

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairperson Lana Gordon at 3:30 P.M. on January 27, 2005 in Room 526-S of the Capitol.

All members were present except:

Carl Krehbiel- excused  
Judy Loganbill- excused  
Todd Novascone- excused  
Tom Burroughs- excused

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department  
Susan Kannarr, Kansas Legislative Research Department  
Rena Jefferies, Revisor of Statutes  
Helen Pedigo, Revisor of Statutes  
Carlene Maag, Committee Secretary

Conferees appearing before the committee:

Jerry Longergan, Kansas Inc.  
Barbara Nash, Film Commission  
Doug Curtis  
Steve Kelly, Department of Commerce

Others attending:

See attached list.

Rep. Annie Kuether requested introduction of legislation that is a clean-up bill related to the Film Commission. A motion was made by Rep. Huntington to introduce the legislation proposed by Rep. Kuether. Rep. Treaster seconded the motion. A vote was taken, motion passed.

**HB 2010 - Income tax credit and sales tax exemption report; production responsibility moved from Kansas, Inc. to Revenue Department**

Helen Predigo provided an overview of the Interim Committee study which lead to introduction of **HB 2010**. The major issue of the interim study this summer was sales tax exemptions and income tax credits. (Attachment 1) Currently, Kansas Inc. is required to submit an annual report on sales tax exemptions and income tax credits to evaluate cost effectiveness of those exemptions and credits. The problem is, Kansas Inc. does not have access to the information to complete such a report. The Interim Committee recommended a bill be introduced to move that responsibility to the Kansas Department of Revenue. The rest of the bill is clean up of language in the statute to transfer annual reporting responsibility from Kansas Inc. to the Kansas Department of Revenue.

Jerry Lonergan, President, Kansas Inc. provided information regarding the effort by Kansas Inc. and the House Economic Development Subcommittee on Lights, Camera and Action to promote the film industry in Kansas. In 2004 expenditures related to the film industry in Kansas were approximately \$7 million. Kansas, Inc. recommends that if the state wants to pursue a film initiative, Kansas focus on targeting independent film makers with state ties as opposed to reliance on tax credits and rebates. This approach will provide Kansas with the ability to attract and retain young professionals in an industry expected to grow substantially and one that is rich in the innovative use of technology expansion. Kansas is competitive due to the already successful film school at KU. Kansas Inc. recommends a funding base starting with \$1 million the first year and \$450,000 for the following three years. The proposal requires that funds be spent only in Kansas.

A goal of promoting the film industry is to enable young professionals to achieve their career goals in Kansas. The competitive advantages Kansas possess are lower costs to film producers, cooperative and eager communities, fewer regulatory barriers for productions, and the excellent KU film School. The written testimony provides specific recommendations. (Attachment 2) Mr. Lonergan also presented committee members with a copy of testimony given by Peter Jasso at the Joint Committee on Economic Development. (Attachment 3)

## CONTINUATION SHEET

MINUTES OF THE House Economic Development Committee at 3:30 P.M. on January 27, 2005 in Room 526-S of the Capitol.

Rep. O'Malley expressed appreciation for the co-operative effort of all interested parties and for the very clear, specific recommendations.

There was a question and answer session after Mr. Lonergan's presentation.

Chairperson Gordon introduced Barbara Nash, Chairperson, Kansas Film Commission. She shared that at one time the Kansas Film Commission aggressively pursued film production in Kansas and succeeded for one reason because of our central location. Today, Kansas is not as active and that is a loss to Kansas. Not only are we losing revenue by not attracting the film industry back to Kansas, we are losing the talents of many young people that must pursue their career goals outside Kansas. The Kansas Film Commission is dedicated to marketing the state to the film industry. The first Kansas Film Industry Summit will be held in March. With a commitment to recruiting the film industry to Kansas, the arts, business and education will benefit. (Attachment 4)

Barbara Nash introduced Doug Curtis, a Dodge City native and film producer. Mr. Curtis is a member of the Director's Guild of America and the Producer's Guild of America. He shared an article from the organization's newsletter that compares state tax incentives. (Attachment 5) As a line producer who does the budget and the schedule for a movie, it is his responsibility to deliver that movie within the budget. In reviewing a script it is necessary to determine, where do we make this film? In recent times, because the dollar is weak, a movie can be filmed in Vancouver for \$30 million versus \$36-37 million in Los Angeles. That is changing. States have seen that trend and are developing initiatives to attract movie makers. Movie makers like to go to Austin, Texas. Film producers who go to Austin always want to go back. Lawrence has the same potential. Mr. Curtis stated he hopes Kansas will become competitive, especially with the potential offered by the KU film school and the Lawrence community. Discussion with Doug Curtis brought out two facets of promoting the film industry - the promotion of independent film makers with Kansas ties drawing on the expertise at KU and a second approach of the state offering incentives to attract major movie makers.

There was a lengthy discussion among Committee members and Mr. Curtis.

Chairperson Gordon expressed her appreciation to Mr. Curtis for meeting with the Committee and educating the group on the film industry process.

Steve Kelley, Kansas Department of Commerce, presented information on film making in Kansas. The Department of Commerce has been promoting the state as a film site since 1982, and the effort has resulted in generation of over \$230 million in film production spending in Kansas. The written testimony includes information presented to the Joint Committee on Economic Development in August 2004. Mr. Kelly recognized the work of Kansas Inc. and the Lights, Camera, Action Subcommittee and their conclusion that there are benefits Kansas can derive from the film industry.

However, economic development incentives in the film industry are not competitive as a job creation strategy compared to most other industries. Kansas Inc.'s study indicated that \$1 million of in-state film revenue yields ten jobs. If growth in film activity is to be encouraged through incentives, the costs of those incentives need to be evaluated in relation to the economic benefit. The film industry does not meet the typical economic development concepts of the Department of Commerce mission. The Department of Commerce supports efforts to increase film making in Kansas but believes other entities should assume a larger leadership role to develop the financial resources to promote the uniqueness of the film industry. (Attachment 6)

A question and answer period followed Mr. Kelly's testimony.

