

Approved: 1-22-07

Date

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT AND TOURISM COMMITTEE

The meeting was called to order by Chairman Lana Gordon at 3:30 P.M. on January 17, 2007 in Room 519-S of the Capitol.

All members were present except:

Representative Olson, excused

Committee staff present:

Jason Long, Revisor of Statutes

Amy Deckard, Legislative Research Department

Hank Avila, Legislative Research Department

Conferees appearing before the committee:

Steve Kelly, Inrterim Secretary, Dept. Of Commerce

Becky Blake, Director of Ks Travel & Tourism

Peter Jasso, KS Film Commission Mgr.

Patricia Clark, Dept. Of Commerce

The Chair introduced Acting Secretary of Commerce, Steve Kelly who offered a power point presentation of Agency's overview for 2007. (Attachment 1).

Questions and answers followed.

Becky Blake spoke to the Committee of the Agency's Travel and Tourism Division and offered an annual report on promotions of travel and tourism in the state.. (Attachment 2).

Questions and answers followed.

Peter Jasso spoke in regard to the efforts of the Kansas Film Commission. (Attachment 3).

A summation of the Governor's Film Task Force Report was given by Patty Clark. (Attachment 4).

Questions and answers followed.

The meeting was adjourned at 5:20 p.m. The next meeting is scheduled for Thursday, January 18, 2007.

2007 Agency Overview

Mission Statement

To empower individuals, businesses and communities to realize prosperity in Kansas

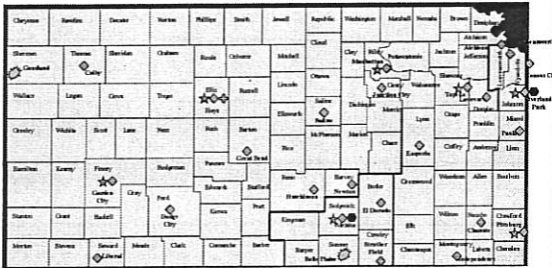
Divisions

- Agriculture Marketing Development
- Business Development
- Community Development
- Trade Development
- Travel & Tourism Development
- Workforce Development
- Operations

Commissions

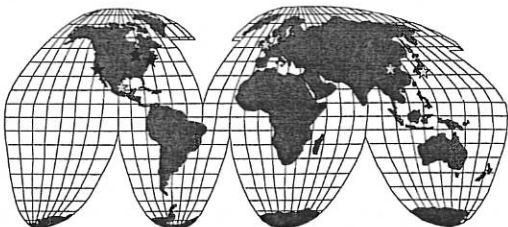
Kansas Athletic Commission
 Kansas Commission on Disability Concerns
 Kansas Film Commission

Commerce Field Offices



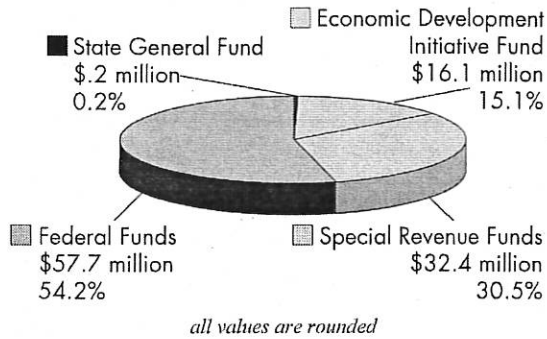
- ★ Business Development Field Office (7)
- ⊕ Community Development Field Office (1)
- ⊗ Travel Information Center (2)
- Trade Development Field Office (2)
- ◆ Workforce Center (22)

National and International Offices

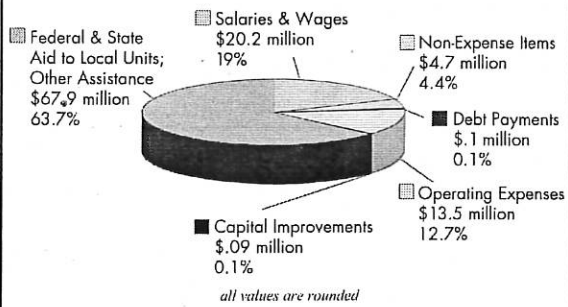


West Coast Office – Los Angeles	Europe Office – London
Great Lakes Office – Chicago	Japan Office – Tokyo
East Coast Office – New York	Mexico Office – Mexico City
	China Office – Beijing

