), all of which are effects-driven shows, at the Bridge Studios in Vancouver, British Columbia.

### **Episodic Television Trends**

Another recent trend in network television has been the proliferation of reality programming, which has reduced the number of episodic, script-written comedies and drama shows. This has also presented a new, viable economic model for television networks. Reality programming is less expensive to produce since it does not require actors and has fewer directors and producers. In general, competitive pressures and industrywide cost-cutting have made reality programming essential since scripted shows are more costly.

### **Cable Television Trends**

There are two types of cable television: basic cable and premium channels (e.g., HBO, Showtime, etc.). The expansion in the cable market has taken up much of the downturn in the made-for-television network market (e.g., MOWs). In addition, both theatrical filmmakers and international producers are benefiting from the expansion in the U.S. cable movie market. Multi-million dollar cable productions such as HBO’s *Band of Brothers* now compete for viewership with theatrical releases.

This new outlet benefits both traditional television and theatrical film producers who have been impacted by network cost cutting and decreased production at the studio level. HBO Films, for example, now makes between 10 and 12 original films per year with budgets ranging from \$3 to \$15 million. Many of these cable movie productions are also attracting top-name, above-the-line talent. Some cable networks such as Showtime even allow producers a certain period of time in which to complete a theatrical distribution deal. Examples include *Gods and Monsters* and *The House of Mirth* which were produced by Showtime and acquired by a theatrical distributor.

Many cable television companies are producing films that are similar in budget and quality to those produced by independent feature film companies. For instance, the most well-received films that premiered at the Sundance Film Festival this year (2002) were made by pay-TV and cable companies such as HBO and the Independent Film Channel (IFC).

Table III-5 summarizes some of the major trends in television production and how they impact local production in the U.S.

### **Other Production Trends**

Home video, driven by the rise in DVD sales, is a leading contributor to studio revenue. A recent report submitted to the Motion Picture Association, the export arm of the MPAA, estimates this sector accounts for approximately 40 percent of all-media revenue. Videos increasingly offer a direct distribution pipeline to consumers. The economics of direct-to-video film production are similar to those in low-budget feature film production, namely, producers look for low-cost environments that meet budget constraints (discussed in the "Geographic and Locational Factors" section below).

#### ***Home Entertainment***

During the 1930s, "filmed entertainment" referred solely to movies. In today's expansive and complicated media environment, however, this can refer to film, broadcast television, Pay-TV and cable, and video and DVD sales. Each of these media presents a different economic model. For instance, VHS and DVD sales have increased as the home entertainment market has become more accessible and less expensive. Table 6 shows the penetration of consumer electronics in U.S. households between 1998 and 2001. The vast majority of U.S. households in 2001 have televisions and VCRs, and the number of home theater systems, direct-to-home satellite systems, and DVD players has increased substantially over the period.

#### ***New Technology***

Many of the recent production trends are being driven by technological advances such as digital filmmaking and mobile broadcasting. As will be discussed later in this section, technological advances are also driving the globalization of production, making it easier for filmmakers to take their projects to distant locales.

Table III-5

TELEVISION TREND SUMMARY

Trend	Consequence	Impact on Local Production
<p><b>Network Television</b>                      (1) Decreased advertising revenue and competition from cable and PAY-TV</p>	<p>Decrease in television network production (output) and cost-cutting                      Upside for theatrical market which has reduced marketing costs because of the state of TV advertising</p>	<p>Increase in location filming from reality TV shows which are less expensive to produce                      Other projects (e.g., series) are frequently shot in locales where the incentives lower the total cost of production and make it more economically viable</p>
<p>(2) Decrease in hour-long series due to escalating above-the-line costs (e.g. actors and writers)</p>	<p>Increase in reality television, documentaries, and news shows</p>	<p>Decrease in demand for sound stage space</p>
<p><b>Basic Cable Television</b>                      Producing more targeted original movies</p>	<p>Wider range of budgets than network TV (\$1 million and up) but less than pay cable                      The challenge is to offer a "hybrid" product that serves both network and pay cable audiences</p>	<p>Pressure to produce quality product on limited budget makes producers more likely to scout locations for favorable incentives that limit costs</p>
<p><b>Premium Cable Television</b>                      More original programming for specialty channels with higher budgets and top talent</p>	<p>(1) Making up for decrease in network production                      (2) Becoming more competitive with theatrical releases</p>	<p>While less cost-sensitive than network production, more cost-sensitive than theatrical production                      Effect is neutral</p>

Source: Economics Research Associates.

## Penetration of U.S. Households Consumer Electronics 1998-2001

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	1998	1999	2000	2001
Television	98%	98%	98%	98%
VCR	90%	91%	93%	94%
Home theater (sound)	16%	18%	21%	23%
Direct-to-home satellite	9%	11%	13%	16%
DVD player	0%	1%	5%	15%
Laser disc player	2%	2%	2%	1%

Source: Screen Digest (January 2001).

### Digital Filmmaking

Digital technology is reducing the overall cost of production and is having the net effect of luring more entrants into the film industry. The lower costs associated with digital filmmaking allow a filmmaker to inexpensively and directly edit their product without the usage of expensive editing systems such as Avid 9000. Table III-6 illustrates the differences in the process between digital and traditional filmmaking.

Many observers see a “democratization” of the industry in coming years spurred by technological advances. This may support the rise of regional industries which would have increasing need for on-location production. In many ways, this new “democratizing” technology is creating an independent production explosion that is similar to what occurred in independent film production during the late 1980s and early 1990s; that is, filmmakers began creating low-budget products (*e.g., Sex, Lies and Videotape*) in hopes of finding a distributor. Inevitably, only those aspiring filmmakers with business acumen and distribution connections will be able to create a viable, low-budget business model. As previously noted, there is currently an oversupply of independent film projects seeking distribution.

In the past, film editing involved numerous hours of manual labor during which reels of film were actually cut with the consenting permission of the director, producer, and other major above-the-line players. Recent technological advances, however, allow film to be transferred to videotape, digitized, and then transmitted via the Internet to an editor who uses computer software and technology to edit a product. The edited version of the film product can then almost immediately be sent via the Internet back to the director for approval.

### Mobile Broadcasting

The proliferation of cable and digital television channels, 24-hour-a-day programming, and more sporting and entertainment events being televised nationwide has increased the demand for mobile broadcasting. Many of these broadcasters will recruit and hire local production teams.

Table III-6

STEPS IN  
DIGITAL VS. FILM PRODUCTION

Step	Digital Production	Film Production
<b>Step 1 - Shooting</b>	Film product is shot with a digital video camera which captures images on a silicon chip and then stores them on an internal videotape.	A film camera captures images on acetate-based film.
<b>Step 2 - Editing</b>	Filmmaker or editor connects the camera to a computer via cable and transfers the data to a hard disk. An edited version is then recorded onto tape and can be viewed on a TV and VCR.	The film is then sent to a film lab where it is exposed and processed with a telecine machine transferring the negative to videotape. The information on the videotape is input into a non-linear editing system such as AVID. The movie is edited digitally on this system.
<b>Step 3 - Post-Production</b>	Any re-editing can be done on a home computer system and shown on television and VCR. The finished product can be transferred back to DV tape or to film.	A negative is cut according to an edit decision list (EDL) which indicates which pieces of the original negative will be used and in which order. Prints are then made from a negative.
<b>Step 4 - Distribution</b>	If transferred to DV tape, the product is then shown on a digital projector in a theater. If transferred to film, the product is then shipped to theaters. Eventually a signal can be encrypted for satellite distribution which then beams the product to a designated theater and is shown on a digital projector.	Multiple prints are ordered and then shipped to theaters.

Source: *Scientific American*, November 2000, and Economics Research Associates.

## Geographic and Locational Factors in Film Production

### Locational Factors in Film Production

The filmed entertainment industry is about making story telling profitable. Thus, generally speaking, no film, television show, or other media event can afford to put logistics entirely before the story. Certainly, stories must work around logistics, physical constraints, and costs; but ultimately, locations and facilities serve the needs of the script.

Productions move away from traditional production centers for varying reasons, the most common of which are as follows:

- **Artistic.** Locations are chosen because of the needs of the script. If a script needs a town, forest, lakeside, or certain kind of coastline, the producer, location manager, and/or production designer will search for a location that fits the project's artistic needs or the director's desire.
- **Financial.** Sometimes a project's budget is such that financial incentives will prompt a company to take a production away from familiar, convenient locations and facilities. Often, the potential liability of being outside of one's familiar surroundings is enough to deter decision makers from this approach. In addition, unless the local labor and talent are expert, relatively cheap, and available, other costs such as travel, hotel, and per diem allowances will mount quickly, offsetting the intended savings.
- **Convenience/Whim.** If a director, producer, or other key individual decides he or she prefers a certain location or facility, then the production situation might change quickly and without notice. For example, while filming *Natural Born Killers*, Oliver Stone decided that he enjoyed being around the Chicago area. So, at the last minute, production shifted from returning to Los Angeles where Stone had originally intended to shoot the sound stage work. The entire crew had to scramble to find the proper facilities in Chicago because Mr. Stone wanted to stay there. Admittedly, there are not many above-the-line talents with Mr. Stone's clout, but there certainly are several. Others who have exercised this kind of authority include Joel Silver, George Lucas, and Francis Ford Coppola.
- **Contractual.** Certain productions are simply obligated to use particular facilities. For instance, the episodic television series *Party of Five* which was produced by High Productions, a wholly-owned subsidiary of Sony Pictures Entertainment (SPE). SPE obligated High Productions to use Culver Studios as a condition for financing. Similar arrangements exist with productions such as those developed and produced in Vancouver by Stephen Cannell.
- **Local Commitment.** It is interesting to note that in some secondary production centers, key decision makers in the film industry frequently bring their projects to their "home towns" in order to work in a familiar environment or to accommodate the needs of the stories they have produced that come from their own experience. One of the best known examples of this is the film industry in Baltimore which, to a large extent, has been supported by continuing work of Barry Levinson and John Waters, which

has, in turn, supported a round of development of secondary producers and directors who trained on their projects and, in turn, bring their own smaller projects into the city.

This “homecoming” effect has been felt recently in the state of Nebraska with Omaha-born writer/director, Alexander Payne, whose last three feature films *Citizen Ruth*, *Election*, and the upcoming Jack Nicholson film *About Schmidt* (which recently premiered at the Cannes Film Festival to critical acclaim) were shot entirely on location in Nebraska.

Generally, the process involves more than just one of the factors listed above.

### **Labor Issues**

The amount of local/regional labor utilized on location and stage shooting away from a production company’s home base seems to vary by both type of production and location. In general, when filmmakers film away from their home base, a production company will at least bring key personnel, especially the director of photography, and perhaps key assistants.

### **Factors Driving the Globalization of Film Production**

During the “studio system era,” principal photography was primarily done on studio lots and backlots, and elaborate sets were constructed that resembled foreign locations. In this manner, a studio could oversee and control all aspects of production from development and pre-production through post-production. As film production has become a “virtual” business with production teams combining forces for a particular project, disbanding, and moving on to separate projects thereafter, the process of film production has become increasingly mobile as well.

Driving the globalization of production are economic factors which in turn are facilitated by technological advances in film production that allow film product to be shot outside of the major production centers, as well as the recent emergence of new production centers with highly developed production infrastructure (e.g., stages and ancillary services) and crews.

### **Economic Factors**

Given increasing pressure on studios, independent filmmakers, and producers of episodic television and MOWs to decrease production costs, a diverse knowledge of international macroeconomics, tax credits, production incentives, and monetary exchange rates becomes an important issue on a cost-revenue basis. Many foreign producers gain an immediate advantage in terms of lowering production costs with the strength of their home currencies in international markets. This is particularly true for U.S. producers.

Some of the primary economic drivers behind the localization of production include:

- Monetary exchange rates
- Tax incentives

- Less expensive labor
- Less expensive infrastructure
- Less expensive set construction

### **Technological Advances in Film Production**

One factor driving the globalization of film production is the technological advancement of film production equipment. Similar to other industries, advances in technology have impacted the nature of film production by allowing filmmakers to take their productions to foreign locations.

Technology has provided filmmakers with more choices and flexibility regarding the location for principal photography during a film shoot. The impact of this new technology and the flexibility that it offers producers will likely have an effect on location production in regions such as Nebraska. There are two countervailing forces at work that need to be resolved before any clear trend can be delineated.

In the first place, new technology will allow for the creation of so-called “virtual locations.” The improved ability for digital masking and special effects may lead to an overall reduction in location filming as filmmakers are more realistically able to portray a scene without having to be physically present.

However, as a countervailing tendency, this new technology is reducing the overall cost of production and is having the net effect of luring more entrants into the film industry. Many observers see a “democratization” of the industry in coming years spurred by technological advances. This may support the rise of regional industries which would have increasing need for on-location production.

Within Nebraska, educational projects and institutions such as the Peter Kiewit Institute have become increasingly focused on the potential combinations from media and new technology. The Peter Kiewit Institute is a research facility that is part of the University of Nebraska system and is jointly operated by the University of Nebraska Omaha and the University of Nebraska Lincoln. The Peter Kiewit Institute has an interest in developing itself as a resource for the media industries and communication technologies, more from the perspective of training labor for employment in multimedia and traditional media industries. As the program grows there may be opportunities for these graduates to remain in the Nebraska region to pursue entertainment industry-related activities by using this emerging body of technologies.

### **The Development of Global Production Centers**

Recognizing the direct and indirect economic impacts that a large U.S. studio production can have on their local economy, recently several countries, most notably Canada, have enacted legislation and/or provided funding to develop their production infrastructure. This involves both the training and development of their crew base or the establishment of production facilities and sound stages. A recent UCLA Anderson Quarterly Forecast on

the entertainment industry estimates that one in four U.S.-developed projects are shot out of the country each year.<sup>1</sup>

Canada has been the most aggressive country in terms of pursuing U.S.-based production, though some of the countries that have emerged as Canada's potential competitors include: Australia, United Kingdom, Ireland, Mexico, New Zealand, South Africa, and the Czech Republic.

In examining commonalities between the production communities in these countries, certain features emerge:

- They possess a largely Anglophone labor force.
- The majority are industrialized economies that offer a highly-educated labor force.
- These locations offer a stable business and political climate.
- They all have traditions of an indigenous film industry that serves as a proving ground for labor and an incubator for local firms.
- They all possess quality sound stages and production facilities.
- The majority have year-round, favorable climatic conditions.
- The majority have present exchange rates that are favorable to the U.S. dollar.
- The cost of production is lower than in the U.S.

Many of the countries outside of North America that compete to attract off-shore production possess state-of-the-art production facilities that rival many of those in the U.S. and Canada. The strong U.S. dollar has also played a key role in attracting U.S.-based productions. Fox Studios Australia in Sydney, for instance, has scheduled back-to-back, high-budget, feature film productions such as Fox Studios' *Moulin Rouge*, and Lucasfilm's *Star Wars: Episode II*.

With the vast number of foreign production facilities, both existing and proposed, Hollywood's dominance as a production center is being challenged. The production "pie" is being split up and is sought after by production centers outside of North America.

## **Summary and Implications for the Film Industry in Nebraska**

The film and television production industries in the U.S. are currently in a period of cost contraction, which among other things expresses itself in the need for cost controls. As studio budgets continue to increase, the need to cut or contain costs has increased as well. Some studios have resolved this issue by either: (a) reducing their annual film output, (b) entering into co-productions with other studios, or (c) by acquiring product that has been produced outside of the studio system. This process is frequently referred to as a "negative pickup." As previously shown in Table III-4, independently-produced feature films

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<sup>1</sup> Edward Leamer. UCLA Forecast. March 2002.

continue to constitute a greater percentage of all feature films released in the U.S. At the same time, certain sectors of production, such as the cable television industry, are increasing the demand for product, albeit with budgets considerably lower than those for studio features.

The challenge in film production today involves making the economics work in today's competitive marketplace. To make the revenue side of the equation viable, producers and/or studios try to minimize the expense side. This frequently involves lowering the inputs associated with production such as locating cheaper labor or infrastructure. For this reason, out-of-country locations, most notably Canada, have emerged as low-cost production centers. As foreign locales attract productions, they also build infrastructures (e.g., *Titanic* and Fox Studios, Baja) that attract future productions.

The motion picture industry, like any other industry at the beginning of the 21st century, has moved towards globalization in production as a strategy to maximize combinations of labor rates and capital costs. This phenomenon has created a difficult competitive environment for both primary and secondary production centers throughout the U.S. as they struggle to compete. The end result of this is that in order for secondary production centers to remain competitive in regions like Nebraska, they must have the right combination of skilled labor costs for production inputs and production infrastructure.

The intent of this section has been to illustrate the complex environment in which any initiative geared towards promoting the motion picture production industry in Nebraska will operate. The State will be facing serious challenges from both foreign governments, which have targeted the sector as a part of a strategic industrial policy, and from an industry that is undergoing severe cost constraints in several important categories of production. That being said, Nebraska can offer the appropriate mix of costs, infrastructure, and skilled labor force to meet the demands of key identified niches within the industry. This report will go on to identify and explore these opportunities for focused program development, with an understanding that the State finds itself in an increasingly competitive marketplace for the attraction and retention of motion picture production activities.

## **Section IV. THE FILM INDUSTRY IN NEBRASKA**

### **Introduction**

This section represents a quantitative review of the motion picture production industry in Nebraska, analyzing the structure and recent performance of the industry. The primary objective of this section is to determine the size and extent of the local motion picture production industry with a special focus on:

- Levels of employment
- Number of firms
- Sales by firms

The quantitative data presented in the first portion of this section compares the statewide industry performance in Nebraska with that in the metropolitan regions of the Omaha MSA, the Lincoln MSA and the remainder of the state (*e.g.*, the non-metropolitan regions of Nebraska). The tables referenced in this section are located in the Appendix at the end of this report. The second portion of this section reviews data provided by the Nebraska Film Office and various other sources. For comparative purposes, ERA has also provided an overview of the historic and recent performance of production activity in the neighboring states of Kansas, Wyoming, South Dakota, Missouri, and Iowa.

The purpose of this section is fourfold: (1) to identify the size and scope of the motion picture production industry in Nebraska, and (2) to ascertain if certain segments of the industry are expanding or contracting, and (3) to demonstrate the economic impact associated with the motion picture industry in Nebraska, and (4) to broadly compare the performance of the film industry, in terms of the volume of recent and historic productions, to that in the neighboring, contiguous states. This analysis will assist ERA in identifying future opportunities for Nebraska.

### **DATA SOURCES**

Data in the first half of this section primarily comes from three sources. It should be noted that the precise definition of the size of the industry in Nebraska is necessarily complicated by the diversity of the sources available. It is important to note that there are dissimilarities between these three data sets to other sources and amongst one another. Each of these separate data sources offers a different vantage point, with a slightly different view and definition of the industry in terms of the source's coverage and completeness. As such, direct comparisons of the absolute numbers in these data sets should not be made to data from other sources.

#### ***ES202 Data***

This data source is collected by the Nebraska Department of Labor & Industry. ES202 data include all wage and salary employment that is covered under Unemployment Insurance. ES202 employment and wages data are organized by Standard Industrial Classification (SIC code) and include the number of firms, their locations, monthly employment, and total wages. The data are produced from covered employment and wage

reports of employers subject to unemployment insurance coverage. Typically, between 85 and 95 percent of all employees are covered by unemployment insurance in a given state. These data include both the public and private sectors.

ES202 data provide accurate and comprehensive reporting for virtually every segment of the economy. Nationally, the data produced by ES202 are used by the Bureau of Labor Statistics and the Bureau of Economic Analysis in addition to other agencies. These data are collected in a uniform manner as required by federal law. State and local governments use this same data set to compute rates, project income tax revenues, study employment history, and labor markets. A key factor to bear in mind when considering these data is that they include employment for the entire industry for every worker who receives a paycheck covered by unemployment insurance. They do not, however, reflect the number of hours worked.

There are some important classes of workers who are not covered by unemployment insurance and therefore do not appear in ES202 data. These include elected officials, railroad workers, and, significantly for the motion picture industry, self-employed workers. It is important to note the difference between self-employed and contingent labor for this analysis. All wage and salary labor is covered by ES202. Temporary workers and contingent labor are reflected in the data. However, individuals who are owners or proprietors of a business enterprise, who are paid through distribution of profits or through operation of an unincorporated business, will not be covered by ES202.

Additionally, there are important confidentiality restrictions that suppress data by detailed industry group. In any given year with each industrial sector, ES202 does not allow for publication of data for industries that (1) have less than three reporting units, and (2) industries in which 80 percent of total employment comes from one or more unit.

#### ***Firm-Level Data***

The second major source of quantitative information used in this study was data from Dun & Bradstreet, a private credit rating service which records information about business enterprises that have either applied for credit, or undertaken a number of specified financial transactions that have generated an evaluation of the firm's credit worthiness. The Dun & Bradstreet data are updated annually and are available at the four-digit SIC code level. This data source includes business enterprises that are owned and operated by sole proprietors who are excluded from ES202 data.

#### ***Film Production Statistics Data***

A third source of data pertains to statistics supplied by the Nebraska Film Office including direct expenditures for feature film and commercial productions between 1991 and 1998, and the estimated economic impact associated with production between 1999 and 2001.

To provide a comparative overview between the volume of film production activity in Nebraska to that in the contiguous states of Iowa, Kansas, Missouri, South Dakota and Wyoming, ERA has provided both historic and recent (*e.g.*, 1990-2001) data on the volume of film production activity and types of productions for these states.<sup>1</sup> This information

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<sup>1</sup> Film production incentives and/or programs aimed at attracting production in these states will be further analyzed later in this report.

comes from the Internet Movie Database, an industry resource/database that provides information on all aspects of production including the cast, crew, and locations used.

## **Data Classifications**

### ***Standard Industrial Classification (SIC Codes)***

The U.S. government has devised a system for classifying industries. The system is referred to as the Standard Industrial Classification (SIC code). The coding scheme is based on the primary product or service produced by service establishments. The SIC codes are organized for a group of industries at progressive levels of detail in the following manner:

- Industry division—two-digit SIC codes
- Industry group—three-digit SIC codes
- Industry and product line—four-digit SIC codes

The broadest level of industry detail breaks economic activity into 10 groupings. These are commonly referred to as industry divisions. These include agriculture, mining, services, manufacturing, retail trade services, and public administration. The next level of detail called major industry groups are based on two-digit SIC codes. The third level of detailed industry groups is based on three-digit SIC codes. The finest level of detail that is commonly available is based on product lines and is delineated by four-digit SIC codes. It is important to note that each level (2-digit SIC codes) in the hierarchy aggregates all of its subcomponent constituent members (3-digit SIC codes) into the reported totals.

### **SIC Classification Definitions**

The following SIC classifications were identified as the key constituents of the production industries in Nebraska. Their definitions, as reported in the Standard Industrial Classification Manual, prepared by the federal government, are as follows and shown in Appendix Table A of this report:

- **SIC 78, Motion Pictures.** This is the major group classification that collectively includes establishments that produce, distribute, and exhibit motion pictures in commercially operated theaters, and furnishes services to the motion picture industry. The term “motion pictures” also applies to similar productions for television or other media using film, tape, or other means.
- **SIC 781, Motion Picture Production and Allied Services.** This is an industry group division of the major SIC 78 classification which includes two subcategories: (1) Motion Picture and Videotape Production (SIC 7812), and (2) Services Allied to Motion Picture Production (SIC 7819).
- **SIC 7812, Motion Picture and Video Tape Production.** This subcategory of SIC 781 includes establishments primarily engaged in theatrical and nontheatrical motion pictures and video tapes for exhibition or sale including educational, industrial, and religious products. Included in this industry are establishments engaged in both production and distribution. Producers of live radio and television programs,

establishments primarily engaged in motion picture and video tape reproduction, and those engaged in distribution of motion picture product (versus production), are included in separate subcategories.

- **SIC 7819, Services Allied to Motion Picture Production.** This second subcategory of SIC 781 includes establishments that are primarily engaged in performing services independent of motion picture production, but allied thereto, such as motion film processing, editing, titling, casting bureaus, wardrobe, studio property rental, television tape services, motion picture and video tape reproduction, and stock footage in film libraries.
- **SIC 782, Motion Picture Distribution and Allied Services.** This is another industry group subdivision of the major SIC 78 classification which includes two subcategories (1) Motion Picture and Video Tape Distribution (SIC 7822); and (2) Services Allied to Motion Picture Distribution (SIC 7829).

## **Industry Employment in Nebraska**

### **Industry Employment for All Industries in Nebraska**

To gain an understanding of the size and scope of the motion picture production industry in the State of Nebraska, ERA has first compiled data from the Nebraska Department of Labor that represents statistical information on all industries statewide.

#### ***Average Annual Employment***

Appendix Table C shows the average annual employment for all industries in Nebraska between 1993 and 2000. As shown, total employment statewide increased by approximately 18 percent over the period, the largest gains occurring in the metropolitan areas of Omaha and Lincoln which increased by 20 percent, respectively. Employment in the remainder of state (*e.g.*, the areas outside of Omaha and Lincoln) increased by a smaller percent at approximately 14 percent. This data would indicate that the greatest employment gains in Nebraska between 1993 and 2000 have occurred in the metropolitan areas of higher population density.

#### ***Average Annual Wages***

Appendix Table D lists the average annual wages for all industries in Nebraska. In 2000, the average annual wage in the Omaha MSA was \$31,945, compared to \$28,502 in the Lincoln MSA, and \$22,861 for the remainder of the state. The greatest increase in wages occurred in the Omaha MSA followed by the state as a whole.

### ***Units of Employment and Total Annual Wages***

Dividing the total units of employment into the total annual wages, Appendix Table E shows that the Omaha and Lincoln MSA regions generate the highest wages per unit. In 2000 the total wages per unit for the Omaha MSA were nearly three times those from the remainder of the state.

In summary, the general data provided by the Nebraska Department of Labor indicates that employment industrywide has been increasing at a small average annual rate, though primarily in the Omaha MSA. This can be partially attributed to the higher concentration of industries and infrastructure in the Omaha MSA.

## **Motion Picture Industry Employment in Nebraska**

### ***SIC 78: Motion Pictures***

As previously noted, this major group classification collectively includes establishments that produce, distribute, and exhibit motion pictures. In other words, it broadly refers to a number of other economic activities not directly related to the production of motion pictures (please see Appendix).