Chairperson Gordon mentioned a film production report by the Public Policy Clinic, KU School of Law could be obtained by e-mailing [rlevi@ku.edu](mailto:rlevi@ku.edu).

The meeting adjourned at 5:20 p.m. The next meeting is scheduled for 2-1-05.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE GUEST LIST

DATE: 1-27-05

NAME	REPRESENTING
Barbara Nash	Kansas Film Com.
Hoite C Caston	Kansas Film Com.
Justin Parlette	Rep. Sloan's Office
David Marker	Rep. Powell's Intern
LUKE BELL	KEARNEY AND ASSOCIATES
JERRY LONERGAN	KS INC.
Steve Kelly	Kansas Commission
Sean Tomp	Kansas, INC.
Susan Pearson	Capitol Consulting Group
David Carbin	K DOR
Kathleen Smith	K DOR
Richard Crann	"
James Bartle	Dept. of Revenue
Carol McDowell	Kansas Film Commission
Doug Curtis	"
Hoite Caston	"
Barbara Nash	"



# Joint Committee on Economic Development

## MISCELLANEOUS TOPICS: HIGHER EDUCATION; THE KANSAS ECONOMY; SALES TAX EXEMPTIONS AND TAX CREDIT REPORT; AND THE KANSAS ECONOMIC GROWTH ACT

### CONCLUSIONS AND RECOMMENDATIONS

The Committee took three actions with regard to the Report on Sales Tax Exemptions and Income Tax Credits for Economic Development topic.

- The Committee sent a letter to the chair of the Special Committee on Assessment and Taxation urging support for changes to tax confidentiality statutes that would allow access to the Department of Commerce and Kansas, Inc. for the purposes of evaluating economic development programs.
- The Committee recommends legislation shifting responsibility for producing the Sales Tax Exemption and Income Tax Credits report from Kansas, Inc. to the Department of Revenue.
- The Committee requests that the Department of Revenue, Kansas, Inc., and the Department of Commerce present information to the House Economic Development and Senate Commerce Committees during the 2005 Session regarding changes in the responsibility of Kansas, Inc. to prepare economic development reports based on resources and information available.

The Committee makes no recommendations on the remaining topics.

**Proposed Legislation:** The Joint Committee recommends one bill.

### BACKGROUND

The Joint Committee on Economic Development is statutorily authorized to set its own agenda. The Committee recognized the following topics as being important to the discussion of economic development in Kansas.

### COMMITTEE ACTIVITIES

#### Higher Education and Economic Development

The Committee invited Kansas Citizens for Higher Education (KCHE) to speak about the role of higher education in economic development. KCHE, established in 2002, is a group of Kansas business and civic leaders with a

goal to conduct research, and inform the public about the importance of higher education.

At the October 21, 2004 meeting, the Committee received a presentation from KCHE representatives titled "Higher Education in Kansas: Driving Our State's Economy in the 21st Century." The presentation included information on the state budget; the impact of higher education on the U.S. and Kansas economies; higher education and the bioscience initiatives; Kansas compared to other states in the Big 12; and steps to improve higher education funding. The presentation also included a breakdown of higher education's economic contributions by senatorial district. Major points covered by the presenters included:



- The statewide economic benefit of higher education to Kansas can be valued as \$2 billion in annual spending; a \$5.2 billion economic contribution; 6 percent of gross state product; \$281 million in annual taxes; 116,000 jobs; and regional, recession-proof economic anchors.
- Bioscience jobs will be created by Kansas universities and other postsecondary institutions.
- Kansas leads the other states where Big 12 schools are located in demand for higher education as measured by the number of students in higher education as a percentage of the Kansas population, but per student state funding is next to last in the Big 12 states.
- Tuition and fees are near the bottom of Big 12 states and faculty salaries are well below other Big 12 states.
- Enrollment and inflation have outpaced state funding since 1990, creating a shortfall in funding.
- Solutions presented include supporting people who understand and advance the linkage between higher education and economic prosperity and moving state support and tuition increases in tandem.

The Committee acknowledged the importance of higher education in the continued success of the Kansas economy but made no specific recommendations regarding the issue.

### **Update on the Kansas Economy**

Mr. William R. Keeton, Assistant Vice President, Economic Research Department, Federal Reserve Bank of Kansas City, presented an update on the Kansas economy. The report included information about the recent performance of the Kansas economy, including employment and income; manufacturing, construction and real estate; services and government; and agriculture. Mr. Keeton

explained that the Kansas economy has rebounded solidly this year, however, Kansas still has some ground to make up from the recession. Jobs have shown growth, especially in the Wichita area, while Kansas City has not shown the same growth. Manufacturing has come out of its recent slump and smaller manufacturers report increased activity. In addition, a broad array of service sectors are now expanding and firms are reporting that they plan to keep hiring new employees. Housing activity has been solid and housing inflation is more subdued in Kansas than in the nation. Farm conditions are favorable overall, with good crops being reported. The one possible downturn may be high energy prices; however, the economy is less vulnerable than it was in the 1970s. Therefore, despite the risk of energy prices, most economists predict the recovery will continue in Kansas.

### **Report on Sales Tax Exemptions and Income Tax Credits for Economic Development**

Sean Tomb, Research Analyst, Kansas, Inc., presented the agency's May 2004 report on sales tax exemptions and income tax credits for economic development for tax year 2002. Kansas, Inc. is statutorily responsible for preparing an annual evaluation of the cost effectiveness of various income tax credits and sales tax exemptions implemented to encourage economic development. Mr. Tomb presented the purpose, methodology concerns, key findings, and next steps that the agency will take. The Committee was informed that methodology problems and poor response rates make the information in the report of limited use. Methodology problems include poorly worded questions, poor design, incomplete questionnaires, and no mechanism to verify claims. Unfortunately, a survey is the only available means for Kansas, Inc. to gather information from companies due to confidentiality issues. The Secretary of Revenue addressed the Committee and explained that under current law, Kansas, Inc. is prohibited from looking at the data the Department of Revenue currently collects due to confidentiality statutes. The Secretary further indicated

that the Department of Revenue has the ability to do this report internally, but that agencies like Kansas, Inc. and the Department of Commerce would continue to have limited ability to evaluate economic development programs. The Secretary cautioned that business groups are generally opposed to opening up access to tax information, but that the Department was currently in discussions with them. The Committee also was informed that the interim Special Committee on Assessment and Taxation currently is looking at a bill that addresses these confidentiality issues.