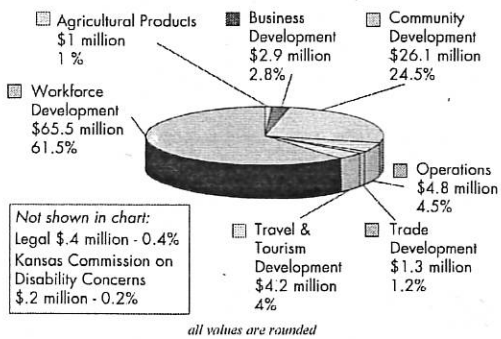
REVENUE SOURCES
(Fiscal Year 2006)



EXPENDITURES BY CATEGORY
(Fiscal Year 2006)



EXPENDITURES BY DIVISION
(Fiscal Year 2006)



**Organizations Supported
by Commerce Pass-Through Funding**

Enterprise Facilitation Projects
Kansas Center for Entrepreneurship
Kansas Small Business Development Centers
Kansas Association of Certified Development
Companies
Local Workforce Investment Boards
Regional Economic Area Partnership

Agriculture Marketing Development

Results and Highlights:

- Distributed \$402,000 to Value Added Loan recipients, who totaled sales of more than \$181 million in Fiscal Year 2006.
- Distributed \$35,000 to From the Land of Kansas members, who totaled \$540,000 in sales in Fiscal Year 2006.
- Assisted a Taiwanese trade mission that announced the purchase of \$130 million in Kansas hides.
- Continued to facilitate the development of ethanol plants in Kansas. The state now has eight plants, with a total annual output of 200 million gallons.

Business Development

Results and Highlights:

- Involved in 24 site location/expansion/retention projects in Fiscal Year 2006 in which Kansas was competing with out-of-state locations. These projects resulted in:
 - 7,342 jobs created or retained at an average hourly wage of \$26.05
 - \$319.4 million in capital investment
- Major new facilities and expansions include:
 - Applebee's
 - Keebler
 - Hospira
 - Capital One
 - Bank of America
 - GE Energy

Community Development

Results and Highlights:

- Provided \$24.5 million in federal Community Development Block Grant funds to 89 projects, producing \$38.1 million in private investments, benefiting 114,500 Kansans and creating 158 jobs.
- Provided services to 22 designated Main Street cities, which resulted in:
 - 108 new/expanded businesses in downtown districts
 - 256 new jobs
 - \$18.6 million in reinvestment in downtown districts.

Trade Development

Results and Highlights:

- Helped Kansas businesses to record export totals for two straight years.
 - 2005: \$6.7 billion
 - 2006 (October YTD): \$7 billion
- Organized the largest trade mission in Kansas history to China and hosted two separate Chinese trade delegations in Kansas in the past two years.
- Opened the new Kansas China Office in Beijing.
- Facilitated international investment projects in Fiscal Year 2006 that created 585 new Kansas jobs \$52.6 million in capital investment.

Travel & Tourism Development

Results and Highlights:

- Continued to develop and implement a long-term plan for the economic development of the Flint Hills.
- Ran ads in 23 national and regional publications, reaching more than 30 million readers.
- Expanded public relations efforts with travel writers, including a more targeted approach to story development and the creation of media center for journalists at www.TravelKS.com.
- Completed a Tourism Satellite Account Economic Impact Study for Kansas and all 105 counties.

Workforce Development

Results and Highlights:

- Provided \$32.2 million through the KIT, KIR and IMPACT training programs to fund 79 projects in Fiscal Year 2006. These projects resulted in:
 - \$47.5 million in private matching funds
 - 16,500 individuals trained
 - 3,000 new jobs trained
 - 13,500 jobs retrained and positions retained
- Workforce Centers and One-Stop partners served more than 65,000 Kansans.
- Wagner-Peyser Act services were used by more than 100,000 citizens.

Additional Statutory Obligations

- Agritourism
- Attraction Development Grant Program
- Brand Image
- Bioscience
- KIT, KIR and IMPACT

New Initiatives

- On-TRACK Initiative
- Rural Development Initiative

What others are saying about us...

“Smoky Hill Vineyards & Winery has found it a blessing to work with the Kansas Department of Commerce. Over the past four years, we have been able to advance our business in size, product quality, marketing and personnel through this relationship. ... Had it not been for our partnership with Commerce and their commitment to our industries, we would not have been able to achieve these results.”

- Norm Jennings, Smoky Hill Vineyards & Winery

What others are saying about us...

“There was much interest in studying the possibility of locating biodiesel plants in Kansas this year. We interacted with those interested in building biodiesel plants, cooperatively working with the Kansas Department of Commerce on the effort. The expertise and guidance of Commerce staff proved to be a much-needed asset to this economic development effort.”

- Kenlon Johannes, Kansas Soybean Commission

What others are saying about us...

“It’s been a great partnership working with state government regarding a number of issues that arise. ... We find that we get great cooperation from the Department of Commerce and other agencies within the state whose objective is to support industry. And they do support industry.”