### **Average Annual Employment**

Appendix Table F shows that between 1993 and 2000, average annual employment actually grew statewide, with the greatest gains occurring in the less densely populated regions of the state, followed by the Omaha MSA. Average annual employment in the Omaha MSA peaked in years 1997 and 1998 up from mid-1990s levels, while in the Lincoln MSA the opposite phenomenon occurred.

### **Average Annual Wages**

Average annual industry wages over the period grew in all areas, with the highest annual wage increases occurring in the Lincoln MSA (Appendix Table G). Thus, while average annual employment in this area decreased over the subject 7-year period, the average annual wages paid increased significantly.

### **Units of Employment and Total Annual Wages**

Dividing the total units of employment into the total annual wages, Appendix Table H shows that while the total number of units decreased in all but the rural areas of Nebraska, average annual wages grew by nearly 50 percent in all areas. Comparing this information with general industry information as previously shown, the 7-year increase in the total wages per unit was significantly greater.

Thus, while the total units of the motion picture industry may have decreased, the total wages per unit experienced significant increases. For example, over the period, both the Omaha and Lincoln MSA's experienced increases of over 130 percent in total wages per unit. This is between 2 to 3 times greater than for all industries in general.

### ***SIC 781: Motion Picture Production***

This group is a constituent of a larger industry sector group SIC 78 and allows for a more focused detailed analysis on the motion picture production sector of the State's economy. This subgroup of the major group SIC 78 includes establishments that are primarily engaged in the production of theatrical and non-theatrical motion pictures and video tapes.

#### **Average Annual Employment**

Appendix Table I displays the average annual employment and SIC code 781 motion picture production for Nebraska, the Omaha and Lincoln MSA's, and the remainder of the State. As shown, average annual employment in this sector increased in all regions with the exception of Omaha where it has remained relatively steady. In Lincoln, however, average annual employment in this sector increased significantly by over 120 percent.

#### **Average Annual Wages**

Appendix Table J shows that the average annual wages for this sector decreased outside of the metropolitan areas of the state (-66 percent over the period), however, they increased most significantly in the Lincoln MSA (by nearly 112 percent), as well as in the other areas of the state.

#### **Units of Employment and Total Annual Wages**

Appendix Table K shows the units of employment and total annual wages for motion picture production industry in Nebraska, the Omaha and Lincoln MSA's and the remainder of the state. While the total units in the metropolitan areas of the state decreased over the period in the Omaha MSA (-17 percent), they doubled in the rural areas of the state and increased slightly in the state as a whole.

More significantly, the total wages per unit increased significantly in both the Lincoln MSA (over 370 percent), the Omaha MSA (71 percent), and statewide (61 percent).

### ***SIC 782: Motion Picture Distribution***

The previous tables showed that the motion picture production sector in Nebraska is relatively small, though the average annual wages and total wages per unit have grown significantly (with the exception of the rural areas of the state). Similar to this sector, the distribution sector in Nebraska is also small; in fact, it is even smaller than the production sector. This is true of this sector in nearly any secondary production sector (*e.g.*, those outside of Los Angeles and New York).

#### **Average Annual Employment**

The information contained in the ES202 data is not available for the Lincoln MSA or for the Omaha MSA in 2000. For this reason, a comparative analysis is more difficult. With the limited data available, Appendix Table L shows that average annual employment peaked statewide in 1993 at 33 persons and decreased to 8 in 2000.

### **Average Annual Wages**

Looking at average annual wages for the distribution sector in Nebraska, Appendix Table M shows that they have increased significantly over the subject period by over 100 percent statewide and more than doubled in the Omaha MSA between 1993 and 1999. The rest of the state experienced even greater gains.

### **Units of Employment and Total Annual Wages**

Appendix Table N shows that total distribution units in the State of Nebraska decreased between 1993 and 2000 by a total of 18 percent. Total wages per unit also decreased over the period, as they did in the Omaha MSA between 1993 and 1999. The opposite is true of the rural areas of the state where both units and wages per unit increased.

### **FIRM-LEVEL DATA**

The data analyzed in this section were supplied by Dun & Bradstreet, and are generated through applications for credit by business enterprises in the key four-digit SIC sectors that constitute the core motion picture production industry in Nebraska. While these data can allow for a more highly-focused analysis by industrial sector than is available from the ES202 data, there are some necessary gaps implicit in the collection and organization of these types of data. Unlike ES202, reporting to Dun & Bradstreet is not required by law, and therefore can be seen as a self-reporting system. In general, Dun & Bradstreet serves as an independent credit rating organization, which gathers information on firms that are applying for credit or billing with invoices and purchase orders. Unlike ES202 data, it will include information about sole proprietorships.

The data contained in this series are not necessarily equivalent to those in the ES202 data, but because of the attributes and limitations of each of the data sources, they can be combined to form an approximate picture of the extent of the selected industries in the Nebraska. The firm-level data follow the core industry sectors identified earlier in this section.

#### ***SIC 7812: Motion Picture and Video Tape Production***

Firms in this group are the local companies that are actually engaged directly in the production of motion picture and video products.

#### **Size of Firms by Local Employment**

In 2000, this sector contained 60 firms in the State of Nebraska, nearly two-thirds of which are located in the Omaha MSA (Appendix Table O). Firms in the Omaha MSA also tend to be larger, with 14 of the total 18 firms containing 4 or more employees.

#### **Size of Firms by Total Sales**

Appendix Table P shows the size of firms by total sales for the motion picture video production sector. Again, the concentration of firms reporting sales in the \$200,000+ range are located in the Omaha MSA. Only six firms in the state report sales in excess of \$500,000, and five of these firms are situated in Omaha.

### **Size of Firms by Sales per Employee**

Appendix Table Q combines the total number of firms engaged in the motion picture video production industry (60 total) and breaks them down by total sales per employee. As shown, over 80 percent of firms generate sales of between \$50,000 up to \$100,000 per employee. Only 8 percent of all firms in this sector generate per employee sales in excess of \$100,000.

### ***SIC 7819: Services Allied to Motion Picture Production***

As previously stated, this category includes establishments that are primarily engaged in performing services independent of motion picture production, but allied thereto, such as motion film processing, editing, titling, casting bureaus, wardrobe, studio property rental, television tape services, motion picture and video tape reproduction, and stock footage in film libraries. This group of businesses is relatively small in Nebraska with a total of 38 firms (Table IV-18).

### **Size of Firms by Local Employment**

Appendix Table R shows that the Nebraska-based firms engaged in this industry are predominantly small firms with 3 or fewer employees.

### **Size of Firms by Total Sales**

A review of the size of firms in this sector by total sales (Appendix Table S) shows that over 80 percent of Lincoln-based firms in this sector generate sales of up to \$100,000 annually, while over 50 percent of firms in the Omaha MSA report annual sales of \$200,000 or more.

### **Size of Firms by Sales per Employee**

Appendix Table T shows that 33 of Nebraska's total 38 firms involved in this sector report sales per employee of up to \$75,000 annually.

### ***SIC 782: Motion Picture Tape Distribution***

This represents the smallest segment of the motion picture-related firms analyzed with a mere 5 firms statewide (Appendix Table U). Appendix Table V, however, shows that 60 percent of these firms generate annual sales of \$200,000 or more. In terms of annual sales per employees, three out of five (60 percent) of these firms generate sales of between \$35,000 and \$50,000 annually (Appendix Table W).

Appendix Table X summarizes the distribution of firms by SIC code. As noted, the ES202 and Dun & Bradstreet data presented thus far in this section represent different data sets that cannot be commingled since they represent different data sources. As a reminder, ES202 data represent reports of employers subject to unemployment insurance coverage, and the Dun & Bradstreet data, which include sole proprietors, records information about business enterprises who have either applied for credit, or undertaken a number of specified financial transactions which have generated an evaluation of the firm's credit worthiness by Dun & Bradstreet, a private credit rating service.

## **Concentration of Labor and Infrastructure**

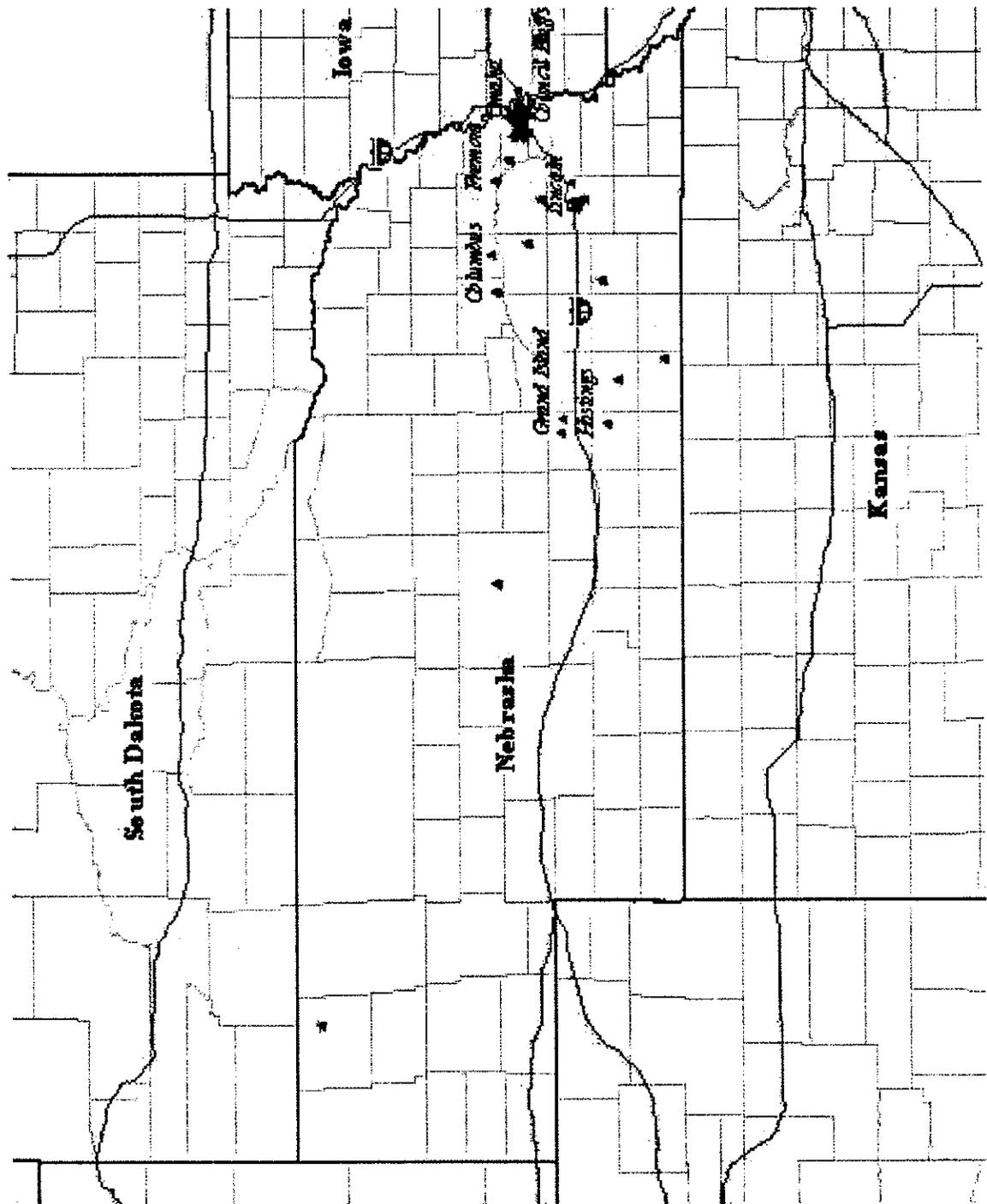
As the ES202 data revealed, the majority of firms in Nebraska that are associated with the motion picture production industry are situated in the metropolitan regions of Nebraska. As such, the same is true for crew members working locally. Figures IV-1 and IV-2 on the following pages show the respective locations of labor and production-related companies working in Nebraska.

## **Film Production Activity in Nebraska**

The quantitative data presented thus far in this section for the motion picture industry in Nebraska for years 1993 through 2000 reveals the following:

- The motion picture industry in Nebraska represents a small but viable industry with significant concentrations of firms in the metropolitan areas of Omaha and Lincoln.
- The percentage change in average annual employment in the motion picture industry has outpaced that of the average for all industries, with the exception of Lincoln where it has decreased by nearly 12 percent. In the Lincoln MSA, however, the average annual wages for the motion picture industry (SIC 78) were more than twice the average for all industries. This would indicate that while industry employment in Lincoln may have decreased, the wages per worker increased significantly.
- For motion picture production (SIC 781), in 2000 over 50 percent of firms in this industry were situated in the Omaha area. Over the 7-year period the number of motion production-related firms in Lincoln has more than doubled while the number remained steady in Omaha. Thus, while the number of employees involved in the broad category of motion picture production (SIC 78) decreased in Lincoln, employees involved in the production sector actually increased. Total wages per unit for the motion picture production industry increased by a greater percentage than all industries, in general, with the exception of the rural areas where they decreased.
- The number of employees involved in the motion picture distribution sector in Nebraska (SIC 782) has been contracting. At the same time, the average annual wages for persons working in this sector appear to have grown significantly.
- For 2002, Dun & Bradstreet data indicates approximately 60 firms statewide are involved in the motion picture video production field (SIC 7812). The Omaha MSA appears to have a higher concentration of larger firms in this sector in terms of the number of employees per firm and estimated sales per employee.
- The number of Nebraska firms providing services to motion picture productions (SIC 7819) is even smaller with a total of 38 such firms statewide. Of these firms, 21 are situated in the Omaha MSA.
- Finally, the number of firms involved in the motion picture tape distribution sector represent the smallest number of firms in Nebraska that are associated with the industry.

**Figure IV-1**  
**Map of Crew Location Within Nebraska**

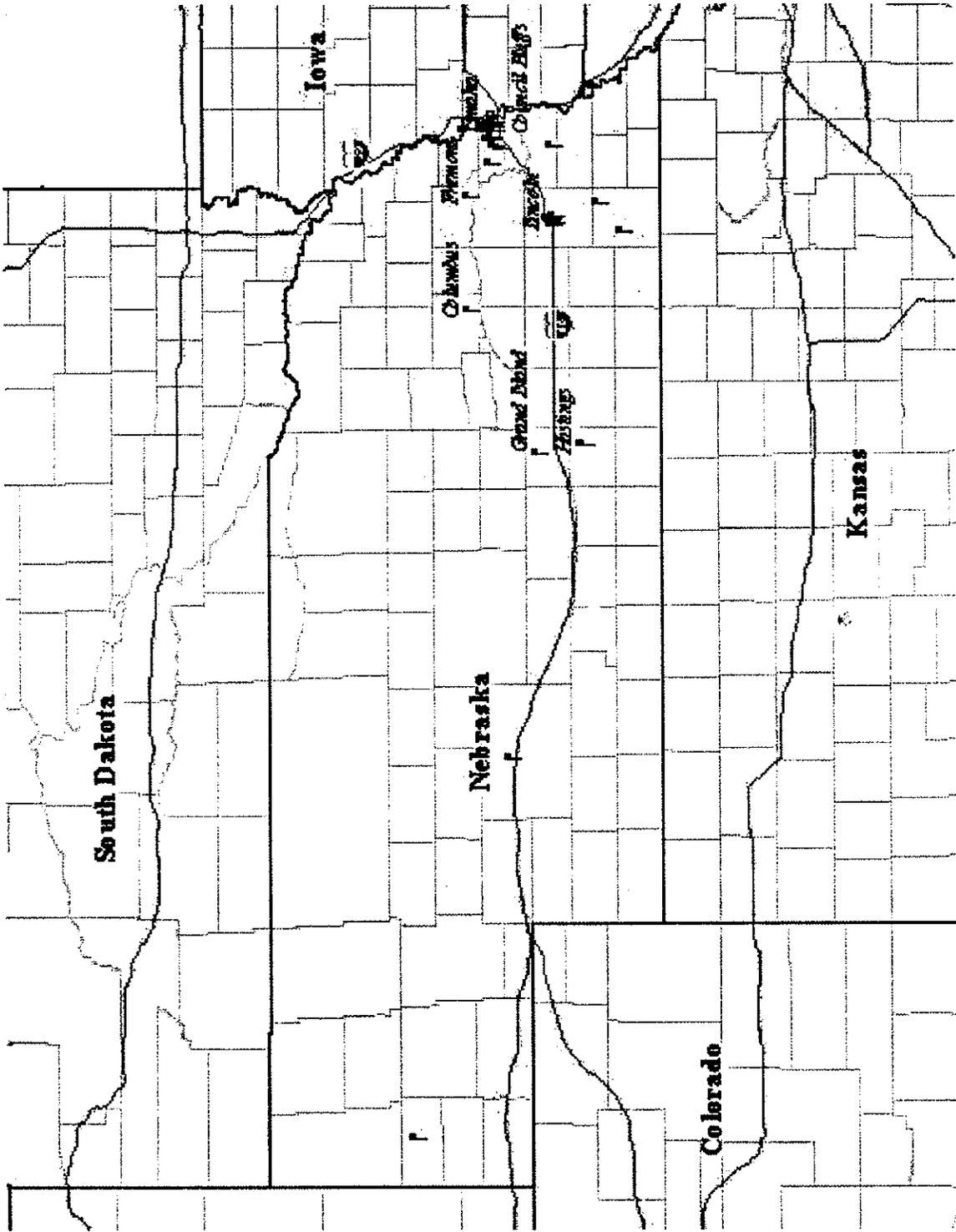


▲ Crew Locations  
□ Counties

Source: Nebraska Film Office: Production Guide, 2001-2002

**Figure IV-2**

**Map of Production Company Locations within Nebraska**



□ Production Company Locations  
□ Counties

Source: Nebraska Film Office: Production Guide, 2001-2002

## **Direct Expenditures Associated with Film Production**

The other sets of data that ERA has utilized in this analysis include information provided by the Nebraska Film Office (NFO) and the Internet Movie Database which tracks the locations and film and television productions.

The NFO estimates that between 1991 and 1998, the estimated direct expenditures associated with feature film and commercial productions was over \$21 million. This represents money that was actually spent in Nebraska. As shown below, the direct expenditures associated with productions ranged from \$15,000 (*Real Stories of the Highway Patrol*) to as high as \$8,000,000 for the studio feature film *To Wong Foo*. Among the 15 projects listed on the following page, the average direct expenditure is approximately \$1.4 million.

Estimating the economic impact of productions shot in Nebraska between 1999 and 2001, the NFO places the figure at approximately \$11 million.

Upon review of the data provided by the NFO, it is important to note that the Film Office does not require permits to shoot in the state. Therefore, the data from the NFO does not necessarily reflect the total number of productions shot in the state. In other words, smaller low-budget and/or student-related projects may not be accounted for.

## **Comparative Volume of Film Production Activity**

To ascertain both the historic and recent performance of the Nebraska film production industry to that in the contiguous states, ERA has reviewed data from the Internet Movie Database (IMDB) which also tracks the location(s) of productions.

### ***Historic Production Activity in the Contiguous States***

Utilizing the data available on IMDB, the states of Kansas and Missouri have historically hosted a larger number of productions than the neighboring states of Nebraska, Iowa and Wyoming, which have all hosted a total of over 60 productions.<sup>2</sup>

### ***Recent Production Activity in the Contiguous States***

Looking at more recent data available on IMDB between 1990 and 2001, while the states of Kansas and Missouri continue to lead in production volume, Nebraska has actually hosted more projects over this period (36) than Iowa (30) and Wyoming (10).

Between 1990 and 1995, both Nebraska and Iowa, which share many similar physical and locational characteristics, both average slightly over two projects annually. Between 1995 and 2000, however, Nebraska has been doubling the amount of annual projects shot in the state to an average of four per year.

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<sup>2</sup> This information is based on data available from IMDB, and ERA cannot guarantee its accuracy.

**Direct Expenditures  
Feature Film and Commercial Productions in Nebraska (1991-  
1998)**

Year	Title	Revenue Generated
1991	Indian Runner	\$5,500,000
1991	Sarah Plain and Tall	\$ 250,000
1992	O'Pioneers	\$2,500,000
1994	My Antonia	\$ 500,000
1995	To Wong Foo, Thanks for Everything...	\$8,000,000
1995	Citizen Ruth	\$1,500,000
1995	Gone in the Night	\$1,000,000
1996	Adidas Commercial	\$ 25,000
1996	Real Stories of the Highway Patrol	\$ 15,000
1996	1996 Women's PGA	\$ 70,000
1997	Various commercials	\$ 125,000
1997	Love from Ground Zero	\$ 123,025
1997	Election	\$1,252,840
1998	Kolobos	\$ 130,000
1998	Nebraska Supersonic	\$ 25,000
1999	Tully	\$ 270,000
2000	Coke advertisement	\$ 200,000
2000	Carpula, from here to Turbidity <sup>1</sup>	\$ 50,000
2000	Private Public <sup>1</sup>	\$ 50,000
2000	Easter	\$ 125,000
2001	Alegent Health Advertisement	\$ 85,000
2001	Richman/Gordon Advertisement <sup>1</sup>	NA
2001	VW Television Advertisement	\$ 200,000
2001	Skins	\$ 400,000
2001	Full Ride <sup>1</sup>	\$1,600,000
2001	About Schmidt	\$8,000,000
<b>Total Estimated Economic Impact</b>		<b>\$31,995,865</b>

<sup>1</sup>refers to projects produced by a local company.

Source: Nebraska Film Office, and Economics Research Associates

## HISTORIC FILM PROJECTS STATES SURROUNDING NEBRASKA

State	TV Projects				Other			TOTAL
	Features	TV Movies	TV Series	Local TV	Documentary	Video	Shorts	
NEBRASKA	18	10	6	14	9	2	1	60
KANSAS	85	19	7	1	12	6	5	135
WYOMING	41	3	4	0	12	0	3	63
SOUTH DAKOTA	22	5	0	3	8	1	1	40
MISSOURI	64	14	8	3	18	16	2	125
IOWA	40	8	6	6	7	0	1	68

Source: Internet Movie Database (www.proimdb.com), and Economics Research Associates.

## TOTAL FILM-RELATED PROJECTS BY YEAR SURROUNDING STATES (1990-2001)

Year	SOUTH					
	NEBRASKA	KANSAS	WYOMING	DAKOTA	MISSOURI	IOWA
1990	1	2	2	1	6	1
1991	2	5	1	1	3	2
1992	4	4	1	4	4	4
1993	0	5	1	1	4	2
1994	3	3	0	5	2	1
1995	3	6	0	0	5	4
1996	3	7	0	0	7	4
1997	2	7	2	1	6	3
1998	5	2	0	2	5	2
1999	5	7	1	1	6	4
2000	6	2	1	0	7	2
2001	2	3	1	1	7	1
Total	36	53	10	17	62	30
Annual Aver.	3.0	4.4	0.8	1.4	5.2	2.5
Aver. 1990-1995	2.2	4.2	0.8	2.0	4.0	2.3
Aver. 1995-2000	4.0	5.2	0.7	0.7	6.0	3.2

Source: Internet Movie Database (www.proimdb.com), and Economics Research Associates.

The increase in the number of projects that Nebraska has been able to attract is a positive development. However, competitive challenges are likely to solidify as other states enact production incentives designed to attract outside producers.

## **Section V: OVERVIEW OF GLOBAL FILM INDUSTRIAL POLICIES**

### **Introduction**

In an effort to stimulate the competitiveness of the local film industry and promote the domestic culture, many national and regional governments have instituted policies that support their respective film production sectors.

The purpose of this section is to outline global economic development strategies that various countries have instituted to encourage the development of their local film production industries. This section analyzes current policies in place and how they have served to develop and support local industries. The next section focuses on incentives and programs that are currently in place in various jurisdictions throughout the U.S.

### **Rationale Behind Industrial Support of Film Production**

Global film production can be viewed as either (a) an economic commodity; (b) a cultural commodity; or (c) a hybrid of the two. In the U.S. it is considered an economic commodity. As an economic commodity, active support from the industry both in the U.S. and other countries reflects the recognition that film production should form part of a nation's economic industrial policy, providing employment for a skilled labor force and driving substantial economic activity.

As a cultural commodity, film production exports a sense of place and provides a tangible representation of culture. Cultural industries are also mutually supportive of tourism and the arts in general.

### **Film Production as an Economic Commodity**

From a purely commercial perspective such as the approach taken by U.S. studios, film is an economic commodity that needs to be marketed within the current conditions of the local or global marketplace. From a studio perspective, film's purpose is to achieve a high rate of return, in addition to providing additional product for a distribution pipeline (*e.g.*, television, video, DVD, etc.). As such, film is an economic commodity that is made for the purpose of achieving a high rate of return by penetrating as many markets and screens as possible.

For U.S. producers this means that the cost inputs associated with film production, most notably labor and other below-the-line costs, are frequently out-sourced to other areas either within or outside of the U.S. Runaway production is essentially a fragmentation of the lower-end parts of production to areas with lower labor and production-related costs.

### **Film Production as a Cultural Commodity**

In many countries, active support for indigenous film industries forms part of a nation's cultural policy. The rationale behind this state support for film production is that locally produced films are reflective of a country's culture or arts, which must be protected from foreign cultural hegemony. After World War I, the issue of U.S. theatrical dominance,

often at the expense of indigenous industries, led countries to enact regulatory and legislative actions to support and protect their local production industries.

At the same time, many government film policies have come under scrutiny for repeatedly spending money on indigenous products that do not perform well at the box office and have no commercial appeal outside of their country's borders. As such, many governments are seeking innovative ways of both developing and promoting their respective film production sectors with the goal of (a) increasing exports; and (b) diversifying its economic base of activity away from other traditional sectors.

### ***Types of Global Government Programs***

Many countries have a variety of government-sponsored film incentive programs at both the state and federal level. Filmmakers outside of the U.S. generally rely on government-sponsored programs to make their films. These programs include tax incentives or subsidies that directly or indirectly provide funds for motion picture and television production. Examples include low-interest loans to filmmakers, financing credits, co-production treaties, distribution advances, box-office taxes, etc.

The three countries discussed in this section have successfully utilized economic and production incentives to either:

- Stimulate an indigenous film industry
- Attract foreign production ("service production")
- Both of the above

### **Direct and Indirect Subsidy Programs**

To stimulate their indigenous film industries, whether for cultural or economic reasons, many countries have instituted direct subsidy programs consisting of a cash investment by a government-sponsored agency. Other subsidy programs may include investments such as loans, grants and awards to "qualifying" filmmakers who meet content and/or other qualifying criteria. Such programs serve a variety of purposes from financing a film production to assisting in script development of films, among other things.