The Committee expressed its frustration with the lack of information and noted that the current report is of very little use due to the problems described above. The Committee noted the importance of this type of information for the Legislature to make informed economic decisions. The Committee further noted that Kansas, Inc., which has been given responsibility to produce this report, has not been given the resources to produce it, with the result that the report remains incomplete and of little use.

### **Update on the Kansas Economic Growth Act of 2004**

A representative of the Kansas Department of Commerce reported that over the next decade the programs contained within the Kansas Economic Growth Act will provide economic development incentives through various funding mechanisms to grow emerging industries, serve existing employers, attract new businesses, and support small businesses in urban and rural communities. The Kansas Center for Entrepreneurship and the Kansas Community Entrepreneurship Fund have been established to ensure collaboration of resources for assistance and to ensure capital is accessible to entrepreneurs from both rural and low-income communities. The estimate is that the Center will generate close to \$3 million for business development in the next five years. The Angel Investor Tax Credit Program (worth \$20 million over ten years) will encourage new business start-ups and provide seed financing for business development. The Rural Business Development Program (worth

\$7 million in tax credits over three years) will encourage individuals and businesses to invest in regional foundations in each of seven economic development regions in Kansas. In addition, the Enterprises Facilitation Program for small business and community development is active in 25 rural counties.

A representative of Kansas Technology Enterprise Corporation (KTEC) informed the Committee that on October 4-7, 2004, KTEC and New Economy Strategies did hold six prosperity summit-style meetings throughout the state in Kansas City, Wichita, Manhattan, Lawrence, Hays and Pittsburg about the Act. In addition, KTEC and Kansas BioScience Authority have partnered to present a plant-made pharmaceutical symposium on November 9 in Hays, Kansas and the symposium will feature Mark Drabenstott, Vice President and Director of the Center for the Study of Rural America. The focus of the symposium was on how Kansas' agricultural assets can be leveraged in the bioscience arena. Finally, work has begun to develop a revenue forecast for the BioScience Authority to determine the baseline amount of bioscience tax revenues so the incremental increase above this baseline each year can fund the Authority and its efforts.

The Committee acknowledges the progress made on the implementation of the Kansas Economic Growth Act. In addition, it has been reported that Mr. Celine of SELI will provide information on patents to the 2005 Legislature and this information will be distributed to the Committee once it is made available.

### **CONCLUSIONS AND RECOMMENDATIONS**

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The Committee makes no recommendations on the remaining topics.



**A Permanent Presence of the Film Industry in Kansas,**  
*The Sequel*

*JANUARY 27, 2005*

Prepared by  
Kansas, Inc.  
Jerry Lonergan, President

To

Kansas House Economic Development



## EXECUTIVE SUMMARY

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

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

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

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

Kansas, Inc. also recommends the Film Commission consider benefits and options associated with moving out of the Department of Commerce. Best estimates are even with substantial direct expenditures the job creation impacts of the industry are small with approximately 10 jobs per \$1 million in direct film and visual industry expenditures. If film programs are required to be judged as most economic development programs – jobs created per state investment - the Film Commission will continue to struggle to achieve adequate funding for implementing new initiatives. Outside of the standard economic development evaluation constraints, film investments can be judged on the ability to attract and retain young people interested in filmmaking and the industry value in promoting state image and enhancing cultural opportunities, goals that are important to the state's future.

## I. Film Industry Conclusions and Recommendations

### Summary

The initial charge to Kansas, Inc. was to develop an understanding of the film industry<sup>1</sup> and prepare a set of recommendations that could result in a permanent and growing presence of the industry in the state. Kansas, Inc. prepared this report and recommendations on the basis that there was interest in developing the industry and that some state investment would be required.

### Why invest in the filmmaking industry?

*Employment in the motion picture and video industries is projected to grow 31% from 2002 to 2012; double the 16% growth projected for all industries combined data from Bureau of Labor Statistics*

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

### Why an independent film strategy?

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

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



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

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

Yes, because:

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

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

Funding of an independent film initiative

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

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

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

## **Recommendations**

### Kansas Film Commission

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

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

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

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

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

Revolving Loan Fund Program

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

The Film Commission should also continue to monitor the Florida, and other rebate programs (e.g., South Carolina and Oklahoma) and what success these programs demonstrate. It also should keep current on other film incentive program and states' legislative actions.



## Budget Estimates

### First Year = \$1,000,000

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

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

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

## Economic Development Estimates

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

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

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

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

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

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

Jobs Impact: Documenting job impacts of the entire visual arts industry is difficult. The best tools found were those that measured job and economic impacts where substantial production dollar expenditures already are prevalent. Each of three studies considered regions already with direct expenditures over \$100 million. Three separate firms using different methodologies each had similar estimates of about 10 jobs created for every \$1 million in direct production expenditures (this would include both private and public expenditures).

Kansas Film Commission staff estimate 2004 quantified state direct annual film expenditures at about \$7 million. Using the numbers above, a minimum job creation for the Kansas film industry is 70 to 80 full-time equivalents. However, since the total Kansas expenditures are orders of magnitude lower than the reviewed studies, the jobs created may be substantially higher due to the small fragmented nature of the state's industry. As the Kansas industry grows and approaches these larger expenditure levels and begins to capture economies of scale, it would be expected to approach the 10 jobs per \$1 million in direct expenditure. However, as was experienced in areas with an independent local focus, the public sector share of these larger direct expenditures becomes increasingly smaller.

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

## KANSAS, INC.

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

A 17-member board of directors co-chaired by the Governor and a private sector representative governs Kansas, Inc. Nine board members are representatives from identified industries in the private sector and other members are: the Secretary of Commerce, Legislative leadership, the Kansas Board of Regents, and a representative from labor.