- Pack St. Clair, Cobalt Boats

Commerce on the Web

www.kansascommerce.com

- Main Agency page

www.thinkkansas.com

- Brand Image and state image enhancement

www.TravelKS.com

- Main site for travel and tourism in Kansas

www.kansascommerce.com

KANSAS

Department of Commerce

Travel and Tourism Division

Travel & Tourism Division

Mission: To promote Kansas to travelers and to generate and facilitate tourism and travel-related spending throughout the state.

Key Priorities

- Marketing
- Product Development
- Education/Communication
- Research
- Long Term Strategic Planning

Marketing Target

*Out-of-State / Kansas Destination Travelers:
Families with Kids; Boomer and Senior Couples w/o Kids*

Objectives

- Select Kansas as vacation destination
- Increase length of stay and daily per-person spending
- Become repeat visitors
- Encourage word-of-mouth recommendations to family and friends

Issues

- Kansas not top-of-mind as vacation destination
- Unaware of what to do in Kansas
- Budget-minded

Marketing Target

Messages

Authentic, pre-planned experiences; outstanding travel value

Strategies

- Product: Promote Family Fun, Historic, Outdoor and other appropriate experiences
- Advertising: multi-media messaging (mass and targeted) *primarily through coop program*
- Interactive: employ selected audience-appropriate tactics *also on a coop basis*

Marketing and Advertising

- Print
- Television
- Radio
- Internet
- Publications

2007 Advertising

19 national and regional magazines
Over 13.8 million in circulation impressions

AAA Magazines	Midwest Living: Best of Midwest
AARP	National Geographic Traveler
Budget Travel	Reader's Digest
Good Housekeeping	
Midwest Living	



Print Ads Co-op Partnership



2007 Publications
Newspaper

Denver = 1.7 million
Des Moines circulation
Oklahoma City
Omaha
Tulsa

2006 Publications
Newspaper Inserts

Midwest Vacation Guide = 6.2 million
Madden Pre-Print circulation
USA Weekend

In-state Newspaper Ads



Promoting Events

•Kansas Press Association's
Kansas Display Ad Network

•Includes 144 newspapers with
a combined circulation of
471,749

Television

6 Community Partners - \$90,000 investment

➤ 4 weeks

➤ Des Moines

➤ Omaha

➤ Oklahoma City

➤ Kansas City

➤ 4.4 million viewers

Web Ads



2006 Campaign

• 1,215,976 Impressions

• 3,983 Clicks

• (CPC \$.51)

Partnerships



**MID-AMERICA
NETWORK**



Billboard Campaign



- 19 Billboards
- 371,520 Daily Traffic Count

2007-2008
Visitors Guide

800,000



2006 Conversion Study

Visitors Guide influences travelers to Ks. To:

- Visit an attraction featured 67%
- Visit more destinations than planned 56%
- Visit different destinations than planned 52%
- Make advanced dining/attraction res. 23%
- Extend their stay 19%
- Take an additional trip to Ks 14%

2007
Calendar of Events



300,000 Distribution

KANSAS! magazine



Stabilization and growth
in circulation
(16% decline in 6 yrs)

Alignment w/marketing
objectives

Efficient management
structure



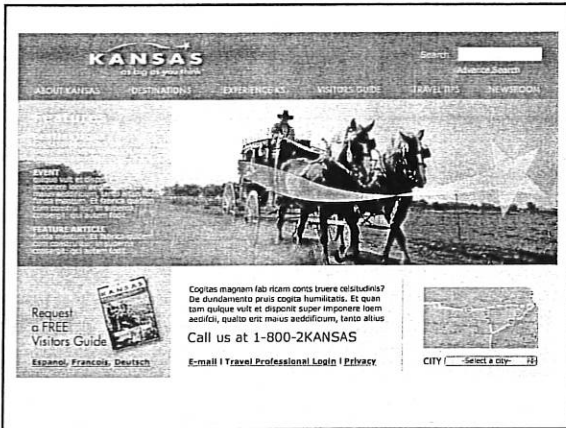
State Map



TravelKS.com
Launched April, 2006

Key Features

- Trip planner
- Search
- CRM database - targeted consumer newsletters
- Images
- Pod casts



Travel Information Centers

The two state Travel Information Centers greeted over 245,300 people in FY06.