An example of an indirect subsidy would be quota requirements. South Korea, for instance, also maintains a screen quota that requires all theaters to show locally produced product for a minimum of 106 screen days. England also had a quota in place for nearly 60 years. Known as the Eady levy, the quota was designed to return a certain portion of box office receipts back to production and was administered by the British Film Fund Agency.

### ***Tax and Business Incentives***

Tax incentives also assist film production by providing funding for local, and sometimes "qualified" foreign productions. To qualify for such programs, many governments

frequently impose local content requirements for “qualified” productions. Table V-1 lists some of the various federal business and tax incentives that are available at the federal level to local and sometimes foreign producers for qualified motion picture and television production in selected countries. It should be noted that such incentives can exist at both federal and state/provincial levels. As will be discussed later in this section, Canada has numerous provincial incentive programs for non-Canadian production companies working in Canada.

### **Service Production**

The country’s production and post-production facilities sectors are frequently dependent on foreign productions (“service production”), most notably U.S.-based ones, to stimulate this sector. A variety of favorable financing opportunities not created by government action such as favorable exchange rates, non-union, and less expensive film crews can also stimulate local film production.

Along with the obvious economic advantages such as direct revenue expenditures by cast and crew members (*e.g.*, hotel room nights, restaurants, etc.) the primary advantages of service production include:

- The employment of and building of skills among local crews for future productions
- The exposure of a Hollywood production filming locally, from a tourism standpoint
- The upgrading of or construction of new facilities and infrastructure (*e.g.* soundstages)
- Technology and skill transfers

### **National Film Policies by Country**

In selecting various national and regional film policies for profile, ERA has selected three English-speaking countries – Australia, Canada, and the United Kingdom – that offer incentives and support to both their local industries, in addition to U.S.-based service production. Each of these countries have attracted a high volume of U.S.-based production and have innovative policies aimed at both attracting film production (service production) and stimulating their indigenous industries.

This section includes a discussion of: (a) the history of local film production industry and its development, including historic agencies and subsidies; (b) recent local production activity and any changes or trends; (c) current industrial policy regarding motion picture production, including current subsidies and incentives, as well as the governing state agencies involved in film production and their functions. Some of the information which is discussed in this section is summarized in Table V-2.

Table V-1

FEDERAL BUSINESS AND TAX INCENTIVES FOR FILM PRODUCTION

Country Australia	Business Incentives Division 10BA and Division 10B	Description	Qualifications
		<p>Resident taxpayers are provided a 100% deduction in the year the expenditure is incurred, for investment in an "eligible film" that is also an "Australian film."</p> <p>A concessional deduction for investment in Australian films is also available under Division 10B, which is available to both residents and nonresidents who have elected that Division 10BA not apply.</p>	<p>The film must be certified by the Minister for Arts as a "qualifying Australian film."</p> <p>An "eligible film" is a film produced wholly or principally for exhibition to the public, and will include 45-minute identified large format (IMAX) feature films.</p> <p>An "Australian film" is a film made wholly or substantially in Australia (or in an external Territory) which has a significant Australian content, or follows certain criteria such as subject matter, nationalities and places of persons who took part in the film, etc.</p>
	<p>Film Licensed Investment Company (FLIC)</p>	<p>A FLIC is a company licensed to raise concessional capital. A shareholder in a FLIC may receive a 100% deduction during income years ending June 30, 1999, and June 30, 2000, for amounts paid for shares in a FLIC.</p>	<p>The deduction is only available if the funds are invested in qualifying "Australian" films. The concessional deduction is in addition to the incentives provided under Division 10BA and 10B.</p>
	<p>Australian Film Finance Corporation (FFC)</p>	<p>The government provides grants to the FFC to subsidize the financing of "qualifying Australian films", to meet operation expenses, and to invest in a range of projects including feature films. The FFC may also provide loans to facilitate the theatrical release of feature films.</p>	<p>Must be a "qualifying Australian film" as defined in Division 10BA. Films must also be supported by non-FFC investors. FFC financial support is only available to Australian producers who must be citizens or tax residents; and Australian owned, controlled, and registered production companies.</p>
	<p>Australian Film Commission (AFC)</p>	<p>Provides federally funded assistance that includes:</p> <ol style="list-style-type: none"> <li>(1) Project development through script and other pre-production assistance;</li> <li>(2) Post-production grants and low-budget production funding;</li> <li>(3) Grants in support of a vigorous and diverse screen culture;</li> <li>(4) Int. promotion of Aus. productions and marketing advice;</li> <li>(5) Creative interactive media development, production and exhibition; and Information services.</li> </ol>	

Table V-I (cont.)

FEDERAL BUSINESS AND TAX INCENTIVES FOR FILM PRODUCTION

Country	Business Incentives	Description	Qualifications
Canada	Federal Canadian Film or Video Production Tax Credit (CFVPTC)	Tax credits are available for those productions that are qualified as distinctly "Canadian" under a points system that is administered by the Canadian Audio-Visual Certification Office (CAVCO). CFVPTC is equal to 25% of qualified labor expenditures with eligible labor expenditures limited to 48% of the total production budget.	To qualify as "Canadian," the production must earn 6 out of 10 points.
	Film or Video Production Services Tax Credit (FVPSTC)	Similar to the CFVPTC and available to non-residents, the FVPSTC centers around the production services.	Determined on a production-by-production basis, and copyright owner must obtain an "accredited film or production certificate" from CAVCO. Also, the main activity of the corp. must consist of the production of films, videos or production services.
U.K.	Alternative Tax Amortization	Film costs may be amortized on an income forecast basis similar to the U.S. GAAP accounting method. <sup>1</sup> A 100% tax write-off is avail. for "British" films with a total production expenditure of UK £15 million or less.	To qualify as a "British film" these main requirements are necessary: (a) the film must be made in accordance with various film co-production agmisms; (b) the company making the film is registered in the UK and/or EC; (c) at least 70% of the wage cost must be payable to nationals or residents of the UK, may exclude the salary of one individual <sup>2</sup> (d) 70% of total prod. cost must be spent on film prod. activity carried out in the U.K.; (e) TV programs as well as theatrical films may qualify.
	Sale Leaseback Transactions	This is a popular method of generating cash for non-UK companies that are not eligible for UK tax relief.	The steps for a sale/leaseback transaction are as follows: (1) The master negative of a film is sold by the film prod. company to a leasing co. with the selling price being equal to the cost of the film; (2) Film rights, are leased back to the prod. co. for a period of time; (3) The leasing co. can write off the film for tax purposes in the year of acquisition <sup>3</sup> but is taxed on the lease rentals over the term of the lease. (4) Adequate security is required by the lessor to ensure that the lease obligations will be met.

<sup>1</sup> The US method allows costs be to recovered following the flow of income related to the film. The difference between the British and US method, however, is that (a) no interest costs relating to the film need to be capitalized into the costs; and (b) estimated future revenue may be discounted to its net present value.

<sup>2</sup> The salary exclusion of one individual is designed for the purpose of allowing one major non-UK person (e.g. a famous director or US movie star) to be part of a film project without risking disqualification.

<sup>3</sup> For films in excess of UK £15 million, the film can be written off over a period of 3 years.

**Table V-2**  
**FILM PRODUCTION SUBSIDY AND INCENTIVE PROGRAMS**  
**HISTORIC AND CURRENT**

Country	Historic Subsidies and Agencies	Current Subsidies and/or Incentives <sup>1</sup>	Film Agencies and Function
<b>AUSTRALIA</b>	<p>Driven by poor performance of Australian product, in 1970 the Australian Film Development Corporation (AFDC), the Experimental Film and Television Fund (EFTF), and the Australian Film and Television School (AFTS) were established. The AFDC was the principal funding agency.</p> <p>10 BA subsidies, begun in 1981, initially offered 150% deduction/50% tax exemption, reduced to 133%/33%, then to 120%/20%, and then to 100% in 1988.</p>	<p>10BA tax deduction set at 100% deduction in the year the expenditure is incurred.</p> <p>In September 2001, a 12.5% refundable tax offset was introduced to stimulate offshore production.</p>	<p><b>Film Finance Corporation (FFC)</b> - a federal gov't agency providing investment to the Australian film industry for qualifying projects. FFC financial support is available to Australian producers and Australian-owned, controlled, and registered production companies.</p> <p><b>Australian Film Commission (AFC)</b> - a federal gov't agency that provides funding and assistance including: (1) project and script development; (2) post-production grants; (3) low-budget production funding; (4) int'l promotion of Australian productions and marketing advice.</p>
<b>CANADA</b>	<p>The Canadian Film Development Corporation (CFDC) established in 1967 to promote the development of the feature film industry. A special Canadian Broadcast Program Development Fund was est. in 1983 to encourage the production of quality television.</p>	<p>2 federal incentives for foreign producers (Table 1); numerous incentives for local filmmakers (Table 3). Numerous provincial incentives (see Tables 4 &amp; 5).</p>	<p><b>Telefilm Canada</b> - formerly the CFDC, Telefilm Canada - formerly the CFDC, works with producers and distributors to offer services including script development, interim financing, an equity investment program, a promotion and advertising program, and a test marketing program.</p>
<b>ENGLAND</b>	<p>The National Film Finance Corporation (NFFC) was established in October of 1948 as a specialized bank to make loans to British producers and distributors of feature films. The organization was privatized in 1986 and renamed British Screen.</p> <p>Eady levy (1957-1985) - placed a levy on box office takings and returned them to qualified productions via the British Film Fund Agency.</p> <p>Sale Leaseback arrangements offered an investor who purchased an unused negative of a qualified British picture a 100% tax deduction in the 1st year of investment. The purchaser would then lease the film to a subsidiary distribution company. This film-leasing arrangement was scaled down to 75% and eventually to 50%.</p> <p>The gov't-backed UK organizations British Screen Finance, British Film Institute, and the Arts Councils have also provided financial support over the years.</p>	<p>4 Film Council funds for training, development, "cutting-edge" and commercially-oriented films.</p> <p>Sale leaseback transactions are also available to qualifying non-UK entities</p>	<p><b>The Film Council (FC)</b> - this government-backed film body was created in 2000 to oversee UK public support for the film sector through National Lottery funding. The FC was formed to consolidate gov't funding as a whole that was previously provided by organizations such as British Screen Finance, British Film Institute, and the Arts Councils.</p> <p>The FC oversees four newly created funds:</p> <ol style="list-style-type: none"> <li>(1) The Film Training Fund</li> <li>(2) The Film Development Fund</li> <li>(3) A New Cinema Fund</li> <li>(4) The Premiere Production Fund</li> </ol>

**Table V-2 (cont.)**  
**FILM PRODUCTION SUBSIDY AND INCENTIVE PROGRAMS**  
**HISTORIC AND CURRENT**

Country	Historic Subsidies and Agencies	Current Subsidies and/or Incentives <sup>1</sup>	Film Agencies and Function
<b>FRANCE</b>	<p>A film subsidy, funded by a levy on cinema ticket sales and repayable by a percentage of the film's takings (<i>avances sur recette</i>). This subsidy was meant to counter the box office dominance of Hollywood as well as to provide funding to first-time directors.</p> <p>The subsidy was reformed in 1968 to allow both directors and producers to apply for it. Culture Minister in 1985 created tax shelters known as SOFICAs (still in effect today).</p>	<p>SOFICA tax shelters and levy on ticket sales are still in effect.</p> <p>A SOFICA is a company that is formed for the financing of audiovisual products by raising money by offering tax write-offs to companies of up to 50% of their investment. Individuals can take write-offs of up to 25%.</p>	<p><b>Centre National de la Cinematographie (CNC).</b> The film and television sector's governing body which offers assistance in every aspect of film production from development through distribution. The CNC administers subsidies.</p> <p>Funding for the French film production sector today also comes from the television sector.</p>
<b>INDIA</b>	<p>The Film Finance Corporation (1960)  The Directorate of Film Festivals (1974)  National Film Development Corporation (1980) amalgamated these two previous institutions and finances several films annually.</p>	<p>Import restrictions on foreign films which must also pass censorship review.</p> <p>Gov't also requires all cinemas to screen at least one Indian film per show.</p> <p>The NFDC provides interim financing to filmmakers who make substantial investments and charges them interest.</p>	<p><b>The National Film Development Corporation (NFDC)</b> whose role has expanded considerably in recent years to include marketing and financing films, organizing film festivals, encouraging good screenwriting by offering national competitions and co- or fully financing the winners, and financing movie theaters through low-interest loans. The organization has also become involved in the international co-production of features and television projects.</p>
<b>IRELAND</b>	<p>Restructuring of the Irish Film Board in 1993 to provide a wide range of support mechanisms to Irish productions. The Board was established under the Film Board Act of 1980 and receives capital and administrative grant-in-aid from the Department of Arts, Heritage, Gaeltacht and Islands which covers development and production loans and, as of 1997, a film training grant. The Board also liaisons with state agencies to improve market sales and distribution of Irish films.</p>	<p>Section 481 of the Taxes Consolidation Act of 1997. Finance Act of 2000 extended the tax breaks through April 5, 2005 and extended definition of a qualifying entity to include companies outside of Ireland.</p> <p>Residents of Ireland may also be exempt from income tax if their work is deemed by the Irish Revenue Commissioners to be original and have artistic and cultural merit.</p>	<p><b>Irish Film Board</b> provides loans and equity investments to independent Irish filmmakers. The Board provides production loans to approximately 8-10 films annually.</p> <p><b>The Company Development Initiative</b> was announced in May 2001 to provide \$2 m in annual funding over the 3-year period, with backing from the Anglo-Irish Bank.</p> <p><b>Screen Ireland</b> was established in 1997 to attract offshore production by promoting Ireland overseas.</p> <p>The Irish Film Board, Screen Commission of Ireland, Screen Training Ireland, Film Makers Ireland, and Enterprise Ireland all provide a range of development and export opportunities.</p>

<sup>1</sup> applies only to qualified productions.

Sources: *Screen International*, Ernst & Young: *Guide to International Film Production* (2001), and Economics Research Associates.

## **Australia**

In terms of production, the Australian industry has developed a multi-tiered structure that is also heavily tied to service production. Australia is a model of a mixture of both local and foreign productions, and hybrids of the two. Partial U.S. studio investment in production facilities such as Fox Studios, Sydney has also created a mixed economy of both local and foreign investment.

### ***Local Production***

Australia is an interesting case study since the government provides a variety of tax incentives and assistance to local filmmakers. Such assistance includes government tax codes that provide 100 percent deductions for qualified films (Division 10BA and 10B), a federal government agency (FFC) that provides investment to the Australian film industry for qualifying projects, and another agency, the AFC that provides funding, grants and marketing assistance in many aspects of film production.

Founded in 1988, the FFC was initially set up as a film bank with the idea that it could eventually privatize itself. The FFC now assists certain films with equity investment, production or print and ad loans, guarantees or a combination thereof. In return, the FFC will have an equity participation in which to recoup its investment and may also require Australian distribution rights.

Recent growth in Australian production has primarily been driven by international and co-productions, while Australian production has remained relatively static. For instance, comparing the total of feature film production between fiscal years 1999 and 2000, 36 feature films were made totaling \$84 million. This year-end figure, however, is highly inflated with the production of *Moulin Rouge*, a film which was shot in Australia by an Australian director and financed by U.S. studio 20th Century Fox. During the 1998-99 year, a total of 41 films were made in Australia with a total estimated budget of \$72 million.

The average investment in Australian feature films in 2000 was approximately US \$2.5 million, which is less than 20 percent of the average U.S. investment that year. To boost local production activity, the Australian film industry recently pledged a package of funding initiatives that will boost current levels of support by nearly \$50 million over the next five years.

### **The 10BA Program**

The 10BA program contributed greatly to the growth of the Australian film industry. For instance, during its first year of operation, the inflow of private investment quadrupled and generated increased output of Australian feature film production from an average of 15

features annually during the 1970s to approximately 27 between 1981 and 1987. As a consequence, the 10BA scheme underwrote higher-budget Australian features that performed well at the international box office during a period between 1981 and 1987. Examples include *The Road Warrior* (1981) and *Crocodile Dundee* (1986).

Following years of revenue losses to the Australian government, the program was later scaled down from a 150 percent deduction/50 percent exemption, to 133/33 percent, then to 120/20 percent, and finally to a 100 percent deduction in 1988.

### **Service Production**

Australia now has two major sound stage complexes – Warner Roadshow Studios and Fox Studios, Sydney – both of which primarily service big budget US productions. The weakness of the Australian dollar has made the country an attractive location for service productions. Basic labor costs are between 25 and 30 percent less expensive than in the U.S. and between 10 and 15 percent than in the U.K. Recent high budget U.S. feature film productions shot in Australia include *Star Wars: Episode II* and the upcoming *Matrix* sequels.

AusFILM, an industry body which represents 45 service companies and state film agencies, receives approximately US\$1 million in federal government funding annually to market Australia's production expertise overseas. In a report issued in September of 2000, AusFILM argued that while Australia provides network subsidies for local product, it does not provide state and federal incentives to attract foreign production. Canada is considered Australia's main competitor.

### **New Tax Credit**

As a consequence of such lobbying efforts, in September 2001 a 12.5 percent refundable tax offset was introduced for productions that meet the following qualifications: (a) spend at least 70 percent of their budget in Australia; and (b) cost between US \$15 and \$50 million. However, the measure has been criticized as not being able to attract television movies and pilots since they seldom exceed US \$15 million. In addition to the new refundable tax offset, several states and cities offer foreign producers rebates on production costs that are incurred for a project that shoots the majority of its production in a certain area.

To ensure their continued presence in Hollywood, AusFILM maintains an office in Los Angeles.

### **Canada**

The Canadian government offers numerous financial and tax incentives at both the federal and provincial levels. Such incentives are aimed at assisting local producers as well as attracting foreign ones. These include incentives for qualified Canadian productions, a network of international co-production treaties, and provincial incentives that apply to both local and non-Canadian producers. As mentioned in the case of Australia, the Canadian model has proven effective in forcing other countries to re-examine their own incentives to attract offshore (primarily U.S.-based) production. As a consequence, countries such as

Mexico and the Czech Republic are actively considering the creation of a tax credit aimed at foreign producers.

Canada's rationale for involvement in the industry has evolved over the years. Initially the government viewed film as an important tool in reinforcing a sense of Canadian national identity. Film was and is seen as a unifying product of a distinctive Canadian national culture. Recently, however, there has been a strategic shift by provincial and local governments in justifying continued public sector involvement, namely economic development — still both factors remain relevant.

### **Local Production**

Canada releases approximately 20 feature films annually, the majority of which do not perform well domestically and have little export appeal. The average investment for a Canadian feature film, like Australia, is only several million dollars.

To support the feature film industry and reverse the trend of poorly performing film product, in October 2000, the Minister of Canadian Heritage announced a new Canadian Feature Film Policy which doubled the government's investment in the feature film industry. A brief description of the Feature Film Fund and other Canadian incentives that exist at the federal level in support of the Canadian film and television industries is located in Table V-3.

### **Federal Incentives**

Canada also offers two federal tax credits for qualified Canadian productions (Table V-1). The purpose of Canadian subsidies is to stimulate and build their own industries. To attract U.S.-based film companies to shoot in Canada, the Canadian Audio-Visual Certification Office (CAVCO), a division of the Department of Canadian Heritage, passed and released a set of guidelines in June 1998 that became known as the Film or Video Production Services Tax Credit (PSTC). Under the PSTC, both domestic and foreign film companies can receive a tax cut of "11 percent of qualified Canadian labor expenditure for services provided in Canada by Canadian residents or taxable Canadian corporations for the production of an accredited production." This piece of legislation was intended to reward companies that hired Canadian crew persons, the primary purpose of which was to boost employment rates in the country.

According to a recent study released by the Center for Entertainment Industry Data and Research, the introduction of the Production Services Tax Credit (PSTC) in Canada in 1998 generated a large increase in the number of U.S.-based productions shooting north of the border. Following the introduction of PSTC legislation in 1998, less than an estimated 10 percent of all U.S.-based productions were shot in Canada. By 2000 that percentage increased to an estimate of over 23 percent.<sup>1</sup>

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<sup>1</sup> *The Migration of Feature Film Production From the U.S. to Canada and Beyond: Year 2001 Production Report*. The Center for Entertainment Industry Data and Research. <<http://www.ceidr.org>>.

**Table V-3**

**CANADIAN FEDERAL INCENTIVES  
FOR INDIGENOUS FILM PRODUCTION**

<b>Name</b>	<b>Description</b>
Canadian Production Marketing Fund	Provides funding for both national and international campaigns.
Canadian Television Film (CFT) Fund	An equity investment program whose purpose is to enhance the Canadian broadcasting and production sector's capacity to make and distribute television programming in the two recognized Canadian languages - French and English.
Culture Industries Development Fund (CIDF)	Provides loans (generally between C\$20,000 to C\$250,000) for working capital, expansion projects, and special initiatives for Canadian -owned cultural businesses.
Feature Film Distribution Fund	This fund is aimed at recognized Canadian distributors and provides lines of credit for use in acquiring the distribution rights to Canadian feature films.
Feature Film Fund	Administered by Telefilm Canada, this fund assists the development of Canadian films (in both French and English) for theatrical release.
Feature Film Distribution Fund	A fund for recognized Canadian distributors which provides lines of credit for use in acquiring the distribution rights to Canadian feature films.
Versioning Fund	A fund which serves to make Canadian works more widely accessible in both languages on television and in movie theaters.

Source: Economics Research Associates.

### ***Service Production***

Canadian Governments at both the federal and provincial levels have assumed an active role as a mediator between various sources of capital, both foreign and domestic, in the film industry and have historically intervened with policies to resolve conflicting interests between them.

Canadian film policy for service production has been a balancing act, as policies have not attempted to fully exclude foreign investment in the Canadian economy, but have been aimed at restructuring the relationship between foreign and indigenous capital to allow for greater participation by certain favored types of Canadian producers. These policies, at both the federal and provincial levels, remain cast in the general framework of an acknowledgement of Hollywood's dominance in the motion picture industry.

In the 1980s, Canada emerged as a low-cost production center for U.S.-based film and video projects. Hollywood production companies found a trained and educated English-speaking work force in Canada, which would work at wage rates considerably lower than their U.S. counterparts. This foreign production augmented local production and increased demand for Canadian labor. Increase in activity attracted investment in facilities and infrastructure. The result, among other things, was a growth in the Canadian labor force available to support production. This development fits well with Canada's overall public policy which has been directed at diversifying the national economy away from resource-based industries towards "knowledge"-based industries.

### **Provincial Incentives**

Canada's linked federal and provincial production services tax credits combine to offer a rebate of between 22 and 40 percent on qualifying labor expenditures. There is an effective 11 percent federal Canadian return on local labor costs, and each provincial government matches it or offers more in addition. In British Columbia, the match is 11 percent, but can be as high as 40 percent in New Brunswick. A listing of current provincial Canadian tax credits is shown in Tables V-4 and V-5. Table V-6 provides a further summary of some of the non-tax/monetary advantages of shooting in Canadian provinces, including the existing studio facilities and crew base.

### **Incentives in the Prairie Provinces**

Incentives for shooting in smaller centers are higher to compensate for their more limited facilities. Recently both the prairie provinces of Manitoba and Saskatchewan have built infrastructure to support their growing local and service production industries. In the spring of 1999, Manitoba opened a purpose-built sound stage complex, and a sound stage recently opened in Regina, Saskatchewan. Both provinces have between 2 and 3 full crews.

Both of the prairie provinces offer a tax credit of 35 percent of eligible labor expenditures. Saskatchewan offers an additional 5 percent if the production is situated in a rural region. Another interesting feature of the tax credits in both provinces is a "deeming" provision that is offered for non-resident labor. In other words, if a U.S. producer cannot find a local

**CANADIAN TAX INCENTIVES AND RATES  
MAJOR PRODUCTION CENTERS**

PROVINCE	PROGRAM	DELIVERY AGENCY	TAX CREDIT	EFFECTIVE RATE	BONUS FEATURES
British Columbia	Production Services Tax Credit	British Columbia Film	11% of British Columbia labor expenditures	5.5% if assumed that 50% of the production budget is attributed to labor expenditures	None
British Columbia	Film Incentive BC	British Columbia Film	20% of labor costs which are capped at 48% of production costs	9.6% of eligible total production costs	- 12.5% Regional Credit for principal photography outside of Vancouver - 3% Training Credit NOTE: producers can access basic credit plus bonus incentives or bonus incentives alone
Ontario	Ontario Production Services Tax Credit (OPSTC)	Ontario Film Development Corp. (OFDC)	- 11% of labor cost paid to taxable Cdn residents and corporations - Incurred after October 31, 1997 - Not payable where the OFTTC Tax Credit is claimed	5.5% of eligible total production costs	None
Ontario	Ontario Production Services Tax Credit (OPSTC)	Ontario Film Development Corp. (OFDC)	11% of Ontario labor expenditure	5.5% if assumed that 50% of the production budget is attributed to labor expenditures	None
Ontario	Ontario Computer Animation and Special Effects (OCASE)	Ontario Film Development Corp. (OFDC)	20% on labor expenditures for computer animation and special effects activities 50% on labor expenses for individuals who are not employees of corporations	Eligible labor expenditures are subject to a maximum of 48% of the cost of eligible activities net of gov't assistance	None NOTE: The OCASE Tax credit may be claimed in addition to an OFTTC OR OPSTC Tax Credit
Ontario	Ontario Interactive Digital Media Tax Credit	Ontario Film Development Corp. (OFDC)	20% of eligible Ontario labor expenditures		None
Quebec	Quebec Refundable Tax Credit	Societe de Developpement des Entreprises Culturelles (SODEC)	33.3% of labor costs which are capped at 45% of production costs	15% of eligible total production costs	45% of labor costs for certain projects with a higher level of Quebec content. Computer Animation and Special Effects now included as part of eligible labor costs, up to 20.25%
Quebec	Quebec Refundable Tax Credit for Film or Television Production Services	Societe de Developpement des Entreprises Culturelles (SODEC)	11% of eligible Quebec labor expenditures	5.5% if assumed that 50% of the production budget is attributed to labor expenditures	20% supplementary rate for eligible computer animation and special effect labor expenditures

<sup>1</sup> Quebec also has a Dubbing Tax Credit on 33.3% of eligible labor expenses incurred while dubbing, and the Multimedia Production Tax Credit of 50% for eligible "mass market" productions.