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### BOARD OF DIRECTORS CO-CHAIRS

**Governor Kathleen Sebelius**  
Topeka  
Co-Chair

**Patti Bossert**  
Key Staffing, Topeka  
Co-Chair

### MEMBERS

**Stan R. Ahlerich**  
Ahlerich Farms, Winfield

**Gene Argo**  
American Rodeo Company, Hays

**Rep. Tom Burroughs**  
State Representative, Kansas City

**Secretary Howard Fricke**  
Kansas Department of Commerce, Topeka

**Sen. Anthony Hensley**  
Senate Minority Leader, Topeka

**Donna Johnson**  
Pinnacle Technology, Lawrence

**Sen. Dave Kerr**  
Senate President, Hutchinson

**Wil Leiker**  
AFL- CIO, Topeka

**Lawrence L. McCants**  
First National Bank, Goodland

**Reginald Robinson**  
Kansas Board of Regents, Topeka

**Donald Schnacke**  
Donald P. Schnacke, P.A., Topeka

**Paul Stephenson**  
PDS Company, Wichita

**Stephen L. Waite**  
Kansas Calvary, El Dorado

**Rep. Kenny Wilk**  
State Representative, Lansing

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### KANSAS, INC. STAFF

**Jerry Lonergan**  
President

**Debby Fitzhugh**  
Director of Operations

**Sean P. Tomb**  
Research Analyst

## JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

Testimony by  
Peter Jasso, Manager  
Kansas Film Commission-Kansas Department of Commerce  
August 27, 2004

The Kansas Film Commission is a program in the Business Development division of the Department of Commerce. Since its creation in 1982, the Film Commission has worked to increase film related revenue in Kansas, not only by promoting the state as an attractive film site, but also by elevating national awareness of our indigenous talent and resources through events and programs designed to draw international attention. The Commission also assists filmmakers by providing free resources to aid their efforts to produce films. Our main goal is to make filming in Kansas an easy, pleasant experience that will encourage future activity in our state and provide a significant economic impact on our communities.

Like other states, Kansas formed a film commission in the early 80's in response to the industry demand for filmmaker assistance from state and local governments. Hollywood trends of the 70's inspired a renewed emphasis on realism in movies and an increased demand to shoot films on the actual locations in which their stories were set. A few years later, the mid-80's would witness the rise of the independents. These were film projects shot outside of the Hollywood system, usually on shoe-string budgets that required the filmmaker to utilize resources that could often times be found in their own home town. Kansas again benefited in the 90's with the advent of the Movie of the Week. Like independents, these projects operated on modest budgets and limited shooting schedules, but, like studio projects, they featured known talent and had a guaranteed distribution venue, namely the major television networks. Kansas, like other states not traditionally linked with the film industry, responded to these trends by offering a lower cost of living, unbridled enthusiasm and community support, an attractive Right to Work environment, and a permit-free government sponsored film commission that increased filmmaker assistance and decreased bureaucratic red tape.

Since then the investment has paid off and filmmaking in Kansas has grown into a multi-million dollar industry. Film companies spend between 25 to 50 percent of their budget when on location and more than 38 percent of their budgets on sales taxable items providing a positive economic impact on the host state. Over the last 20 years, upwards of \$230 million have been spent in local communities by both in-state and out of state production companies. Because of this, competition for film production has become fierce.

Since 1998, revenue has declined as producers actively look for locations where they can get more for their money. Over the past several years, the U.S. has experienced an increase in runaway production to Canada, Australia, and other foreign countries, many of which heavily subsidize film projects, sometimes as much as 40 percent of a picture's total budget. According to recent reports in the Hollywood Reporter, the Commerce Department estimates runaway production is costing the U.S. economy more than \$10 billion a year. To combat foreign competition, more and more states have initiated various incentives to lure filmmakers to their states. With landscapes similar to our own, these competitors pose a major threat to our local industry that must be addressed.

The Kansas Film Commission is currently looking at ways to once again attract outside productions to the State and, simultaneously, grow our existing film industry.



A healthy localized film industry must take into account filmmaking on three basic levels: Studio films, qualified independents, and indigenous film projects. The following definitions address these components necessary to create a healthy "ecosystem" that can sustain itself and generate a positive economic impact on the state economy.

1. **Studio films** are feature projects produced for distribution by major studios (Warner Bros., Paramount, Disney, Universal, etc.) or major television networks (ABC, NBC, FOX, HBO, etc). These projects feature celebrity casts, large crews, and famous directors. Budgets are large (\$20 million +) and shooting schedules can be extensive. These projects often combine location shooting with sound stage work. These projects can also have several national and international locations for one film. These are the films you see on TV and in your local multiplex regardless of where you live. Examples include *Ride With the Devil*; *Mars Attacks*; *Paper Moon*; *Sarah, Plain, and Tall*; *Murder Ordained* all of which were filmed, at least in part, in Kansas

2. **Qualified independents** are projects designed for limited art house release. They can often feature major stars or complete unknowns but are generally made by reputable production companies and distributed nation-wide in select cities, usually after playing the film festival circuit. These films can usually be seen in theatres like Liberty Hall in Lawrence and the Tivoli in Kansas City. Some independents, like "My Big Fat Greek Wedding", can gain wider distribution after demonstrating commercial viability. These films are shot on modest budgets (\$1 million – \$10 million) and are generally devoid of expensive special effects and sound stage work. Therefore, these films rely heavily on location shooting and will often shoot in one primary location whenever possible. Examples include *My Big Fat Greek Wedding*; *13 Conversations About One Thing*, the films of John Sayles (*Eight Men Out*), the films of Jim Jarmusch (*Dead Man, Coffee & Cigarettes*).

3. **Indigenous film projects** are productions that are originated and produced exclusively by local talent and shot within the state for budgets ranging anywhere from \$20,000 and \$1 million. These projects are produced and marketed independently and are often used as an effort to start ones filmmaking career and hopefully move on to a higher level of production. Examples include Kevin Willmott from Lawrence, director of *9<sup>th</sup> Street* and *CSA*; Steve Balderson from Wamego, director of *Pep Squad* and *Firecracker*; Alex Graves from El Dorado, director of *Crude Oasis*.