Table V-5

CANADIAN TAX INCENTIVES AND RATES  
SECONDARY PRODUCTION CENTERS

PROVINCE	PROGRAM	DELIVERY AGENCY	TAX CREDIT	EFFECTIVE RATE	BONUS FEATURES
Saskatchewan	Saskatchewan Film Employment Tax Credit	SaskFILM and Video Development Corp.	35% of eligible labor expenditures up to a maximum of 50% of total eligible production costs	17.5% of total eligible production costs. 22.5% of total eligible costs if rural bonus is applicable.	An additional 5% of total Saskatchewan production costs if production is located at least 40 km outside of Regina or Saskatoon. An additional 35% of wages of any non-resident who trains a Saskatchewan resident (includes both above-and below-the-line talent). Deeming Provision- if not available Saskatchewan key crew, non-Manitoba labor available for Tax Credit.
Manitoba	Manitoba Film & Sound Development Corp.	Manitoba Film & Sound Development Corp.	35% of approved Manitoba labor expenditures	22.5% of eligible total production costs	Deeming Provision- if not available Saskatchewan key crew, non-Manitoba labor available for Tax Credit.
New Brunswick	Labour Incentive Tax Credit	Film NB	40% of labor costs paid to NB residents (capped at 50% of production for first time production)	25% of eligible total production costs	Deeming Provision- if not available Manitoba key crew, non-Manitoba labor available for Tax Credit
Nova Scotia	Film Industry Tax Credit	Nova Scotia Film Development Corp. (NSFDC)	The lesser of 30% of labor cost or 15% of production costs	15% of eligible total production costs	- 30% of subsequent productions - 35% for larger productions

Source: Bulloch Entertainment Services and Economics Research Associates.

Table V-6

PRODUCTION INFRASTRUCTURE  
CANADIAN PROVINCES

Province	Non-Tax Related Advantages	Studio Facilities	No. of Crews Available
Alberta	Lower labor rates than major provinces Granting program to a maximum of \$500,000 Lower day-to-day living expenses Calgary and Edmonton have diverse terrain that can replicate both coasts of the U.S. Direct air access from Los Angeles	Can West CFB Currie	5
British Columbia	State-of-the-art studio facilities Established production history Direct air access to Los Angeles Offerings of a major metropolitan area Increasing number of indigenous production companies	29 studio facilities; New Vancouver Film Studios is one of the largest studio facilities in North America.	35
Manitoba	New studio facility that can accommodate features Indigenous production companies No Canadian content requirements "Deeming Provision" for out-of-province labor	Prairie Production Center	3
Quebec	Variety of urban and old European looks New state-of-the-art studio facilities	16 facilities	15-20 <sup>e</sup>
Ontario	Urban looks which can substitute for New York and other North American cities Direct air access from major U.S. cities Strong post-production sector Leading center for Canadian media industries	25 facilities	40
Nova Scotia	Scenic location opportunities Significant crew depth Several small stages	Shelburne Film Production Centre; Electropolis	5
Saskatchewan	Prairie look 2 cities of comparable size Indigenous production companies "Deeming Provision" for out-of-province labor that also applies to above-the-line talent	Proposed studio facility to be built	2

<sup>e</sup> = estimate. Note estimates are based on the number of stages and production activity.

crew person, a U.S. or non-native resident can be brought in and “deemed” as a local resident. This allows the producer to receive the tax credit.

### **Training Incentives**

Several provinces such as Saskatchewan and British Columbia offer additional training credits in addition to the hiring of local labor expenditures. Such credits assist in the creation of a local labor force. In Saskatchewan, for instance, this applies to both above- and below-the-line talent. As previously noted, in the province of Manitoba where crew depth can become an issue during simultaneous productions, the government allows producers to deem outside labor as locally based in order to qualify for tax credits on labor. This represents a unique means of resolving a potential labor shortage.

### **The United Kingdom**

The British film industry has long been characterized as a highly volatile, unstable industry that is subject to recurrent crises. During the 1980s government support involved a mixture of quotas, fiscal support, and industry levies. In April 2000, the UK Film Council was launched. The organization was formed as a strategic and policy-making body.

The United Kingdom (UK) offers a series of changing taxation assistance, investment and financing arrangements. For instance, during the period 1957 through 1985, a levy on box office receipts (the “Eady levy”) returned box office dollars to qualified productions.

### **Local Production**

Most independent British films do not generate high box office grosses, either locally or internationally. This has been a concern of both the government and UK producers. As a consequence, the UK recently restructured its film production programs and assistance to local filmmakers. The government-backed Film Council, the UK’s current film body, took over the Arts Council of England in May of this year.

### **The Film Council**

The Film Council (FC) is a government-backed UK support entity which oversees the National Lottery for film activities, the British Film Commission, the British Film Institute, and various training and educational projects. The official function of the FC is to oversee UK public support for the film sector through National Lottery funding. The FC currently oversees four newly created funds which will begin active distribution on October 1, 2000:

- A Film Training Fund with an annual budget of U.S.\$1.5 million in National Lottery cash;
- A Film Development Fund on an annual budget of U.S.\$8 million in National Lottery cash;
- A New Cinema Fund which supports cutting edge films on an annual budget of U.S.\$8 million in National Lottery cash; and
- The Premiere Production Fund for commercially oriented films with an annual budget of U.S.\$16 million in National Lottery cash.

To develop the local talent base, the Film Training Fund focuses on supporting script skills for scriptwriters, as well as producer and business training, and for distributors operating in the international marketplace. The Fund supports the development of a stream of high-quality, innovative and commercially attractive screenplays. This is the largest fund of its type in Europe.

### **Section 48 Tax Breaks**

The UK offers a 100 percent tax write-off for both feature film and made-for-television production if specific criteria are met, namely a majority (70 percent) crew base of UK or EU residents, use of UK studios during production, and a supply of half of all technical production equipment by UK companies. The tax break allows a 100 percent write-off for films with budgets of as much as £15 million (U.S. \$22 million) in Year 1 if the film goes into profit. It should be noted that the UK, unlike some of the other countries reviewed in this section, also imposes no minimum cultural requirement qualifications on productions.

In 2001, the tax breaks were extended until April 2005. Recently, however, the government has been reviewing the terms of Section 48 to avoid abuse of the program. Both U.K. and Hollywood-based producers have tapped into the tax scheme.

### **Sale-Leaseback Schemes**

Sale-leaseback arrangements in the UK also offer investors who purchased an unused negative of a qualified British picture a 100 percent tax deduction during the first year of investment. The purchaser would then lease back the film to a subsidiary distribution company.

### **Training Incentives**

Recognizing that training is key to adapting to the accelerated technological change of the film industry, the UK Film Council has allocated a U.S. \$1.6 million Training Fund to work with the National Training Organization known as Skillset. Two areas of the production sector have been prioritized by the fund including: (a) training for scriptwriters, script editors, and development executives; and (b) training for producers, business executives and distributors.

### **Service Production**

The UK has long been favored by U.S. producers for its state-of-the-art stage facilities such as the newly merged Pinewood-Shepperton Studios, the existence of strong special effects companies and post-production houses, and the shared language. The UK's increasing dependence on U.S. productions was evident last year during the threatened actors and writers strikes. U.S.-based production activity fell by 65 percent during the first half of the year.

However, unreliable climate in the UK and the increasing strength of the British Sterling against the U.S. dollar have forced many producers to consider shooting productions in other European locations, most notably Ireland and the Czech Republic. Production costs are lower and the value of the U.S. dollar is comparatively higher in both countries.

## **Implications for Nebraska Film Industry**

In an effort to stimulate the competitiveness of their indigenous film industries and to promote domestic culture, many national and regional governments have instituted policies that support their respective film production sectors. Such active support reflects the recognition that film production can form part of a regional industrial policy, providing employment for a skilled labor force and driving substantial economic activity. To further the development of the film industry, governments have either (a) provided grants, tax breaks, and other sources of support to local filmmakers, or (b) offered incentives to outside (primarily U.S.-based) producers to utilize or train local crew persons, and shoot locally, or (c) a hybrid of the two. Details of such programs, as discussed in this section, are important to future development of the film industry in both Nebraska and other secondary production centers.

U.S.-based productions that have been shot outside of the country primarily for economic reasons (*e.g.*, less expensive labor and other cost inputs) are referred to as “runaway” productions. As the issue of runaway production has evolved from a local to a national issue, both the primary and smaller production centers throughout the U.S. have been creating incentives to attract producers. The following section focuses on existing and pending programs in the film industry that are in effect in various states throughout the U.S., including a discussion of the incentives that are currently in place in Nebraska’s neighboring states.

A key challenge for Nebraska will be to remain competitive in terms of the production incentives offered by its immediate neighbors and by comparable states. While state governments in the U.S. do not have the same policy levers that national governments do in aggressively seeking to attract the film industry and developing their indigenous cultural industry sectors, the State of Nebraska does maintain the ability to influence its overall competitiveness in this industry by being actively engaged in supporting the motion picture sector. This critical need to remain competitive with neighboring and comparable states is detailed more closely in the section that follows.

## **Section VI. FILM PRODUCTION PROGRAMS AND INCENTIVES IN THE UNITED STATES**

### **Introduction**

Because film production is generally considered an "economic commodity" from the standpoint of Hollywood studios, the U.S. government has historically left the film and entertainment industry to free market forces and not offered any subsidies to filmmakers. While foreign subsidies to indigenous filmmakers are often predicated on the grounds that their local film industries would not survive without them, in the U.S. the process of film production has always been a large-scale, privatized endeavor in which studios have been able to spread the financial risks and costs associated with film production.

As the issue of "runaway production", meaning the relocation of U.S.-based productions to foreign venues for economic versus creative reasons, becomes an increasingly contentious issue among below-the-line talent in U.S. production centers, many states throughout the U.S. have enacted or are in the process of implementing reimbursement or rebate programs.

At present, the most common types of state or city incentive programs to attract film production in the U.S. consist of either sales tax rebates on equipment used during the course of production, hotel tax rebates on stays of 30 days or more, and/or fee-free permitting or use on public lands and properties. The principal aim of these or any tax/monetary-related services is to attract film production by reducing production budgets.

Several examples of incentives or services currently used to attract film production include:

- The Star Programme in Los Angeles which offers the free or low-cost use of state buildings and unused real estate assets.
- Fee-free filming on state trust lands in Arizona.
- Free police services in New York.

The purpose of this section is to provide an overview of film production incentives, both tax and service-related, that exist in states throughout the U.S. Some of the more recent innovative incentives will be discussed later in this section. This includes a discussion of programs that have been utilized to build or support indigenous production industries, as well as to attract production away from the major U.S. production centers such as Los Angeles.

### **FEDERAL INCENTIVES/PROGRAMS FOR FILM PRODUCTION**

As noted, the U.S. is currently one of the only countries in the world that does not have an industrial policy for filmmaking. It does, however, provide several programs that are aimed at independent feature production. Independent feature films have become an increasingly large portion of the total number of features released in the U.S. each year.

### ***The Export-Import (Ex-Im) Bank Loan Guarantee Program***

The American Film Marketing Association (AFMA), the governing body for independent film companies in the U.S., and the Ex-Im Bank announced a Film Production Loan Guarantee Program in 2000. The program provides government-backed loan guarantees specifically for independent film projects. The loans are financed through secured pre-sales contracts with independent foreign distributors. The loan program is targeted toward filmmakers producing independent feature films in the \$1 million to \$15 million range.

This program is aimed to both (a) increase the number of independent films in the U.S.; and (b) to boost job creation in the U.S. within the independent film production sector. To stem the flow of runaway production, qualified filmmakers must also spend at least 50 percent of the production costs in the U.S.

### ***Small Business Administration (SBA) Loan Program***

This program for independent film production provides government-guaranteed backing for commercial loans to small, independent filmmakers. The program utilizes intellectual property as collateral to secure SBA-guaranteed loans. To qualify, all production must be done in the United States, and a portion of the distribution rights must be pre-sold.

The SBA program is designed to keep small, cost-sensitive productions based in the U.S. Loans provided under this program are in accordance with the rules and regulations of the SBA's guaranteed loan program.

### ***Proposed Film Production Legislation***

As a consequence of increasing pressure on the federal government to combat the loss of production to lower-cost production centers such as Canada, legislation to provide tax-based wage incentives has been introduced to Congress. The proposed legislation (Senate Bill 1278), follows the Canadian model in proposing a 25 percent wage tax credit for employers on U.S.-based productions with labor costs between \$200,000 and \$10 million. The legislation is aimed at lower-budget film and television production, the types of projects that most frequently seek out lower cost production centers such as Canada. This incentive would be available to producers of film, television, or cable programming. This includes mini-series, episodic television, movies of the week (MOWs) or pilots. The credit would increase to 35 percent if the project is filmed in a low-income community.

## **CURRENT STATE PRODUCTION INCENTIVES**

The following is a review of existing production incentives and programs in several U.S. states and is arranged in alphabetical order. In selecting these states, ERA tried to focus on those states that either (a) have innovative and/or significant programs in place; or (b) are competitive with Nebraska.

## **U.S. States with Production Incentives/Programs in Place**

### **California**

Los Angeles, California is currently and has been historically home to the majority of the filmed entertainment industry's talent, as well as an extensive web of ancillary products and facilities. The Los Angeles County Economic Development Corporation (EDC) estimates that in 2000, movie production accounted for nearly \$34 billion in direct expenditures. The U.S. Commerce Department reports that California accounts for approximately 70 percent of total revenues and 60 percent of the total employment in the industry nationwide.

#### ***Film California First Program***

The state government recently enacted legislation to help retain film production in California through the implementation of a program that will reimburse certain film costs incurred by filmmakers when filming on public property within the state. This program, the Film California First Program (FCF), was approved in June 2000 and officially went into effect on January 1, 2001. The program is administered by the California Film Commission.

The 3-year, \$45-million FCF program allows producers filming on federal, state, or city public properties to be reimbursed for most government personnel used on their projects. In addition, the state will reimburse up to \$500 for public property use and permit fees when filming in California. It should be noted that this figure was recently increased from \$500 to \$1,500.

Between January 1, 2001 when the program went into effect and November 2001, the California Film Commission reports that the FCF program rebated up to \$300,000 per project to more than 800 productions. The California Film Commission also reports that the commission has experienced a 12 percent increase in the days of production on state property and total number of feature films shot on state property has increased by 25 percent since the program was introduced.<sup>1</sup>

Recent studio productions that have tapped into the FCF program include the upcoming *Terminator* movie, *T3: The Rise of the Machines*.

#### ***The Davis Plan Proposal***

California Governor Gray Davis also proposed a sizeable tax credit for the film industry that mirrors the aforementioned pending federal legislation. Under this proposed legislation, AB 2747, producers would be granted a 15 percent tax credit on the first \$25,000 earned by a worker involved in the production of California-based films shot in 2004.

This proposal applies to lower-budget productions. While no set budget limit has been established, it is likely to be under \$10 million, with films budgeted between \$200,000 up to \$10 million being eligible. Therefore, it is targeted not toward Hollywood productions

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<sup>1</sup> Fox, Jacqueline. "Quarter of All Film, TV Now Shot Overseas." *San Fernando Valley Business Journal*. April 15-28, 2002.

but rather toward independent feature films, cable productions, MOWs and television pilots.

## **Hawaii**

The State of Hawaii offers two incentives for film and television productions that are shot in Hawaii. What is interesting about these incentives is that they are geared toward both attracting new high technology businesses to the State of Hawaii, and attracting outside productions to film in Hawaii.

### ***Act 221 – Tax Credit for High Technology Business Investment***

This piece of legislation was adopted last year as a means of generating investment in the high technology business in Hawaii. The bill was created in 1999 during the Internet boon as a means of attracting high technology businesses to Hawaii.

Two sections of Act 221 apply to the film and television production industry as follows:

- A 100 percent investment income tax credit over a 5-year period to investors in “performing arts” products (Section 235-110.9, Hawaii Revised Statutes).
- Royalties derived from “performing arts” products are excluded from income and not subject to state income tax (Section 235-7.3, Hawaii Revised Statutes).

### **High Technology Business Investment Tax Credit**

To generate greater investment in Hawaii’s high technology industry, this 100 percent investment income tax credit provides a non-refundable credit that is deductible from a Hawaii taxpayer’s net income liability, with the maximum amount of up to \$2 million annually per investor.

To qualify, the investor must be a taxpayer in the state of Hawaii with a “qualified high technology business.” A qualifying business is one that employs or owns capital or property or maintains an office in Hawaii. A “Comfort Ruling” must be first obtained from the Hawaii State Department of Taxation.

The tax credit is spread out over a period of 5 years and applies to investments made in taxable years between December 31, 2000 and January 1, 2006.

### **Royalties Derived From Patents, Copyright, or Trade Secrets**

An investor may exclude royalties derived from patents, copyright, or trade secrets excluded from gross income, adjusted gross income and taxable income.

### ***Motion Picture and Film Production Income Tax Credit***

This incentive is a refundable tax credit that is available to productions while filming in Hawaii. Under this incentive program, producers will receive:

- 4 percent of total production expenditures, including payroll and purchases, while filming in Hawaii

- 7.25 percent of transient accommodations tax (e.g., hotel/motel room tax) while filming in Hawaii

Credits must be claimed on a State income tax return within one year following the close of the taxable year that the production shot in Hawaii.

Under the program, a producer is further eligible to receive 100 percent of the aforementioned credits if each of the following criteria are met:

- A Hawaiian name or word appears in the title of the project
- The project utilizes Hawaiian scenery, culture or products on the screen
- A feature film spends a minimum of \$2 million (the minimum amount for a television pilot/episodes/series is \$750,000)
- Distribution covers a minimum of 66 percent of the national U.S. coverage, based on EDI or Nielsen<sup>2</sup>

A producer is eligible to claim 75 percent of the credits the all of the following criteria are met:

- A feature film project spends a minimum of \$3 million (the minimum amount for a television pilot/episodes/series is \$1 million)
- 50 percent of below-the-line positions are provided by Hawaii residents
- Distribution covers a minimum of 66 percent of the national U.S. coverage, based on EDI or Nielsen<sup>3</sup>

## **Louisiana**

The Louisiana Motion Picture Incentive Program offers three new financial incentives to producers.

### ***Sales and Use Tax Exclusion***

Through January 1, 2007, the State of Louisiana will grant an “exclusion” from state sales and use tax (currently 4 percent) if the qualifying production company spends \$250,000 or more from a checking account in a financial institution in Louisiana within any consecutive 12-month period.

### ***Labor Tax Credit***

The new law grants motion picture production companies a tax credit on the employment of Louisiana residents equal to 10 percent for productions spending between \$300,000 up to \$1 million in Louisiana. If local production expenditures exceed \$1 million, the amount of the labor credit increases to 20 percent.

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<sup>2</sup> Hawaii Film Office, State of Hawaii, Department of Business, Economic Development and Tourism. *Tax Incentives for Producers*.

<sup>3</sup> Ibid.

### ***Investor Tax Credit***

This tax credit aims to attract private investment to the state. The new law grants a tax credit against state income tax for taxpayers who are residents of the state of Louisiana and whose firms are headquartered there. If the total base investment is greater than \$300,000 and less than \$1 million, the taxpayer is allowed a credit of 10 percent of the actual individual investment. If the total investment exceeds \$1 million, the tax credit increases to 15 percent. The tax credit is in effect through January 1, 2007.

### **Oklahoma**

The state of Oklahoma recently announced one of the most aggressive incentives to date aimed at attracting film and television production. The Oklahoma Film Enhancement Rebate Program, formerly known as the "Compete with Canada Act," involves a 15 percent rebate on costs incurred while on location in the state. In other words, a production company that qualifies for the program will receive a 15 percent cash back rebate on expenditures in Oklahoma. The rebate does not include above-the-line talent salaries and post-production work.

The program went into effect July 1, 2001 (Senate Bill 674). Under the program, the state will provide a rebate of up to a statewide maximum of \$2 million each year. Should the program become a success, the state will then increase this maximum amount. It should be noted that reimbursements are on a first-come, first-served basis. If an approved claim is not wholly paid in one year, the unpaid portion may be paid during the following fiscal year.

Oklahoma also offers a sales tax rebate wherein a producer can receive a refund of local and state tax.

### **Minnesota**

Minnesota had a 5 percent total rebate program, called the "Film Jobs Fund," for all production expenditures related to feature film, television movies and/or series shot in the state, up to a maximum of \$100,000. The fund excluded documentaries and news shoots.

This program was recently increased to 10 percent (with a cap of \$100,000) and is now known as the "Snowbate" program. Snowbate was created by the Minnesota Film Board. To date, the Snowbate has rebated more than 50 projects and returned more than \$1.5 million to film and television producers, who have spent more than \$457 million in Minnesota.<sup>4</sup>

As of July of 1999, Minnesota also began offering sales tax exemptions to television commercial productions shooting in the state.

Further, the city of Minneapolis offers awards and grants to independent filmmakers. The Minneapolis Independent Film Fund awards up to three \$25,000 development grants per year to local filmmakers. The Minnesota State Arts Board also funds film, and the private

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<sup>4</sup> Minnesota Film Board. <<http://www.mnfilm.org/board/snowbate.asp>>

foundations provide money to filmmakers. The McKnight Foundation, for instance, recently increased their two yearly grants of \$10,000 to \$25,000.

## **New Mexico**

### ***Film Investment Program***

In July 2000, a new law directed the New Mexico State Investment Council (SIC) to consider investments in film projects. SIC is a state agency that administers and invests New Mexico's permanent funds. To qualify for investment, a film product must meet the following designated guidelines:

- The entity making the film must be a limited partnership or corporation whose primary business activity is the production of film products that are produced wholly or substantially in New Mexico
- Crew members involved in the film project must be, by majority, residents of New Mexico
- The production or entity must have a minimum of one-third of the estimated total production costs from sources outside of New Mexico
- The production or entity must have a valid distribution contract as well as a completion bond in place

Under the Film Investment Program, two structures are possible:

1. A debt/loan equity structure guaranteed by an investment-grade corporation/guarantor; or
2. An equity-only investment with significant and qualified distribution contracts.

The stated guidelines of the New Mexico Film Investment Program are:

1. To invest in/lend to film projects in New Mexico that offer the potential for generating returns to the state's Severance Tax Permanent Fund; and
2. To encourage a healthy film production industry in the state that will contribute to the economic growth of the State.<sup>5</sup>

New Mexico also offers an up-front tax deduction of up to 6 percent on the cost of most construction goods and services, equipment rental, construction, wardrobe, and all production and post-production services. This sales tax exemption has been in effect since 1996, making New Mexico one of the first states to pass such legislation for film production. The deduction applies at the point of purchase by obtaining a Non-Taxable Transaction Certificate from the New Mexico Film Office at the point of purchase.

In addition, the State of New Mexico offers fee-free location filming in state buildings.

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<sup>5</sup> *NM Film Investment Program Guidelines and Policies.*  
<<http://www.edd.state.nm.us/FILM/home.htm>>

## **New York**

While the State of New York does not offer film production tax incentives, the state does offer free public assistance such as police services, and adjacent public parking to film producers. Additionally, as of December 1, 2002, any expenditures on goods and services used during the production, pre-production, or post-production are exempt from the 4 percent city sales tax. This tax exemption applies to any production consumables, either purchased or rented, and other related equipment and services.

The State of New York is also unique in its classification of film and television production activity from a taxation perspective. New York classifies film production as a manufacturing activity that results in "tangible personal property."<sup>6</sup> As a result, this classification allows many of the materials and hardware that are utilized during production to receive tax relief or lower rates of taxation. To become eligible for these savings, filmmakers need to register as sales tax vendors in New York State in order to obtain a resale certificate.

Finally, the Mayor's Office of Film, TV, and Broadcasting (MOYTB) in New York City has organized a hotel discount incentive program similar to the one that is currently in place in Wyoming (see below). Hotels participating in the program are offering a 10 percent discount off of their lowest available daily rate for individuals or groups in the film and television production industry who shoot a project in New York City.

## **North Dakota**

The Bank of North Dakota (BND), the only state-owned bank in the U.S., participates in selected motion picture loans with an experienced lender, granted the majority of the production is shot in North Dakota. Since the state-owned bank's purpose is to foster and promote commerce and industry in the state, the state recognizes the importance and impact of film production in the state on both its local and tourism industries.

To qualify for BND loans, film projects must meet the following criteria:

- A significant portion of the movie must be shot in North Dakota.
- The film must be backed by a completion bond.

Assuming these qualifications are met, the BND will finance a maximum of 50 percent of the balance between the estimated budget less the money already raised for production, otherwise known as "gap financing."

## **Production Incentives/Programs in States Contiguous to Nebraska**

The State of Nebraska currently offers a lodging tax exemption after 30 days of continuous residency at the same facility and diverse landscapes that also include historic, turn-of-the-century architecture. At present, however, the State of Nebraska and its ability to attract increased production is likely to be impacted by competitive challenges from neighboring

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<sup>6</sup> Mayor's Office on Film, Theatre & Broadcasting.  
<<http://www.ci.nyc.ny.us/html/filmcom/home.html>>.

states that possess similar attributes (e.g., diverse landscapes, film friendly film commissions, etc.)

### **Number of Employment for Select States SIC 7812, 7819, and 7822 (2002)**

<b>State</b>	<b>Total Employees</b>	<b>% of U.S.</b>
Colorado	2,639	0.9%
Missouri	2,395	0.8%
Kansas	717	0.2%
Iowa	683	0.2%
Nebraska	465	0.2%
Wyoming	166	0.1%
South Dakota	146	0.1%

Source: Dun & Bradstreet and Economics Research Associates.

The remainder of this section focuses on any programs and/or incentives that are in place in these states to stimulate their local film production industries and to attract outside productions.

#### **Colorado**

The state of Colorado exempts sales and use taxes on film company services, but only if the company is providing a service and not tangible personal property.