This year, for the second time in a row, film related revenue in Kansas has increased and has, in fact, doubled since last year's report (\$6,951,110 in FY'04 compared to \$3,400,275 in FY '03). This can be attributed, at least in part, to the enthusiasm and talent of the local film community. Nevertheless, this number falls far short of other states generally considered to be major film centers and does not, we believe, represent the full potential that this state's resources deserve. With increased film projects in Kansas, local crew members gain the production experience that major filmmakers require when they hire locally. In addition, increased filming sparks tourism and economic growth for Kansas communities and helps to promote an attractive image of Kansas on an international level. For these reasons, the Film Commission is dedicated to maintaining a presence at the forefront of the motion picture industry.

# KANSAS PRODUCTION CREDITS

Investigating History (TV series, 2004)  
CSA (Independent, feature 2004)  
Firecracker (Independent, feature 2003)  
The Missy Files (Series, 2003)  
Baby's Breath (Independent, feature 2003)  
The Good Things (Independent, short 2000)  
The Painting (Independent, feature, 2000)  
The Big Kahuna (2nd Unit, feature, 2000)  
Comanche (Feature, 2000)  
The Good Things (Independent, short 1999)  
Ride With the Devil (Universal, feature, 1999)  
Roads & Bridges (Independent, feature, 1999)  
Sarah Plain & Tall: Winter's End (MOW, 1999)  
Monday After the Miracle (MOW, 1998)  
More Than Puppy Love (Independent, feature, 1998)  
Going to Kansas City (feature, 1997)  
Pep Squad (Independent, feature 1997)  
Kansas City (Fine Line, feature, 1996)  
Mars Attacks! (Warner Bros., feature, 1996)  
Stolen Women (MOW, 1996)  
The Crude Oasis (Miramax, feature, 1995)  
Ninth Street (Independent, feature, 1995)  
Truman (HBO, feature, 1995)  
A Matter of Justice (mini-series, 1993)  
Dead Before Dawn (MOW, 1992)  
I Can Make You Love Me; The  
    Stalking of Laura Black  
    (MOW, 1992)  
Skylark (Sarah II) (MOW, 1992)  
They've Taken Our Children; The  
    Chowchilla Kidnapping  
    (MOW, 1992)  
The Burden of Proof (mini-series, 1991)  
Sarah, Plain & Tall (MOW, 1990)  
Sometimes They Come Back (MOW, 1990)  
Cross of Fire (mini-series, 1989)  
Miss Missouri (Independent, feature, 1989)  
Mr. & Mrs. Bridge (Merchant-Ivory, feature,  
1989)  
Where Pigeons Go To Die (MOW, 1989)  
No Holds Barred (New Line Cinema, feature,  
1988)  
Twister (Vestron Pictures, feature, 1988)  
Dark Before Dawn (PSM Entertainment,  
feature, 1987)  
Kansas (Cannon/TWE, feature, 1987)  
Reunion (Independent, feature, 1987)  
Murder Ordained (mini-series, 1986)

Nice Girls Don't Explode (New World Pictures,  
feature, 1986)  
Night Screams (Independent, feature, 1986)  
American Flyers (Warner Bros., feature, 1985)  
Hambone and Hillie (Independent, feature,  
1984)  
Americana (David Carradine, feature, 1983)  
The Parade (MOW, 1983)  
The Day After (MOW, 1982)  
Nursery Crymes (feature, 1981)  
Up The Academy (*Mad Magazine*, feature,  
1980)  
The Attic (Independent, feature, 1979)



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## Production Dollars spent in Kansas

	SIC Codes	NAICS Codes effective FY 2003
FY85	\$ 1,500,000.00	
FY86	\$ 2,250,000.00	
FY87	\$ 7,250,000.00	
FY88	\$ 10,680,000.00	
FY89	\$ 10,820,000.00	
FY90	\$ 8,432,000.00	
FY91	\$ 13,821,000.00	
FY92	\$ 13,400,000.00	
FY93	\$ 18,603,600.00	
FY94	\$ 12,068,738.00	
FY95	\$ 15,982,360.00	
FY96	\$ 19,638,871.00	
FY97	\$ 16,028,363.00	
FY98	\$ 21,498,713.00	
FY99	\$ 13,502,202.00	
FY00	\$ 13,200,000.00	
FY01	\$ 10,820,694.00	
FY 02	\$ 10,000,000.00	3,000,000.00
FY 03	\$11,334,250.00	3,400,275.00
FY 04		6,951,110.00
<b>TOTAL</b>	<b>\$ 230,830,791.00</b>	

Updated: August 2004



## Economic Impact Tracking Systems For On-Location Production

[Prepared and ratified by an ad hoc Task Force of AFCI Members on 2/26/01]

Determining an accurate calculation of the economic impact a film or media project brings to an area is an important task. In a perfect world, a commission can establish a good working relationship with the production accountant on each project to arrive at an accurate assessment of the economic impact. However, we also understand this information is not always available.

In the event actual reports cannot be secured, the formulas listed here have been recognized by AFCI members as reasonable guides for calculating the economic impact (per shooting day) of certain projects. These formulas are based on an analysis of studio accounting records, exit reports submitted to film commissions and generally accepted estimates from film commissioners with experience on a wide range of film, television, print, and other media projects. In a major production center or on an international scale, many regions, states and nations have special circumstances that may result in higher or lower figures.

As with any formula, common sense and prevailing history should be applied. By careful tracking of reports from AFCI members using this system, the Task Force will periodically refine the formulas to increase the accuracy and flexibility for all jurisdictions.

Type of Production	Crew Size	Economic Impact Per Shooting Day *
<b>Feature Films</b>		
High-end budget motion picture	Full crew, union scale	\$100,000/day
Average budget motion picture	Full crew, mixed crew	85,000/day
Low-end budget motion picture	Minimal crew, non-union	35,000/day
<b>TV Movie / Series</b> (Assuming an average 14 day shoot)		
Network/Cable Broadcast		85,000/day
<b>Commercials, Music Videos</b>		
Commercial event (expensive director, helicopters, misc. effects and 'toys')		100,000/day
High-end budget	Full crew, union scale	75,000/day
Average budget	Full crew, mixed or non-union	50,000/day
Low-end budget	Minimal crew, non-union	25,000/day
<b>All Other</b> (includes Print, 2nd unit, Travel, Documentary, Educational, Corporate, Industrial, Satellite, Foreign broadcasts, Sports and Exercise, etc.)		
High-end budget	Varies	35,000/day
Average budget	Varies	25,000/day
Low-end	Varies	15,000/day

\*Note: The impact of prep and strike days have been built into the formulas. There are of course exceptions, such as any kind of elaborate set construction or an extended pre-production period. In those cases it was determined that those days should be counted as one-third to one-half of the daily figure for that particular type of shoot.