#### **Iowa**

At present, Iowa does not offer any direct film production incentives. Some of the unique aspects of the film industry in Iowa, however, include:

- The Iowa Motion Picture Association
- The Iowa Writer's Workshop

Tourism is also a vital component of the state's economy. The Iowa Tourism Office reports that visitation increased by 25 percent over a 6-year period between 1994 and 2000, resulting in tourism-generated expenditures of approximately \$4.2 billion.<sup>7</sup> Film production represents one component of increased tourism. The field that was featured in the Universal Pictures film *Field of Dreams*, for example, is a significant tourist attraction that has attracted more than 800,000 visitors within the past 13 years.<sup>8</sup>

<sup>7</sup> Iowa Tourism Office. *Travel Industry*.

<[http://www.traveliowa.com/travel\\_industry/research/visitation.htm](http://www.traveliowa.com/travel_industry/research/visitation.htm)>.

<sup>8</sup> Field of Dreams – Left & Center Field of Dreams – Dyersville, Iowa.

<[http://www.leftandcenterfod.com/html/index\\_return.html](http://www.leftandcenterfod.com/html/index_return.html)>.

## **Kansas**

The State of Kansas offers two incentives:

- A state sales tax reimbursement program of the 4.9 percent state sales tax on qualified productions. To qualify, productions must spend a minimum of \$200,000 in Kansas.
- An exemption on hotel guest room tax for crew persons and talent occupying a hotel/motel room for a period of 28 consecutive days or longer.

## **Missouri**

The Missouri Department of Economic Development (DED) offers a film production tax credit program which can provide state income tax credits of up to 50 percent on a film production company's expenditures in Missouri, not to exceed \$500,000. To qualify for the credit, the film production company must spend a minimum of \$300,000 in Missouri.

The tax credits may be applied against state income taxes, excluding withholding taxes, or corporate franchise taxes. The credits may also be sold or transferred to another tax payer and applied by the transferee against such tax liability. Credits can be carried forward for up to five years.

The entire program is capped at \$1 million per year statewide. Due to this restriction, DED has granted production companies a "pre-application" form that sets aside the tax credits for a given film project. Because this program is an incentive program, the DED does not award the credits to producers who have already selected the state.

It should be noted that the Missouri Film Commission and the St. Louis Convention & Visitors Bureau (SLCVB) have been working closely together since the St. Louis Film Office closed at the beginning of this year. The SLCVB has been providing support to the Film Commission and recently launched an aggressive sales and marketing effort to urge local businesses and production companies to keep film production in St. Louis.

## **South Dakota**

Like most states, South Dakota offers hotel/motel tax exemptions for rooms rented for 28 or more consecutive days.

## **Wyoming**

While most states offer tax rebates, fee-free filming on public property, and other incentives, the state of Wyoming offers production companies a 10 percent discount on participating hotels, restaurants, catering companies, and other member services. This is a joint effort on behalf of the Wyoming Film Office and the Casper Area Film Commission. To access these incentives, production companies can request an official non-transferable Wyoming Production Incentive Card.

As noted at the beginning of this section, film production can drive tourism, as was the case of *Close Encounters of the Third Kind* which was filmed at Devil's Tower National Monument. Tourism is a vital component of Wyoming's economy. According to a

*Wyoming Travel Industry 2000 Impact Report*, the state received 6.9 million visitors that year. Tourism resulted in \$1.75 billion in direct expenditures and created an estimated 32,700 jobs.<sup>9</sup>

## **Summary and Implications for Nebraska**

The creation of an industrial agglomeration that is able to support motion picture production in a sustainable manner requires a broad variety of inputs. In addition to the factor conditions such as the desire to come to a region for its scenic or iconographic location opportunities, the economic conditions of production need to be sufficiently developed in a region before motion picture production can be an ongoing sustainable industry.

While the industry is highly mobile, and therefore subject to the influences of incentives and various cost reduction measures, the key controllable cost input in the industry is the labor force. With nearly 50 percent of a total project budget made up of below-the-line costs, motion picture producers need to strike the appropriate balance between the costs of production and the availability of skilled labor force in the region. The good news is that this labor force is highly mobile and will relocate into regions where steady work is available. Likewise, the skills required in the industry can be developed through a combination of on-the-job training and through the active participation of existing traditional employment training structures.

It is unlikely that state and local governments in the U.S. will offer the level of incentives available in other countries. Despite the fact that these national-level interventions are not available to Nebraska or any state in the U.S., for that matter, it is important to recognize the competitive environment in which the local film industry operates.

Finding a way to level the playing field with the immediate neighboring states will be an important factor in success for developing the production industry in Nebraska. It is a distinctly uneven playing field which will necessarily require a specialization in approach towards attracting outside productions into the region. A strategy that trades on the strengths of Nebraska, focusing on the existing crew base, combined with location opportunities is most likely to be successful.

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<sup>9</sup> *Wyoming World Travel Industry 2000 Impact Report*. <<http://www.wyomingtourism.org>>.

## **Section VII. ECONOMIC DEVELOPMENT STRATEGY AND IMPLEMENTATION RECOMMENDATIONS FOR NEBRASKA**

### **Introduction**

The stated objectives for the Nebraska Film Office, as defined in their Work Plan dated February, 2000, are as follows:

1. To grow the film industry locally that will provide the infrastructure necessary to attract the larger independent and studio-driven projects; and
2. To market the State to the world-wide entertainment industry.

Having reviewed general trends in the film industry, analyzed the size and scope of the local motion picture production industry in Nebraska, interviewed stakeholders working in the industry, and looked at other existing policies and incentives for film production in the U.S. and abroad, this section presents an economic development strategy for the motion picture production industry in the State of Nebraska.

The purpose of this strategy is twofold: (1) to build the local industry, and (2) to attract outside productions. As Section IV demonstrated, Nebraska has a small but viable industry that exists in an increasingly competitive environment. The State's active and sustained support and engagement in the industry will be a key requirement in the industry's continued viability in Nebraska.

The key is then to build a larger sustained industry that will in turn attract more outside production activity. To attract larger independent and studio-driven projects, an existing infrastructure must first be in place.

As part of ERA's economic development strategy recommendations, this section provides recent, regional examples in the U.S. and the catalysts behind them that have fostered the development of a nascent film production industry. In addition, ERA has provided an analysis of the key factors that foster the development of an industry.

### **Film Industry Development**

From an economic development perspective, the film industry presents unique challenges due to its strong dependence on a contingent labor force and its industrial structure. One key concept in the structure of production is flexible specialization wherein inputs are redeployed for a multitude of specialized tasks (*e.g.*, the ability to use the same equipment, cameras, sets, sound stages, etc., to be reassembled in an infinite variety of ways to produce unique and different products). In Nebraska, a sustained effort by all industry stakeholders, both from the public and private sectors, will be required to maintain the key elements of the system.

In order for the film industry to be sustainable in a region, a critical pathway of development needs to be established within the local economy wherein key factors of production are sufficiently represented and able to flourish so that an industrial atmosphere based on exchanges of information, innovation, and a trained labor force can be sustained, nurtured, and allowed to continue to grow.

### **Critical Components in Film Industry Development**

Figure VII-1 illustrates in schematic form the basic dynamic that underlies growth and development in the film and video production industries. As a system, the film and video production industries depend on the interaction of four critical factors, all of which must be sufficiently developed within a regional economy in order for the industry to take root. These factors, along with some examples of their constituent components, are as follows:

- **Infrastructure.** The basic, physical inputs that are required for production come under this category: airports, roads, services such as hotels, restaurants, land availability, surrounding environment in terms of location opportunities, as well as a future production studio.
- **Labor force.** This includes a number of skilled workers, the breadth of skills that are present in an area, and the vibrancy and quality of the local arts community-- which is often a source of supply for a reserve pool of labor, and supports other economic opportunities for entertainment industry workers between productions. With the appropriate training and apprenticeship programs, a region can develop its own crew base.
- **Markets.** This includes the number of local production companies in an area, which is frequently a function of the overall demand for products in a region. Production companies will frequently generate their own production of filmed product. The size of the local media market also generates its own internal demands for filmed products, and frequently acts as a training ground for a crew base.
- **Stakeholders.** This includes production companies, investors, the unions, and film commissions, all of which have a vested economic interest in pursuing the success of the film production industry within a region.

These four factors work as a positive feedback system with each element contributing to the growth and development of the other.

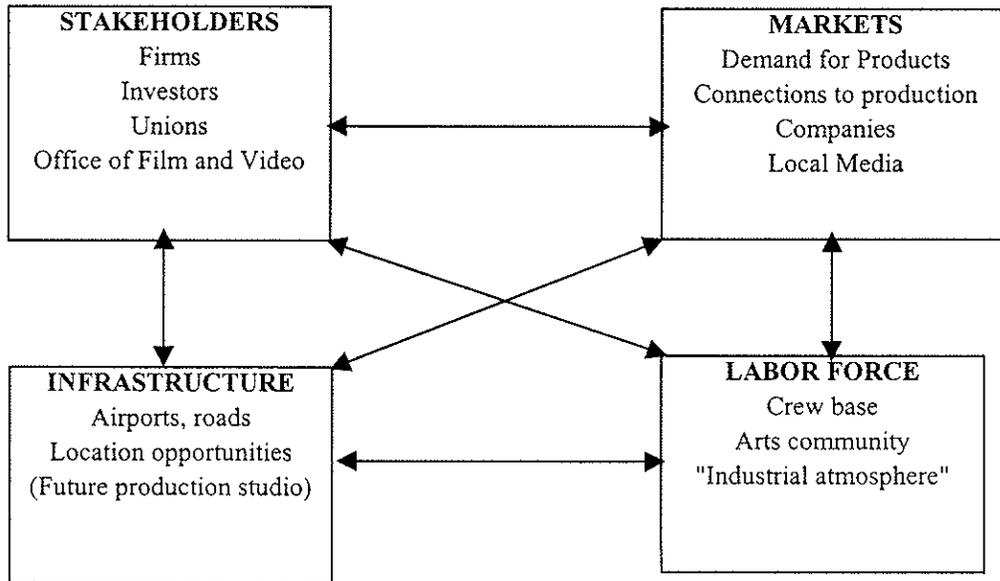
### **Film Production and Economic Development**

Film production, whether for cultural or economic purposes, stimulates economic development through:

- The employment of a local workforce
- Local provision of materials and supplies
- The generation of room nights at area hotels

Figure VII-1

FILM INDUSTRY DEVELOPMENT DYNAMIC



Source: Economics Research Associates

- Increased restaurant and retail revenues
- Future tourism in an area

Employment of a local workforce is particularly noteworthy since film production/crew jobs tend to pay higher wages than comparable employment using the same skills.

Another indirect benefit of film production is publicity, and the resulting awareness of areas, and increased tourism. Tourism is a long-term impact of local film production, particularly when it showcases cultural and/or natural resources. For example, Devil's Tower National Monument in northeast Wyoming had a 75 percent rise in tourism following the release of *Close Encounters of the Third Kind*.<sup>1</sup> More recent examples of increased tourism following theatrical releases include *Field of Dreams* in Iowa, and *Steel Magnolias* in Louisiana. Tourism has the residual effect of producing additional revenue. In summary, film production is both a direct and indirect means of increasing state revenues.

#### **Film Production's Contribution to Local Economies**

The film, television and video industries have unique advantages for local economies as follows:

1. Firstly, the industries are relatively clean. They typically do not generate environmental impacts that need to be mitigated.
2. They are generally high-wage industries employing a large proportion of the labor force from skilled, blue-collar sectors such as electricians, carpenters, set dressers, etc.
3. Wages throughout the industry are generally higher than wages for comparable work elsewhere in the economy.
4. Because of the strong contracting and subcontracting relationships that are the core of the film and video production industries, there are opportunities to develop multiple rounds of economic growth and job generation that come about from the flexible specialization form of production which is characteristic in these industries.

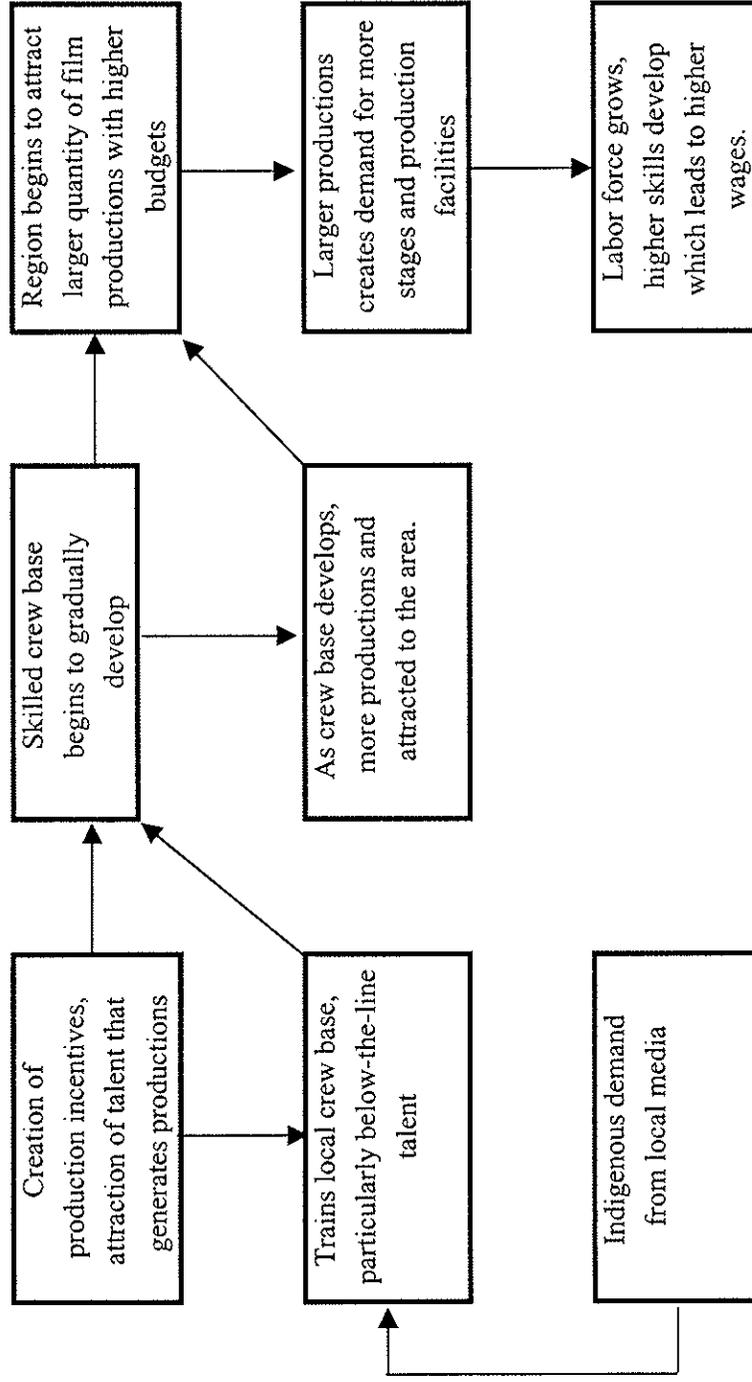
Figure VII-2 illustrates the stages and impacts that the introduction of production incentives to attract outside productions (which can include tax and other business incentives, most notably on the cost of local labor) can generate in terms creating a local industry. As shown, the introduction of production incentives such as a rebate on the cost of local labor serve to train and develop a local crew base, which in turn attracts more productions with higher budgets. The end result is that local labor wages increase as crew persons become more skilled, and the attraction of increased production can, over time, generate the demand for permanent infrastructure such as sound stages and other production-related services, in addition to attracting locally-based companies.

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<sup>1</sup> National Trust for Historic Preservation, *History for Hire: Using Cultural Resources as Film Locations*.

Figure VII-2

**DEVELOPMENT STAGES IN FILM PRODUCTION INDUSTRIES  
VIA CREATION OF PRODUCTION INCENTIVES**



Source: Economics Research Associates

Additionally, however, indigenous demand from local media (e.g., television stations, advertising companies, government PSA's, and industrial/training films) can serve as a training ground for crew members who often move on to other production-related jobs, either locally or outside of the area. The same holds true for other non-production but culture-related employment.

### **Recent Examples of Film Industry Development**

Table VII-1 gives recent scenarios and examples of film industry development which proves that the creation of tax incentives (Case III) and the presence of local media companies is not the sole means of industry development. In each case typology, an initial "hook" is established, whether it be a tax incentives (Canada) or a producer building a facility with attached productions (Case I- Dino DeLaurentis in Wilmington, North Carolina) or for a single project (e.g., James Cameron for *Titanic*).

As productions are filmed in a region, a crew base gradually develops. These persons can either be trained by the existing crew members or through local government efforts. For instance, when James Cameron filmed *Titanic* at Fox Baja Studios, the State of Baja, California, hired and trained resident workers to build some of the elaborate sets that were constructed during the course of production. In the case of Dino DeLaurentis, many of his employed crew persons trained local Wilmington residents in the craft of their trade. It should be noted, however, that in both instances a low-cost production environment was present, and labor was either attached to the productions or a local work force and training of below-the-line talent was put in place.

Under another scenario such as Case II, an above-the-line talent is dedicated to keeping their project local. Filmmakers who continually incorporate the same cities for their movies and stories include John Waters who sets his features in Baltimore, Maryland. Nebraska is fortunate to have native-born writer/director Alexander Payne whose past three films have all been set in Nebraska. Similar effects are felt in regions with distinctive visual/cultural environments that repeatedly attract productions based on local culture. Examples include New Orleans, Louisiana, and Miami, Florida.

A major difference between Messieurs Waters and Payne and their utilization of locations, however, is that John Waters' films prominently feature Baltimore neighborhoods and characteristics in their storyline, while Mr. Payne's previous productions shot in Nebraska (e.g., *Election* and *Citizen Ruth*) do not. Instead, the storyline focuses on "small town America" locations versus Nebraska-specific ones. In other words, most people outside of the film industry and the film commissions would not know that these productions were shot in Nebraska. The geography and "look" of Nebraska, while capable of replicating numerous American small towns, is not entirely distinctive from its neighboring states.

Again, it should be noted that the industry examples provided had access to or the availability of the four above-mentioned factor conditions, albeit in different proportions. In the case of Mexico, again, labor was trained through coordinated government efforts. The Fox Studios Baja facility is currently utilized by both indigenous Mexican companies, particularly for commercial production, as well as foreign-based, high-budget features (e.g., *The Deep Blue Sea*, *Tomorrow Never Dies*, and *Pearl Harbor*).

Table VII-1

TYPLOGIES IN  
BUILDING A REGIONAL FILM PRODUCTION INDUSTRY

Situation	Examples	Impact	Required Conditions
<b>Case I</b> Get a major filmmaker to build a production infrastructure for their own purposes	Dino di Laurentis - Carolco Studios in Wilmington, N.C. (now Screen Gems)	Trains and creates local crew base Provides infrastructure which in turn attracts future productions and exposure	Management has productions attached. Low cost production environment.
<b>Case II</b> If a local above-the-line person is dedicated to keeping stories that use the region as a central character, or the region has a strong identity which serves a marketable brand for productions.	James Cameron - Fox Studios, Baja for <i>Titanic</i> . Alexander Payne whose previous 3 films have all been set in Nebraska. <sup>1</sup> John Waters' and Barry Levinson's feature films which are set in Baltimore. Miami, Florida as a back-ground for <i>Miami Vice</i> , for or San Francisco for <i>The Streets of San Francisco</i> .	Talent's or project's name lends prestige to the project, which can attract future productions Sustains a local crew base Generates visibility of a city as a production center and potentially increases tourism	Ability to attract labor or use an existing crew base. A scenic location with literary merit or "fantasy energy," meaning a confluence of human culture, physical environment, and social meaning is attached to create a sense of place or identity (e.g. New Orleans, Hollywood sign). Strong culture industry sector that can be used as a base of developing a film labor force. A distinctive visual and cultural environment.
<b>Case III</b> Offer production incentives	Canadian federal government & provinces Ireland Australia	Trains and creates local crew base. Crew becomes a factor in attracting future productions. As more productions are attached, more infrastructure is developed. Developed crew base and solid infrastructure keep attracting bigger projects.	The ability to enact meaningful regional and local industrial policy. Basic factor conditions in place. Political consensus to invest in growing the industry.

<sup>1</sup> While set in Nebraska, the storyline and attributes of the state have not been featured prominently in the screenplay.

## **Nebraska's Status within the Film Development Dynamic**

Having reviewed the four factors necessary for the development of a production center and provided additional instances/scenarios in which an industry has developed and under what conditions, it is necessary to ascertain Nebraska's position within this development dynamic. While some of the four factors with the film production development dynamic are present in areas in Nebraska, others must be induced and developed.

The State of Nebraska, as a whole, possesses many of the necessary basic endowments that could allow the industry to increase. On the other hand, certain key segments that are necessary for production development are missing within the state.

### ***Nebraska's Existing Infrastructure***

Nebraska possesses a relatively good airport and roadway access for a state of its population density. Located in the center of the U.S., it is transversed by federal interstate and state highway systems. This facilitates the transportation of production equipment and other goods into the area. The I-80, a major federal east and west highway cuts through the center portion of the state. However, Nebraska is a significant driving distance from the majority of the major cities in the United States which possess production infrastructure.

### **Air Transportation**

As noted in Part 1, the majority of the smaller cities outside of the Omaha and Lincoln MSA's in the western and central regions of the state have airfields that provide direct, daily air service on commuter planes to Denver. In total, there are 95 municipal airports located throughout the state. Among these airports, six provide commercial air service. These airports are Grand Island, Kearney, Lincoln, North Platte, Omaha and Scottsbluff.

Eppley Airfield in Omaha is the primary commercial airport for the eastern portion of the state, though regional airports are located throughout the state with daily non-stop flights to and from Denver.

Eppley Airfield is currently undergoing a multi-million dollar runway extension and improvement project, and over the past few years has invested more than \$110 million in terminal, cargo, and runway expansions.<sup>2</sup> In 2001, a total of 3.7 million passengers<sup>3</sup> traveled to and from Eppley Airfield in Omaha. The table on the following page lists those U.S. cities that offer direct air service into Eppley. Airlines that service Eppley include America West, American, ComAir, Continental, Delta, Frontier, Midwest Express, Northwest, SkyWest, Southwest, TWA, United, United Express and USAirways Express. Lincoln Municipal Airport southwest of Omaha is served by Continental Connection, Northwest Airlinck, TWA, USAirways, and United Airlines.

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<sup>2</sup> Omaha Chamber of Commerce. <<http://www.omahachamber.net/Business/business.html>>

<sup>3</sup> This figure includes both enplanements and deplanements.

**DIRECT AIR SERVICE**  
**Eppley Airport, Omaha**

U.S. City	Distance (in miles) <sup>1</sup>
Atlanta, Georgia*	1,308
Chicago, Illinois*	438
Cincinnati, Ohio	723
Dallas, Texas	699
Denver, Colorado	551
Houston, Texas	942
Kansas City, Missouri	192
Memphis, Tennessee	632
Milwaukee, Wisconsin	504
Minneapolis/St. Paul, Minnesota*	385
Newark, New Jersey*	1,232
Orlando, Florida*	1,440
Phoenix, Arizona	1,356
Pittsburgh, Pennsylvania	920
Salt Lake City, Utah	936
St. Louis, Missouri	425
Washington, D.C.	1,154

\* indicates primary (New York area) or secondary production centers.  
<sup>1</sup> Mileage estimates are provided by AAA and may not represent the shortest routes.

Source: Greater Omaha Convention & Visitors Bureau

The lack of non-stop flights to Nebraska from Los Angeles is an important impediment to the future growth of the industry.

**Hotel/Motel Infrastructure**

The NDED reports over 26,000 total hotel/motel rooms in the state, which had an average annual occupancy of 57 percent in 2000.

There are approximately 7,700 hotel/motel rooms in the Omaha MSA, and more luxury hotels are currently being developed along the riverfront area. Upon completion, the Greater Omaha Convention & Visitors Bureau reports that the hotel/motel base will expand to 10,000 rooms.<sup>4</sup> This will become a greater asset for Omaha in its ability to attract more film production since crew members and production companies prefer a variety of hotel stock. The Lincoln area has an additional 3,000 hotel/motel rooms.

**Production Infrastructure**

As mentioned, the majority of Nebraska's motion picture production, distribution, and production-related services are concentrated in the metropolitan areas of Omaha and Lincoln. Few firms in the state, however, provide goods and services specifically for the

<sup>4</sup> <[http://www.visitomaha.com/visitor\\_info/lodging/hotels.asp](http://www.visitomaha.com/visitor_info/lodging/hotels.asp)>.

industry. At present, there is also a lack of diverse equipment suppliers and dedicated stage space. According to the Society of Industrial and Office Realtors which track commercial and industrial vacancy rates nationwide, both the 2001 vacancy rates for commercial and industrial real estate were relatively low at 6.5 and 7.7 percent, respectively.<sup>5</sup>

#### **Other Infrastructure**

In 1996, a redevelopment plan for a 33-square-block area of the downtown Omaha area was unveiled. At present, over \$400 million of construction is under way, including a new 336,200-square-foot convention center which is scheduled to open in August, 2003. The City is also developing the waterfront region and converting many of the old factory buildings into art studios, luxury hotels, loft apartments, and retail space. By providing a greater variety of hotels and attractions (*e.g.*, artists studios and retail), the construction of the new Convention Center and riverfront area will likely have a positive impact both on the image of the city as a whole, as well as the development of the film production and tourism industries.

#### ***Nebraska's Existing Labor Force***

This research has revealed the following characteristics regarding the labor force in the motion picture industry in Nebraska. As a brief review:

- The motion picture industry in Nebraska represents a small but viable industry with significant concentrations of firms (60 statewide in 2000, according to Dun & Bradstreet data) in the metropolitan areas of Omaha and Lincoln.
- In 2000, approximately 160 persons were employed in the motion picture and distribution sectors, with the majority of employees being concentrated in the Omaha and Lincoln MSA's.
- Between 1997 and 2000, the percentage change in the total number of persons employed in the motion picture production industry has outpaced that for all industries statewide.
- Comparing statewide average annual 2000 wage for all industries in Nebraska with that for motion picture production, employees working in motion picture production make higher annual salaries (\$31,729) than the state average (\$27,682).
- The number of persons employed in motion picture distribution has been contracting, however, their average annual salaries have been increasing.

Table VII-2 lists the key strengths, weaknesses, opportunities and threats for the future development of the film production industry in Nebraska. Nebraska currently has one experienced crew, though the lack of keys for various departments can impose costs on producers due to the need to import skilled labor.

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<sup>5</sup> Society of Industrial and Office Realtors, 2001. *Comparative Statistics of Industrial and Office Real Estate Markets*.

Table VII-2

ANALYSIS OF NEBRASKA  
AS A POTENTIAL CENTER OF FILM PRODUCTION

Strengths	Weaknesses	Opportunities	Threats
<p>Diverse landscapes and historical sites.</p> <p>Nebraska is a right-to-work state which can offer significant competitive advantages, namely lower overall labor costs.</p> <p>No location burn-out as in major production centers.</p> <p>Lower cost environment (e.g., less expensive hotel costs<sup>1</sup>) relative to other major production centers.</p> <p>Communities are receptive to hosting film productions.</p>	<p>Few direct commercial flights.</p> <p>Lack of production infrastructure (e.g., stages and equipment). Few firms that are providing goods and services specifically for the motion picture industry.</p> <p>Distance from other production centers with more resources is a weakness.</p> <p>Weather is seasonal and not consistent, which can limit on-location shooting to various times of the year.</p> <p>Neighboring states possess similar geographic attributes.</p>	<p>University of Nebraska and other local educational institutions provide a potential expanded crew base.</p> <p>Attract more commercial production which is less cyclical and price-sensitive.</p> <p>Peter Kiewit Institute as potential training ground for "hi-tech" skills related to motion picture production.</p>	<p>Canadian tax incentives which lower production costs.</p> <p>Competition with nearby states, most notably Oklahoma, which currently has one of the most aggressive production incentives in the U.S. Advanced programs are in place in Missouri as well.</p>

<sup>1</sup> Based upon stakeholder interviews and conversations with the Greater Omaha CVB, it would appear that average daily hotel rates (ADRs) statewide range from as low as \$40 up to \$100 in the Metropolitan areas.

### ***Nebraska's Existing Markets***

At present, Nebraska serves as a production location for occasional script-driven feature film productions and other projects. There are several small production companies that are primarily based in Omaha and Lincoln. The 2001-2002 Production Guide from the Nebraska Film Office lists a total of 28 production companies working in the state. Of these existing companies, 15 are situated in Omaha, 4 are in Lincoln, and the remaining 9 are scattered throughout the state and primarily perform work for local companies.

As the production community in Nebraska begins to grow, it is likely that the number of locally-based production companies will grow in accordance.

### ***Nebraska's Stakeholders***

Nebraska has an established film office which has earned wide respect among previous filmmakers and persons associated with the production community. The State's recent success in attracting production can be largely attributed to several factors including: (1) the state's diverse geology and historical features, and (2) the professionalism and enthusiasm of the Nebraska Film Office, (3) the previous commitments of Alexander Payne, a native director who has also become a civic booster for Nebraska, and (4) local community commitments to the industry.

### **Policy Recommendations for Nebraska's Film Industry**

Nebraska is a small production center. As a result, key inputs and labor need to be imported from outside the state, which increases costs to producers. Nebraska's neighboring Midwestern states possess similar geography and resources. Competitive challenges in the region are likely to solidify as neighboring states increasingly find innovative means to attract production activity. Most states currently offer, at a minimum, either a sales tax rebate or hotel/motel tax exemption as a means to encourage production activity. In this respect, Nebraska is failing to remain competitive.

### ***Develop Markets***

To date, the small film production community in Nebraska has been driven by either: (a) local companies requesting film production services, such as advertising, or (b) the occasional low- to mid-range budget feature films that have shot there. These films have been primarily story-driven and have not built or left any infrastructure upon their departure. Only recently have higher-budget fare, such as *To Wong Foo* and *About Schmidt* been shot locally, although Alexander Payne's previous two lower budget films *Election* and *Citizen Ruth* were all shot on location in Nebraska.

## **Types of Productions to Attract**

Thus, while Nebraska's economy has benefited from the occasional feature film, the film community has become dependent upon a highly cyclical form of production activity from outside producers. The good news is that locally based production companies in the metropolitan areas generate business from local companies, such as advertising business from Fortune 500 companies based in the metropolitan areas.

Therefore, the key is to build an industry that is less cyclical to outside producers, such as commercial production. Given current industry production trends, growth areas for Nebraska include types of productions that are less cyclical and cost-sensitive. Commercial and music video productions are two such areas. The commercial and music video production industries are renowned for shooting on location and tend to be (a) less cyclical; and commercials, in particular, (b) have proportionately higher budgets than feature films for the amount of time required to produce the product.

Another advantage to attracting commercial and music video productions is that their numbers are higher in total annual products produced. While the Association of Independent Commercial Producers does not track the number of commercials shot in the U.S., they far exceed those of the Hollywood studios and other feature film product. Not only is this type of production less cyclical, but it provides a stream of production activity that ensures steadier employment and a stronger local labor base.

Feature film producers seeking a small town or prairie look also can be targeted, although in this instance, Nebraska would be competing with neighboring states and the Canadian Prairie Provinces on cost. In other words, those production centers offering the most favorable labor costs will most likely win, unless the state can offer producers an inducement to film locally.

Television movies and pilots are entirely cost-sensitive and therefore Nebraska would not be able to compete with areas such as Canada for a share of this market. The only MOWs that have shot in Nebraska during the past ten years include *Gone in the Night*, *Sarah Plain and Tall* and *My Antonia*. Similar MOW productions that may otherwise have selected Nebraska or other Plains states have been increasingly shot in Canada in order to take advantage of tax incentives. Based upon conversations with film commissioners in other secondary production centers, this sector of their film production industry has been hardest hit as well.

Nebraska also is home to a number of firms that produce consumer products and sell directly to the public. There is an opportunity to use the good offices of the governor and the economic development efforts of the state to prevail on decisionmakers at these firms to consider using Nebraska firms and locations for their advertising needs. A strong effort geared at making local end users of production services aware of the high-quality labor production companies, and locations that are available in Nebraska, would be likely to open up new production opportunities during the long run. Likewise, a comprehensive review of the State of Nebraska's production needs in terms of public service announcements (PSAs) and other state-supported production needs also should be

considered for a “stay-at-home-campaign” geared at preserving the state’s production dollars within local economies.

## **Marketing Campaigns**

An effective marketing program must support the attributes of Nebraska and its resources. The NFO has done an excellent job of coordinating with producers who have requested information or location tours, however, in the increasingly competitive environment to attract production activity, continued marketing efforts at events, such as film festivals and trade shows should not be ignored. Moreover, marketing concepts, such as “one-stop shopping,” “added value,” and “uniqueness of product” all have applicability in creating an attractive, full-service sales package.

To diversify from its current position as a location for script-driven feature films and other occasional projects, the establishment of Nebraska as a secondary or tertiary production center can be viewed from an economic development perspective.

### **Key Actions:**

- At present, economic development efforts in the metropolitan areas of the state, such as Lincoln and Omaha are concerned with technology and creating and/or attracting more technology-based companies. Film production should be seen as a complementary effort and added to the list. Nebraska is well-suited to attract such businesses in terms of job recruitment and quality of life, particularly with the recent development of the Peter Kiewit Institute, which could become a partner in training more technology-oriented jobs in film production and post-production.
- Engage the Nebraska Arts Council as a partner in film development. Artistic and film-related collaborations also should be encouraged to a stronger degree. Such collaborations provide exchanges of skills and labor between film production and cultural establishments in Nebraska (*e.g.*, local theater companies).
- Pursue commercial producers in Minneapolis and Denver. The western portion of Nebraska has strong economic connections with Denver. Because of this, ERA recommends that the NFO explore partnerships and collaborations with Denver-based production companies and media outlets. Minneapolis is a major advertising production center with a focus on food products. Nebraska should seek to establish a strong brand image and presence to regional commercial producers in these markets.

## ***Develop a Labor Force***

The further development and localization of a stronger film production labor force will be one of the key issues in growth and establishment of a steady film production industry in Nebraska. The following represent two means by which Nebraska could potentially develop their crew base.

**Key Actions:**

▪ **Explore Alliances with Local Educational Institutions**

Nebraska possesses a potential labor pool from which to build the film production industry from the following sources:

ERA recommends that the NDED and NFO explore training opportunities and other synergies with some of these institutions. The NFO already has been active with the film school at the University of Nebraska-Lincoln campus in sponsoring activities, such as the Great Plains Film Festival. The event is co-sponsored in conjunction with the Mary Riepma Ross Film Theater, and the NFO has been a sponsor since 1997.

▪ **Explore Alliances with Cultural Institutions**

Artistic and film-related collaborations also should be encouraged to a stronger degree since such collaborations provide exchanges of skills and labor between film production and cultural establishments in Nebraska. In general, cities and communities throughout the U.S. that have a strong local film industry also have a strong arts community.

Both the highly-rated Lincoln Children's Museum and the Omaha Theater Company for Young People are not only cultural institutions in Nebraska, but sources of development of talent and skill. The Omaha Community Playhouse also is one of the largest community theaters in the country.

The Nebraska Arts Council should potentially play a more active role in the development of the film industry. As noted during ERA's meetings in Omaha, the Omaha Theater Company serves as a training ground for much of the area's local talent pool. In smaller production centers throughout the U.S., it is not uncommon for "below-the-line" talent, such as set decorators, prop masters, etc., in theater companies to work on film and television productions that are shooting locally. An exchange and transfer of talent and skills therefore occurs between film production and other cultural-related industries in a region.

Potential marketing strategies include continuing to get on the front end with producers to develop stories that are either (1) specific to Nebraska; (2) deal with Nebraska-based story lines; or (3) can use Nebraska for a variety of looks. The annual screenwriting workshops in Superior, Nebraska, hosted by former UCLA film school faculty member Lew Hunter are an excellent example. During his last workshop, 20 screenplays were produced, half of which were set in Nebraska, and one of which is currently being optioned by Fox Studios as a television series.

***Develop Public/Private Partnerships***

Another opportunity for the State of Nebraska is to use the coordinating function of the NFO and local film commissions to help with public/private partnerships for both film productions and investments in infrastructure. The following possible approaches might be taken.

**Key Actions:**

▪ **Initiate Public/Private Partnerships in Production**

One innovative approach that would fit well with Nebraska's comparative advantages is to solicit the development of children's episodic series to be shot in the state. This approach would take advantage of the state's cost structure, which is favorable for children's producers, as well as tie into some of the region's leading institutions such as the Omaha Theater Company for Young People and Nebraska Public Television. One can envision the local film commissions and the NFO in alliance with the Nebraska Arts Council and Nebraska Public Television generating matching funds for a qualified producer committed to bringing an episodic children's television program into the State of Nebraska. The RFP for such funds could seek proposals from qualified producers who have obtained distribution agreements for their product. The State of Nebraska, through agencies, such as Nebraska Arts Council and Nebraska Public Television, would need to certify that the program was educational in nature making it eligible to receive matching public funds in return for commitments to produce the series in Nebraska with a minimum percentage of the total budget for each episode being spent on Nebraska labor, goods, and services.

▪ **Initiate Public Private Partnerships for Infrastructure**

Another role that has been enacted in regions throughout North America has been to support private initiatives for sound stage development as part of overall urban development objectives. Very often these products are supported through the provision of off-site public infrastructure (parking, street improvements, etc.), or through the economic development conveyance of developable land. In its present state, Nebraska's film industry has not reached a level of maturation that would be likely to sustain a sound stage complex as the industry is presently constructed. However, this opportunity may arise as the volume of production begins to increase over time.

***Become Competitive with Neighboring States***

In the absence of a strong indigenous film production industry, or a transplanted one with attached productions, government entities outside the U.S. have created financial or economic incentives to build their respective industries. Such support may either involve providing financial assistance to local filmmakers and production companies, or providing rebates to non-local productions for the employment and training of local labor.

**Key Actions:**

- Create an incentive, such as a sales tax exemption that attracts business the state would otherwise not receive. The incentive would have a neutral effect on revenue gain/loss because the state would be generating business that it would otherwise not have received.
- At present, Nebraska is not competitive with neighboring states. As shown, most states currently offer either a state sales or use tax exemption, in addition to a sales tax exemption on lodging after a certain period. Nebraska currently has a sales tax exemption on lodging after 30 continuous days, but offers no other direct incentives.

Furthermore, this list excludes *indirect* incentives, such as the absence of state corporate or individual income tax (*e.g.*, Wyoming).

Key programs that neighboring states currently offer that make them more competitive than Nebraska include:

- Kansas. The state offers both a state sales tax reimbursement program and waives transient occupancy taxes on hotel rooms for stays of 28 days or more.
- Missouri. The state offers a film production tax credit program that provides state income tax credits of up to 50 percent on a film production company's expenditures in Missouri, up to \$500,000. To become eligible, a production company must spend a minimum of \$300,000 in the state.
- Wyoming. The state waives taxes on hotel stays of 30 days or more, and offers a voluntary participation program by hotels and service businesses (*e.g.*, restaurants and retail) wherein a 10 percent discount may be available to producers.
- Oklahoma. While Oklahoma does not share a border with Nebraska, the Oklahoma Film Enhancement Rebate Program is one of the most aggressive state incentive programs in place. Under this program, a 15 percent rebate on production dollars spent in the state is available, with a cap at \$2 million annually. Additionally, Oklahoma exempts sales tax on the purchase of tangible items that are used in production and the state sales tax is waived on hotel stays of more than 30 days.

## **Conclusion**

Currently, Nebraska is not a major production center due to the structure of key conditions in the state, however, it is the site of a small but viable industry. There are opportunities for Nebraska to improve its competitive positioning. Competitive challenges in the region are likely to intensify as neighboring states increasingly find innovative means to attract production activity. In other words, the State of Nebraska can choose to be passive in this regard and potentially miss out on opportunities to create higher paying jobs, fill hotel rooms, and promote tourism through film product that is shot in the region.

From an economic perspective, the film industry diversifies the economy. It also generates labor force retention and creates jobs that attract and retain creative, younger workers. This is important for Nebraska, which has traditionally relied on the agriculture and manufacturing sectors for economic development. Film production also is an industry involving global competition. In many countries, this sector is largely driven by policy intervention. Historically, this has not been the case in the U.S., although many states have now targeted this industry for economic development.

Supportive public policy is key to the future development of the industry. The continued growth of a local industry will require a close collaboration and coordinated course of action between all relevant state agencies, including the NDED, NFO, and the metropolitan CVBs and tourism councils. In the absence of committed productions, ERA has found that public engagement for the industry will be required during a period of several years in order to create a growing, dynamic and self-sustaining industry over the long-term.

## **APPENDIX TABLES**

## APPENDIX TABLE A

### STANDARD INDUSTRIAL CLASSIFICATIONS by Category and Sub-categories

#### MAJOR GROUP 78 - MOTION PICTURES

**Description:** This group includes establishments that both produce and distribute motion pictures, exhibit motion pictures in commercially operated theaters, and furnish services to the motion picture industry. The term motion pictures also includes similar productions for television or other media using film, tape, or other means.

Industry Group No.	Industry No.	Title/Description
781		<b>MOTION PICTURE PRODUCTION AND ALLIED SERVICES</b>
	7812	<p><b>Motion Picture and Video Tape Production</b></p> <p>This subgroup includes establishments that are primarily engaged in the production of theatrical and nontheatrical motion pictures and video tapes for exhibition or sale, which include educational, industrial and religious films. This category includes establishments that are engaged in both production and distribution, but excludes live radio, television programs, establishments primarily engaged in the reproduction of motion pictures or video tape, and those involved in distribution.</p> <p><i>Examples</i> <i>Audiovisual motion picture program production, cartoon motion picture production, commercials, television: tape or film production, educational motion picture production, industrial motion picture production, motion picture production and distribution companies, music video production, nontheatrical motion picture production, religious motion picture production, tape, video or motion picture production, television film production, training motion picture production, video tape production.</i></p>
	7819	<p><b>Services Allied to Motion Picture Production</b></p> <p>This subgroup includes establishments that are primarily engaged in performing services independent of motion picture production, but allied thereto, such as motion picture film processing, editing, titling, casting bureaus, wardrobe, studio property rental, television tape services, motion picture and video tape reproduction, and stock footage film libraries.</p> <p><i>Examples</i> <i>Motion picture casting bureaus, developing and printing of commercial motion picture film, independent directors of motion pictures, editing of motion picture film, film libraries (stock footage), film processing (motion picture), laboratories (motion picture), motion picture consultants, rental of motion picture equipment, studio property rental (motion picture production), television tape services (e.g., editing), titling of motion picture film, video tape or disk reproduction, wardrobe rental (motion picture film production).</i></p>
782		<b>MOTION PICTURE DISTRIBUTION AND ALLIED SERVICES</b>
	7822	<p><b>Motion Picture and Video Tape Distribution</b></p> <p>The group includes establishments that are engaged in the distribution (rental and sale) of theatrical and nontheatrical motion picture films or in the distribution of video tapes and disks, except to the general public. This category excludes establishments that are engaged in both production <u>and</u> distribution (SIC 7812), those primarily engaged in renting video tapes and disks to the general public, and those engaged in the sale of video tapes and disks to individuals for personal or household use.</p> <p><i>Examples</i> <i>The following for motion pictures: film exchange, film delivery, film libraries, film purchasing agencies, and theatrical booking agencies.</i></p>

## Appendix Table B

### NEBRASKA CONTACTS

Name	Title	Organization	Phone Number
Dana Altman	Producer/Director	North Sea Films	402-393-8700
Andy Anderson	Co-President	Oberon Entertainment Properties	402-502-3456
Richard Baier	Executive Director	Development Corporation of North Platte (DEVCO)	308-532-1850
Muriel Barrett	Assistant Membership Services/Relocation	North Platte Chamber of Commerce	308-532-4966
Suzanne Browne	Development Consultant	State of Nebraska, Dept. of Economic Develop.	308-436-3988
Winnie L. Callahan	Executive Director	The Peter Kiewit Institute	402-554-3333
Bing Chen, Ph.D., P.E.	Professor, Chair	The Peter Kiewit Institute	402-554-2769
Toby Churchill	Executive Director	Sarpy County EDC	402-346-5015
Michael Collins	Tourism Development Consultant	Nebraska Department of Economic Development	308-641-1025
Deb Cottier	Staff Assistant	Offices of Senator E. Benjamin Nelson	308-432-4881
Mitch Gerstenkorn	Superintendent	Lake McConaughy/Kinsley Dam	308-284-8800
Mary Jo Hall	Manager Communication Division	Nebraska Department of Roads	402-479-4512
Chad Haufschild	Vice President	Nebraska Arts Independent Film Projects Comfed Productions	402-467-1077
Mark Hoeger	Co-President	Oberon Entertainment Properties	402-502-3456
Kevin Howard	Tourism Director	Scotts Bluff County Tourism	308-632-2133
Lew Hunter	President	Superior Screenwriting Colony	402-879-3617
	President	Lew Hunter Productions, LLC	402-879-3617
Roger Jasnoch	Director	Kearney Visitors Bureau	308-237-8785
Barry Kennedy		Nebraska State Chamber of Commerce	
Stephanie King	Director of Marketing and Public Relations	Stuhr Museum	308-385-5316
Jan Kraus	Special Events, Coordinator/Consultant	Haythorn Ranch/Figure Four Traditions	308-284-3751
Marion Kroecker	Chief Administrator	Ogallala/Keith County Chamber of Commerce	308-284-4066
Danny Lee Ladely	Director	University of Nebraska (various film festivals)	402-472-9100
Laurie P. Lage	Legal Counsel, Business & Labor Comm.	Office of Senator Matt Connealy	402-471-2728
Laurel Marsh		Senator Dave Landis' Office	402-471-2720
Becky McMillen	Creative Services Artist	Insight Creative	308-632-5775
Tim McNeil	Deputy Director	Greater Omaha Convention & Visitors Bureau	402-444-1766
Jared Minary	President	Nebraska Arts Independent Film Projects	402-467-1077
Rod Moseman	Vice President	Greater Omaha Chamber of Commerce	402-978-7923
Dave Norris		Mayor Wesely's Office (Lincoln)	
Roger Nygaard	President	Grand Island Area Chamber of Commerce	308-382-9210
Dan O'Dell	Project Coordinator	Editech	402-896-3346
Thompson H. Rogers	Partner	Odin Capital Group	402-346-6200
Anne Rohan	Executive Director	Adams County Convention & Visitors Bureau	402-461-2370
Renee Seifert	Director	Grand Island/Hall County Convention & Visitors Bureau	308-382-4400
Jim Sheard	Secretary Treasurer	Teamsters Local Union No. 554	402-331-0550
Virginia L. (Ginny) Steinke	Interim Director	RSVP of Keith County	308-284-6464
Dennis D. Wellendorf	Director	Greater Omaha Chamber of Commerce	402-346-5000
Kathryn Witte	Bailey Lauerman	Senior Account Executive	402-475-2800
Michael Winkel	Assistant General Manager	Nebraska Educational Telecommunications	402-472-9331
Suzanne Wise	Manager	Nebraska Arts Council	402-595-2122
Sandi Witkowicz	Marketing & Communication Coordinator	Lincoln/Lancaster County Convention & Visitors Bureau	402-434-5337

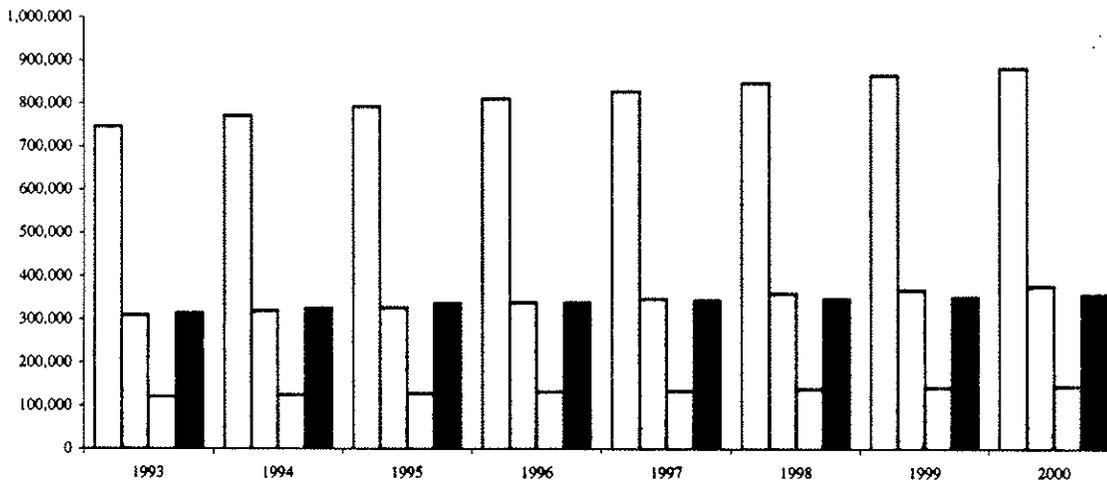
Appendix Table C

**AVERAGE ANNUAL EMPLOYMENT  
ALL INDUSTRIES  
Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
1993-2000**

Year	Nebraska	Omaha MSA	Omaha MSA as % of NE	Lincoln MSA	Lincoln MSA as % of NE	Rest of State	Rest of State as % of NE
1993	746,485	310,318	41.6%	121,084	16.8%	315,083	42.2%
1994	772,223	320,321	41.5%	125,238	16.2%	326,664	42.3%
1995	793,918	327,387	41.2%	128,613	16.2%	337,918	42.6%
1996	812,248	340,045	41.9%	132,940	16.4%	339,263	41.8%
1997	828,741	348,122	42.0%	135,670	16.4%	344,949	41.6%
1998	849,445	360,658	42.5%	139,866	16.5%	348,921	41.1%
1999	866,270	369,490	42.7%	143,661	16.6%	353,119	40.8%
2000	883,236	377,914	42.8%	146,368	16.6%	358,954	40.6%
% Chg.	18.3%	21.8%	2.9%	20.9%	-1.2%	13.9%	-3.7%

Average Annual Employment (1993-2000)  
All Industries

- Nebraska
- ▨ Omaha MSA
- ▩ Lincoln MSA
- Rest of State



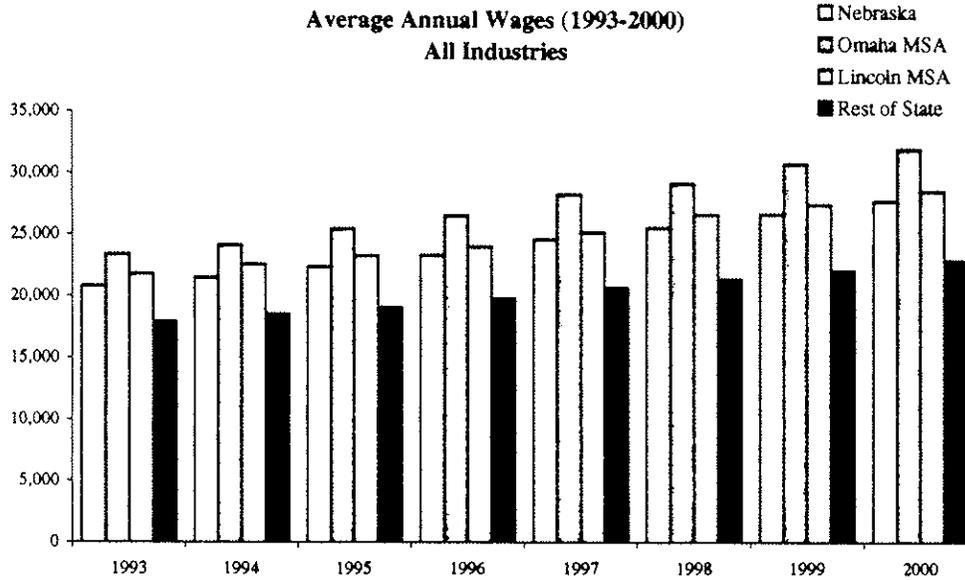
Source: Nebraska Department of Labor and Economics Research Associates, 2002

**Appendix Table D**

**AVERAGE ANNUAL WAGES  
ALL INDUSTRIES**

**Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
1993-2000**

<b>Year</b>	<b>Nebraska</b>	<b>Omaha MSA</b>	<b>Lincoln MSA</b>	<b>Rest of State</b>
1993	\$20,812	\$23,381	\$21,803	\$17,900
1994	\$21,499	\$24,126	\$22,566	\$18,515
1995	\$22,379	\$25,451	\$23,285	\$19,057
1996	\$23,296	\$26,516	\$24,018	\$19,786
1997	\$24,577	\$28,234	\$25,180	\$20,648
1998	\$25,538	\$29,150	\$26,601	\$21,379
1999	\$26,637	\$30,708	\$27,428	\$22,056
2000	\$27,682	\$31,945	\$28,502	\$22,861
% Chg.	33.0%	36.6%	30.7%	27.7%