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Kansas House Economic Development Committee  
Thursday, January 27<sup>th</sup> 2005  
The Honorable Lana Gordon, Chairman

My name is Barbara Nash. I came to Kansas from Chicago in September, 1963 to attend the University of Kansas. After graduation I chose to remain in Kansas, a decision I consider the best I ever made. I spent 25 years working in the television industry and currently am a commercial pilot and flight instructor in the Kansas City area. I am also the current chairman of the Kansas Film Commission and it is my honor to appear before you in that capacity.

The State of Kansas has a great history in the film industry. We have in the past had major films produced here. We have native Kansans that have played and continue to play important positions in the business. I am sure you know some of their names: Buddy Rogers, Buster Keaton, Don Johnson, Kirstie Alley, Steve Mills and Mike Robe. Today there are many new names making a huge impact: Alex Graves, Ron Parker, Jared Hess and Scott McPhail are just a few. We enjoy an outstanding reputation for numerous reasons.

“BC” or before Canada, when we had many films being shot in Kansas, we had a real presence in the movie making process. There was a core of local crew support. Talented local actors were being repeatedly cast. Production companies had strong municipal support at their locations and there was a strong Film Commission staff that constantly responded to their needs. And of course, our central location was a real plus. That brought revenue to Kansans and Kansas. That was then.

Today the only thing that has changed is that Kansas doesn't have a lot of films being produced and Kansans and Kansas are missing the work and the revenue. Our State is not unique. Think about it! “Rudy: The Rudy Giuliani Story was filmed in Montreal, not New York. “The Elizabeth Smart Story” was shot in Nova Scotia instead of Salt Lake City. “Superman” and “Smallville” are shooting in Australia and Vancouver instead of Wellington, Kansas. Not only are we losing revenue by not attracting the film industry back to Kansas we are losing the talents of many young people that are leaving Kansas for California and abroad. This is not new news to you I am sure but it is worth repeating because it is sad.

Last January you heard proposals to lure filmmaking back to Kansas. The proposal from the Kansas Connection in particular was carefully thought-out and very sincere. The Film Commission is dedicated to marketing the State to the film industry, creating the first Kansas Film Industry Summit in March, aiding distribution for local independent filmmakers and other projects aimed at keeping our name out there. Studies have been conducted on how other states have passed incentives and created programs. Their suggestions are worth your consideration and action.

Why? First of course there will be new jobs created for our talented citizens and revenue from dollars spent by the production companies. This is important for the government. I would like to think it would increase the quality of life in our communities. Certainly there would be great

excitement and involvement people at or near the location sites. We saw this in December in Lindsborg where an independent film was shooting. It was "a big deal" for their community. People visiting our State would again realize the true hospitality and support Kansans have to offer. Kansans would take great pride seeing their community on the "big or small" screens. Movie productions create a ripple effect as crews spend a great deal of money on goods and services, providing work for local residents. Others will take notice of the wonderful places in Kansas. People/Companies offering services useful to the film industry (or excited by it) might be induced into relocating here based on what they have seen "at the movies." People will come here because they can be in a wonderful place and because they can make a living...benefiting us all in the arts, business and education for the young and old

Thank you again for the honor of appearing before you and thank you for all the good work you are doing to benefit our State. It is now my pleasure to introduce Mr. Doug Curtis, a Dodge City native. He has enjoyed a long and successful career developing, producing and directing motion pictures.

# State-by-State Tax Incentives

*Motion Picture Association of America, Inc.*  
*Compiled by Angela Miele, Vice President, State Tax Policy*

**Alabama** State and local sales and use tax exemption for the purchase or lease of equipment, props, supplies, materials and services used in production. Additionally, no state and local lodgings tax for rooms used by production staff.

**Alaska** No state sales tax. No state individual income tax.

**Arizona** A 50% sales (transaction privilege) and use tax rebate on the purchase or lease of tangible personal property if producers spend over \$1 million in Arizona filming movies for theaters, TV, video, industrial or educational films, commercials or advertising. A second threshold of expenditures of \$250,000 applies to television commercials or advertising in commercials aired in two minutes or less. No withholding tax from wages of nonresidents engaged in any phase of motion picture production.  
No state tax on lodging after 30 days.

**Arkansas** Full gross receipts and use tax refund on the purchase of property and services including lodging in connection with production costs. To qualify, a production company must spend at least \$500,000 within six months or \$1 million within 12 months in connection with the production.

**California** No sales or use tax on production or post production services on a motion picture or TV film. No sales and use tax on services generally. Such industry specific services include writing, acting, directing, casting and storyboarding. A partial sales tax exemption (5% except for 2001, when it was 4.75%) on the purchase or lease of post production equipment by qualified persons.  
No sales and use tax on 45% of the charges for sets, including labor to design, construct and strike and no sales tax on the full charge for the rental of personal property.

No state hotel tax on occupancy, however, cities or counties that impose a local tax have a tax exemption for occupancies in excess of 30 days.

**Colorado** No sales and use tax on film company services if, in fact, the company is providing a service and not tangible personal property. No hotel occupancy tax for hotel stays in excess of 30 days.

**Connecticut** Sales and use tax exemption for the purchase, lease, use storage or other consumption of motion picture, video production or sound recording equipment for use in the state for production activities that become an ingredient of any motion picture, audio tape or recording produced for commercial entertainment. No hotel occupancy tax for hotel stays in excess of 30 days.

**Delaware** No state sales tax.

**Florida** Sales and use tax exemption for the purchase or lease of motion picture, video or other equipment (depreciable equipment with a useful life of at least three years) if used exclusively as an integral part of production activities in the preparation of motion pictures, tapes, TV or productions produced for commercial use or sale. If equipment and personnel used belong to the producer of a qualified motion picture, no tax on fabrication labor. Repair of motion picture equipment is exempt from tax if the equipment is used exclusively by the producer as an integral part of production activities. No state individual income tax.

**Georgia** Sales and use tax exemption for the purchase or lease of a wide range of production and post production equipment and services for use in qualified production activities in the state.

**Hawaii** A refundable income tax credit up to 4%, which is deductible from net income tax liability, of the costs incurred in the state in the production of motion picture and television films, and up to 7.25% rebate for the for transient accommodation tax (hotel room tax). Must spend at least \$2 million in Hawaii for motion pictures or at least \$750,000 to produce a television episode, pilot or movie of the week.

**Idaho** No hotel occupancy tax on hotel stays of 30 days or longer.

**Illinois** Sales and use tax exemption for products of photoprocessing produced for use in motion pictures for public commercial exhibition. (Effective 1/1/2004, a 25% income tax credit for Illinois labor expenditures (within a 12-month period), capped at the first \$25,000 in wages for each employee. The credit may not be carried forward or carried back and excludes the salary or wages paid to the two highest paid actors.) The 14.9% hotel tax is reimbursed for stays in excess of 30 days.

**Indiana** No hotel tax on stays of 30 days or longer.

**Kansas** No hotel tax on stays of 28 days or longer.

**Kentucky** Sales and use tax refund for purchases made by a motion picture production company in connection with filming in Kentucky if the company films or produces one or more motion pictures in the state during any 12-month period.



**Louisiana** Sales and use tax exemption for a broad range of production expenditures; must spend a minimum of \$250,000 within a 12-month period (Effective 7/1/02-6/30/06). Provides an employment tax credit (10% if in-state payroll expenditures are between \$300,000 and \$1 million and 20% if in-state payroll exceeds \$1 million) against the aggregate payroll for Louisiana residents, must spend at least \$300,000 in a taxable year (expires 7/1/06). Transferable investor tax credit 10% of the investment made if it is between \$300,000 and \$8 million, 15% for investments in excess of \$8 million. After 30 consecutive days, the 14.9% hotel tax is reimbursed.

**Maine** Sales and use tax exemption for tangible personal property and services used primarily in production. Revenue Department Ruling in 2004 proclaimed film production a manufacturing process. Hotel occupancy taxes are rebated after 28 consecutive days.

**Maryland** State sales and use tax exemption for the purchase or lease of production or post production equipment, services, supplies, props and sets used in the production of motion picture, television, video, commercials and corporate films. No state sales tax for hotel stays in excess of 30 days.

**Minnesota** No sales tax on hotel stays of 30 days or more.

**Mississippi** Effective July 1, 2004. For all feature films, television projects, documentaries, or commercials: a 10% tax credit for payroll of in-state residents; a 10% rebate of all in-state production-related expenditures, excluding payroll; a reduced sales tax (7% to 1½%) for motion picture equipment (camera, lighting, audio, projection, editing, etc.); a sales tax exemption for the purchase of film, videotape, set building materials, set dressing, props, wardrobe, fabric, makeup, most expendable items.

**Missouri** Provides a transferable/carry forward (5 yrs) income tax credit up to 50% of expenditures in the state to a maximum of \$500,000 in tax credits per project. Productions must spend a minimum of \$300,000 in the state. \$1 million/year available for total credits. No sales tax on hotel stays after 31 days.

**Nebraska** No hotel occupancy tax for stays in excess of 30 days.

**Nevada** No corporate or individual income tax. Low hotel room tax.

**New Hampshire** No state sales tax. Individual income tax on interest and dividends only.

**New Jersey** Sales tax exemption for all film and video related machinery and equipment as well as services of installing, repairing and maintaining the equipment, used directly in production and post production of motion pictures, television or commercials. Loan Guarantee Program up to a maximum of \$1,500,000 (or an amount no greater than 30% of any loan for the film project that is derived from other sources, whichever is less), to production companies if 70% of the shooting days are in the state and at least 50% of the below-the-line expenses are in state.

**New Mexico** State sales tax exemption on all production costs including set construction, wardrobe, facility and equipment rental, all production and postproduction services. State sales tax exemption on all production costs including set construction, wardrobe, facility and equipment rental, all production and post production services. A 15% refundable income tax credit on in-state film production expenditures. Producers must choose either the sales tax exemption or the 15% tax credit. Also, guaranteed investments may be considered for up to 100% of the estimated production costs, capped at \$7.5 million per project. Loan structures would have to be "fully and unconditionally guaranteed" by an entity with an investment grade bond rating; and equity structures require presales/distribution. After 30 days, the 4% lodgers tax is waived for hotel guests.

**New York** Comprehensive State, New York City and local sales and use tax exemption for machinery, equipment and services used in production and post production activities in the production of feature length films, television programs, music videos and commercials. Film and television and commercial productions receive tax exemptions whether they are produced and delivered electronically or in tangible form. Effective 8/20/04, a 10% corporate/partnership/individual income tax credit for film and television productions (no commercials or music videos) for below-the-line in-state expenses (and actors with non-speaking roles) if 75% of the aggregate sound stage work (excluding post production) is performed in a NY production facility at least 7,000 square feet. The credit is 50% refundable in the first year and fully refundable after two years. If less than \$3 million (excluding postproduction) is attributed to the production facility related costs, then 75% of the aggregate shooting days outside of the facility must be in NY in order for NY location costs to qualify for the credit. Credit is capped at \$25 million/calendar year, the cap is a rolling cap; if the cap is exhausted in one year the projects will be eligible in the following year on a first-come first-served basis.

**North Carolina** Reduced sales and use tax (1%) rate, on the purchase and rentals to motion picture production firms of cameras, films, set construction materials, as well as chemicals and equipment used to develop and edit film that is used to produce release prints. 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 and audiovisual master tapes used in production are also exempt from sales tax. Film production cost rebate program if you spend at least \$1 million, however funding has been suspended.