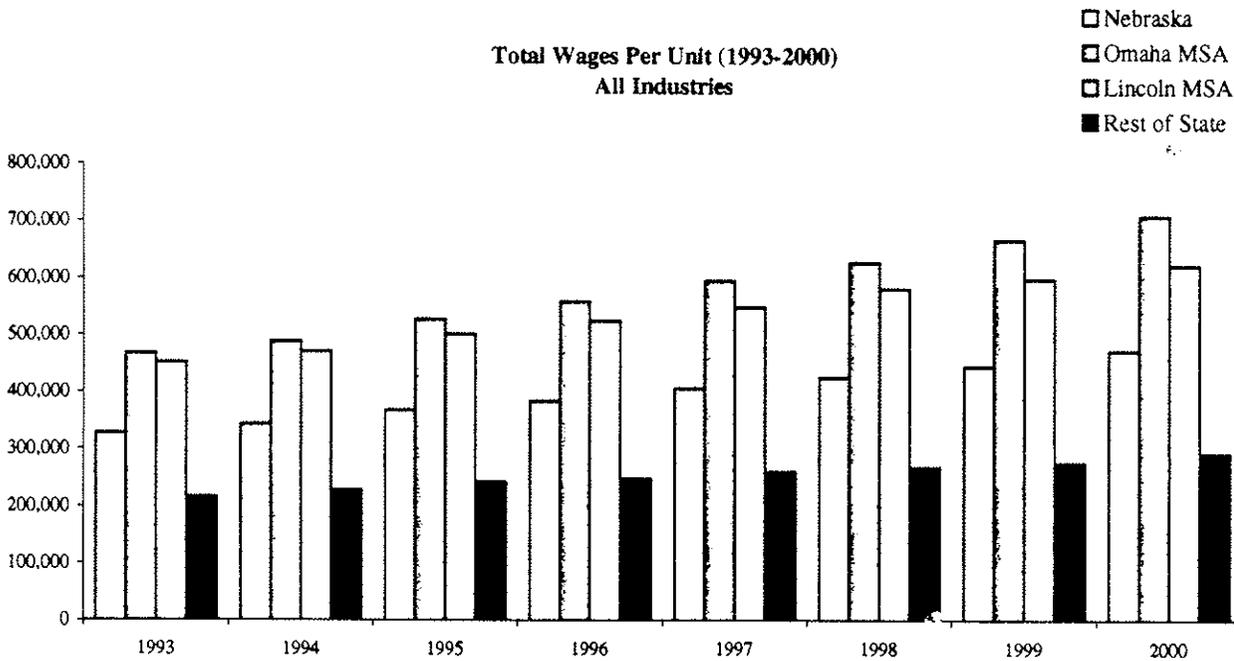
Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table E

**UNITS OF EMPLOYMENT AND TOTAL ANNUAL WAGES  
ALL INDUSTRIES  
Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
1993-2000**

Year	Nebraska			Omaha MSA			Lincoln MSA			Rest of State		
	Units	Total Annual Wages (000's)	Total Wages Per Unit	Units	Total Annual Wages (000's)	Total Wages Per Unit	Units	Total Annual Wages (000's)	Total Wages Per Unit	Units	Total Annual Wages (000's)	Total Wages Per Unit
1993	47,441	\$15,535,549	\$327,471	15,493	\$7,255,428	\$468,304	5,842	\$2,639,995	\$451,899	26,106	\$5,640,124	\$216,047
1994	48,320	\$16,602,374	\$343,592	15,803	\$7,728,129	\$489,029	6,001	\$2,826,160	\$470,948	26,516	\$6,048,084	\$228,092
1995	48,296	\$17,766,833	\$367,874	15,790	\$8,332,287	\$527,694	5,973	\$2,994,701	\$501,373	26,533	\$6,439,844	\$242,711
1996	49,294	\$18,922,049	\$383,861	16,134	\$9,016,489	\$558,850	6,079	\$3,192,934	\$525,240	27,081	\$6,712,625	\$247,872
1997	50,079	\$20,367,589	\$406,709	16,512	\$9,828,963	\$595,262	6,219	\$3,416,208	\$549,318	27,348	\$7,122,417	\$260,436
1998	50,943	\$21,693,192	\$425,833	16,754	\$10,513,037	\$627,494	6,400	\$3,720,533	\$581,333	27,789	\$7,459,621	\$268,438
1999	51,846	\$23,075,095	\$445,070	17,019	\$11,346,385	\$666,689	6,592	\$3,940,318	\$597,742	28,235	\$7,788,391	\$275,842
2000	51,779	\$24,450,060	\$472,200	17,031	\$12,072,314	\$708,844	6,701	\$4,171,811	\$622,565	28,047	\$8,205,933	\$292,578
% Chg.	9.1%	57.4%	44.2%	9.9%	66.4%	51.4%	14.7%	58.0%	37.8%	7.4%	45.5%	35.4%

**Total Wages Per Unit (1993-2000)  
All Industries**



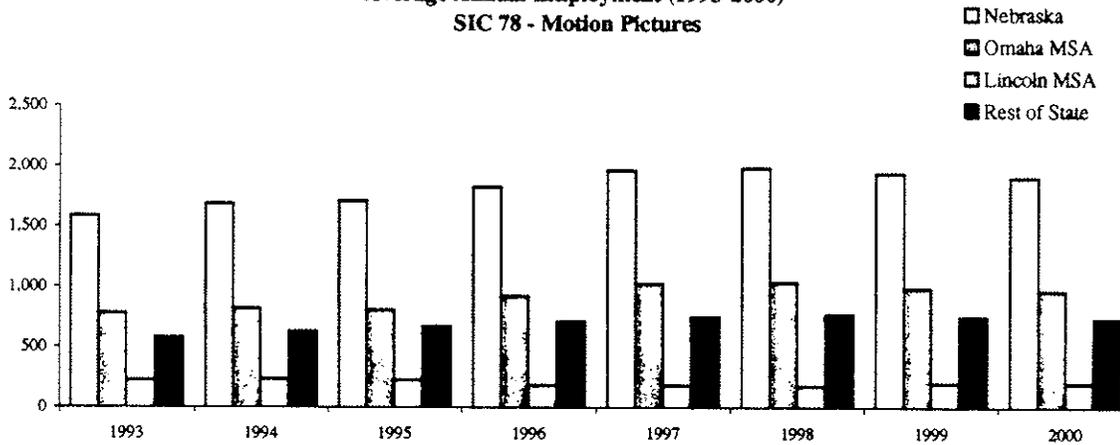
Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table F

AVERAGE ANNUAL EMPLOYMENT  
SIC 78 - MOTION PICTURES  
Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
1993-2000

Year	Nebraska	Omaha MSA	Omaha MSA as % of NE	Lincoln MSA	Lincoln MSA as % of NE	Rest of State	Rest of State as % of NE
1993	1,589	781	49.2%	228	14.3%	580	36.5%
1994	1,692	823	48.6%	237	14.0%	632	37.4%
1995	1,715	808	47.1%	232	13.5%	675	39.4%
1996	1,829	925	50.6%	188	10.3%	716	39.1%
1997	1,968	1,029	52.3%	185	9.4%	754	38.3%
1998	1,990	1,038	52.2%	180	9.0%	772	38.8%
1999	1,944	990	50.9%	201	10.3%	753	38.7%
2000	1,908	968	50.7%	201	10.5%	739	38.7%
% Chg.	20.1%	23.9%	3.2%	-11.8%	-26.6%	27.4%	6.1%
CAGR	1.1%	3.1%	0.5%	-1.8%	-4.3%	3.5%	0.9%

Average Annual Employment (1993-2000)  
SIC 78 - Motion Pictures



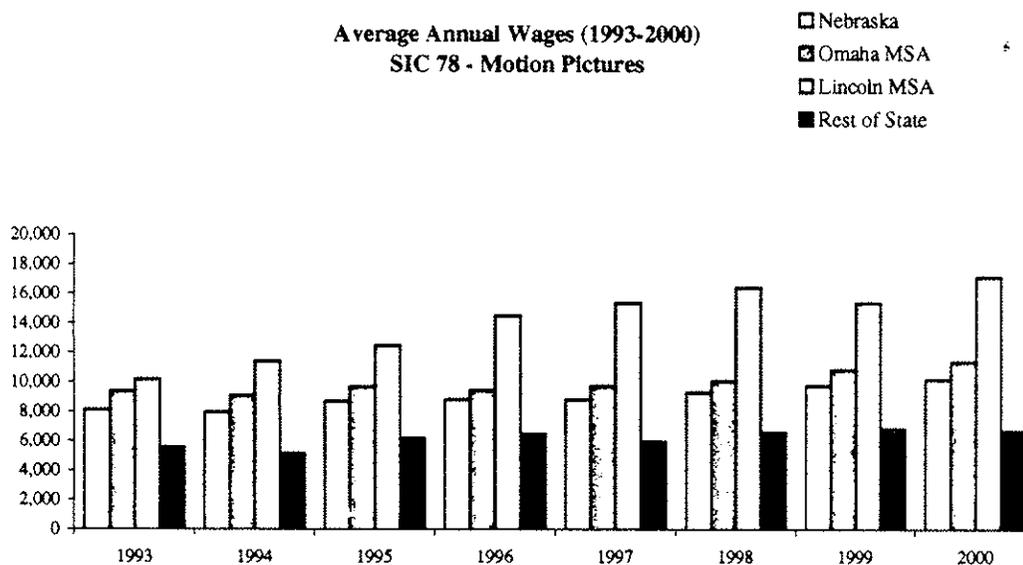
CAGR = compound annual growth rate

Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table G

**SIC 78 - MOTION PICTURES**  
**AVERAGE ANNUAL WAGES**  
**Nebraska, Omaha MSA, Lincoln MSA, and Rest of State**  
**1993-2000**

Year	Nebraska	Omaha MSA	Lincoln MSA	Rest of State
1993	\$8,121	\$9,388	\$10,194	\$5,600
1994	\$7,952	\$9,099	\$11,415	\$5,159
1995	\$8,697	\$9,685	\$12,496	\$6,208
1996	\$8,819	\$9,453	\$14,525	\$6,501
1997	\$8,830	\$9,741	\$15,405	\$5,974
1998	\$9,304	\$10,093	\$16,442	\$6,578
1999	\$9,771	\$10,846	\$15,374	\$6,862
2000	\$10,185	\$11,406	\$17,154	\$6,690
% Chg.	25.4%	21.5%	68.3%	19.5%
CAGR	3.3%	2.8%	7.7%	2.6%



CAGR = compound annual growth rate

Source: Nebraska Department of Labor and Economics Research Associates, 2002

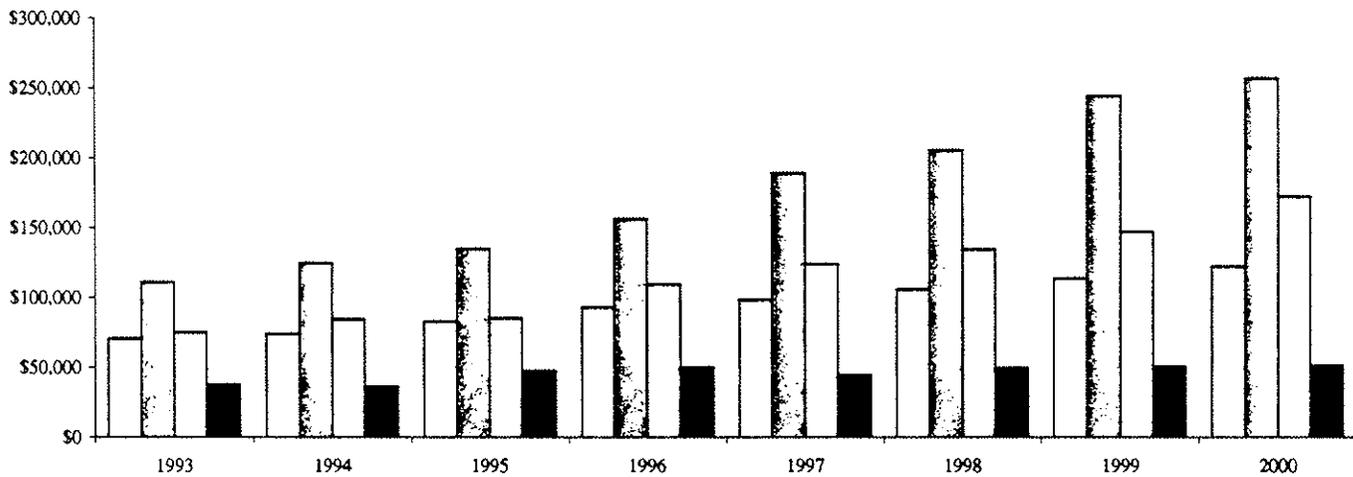
Appendix Table H

UNITS OF EMPLOYMENT AND TOTAL ANNUAL WAGES  
SIC 78 - MOTION PICTURES  
Nebraska, Omaha MSA, Lincoln MSA, and Rest of State

Year	Nebraska			Omaha MSA			Lincoln MSA			Rest of State		
	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit
1993	183	\$12,904,181	\$70,515	66	\$7,332,276	\$111,095	31	\$2,324,166	\$74,973	86	\$3,247,739	\$37,764
1994	182	\$13,453,950	\$73,923	60	\$7,488,396	\$124,807	32	\$2,705,270	\$84,540	90	\$3,260,284	\$36,225
1995	180	\$14,915,036	\$82,861	58	\$7,825,743	\$134,927	34	\$2,899,073	\$85,267	88	\$4,190,220	\$47,616
1996	174	\$16,129,723	\$92,700	56	\$8,744,038	\$156,144	25	\$2,730,724	\$109,229	93	\$4,654,961	\$50,053
1997	177	\$17,377,624	\$98,179	53	\$10,023,020	\$189,114	23	\$2,849,884	\$123,908	101	\$4,504,720	\$44,601
1998	175	\$18,514,175	\$105,795	51	\$10,476,754	\$205,427	22	\$2,959,556	\$134,525	102	\$5,077,865	\$49,783
1999	167	\$18,994,219	\$113,738	44	\$10,737,156	\$244,026	21	\$3,090,220	\$147,153	102	\$5,166,843	\$50,655
2000	159	\$19,432,780	\$122,219	43	\$11,041,033	\$256,768	20	\$3,447,989	\$172,399	96	\$4,943,758	\$51,497
% Chg.	-13%	51%	73%	-35%	51%	131%	-35%	48%	130%	12%	52%	36%
CAGR	-2.0%	6.0%	8.2%	-5.9%	6.0%	12.7%	-6.1%	5.8%	12.6%	1.6%	6.2%	4.5%

Total Wages Per Unit (1993-2000)  
SIC 78 - MOTION PICTURES

□ Nebraska  
▨ Omaha MSA  
▩ Lincoln MSA  
■ Rest of State



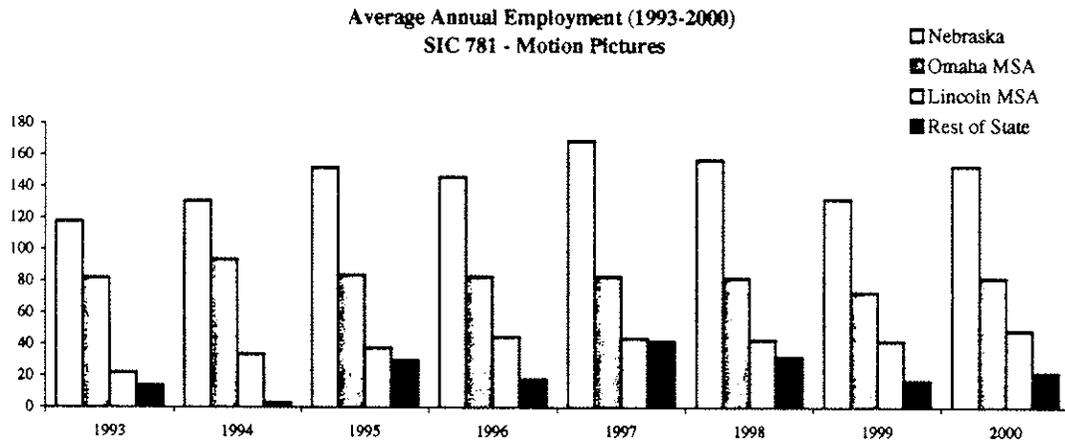
AGR = compound annual growth rate

Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table I

**AVERAGE ANNUAL EMPLOYMENT**  
**SIC 781 - MOTION PICTURE PRODUCTION**  
 Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
 1993-2000

Year	Nebraska	Omaha MSA	Omaha MSA as % of NE	Lincoln MSA	Lincoln MSA as % of NE	Rest of State	Rest of State as % of NE
1993	118	82	69.5%	22	18.6%	14	11.9%
1994	131	94	71.8%	34	26.0%	3	2.3%
1995	152	84	55.3%	38	25.0%	30	19.7%
1996	146	83	56.8%	45	30.8%	18	12.3%
1997	169	83	49.1%	44	26.0%	42	24.9%
1998	157	82	52.2%	43	27.4%	32	20.4%
1999	132	73	55.3%	42	31.8%	17	12.9%
2000	153	82	53.6%	49	32.0%	22	14.4%
% Chg.	30%	0%	-23%	123%	72%	57%	21%
CAGR	3.8%	0.0%	-3.6%	12.1%	8.0%	6.7%	2.8%



CAGR = compound annual growth rate

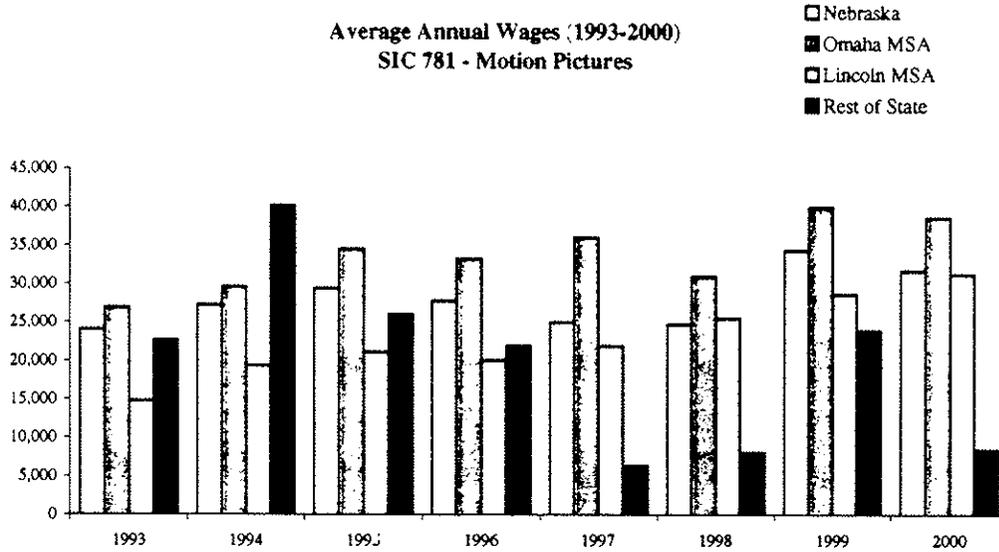
Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table J

SIC 781 - MOTION PICTURE PRODUCTION

Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
1993-2000

Year	Nebraska	Omaha MSA	Lincoln MSA	Rest of State
1993	\$24,110	\$26,956	\$14,789	\$22,693
1994	\$27,232	\$29,652	\$19,426	\$40,210
1995	\$29,469	\$34,521	\$21,153	\$26,066
1996	\$27,804	\$33,250	\$20,103	\$21,982
1997	\$24,997	\$36,045	\$21,985	\$6,396
1998	\$24,783	\$30,973	\$25,566	\$8,108
1999	\$34,434	\$40,019	\$28,691	\$23,987
2000	\$31,729	\$38,623	\$31,325	\$8,449
% Chg.	31.6%	43.3%	111.8%	-62.8%
CAGR	4.0%	5.3%	11.3%	-13.2%



CAGR = compound annual growth rate

Source: Nebraska Department of Labor and Economics Research Associates, 2002

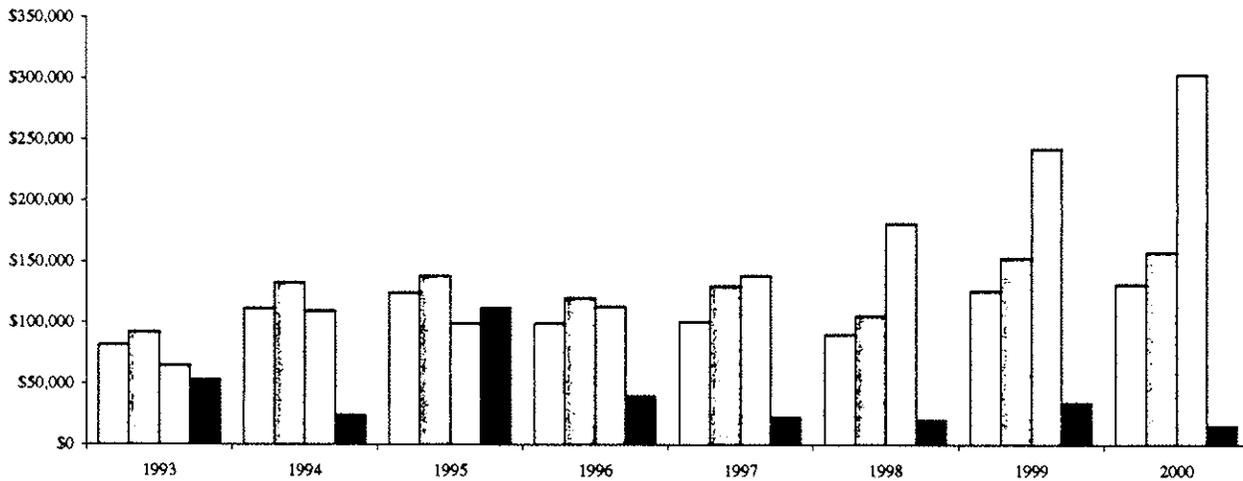
Appendix Table K

UNITS OF EMPLOYMENT AND TOTAL ANNUAL WAGES  
 SIC 781 - MOTION PICTURE PRODUCTION  
 Nebraska, Omaha MSA, Lincoln MSA, and Rest of State

Year	Nebraska			Omaha MSA			Lincoln MSA			Rest of State		
	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit
1993	35	\$2,850,963	\$81,456	24	\$2,210,372	\$92,099	5	\$322,887	\$64,577	6	\$317,704	\$52,951
1994	32	\$3,565,108	\$111,410	21	\$2,787,243	\$132,726	6	\$657,236	\$109,539	5	\$120,629	\$24,126
1995	36	\$4,476,792	\$124,355	21	\$2,899,804	\$138,086	8	\$795,007	\$99,376	7	\$781,981	\$111,712
1996	41	\$4,063,978	\$99,121	23	\$2,765,328	\$120,232	8	\$902,978	\$112,872	10	\$395,672	\$39,567
1997	42	\$4,226,543	\$100,632	23	\$2,988,731	\$129,945	7	\$969,191	\$138,456	12	\$268,621	\$22,385
1998	43	\$3,880,589	\$90,246	24	\$2,534,593	\$105,608	6	\$1,086,552	\$181,092	13	\$259,444	\$19,957
1999	36	\$4,528,073	\$125,780	19	\$2,908,079	\$153,057	5	\$1,212,209	\$242,442	12	\$407,785	\$33,982
2000	37	\$4,862,538	\$131,420	20	\$3,157,412	\$157,871	5	\$1,519,255	\$303,851	12	\$185,871	\$15,489
% Chg.	6%	71%	61%	-17%	43%	71%	0%	371%	371%	100%	-41%	-71%
CAGR	0.8%	7.9%	7.1%	-2.6%	5.2%	8.0%	0.0%	24.8%	24.8%	10.4%	-7.4%	-16.1%

Total Wages Per Unit (1993-2000)  
 SIC 781- MOTION PICTURES

□ Nebraska  
 ■ Omaha MSA  
 ▨ Lincoln MSA  
 ■ Rest of State



CAGR = compound annual growth rate

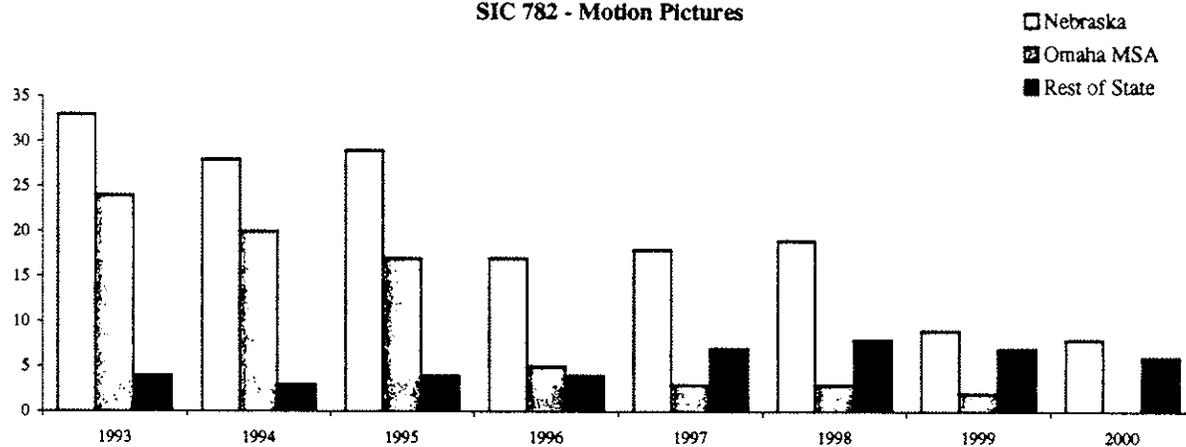
Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table L

**AVERAGE ANNUAL EMPLOYMENT  
SIC 782 - MOTION PICTURE DISTRIBUTION  
Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
1993-2000**