**Ohio** No state sales tax on hotel stays in excess of 30 days.



**Oklahoma** Sales tax exemption on sales of tangible, personal property or services to a motion picture or television production company to be used or consumed in connection with a feature or television production. A rebate program provides up to 15% of eligible costs for film production in the state if an income tax return is filed there.

The total payments will not exceed \$2 million per fiscal year. State sales tax rebate on hotel stays after 30 days.

**Oregon** No state sales tax. Lodging taxes waived for rooms held longer than 30 days. Other local incentives including parking rebate up to \$1,000 of parking fees incurred within Multnomah County (Portland area) for every 100-hotel room nights purchased.

**Pennsylvania** A 6% sales and use tax exemption for the purchase or rental of any tangible personal property and services in Pennsylvania used directly in the production or post production of a feature length commercial motion picture distributed to a national audience. Newly enacted assignable corporate, partnership or income tax credit equal to 20% of production costs including wages if in-state spending is 60% of aggregate production expenses for features and television productions. Three-year carry forward provision, total annual state credit disbursement capped at \$10 million/fiscal year. Applies to expenses incurred after 6/30/04 and before 12/31/12 and taxable years commencing after December 31, 2003.

**Puerto Rico** Up to a 40% investment tax credit is available for motion picture and television expenditures paid to Puerto Rico Businesses or below the line talent if at least 50% principal photography is in Puerto Rico. The credit is available for projects first approved by the Film Commission once applicants pay ¼ of 1% of the film's budget for a license. Local investors will partner with non-Puerto Rican based companies to help them access the investment tax credit.

#### **South Carolina**

Effective 7/1/04, if you spend \$250,000 in-state: available sales and use tax exemption for the purchase of equipment and supplies and an exemption for the State accommodations tax (7%), if you spend \$1 million in-state you receive a 5% rebate for total aggregate payroll for persons (crew, actors, extras) subject to SC income tax withholding (excludes individual salaries of \$1 million or more) and a 7% rebate for purchases/rentals of certain in-state goods and services.

**Tennessee** Sales and use tax refund for out-of-state motion picture companies for goods and services purchased or rented in Tennessee if the company spends at least \$500,000 within a 12-month period.

**Texas** Comprehensive sales and use tax exemption for purchased or rented equipment or services used in the production of a motion picture or a video recording for ultimate sale, license or broadcast (including cable broadcast).  
No sales tax on hotel rooms for stays in excess of 30 days.

**Utah** Beginning July 1, 2004, state sales and use tax exemption for the purchase, lease or rental of machinery and equipment used in the production or post production of motion picture, television, music video or commercial productions. Transient room tax rebate on hotel stays of 30 days or more.

**Vermont** State sales and use tax exemption for the purchase or lease of goods and services used in the production of films, television programs or commercials. Credit for nonresident income tax for commercial film production if Vermont income tax exceeds income tax rate in the state of residence. No hotel or meal tax after 30 days.

**Virginia** Sales and use tax exemption for production services or fabrication in connection with the production of any portion of exempt audio/visual work, feature or made-for-TV films, programs, documentaries, commercials, etc. The purchase of tangible personal property including scripts, artwork, supplies, equipment and accessories are also exempt.

**Washington** Sales and use tax exemption for the purchase or rental of production equipment and services used in motion picture or video production or post production. No sales and use tax on vehicles used in production.

No tax on hotel stays in excess of 30 days.

No state individual income tax.

**Wyoming** A list of Wyoming businesses offer production companies filming in Wyoming a 10% discount on production-related services including hotels/motels, restaurants, caterers, etc. No tax on hotel stays in excess of 30 days.

No state corporate or individual income tax.

**For individual state film office websites, visit: <http://www.afci.org>**



**Testimony on Promoting the Kansas Film Industry  
The House Committee on Economic Development**

Steve Kelly  
Department of Commerce

January 27, 2005

Chairperson Gordon and members of the committee, I am Steve Kelly and, on behalf of the Department of Commerce, it is a pleasure to appear before you today to discuss ways to increase the level of film making in Kansas.

I know many of you have been interested and involved with this topic for quite some time. For new members, I wish to note that Commerce has been actively involved in promoting the state as a film site since 1982. These activities have helped generate over \$230 million of film production spending in Kansas over the past twenty years. Three full-time staff members in Commerce are currently dedicated to supporting this industry. Please find copies of testimony provided last August for additional background information regarding the Kansas Film Commission.

Commerce appreciates the work put forward by the "Lights, Camera, Action" Task Force and the many interested individuals who have shared creative ideas regarding ways to grow the film industry in Kansas. Last fall, Commerce hired Kansas, Inc. to conduct an analysis of what other states have invested and the corresponding return-on-investment realized, as a way to further understand such opportunities.

The results of that analysis show that there are benefits to be derived by the state of Kansas and particular communities, principally Lawrence in the near term. However, economic development incentives in the film industry are not competitive as a job creation strategy compared to most other industries. Kansas, Inc.'s study indicated that \$1,000,000 of in-state film revenue yields 10 jobs. That appears consistent with our information identifying approximately \$7 million in Kansas film-related revenue this past year and our estimate that approximately 70 people are involved on a full-time basis with film-related activity in our state. If growth in film activity is to be encouraged through incentives, the costs of those incentive need to be evaluated in relation to the economic benefit. Those costs should also be compared to the incentive costs associated with other types of job creation activity. The cost per film-related job is several times the amount of job creation incentive associated with other industries utilizing Commerce programs.

I wish to reiterate that Commerce believes film production is an important activity to promote and support in Kansas. However, Commerce believes other sources of support and involvement are needed to justify additional expenditures. There are clearly arts and cultural benefits associated with filmmaking. Thus, Commerce suggests arts groups should be enlisted by the Film Commission to help support growth of film production through direct financial and staff resources. In addition, it seems increasingly clear that independent filmmaking is a niche that offers potential rewards. The active leadership by KU's Film School seems to be critical in this regard.

Commerce welcomes continued discussions as to the most effective ways to promote the film industry in Kansas. In doing so, it is our view that other interested parties are needed to assume a larger role in terms of financial support and leadership in order to achieve greater results.

I wish to thank the Committee for its time and stand ready for questions.