Year	Nebraska	Omaha MSA	Omaha MSA as % of NE	Lincoln MSA	Lincoln MSA as % of NE	Rest of State	Rest of State as % of NE
1993	33	24	72.7%	NA	NA	4	12.1%
1994	28	20	71.4%	NA	NA	3	10.7%
1995	29	17	58.6%	NA	NA	4	13.8%
1996	17	5	29.4%	NA	NA	4	23.5%
1997	18	3	16.7%	NA	NA	7	38.9%
1998	19	3	15.8%	NA	NA	8	42.1%
1999	9	2	22.2%	NA	NA	7	77.8%
2000	8	NA	NA	NA	NA	6	75.0%
% Chg.	-76%	NA	NA	NA	NA	50%	519%

**Average Annual Employment (1993-2000)  
SIC 782 - Motion Pictures**

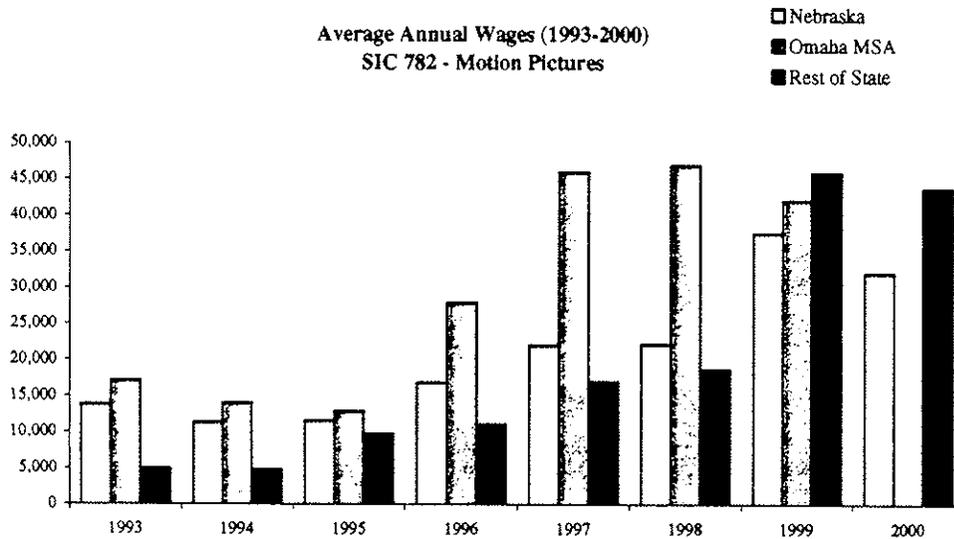


Source: Nebraska Department of Labor and Economics Research Associates, 2002

Appendix Table M

SIC 782 - MOTION PICTURE DISTRIBUTION  
 AVERAGE ANNUAL WAGES  
 Nebraska, Omaha MSA, Lincoln MSA, and Rest of State  
 1993-2000

Year	Nebraska	Omaha MSA	Lincoln MSA	Rest of State
1993	\$13,778	\$17,108	NA	\$4,899
1994	\$11,359	\$13,988	NA	\$4,788
1995	\$11,537	\$12,868	NA	\$9,777
1996	\$16,848	\$27,921	NA	\$11,051
1997	\$22,026	\$46,048	NA	\$17,000
1998	\$22,217	\$46,981	NA	\$18,729
1999	\$37,510	\$42,079	NA	\$45,889
2000	\$32,059	NA	NA	\$43,700
% Chg.	132.7%	NA	NA	792.0%



Source: Nebraska Department of Labor and Economics Research Associates, 2002

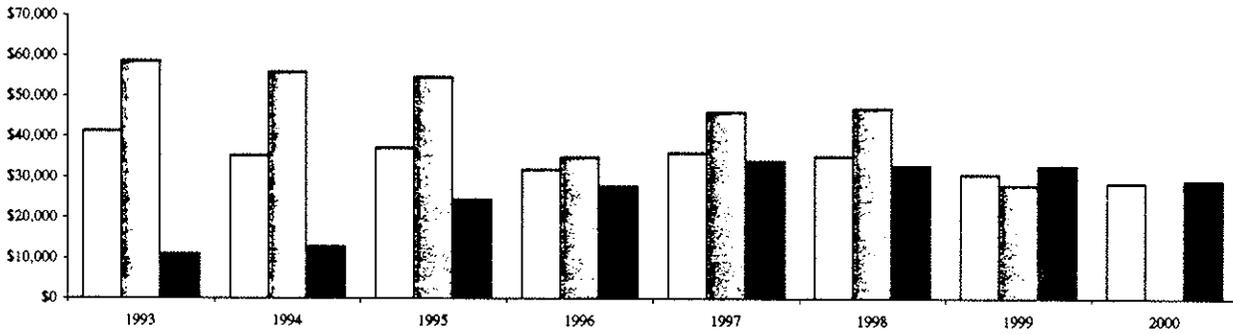
Appendix Table N

UNITS OF EMPLOYMENT AND TOTAL ANNUAL WAGES  
SIC 782 - MOTION PICTURE DISTRIBUTION  
Nebraska, Omaha MSA, Lincoln MSA, and Rest of State

Year	Nebraska			Omaha MSA			Lincoln MSA			Rest of State		
	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit	Units	Total Annual Wages	Total Wages Per Unit
1993	11	\$454,677	\$41,334	7	\$410,588	\$58,655	NA	NA	NA	4	\$44,089	\$11,022
1994	9	\$318,062	\$35,340	5	\$279,762	\$55,952	NA	NA	NA	3	\$38,300	\$12,767
1995	9	\$334,586	\$37,176	4	\$218,754	\$54,689	NA	NA	NA	4	\$97,766	\$24,442
1996	9	\$286,408	\$31,823	4	\$139,605	\$34,901	NA	NA	NA	4	\$110,766	\$27,692
1997	11	\$396,473	\$36,043	3	\$138,144	\$46,048	NA	NA	NA	7	\$238,003	\$34,000
1998	12	\$422,119	\$35,177	3	\$140,944	\$46,981	NA	NA	NA	8	\$262,200	\$32,775
1999	11	\$337,593	\$30,690	3	\$84,158	\$28,053	NA	NA	NA	7	\$229,445	\$32,778
2000	9	\$256,468	\$28,496	NA	NA	NA	NA	NA	NA	6	\$174,798	\$29,133
% Chg.	-18%	-44%	-31%	NA	NA	NA	NA	NA	NA	50%	296%	164%

Total Wages Per Unit (1993-2000)  
SIC 782 - MOTION PICTURES

□ Nebraska  
■ Omaha MSA  
■ Rest of State



Source: Nebraska Department of Labor and Economics Research Associates, 2002

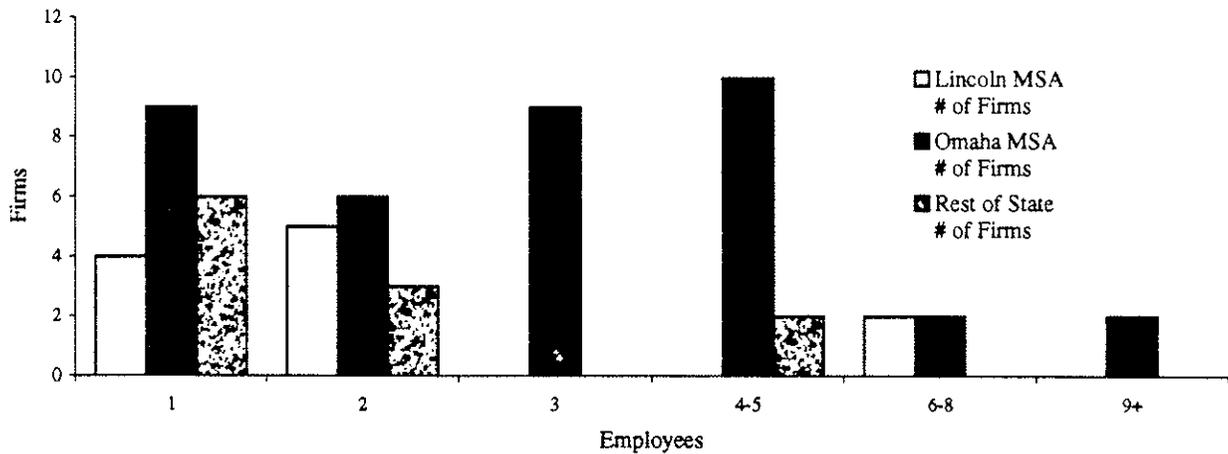
**Appendix Table O**

**SIZE OF FIRMS BY LOCAL EMPLOYMENT  
SIC 7812 - MOTION PICTURE VIDEO PRODUCTION  
Lincoln and Omaha MSA's, and Rest of State  
2002**

Local Employees	Lincoln MSA # of Firms	Percent of Total	Omaha MSA # of Firms	Percent of Total	Rest of State # of Firms	Percent of Total
1	4	36.4%	9	23.7%	6	15.8%
2	5	45.5%	6	15.8%	3	7.9%
3	0	0.0%	9	23.7%	0	0.0%
4-5	0	0.0%	10	26.3%	2	5.3%
6-8	2	18.2%	2	5.3%	0	0.0%
9+	0	0.0%	2	5.3%	0	0.0%
<b>Total</b>	<b>11</b>	<b>100%</b>	<b>38</b>	<b>100%</b>	<b>11</b>	<b>29%</b>

**Total Nebraska Motion Picture Video Production Firms: 60**

**Size of Firms by Local Employment  
SIC 7812 - Motion Picture Video Production**



Source: Dun & Bradstreet and Economics Research Associates

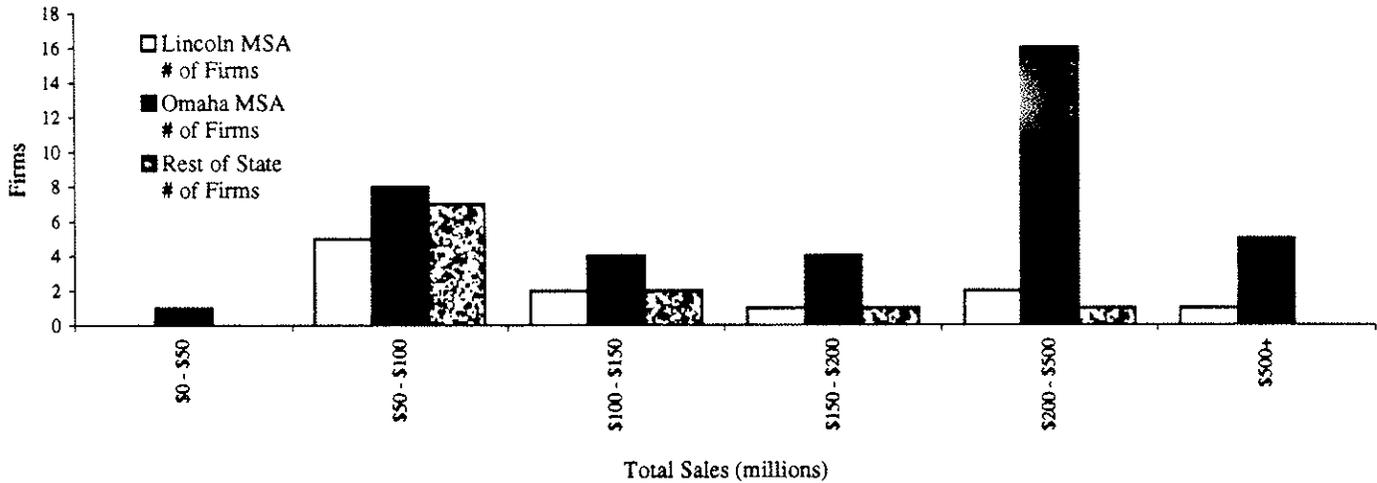
Appendix Table P

SIZE OF FIRMS BY TOTAL SALES  
 SIC 7812 - MOTION PICTURE VIDEO PRODUCTION  
 Lincoln and Omaha MSA's, and Rest of State  
 2002

Total Sales (000's)	Lincoln MSA # of Firms	Percent of Total	Omaha MSA # of Firms	Percent of Total	Rest of State # of Firms	Percent of Total
\$0 - \$50	0	0.0%	1	2.6%	0	0.0%
\$50 - \$100	5	45.5%	8	21.1%	7	18.4%
\$100 - \$150	2	18.2%	4	10.5%	2	5.3%
\$150 - \$200	1	9.1%	4	10.5%	1	2.6%
\$200 - \$500	2	18.2%	16	42.1%	1	2.6%
\$500+	1	9.1%	5	13.2%	0	0.0%
<b>Total</b>	<b>11</b>	<b>100%</b>	<b>38</b>	<b>100%</b>	<b>11</b>	<b>29%</b>

Total Nebraska Motion Picture Video Production Firms: 60

Size of Firms by Total Sales  
 SIC 7812 - Motion Picture Video Production



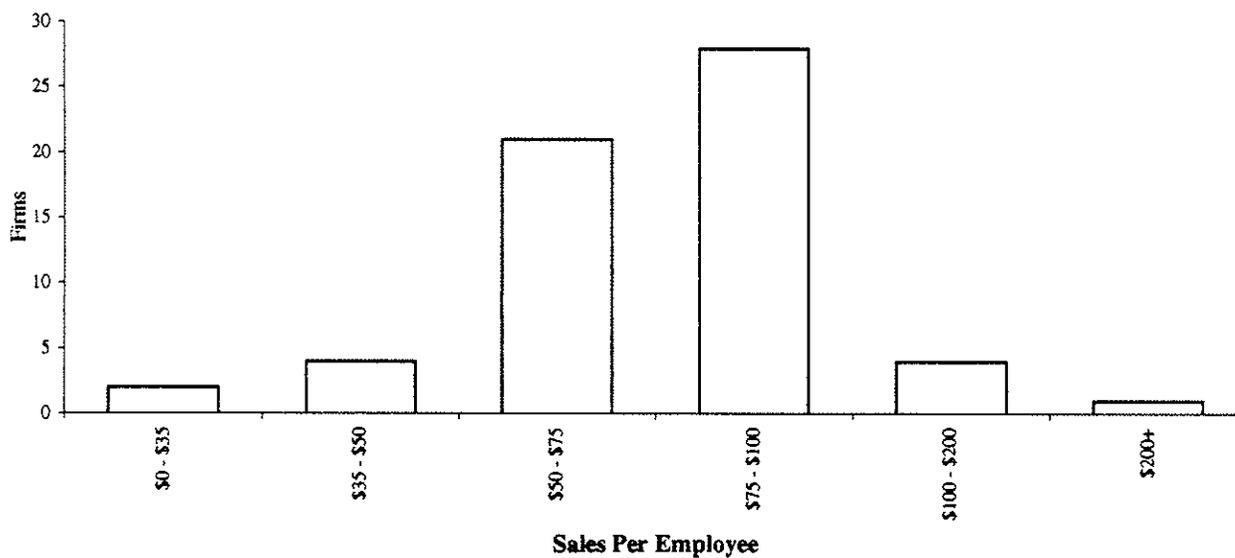
Source: Dun & Bradstreet and Economics Research Associates

Appendix Table Q

**SIZE OF FIRMS BY SALES PER EMPLOYEE  
SIC 7812 - MOTION PICTURE VIDEO PRODUCTION  
Lincoln and Omaha MSA's, and Rest of State  
2002**

Sales Per Employee (000's)	Number of Firms	Percent of Total
\$0 - \$35	2	3.3%
\$35 - \$50	4	6.7%
\$50 - \$75	21	35.0%
\$75 - \$100	28	46.7%
\$100 - \$200	4	6.7%
\$200+	1	1.7%
<b>Total</b>	<b>60</b>	<b>100%</b>

Size of Firms by Sales Per Employee  
SIC 7812



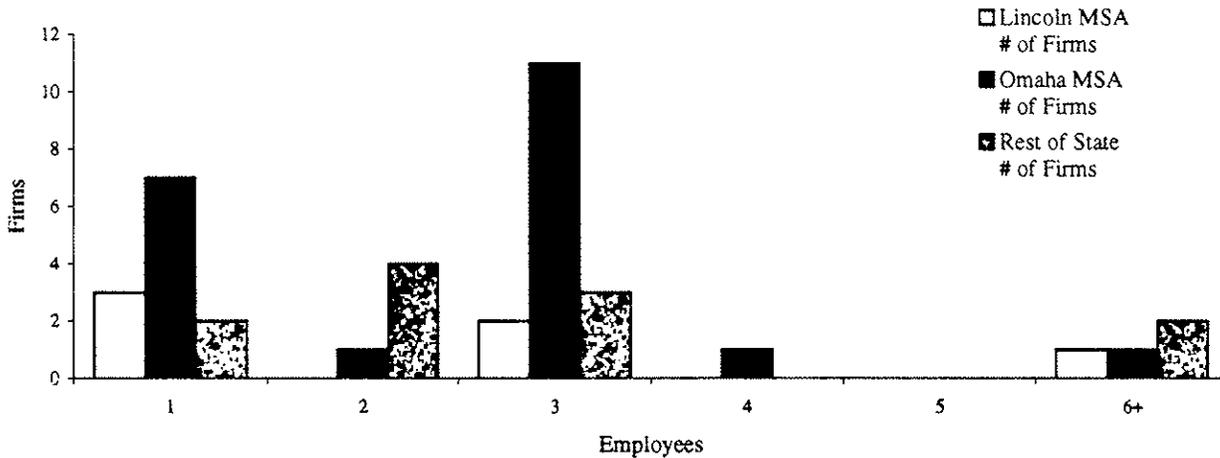
Source: Dun & Bradstreet and Economics Research Associates

**Appendix Table R**

**SIZE OF FIRMS BY LOCAL EMPLOYMENT  
SIC 7819 - SERVICES ALLIED TO MOTION PICTURE PRODUCTION  
Lincoln and Omaha MSA's, and Rest of State  
2002**

Local Employees	Lincoln MSA # of Firms	Percent of Total	Omaha MSA # of Firms	Percent of Total	Rest of State # of Firms	Percent of Total
1	3	33.3%	7	20.0%	2	5.7%
2	0	0.0%	1	2.9%	4	11.4%
3	2	22.2%	11	31.4%	3	8.6%
4	0	0.0%	1	2.9%	0	0.0%
5	0	0.0%	0	0.0%	0	0.0%
6+	1	11.1%	1	2.9%	2	5.7%
<b>Total</b>	<b>6</b>	<b>67%</b>	<b>21</b>	<b>60%</b>	<b>11</b>	<b>31%</b>

**Size of Firms by Local Employment  
SIC 7819 - Services Allied to Motion Picture Production**



Source: Dun & Bradstreet and Economics Research Associates

Appendix Table Y

U.S. STATE

FILM PRODUCTION TAX INCENTIVES AND PROGRAMS

2002

STATE	INCENTIVE OR PROGRAM IN PLACE
AL	Effective December 1, 2001 the state legislature approved sales, use, and lodging tax abatements to qualified productions. State and local sales and use tax exemption for the purchase and lease of equipment, props, supplies, materials and services used in production.
AZ	50% rebate of 5% states tax on tangible goods and leased property, provided feature films spend \$1M over 12 mos. and commercials spend \$250,000. No withholding tax from wages of nonresidents engaged in any phase of motion picture production. No state tax on lodging after 30 days.
AR	Refund state sales tax on equipment or services. To obtain refund, production company must register with Arkansas Film Office before the start of shooting; obtain a "letter of support" from community where filming is taking place; expenditures must be made through an Arkansas bank; must spend \$500,000 in six months or \$1M in 12 mos.; weekly reports must be submitted to the Arkansas Revenue Dept.
CA	A partial sales tax exemption on purchase or lease of postproduction equipment. No sales tax on services generally. Reimbursement for certain film costs (up to \$300,000 per production) incurred by a qualified production company when filming on public land. No sales tax on 45 percent of the charges for sets, and no sales tax on the full charge for the rental of personal property. No state hotel tax on occupancy for stays in excess of 30 days.
CT	Sales and use tax exemption for the purchase or lease of equipment used in production. No hotel occupancy tax for hotel stays in excess of 30 days.
FL	As of January 1, 2001, a sales and use tax exemption is available on the purchase or lease of certain items used in film production. To attract film production businesses, the State also offers the Qualified Target Industry Refund for multi-state and/or international businesses, and the Incumbent Worker Training Program.
GA	Point of purchase sales tax incentive for productions shot in the state. The tax incentives allows producers to save between 5 and 7 percent on below-the-line materials purchased, rented, or leased in Georgia.
HI	High Technology Business Investment Tax Credit in which royalties are excluded from income and not subject to state income tax. Motion Picture and Film Production Income Tax Credit wherein 4 percent of total production expenditures can be credited from net income tax liability, in addition to a rebate of the 7.25% transient accommodations (hotel) tax. To be eligible, production must spend at least \$2 million for a feature production or \$750,000 to produce a TV episode, pilot or MOW. If the tax credit exceeds the income tax liability, the excess will be refunded to the taxpayer.
ID	No hotel occupancy tax on hotel stays of 30 days or longer.
IL	Sales and use tax exemption on processing of 16 and 35mm film, and hotel room taxes. The 14.9 percent hotel tax is reimbursed for stays in excess of 30 days.
KS	State sales tax reimbursement program wherein qualified productions spending a minimum of \$200,000 in Kansas can be reimbursed for the 4.9 percent state sales tax. Transient guest taxes on hotel rooms are also waived for guests staying 28 days or more.
KY	Refund of state's 6% sales and use tax on qualified productions for expenditures made in connection with the production.
LA	State sales and use tax exclusion of the 4% state sales tax on purchases made in connection with filming or production. Must spend \$250,000 or more in the state to qualify. The Louisiana Motion Picture Incentive Program also offers a labor tax credit on local labor of 10% for productions of between \$300,000 and \$1m or 20% for those exceeding \$1m. To attract private investment, a new law further grants a tax credit against state income tax for taxpayers domiciled and headquartered in the state of Louisiana.
MD	Exemption from 5% state sales tax for the purchase or lease of production or postproduction equipment, services and supplies used in production. No state sales tax for hotel stays in excess of 30 days.
ME	Sales tax exemptions for certain equipment and machinery purchases, as well as fuel and electricity. Hotel occupancy taxes are rebated after 28 consecutive days.
MI	Hotel rebates after a stay of 30 days or more.
MO	Provides an income tax credit of up to 50% of expenditures in the state to a maximum of \$500,000 in tax credits per project. Qualified productions must spend a minimum of \$300,000 in the state.
MN	Payments to producers for a portion of services and wages paid for in-state production jobs, capped at \$100,000 per production, called the <i>Snowdate</i> program. Exemption from the state sales tax for commercial shoots. No sales tax on hotel stays of 30 days or more.

Appendix Table Y (cont.)

U.S. STATE

FILM PRODUCTION TAX INCENTIVES AND PROGRAMS

2002

STATE	INCENTIVE OR PROGRAM IN PLACE
MS	Filmmaking is classified as a manufacturing process. As such, raw materials of the filmmaking process are tax-free. Currently, this means film stock only.
MT	No property tax on out-of-state equipment used exclusively in motion picture or commercial production. No accommodations tax for hotel stays in excess of 30 days.
NE	A sales tax exemption on lodging for continuous stays of 30 days or more.
NJ	Sales tax exemption for all film and video related machinery and equipment, as well as services of installing, repairing, and maintaining equipment that is used either in production or post-production.
NM	Film Investment Program that allows the State Investment Council (SIC) to become an investor in a film project, provided the project utilizes a majority of New Mexico residents as crew members and has a distribution contract and a completion bond in place. The state also offers a 6% reduction in production costs at the point-of-purchase for goods and services purchased or leased in the state.
NY	Materials and hardware utilized in the course of filmmaking is classified as manufacturing and thereby subject to lower rates of taxation. New York City has a sales and use tax exemption (4%) on equipment used for film production. The Mayor's Office of Film, TV and Broadcasting in NYC also recently began offering a participatory hotel program wherein member hotels receive a 10% discount off of the lowest available daily rate. Police services are free.
NC	The state also offers a 1% cap on the 6.5% sales and use tax on items purchased or rented for the making of films in NC. Full exemption for the purchase of film that becomes a component part of release prints sold or leased. The chemicals used to develop release prints are also exempt from sales tax. For hotel/motel bookings of 90 days or more, the state offers production companies a rebate on hotel room occupancy taxes.
OH	Hotel room tax rebate after 30 days (10.5 percent tax is refunded).
OK	The Oklahoma Film Enhancement Rebate Program - a 15% rebate on production dollars spent in the state if an income tax return is filed there. NOTE: The fund is limited to \$2 million annually. Sales tax exemption on sales of tangible, personal property used in production. No state sales tax on hotels after 30 days.
OR	No sales tax statewide. The Portland/Multnomah County area offers rebates on parking costs of up to \$1,000 for each 100 hotel rooms used, up to \$1,000 for each 100 hotel rooms used, with a cap at \$3,500. City-owned buildings do not charge location fees. There is no hotel/motel tax on rooms held for longer than 30 days statewide.
PA	Sales tax exemption (6%) which can be waived on film-related purchases, rentals, etc.
SC	Sales tax exemption at point of purchase
SD	Exemption of sales tax (4 percent state sales tax, plus city tax, and a 1 percent tourism tax) if a hotel/motel room is rented for more than 28 consecutive days.
TN	A tax rebate if a production company spends at least \$500,000 (including tax) and completes filming in 12 months or less. The company must be from outside of the state. No sales tax on hotel rooms for stays in excess of 30 days.
TX	A 100% from local and state sales tax for most of what is rented, bought, or leased and is directly used in production. Occupancy tax is also waived if the stay is for 30 consecutive days.
UT	Transient occupancy tax rebate on hotel stays after 30 days.
VA	State (3.5%) and Local (1%) sales and use tax exemptions. Exemptions are provided at the time of sale.
VT	Hotel taxes are exempted on stays of 31 days or longer. Manufacturer's sales and use tax (5%) is exempted for the purchase or rental of goods that are used directly in the making of the production.
WA	A state sales tax exemption (6.5%) on rental equipment and the purchase of services. Local, state and special use taxes are also exempted on rental vehicles "used in production." Hotel/motel tax exemption with a stay of 30 consecutive days.
WY	A voluntary participation by many businesses (hotel, restaurants, etc.) giving a 10% discount to incoming film productions. No tax on hotel stays in excess of 30 days.

NOTE: These incentives are subject to change. For further or the most recent information, it is highly advisable to contact the individual film commission.

Source: Individual Film Commissions, MPAA Worldwide Research, and Economics Research Associates.