Belle Plaine - 133,314
Goodland - 111,986



Tourism Marketing Grant Program

FY06

- 14 grants awarded
- Totaling more than \$31,000 in grant money
- Projects totaling more than \$200,000
- Impacting 95 counties
- Projects included brochures, radio, television, newspaper, and direct mail pieces

Attraction Signage

FY06

- 5 signs approved
 - Buffalo Bill Bronze Sculpture
 - Golden Eagle Casino
 - Great Overland Station
 - Underground Salt Museum
 - Windswept Winery

Agritourism



- 200 registered agritourism businesses
- Scholarships available to attend conferences and gain further education in agritourism
- www.kansasagritourism.org
- Online newsletter dedicated to agritourism
- Better integration with tourism industry
- Survey

Targeted International Campaign

United Kingdom and Germany

- Cooperative effort with Oklahoma
- Advertising & Fulfillment
- PR Campaign
- US Receptive Operator Development
- Direct sales with Tour Operators & Travel Agents

- \$3 million projected expenditures

- 32:1 return on investment

Public and Media Relations

- Integrated, Strategic & Focused approach
- National & International Attention
- Targeted FAM trips
- Website Media Room
- Clip distribution

Group Tour Activities

\$2.5 million economic impact – online tracking

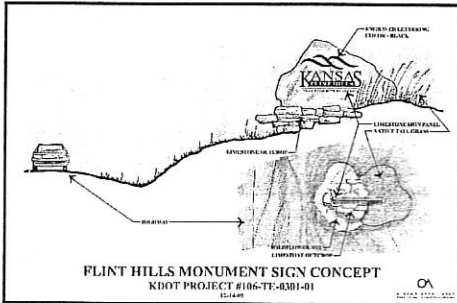
- “Tour Kansas” Industry Partnership
- National Tour Association (NTA)
 - 2007 KC Convention
- American Bus Association (ABA)
- Familiarization Tours & Marketplace

Product Development
Flint Hills



Product Development
Flint Hills

- ✓ Branding strategy including development of logo, tag line and advertisements
- ✓ Completed inventory of natural, cultural, and historic resources available
- ✓ Began exploration of national heritage area status
- ✓ Initiated a program to gather reminiscences and recollections of residents who have lived in the region for an extended time
- ✓ Completed the design, installation, and distribution of new Flint Hills heritage brochures and exhibits along interstates
- ✓ Completed design and development of new Flint Hills website
- ✓ Supported inaugural Symphony in the Flint Hills
- ✓ Completed design of new KDOT gateway monuments for I-70



Flint Hills

National Geographic Magazine

April Issue

- > 22 page spread – landscape photos
- > 5 million + circulation
- > German issue distribution
- > Traveling Exhibit
- > Legislative Event
- > PR Opportunities

Attraction Development Grant Program

2006 Awards

Great Bend Holiday Spirit
Independence Historical Museum
Phillipsburg Rodeo Assn.
Quail Valley Fun Barn
Winfield Community Entertainment Group, LLC
Wild West World, LLC
Society of Historic Fort Hays
National Orphan Train Complex

2007 Awards

Greater KC Sports Commission
Black Jack Battlefield Trust
City of Olathe, Mahaffie Stagecoach Stop & Farm
William Inge Festival Foundation
Symphony in the Flint Hills, Inc.
High Plains Camping, Inc.
Cherokee Strip Land Rush Museum

Destination Assessment Program

- > Abilene
- > Wichita
- > Atchison
- > Manhattan
- > El Dorado
- > Salina
- > Kansas City
- > Emporia
- > Franklin County

Cultural/Heritage Tourism Market

Randall Travel Marketing Study

- Assess the market and marketability of Kansas Cultural & Heritage Tourism opportunities
 - Mystery shopped 156 sites statewide
 - Traveler surveys
 - Artisan surveys
 - Task force of industry partners

Communication/Education

TIAK Partnerships

- Annual Conference
- Educational Seminars

Education Scholarships

- Travel Talk E-mail
- Travel Talk Live
- Industry Page on Website



Research & Planning

Economic Impact Report

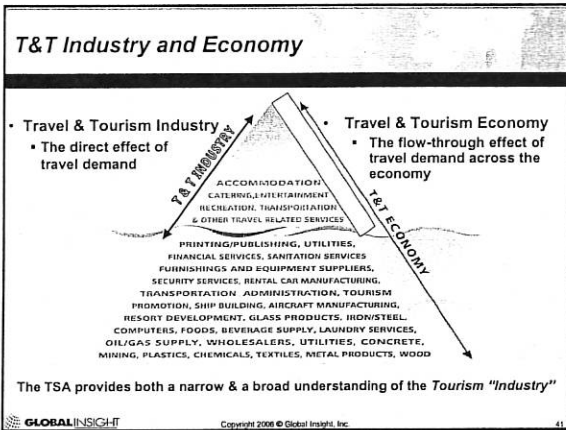
- Statewide data
- County data

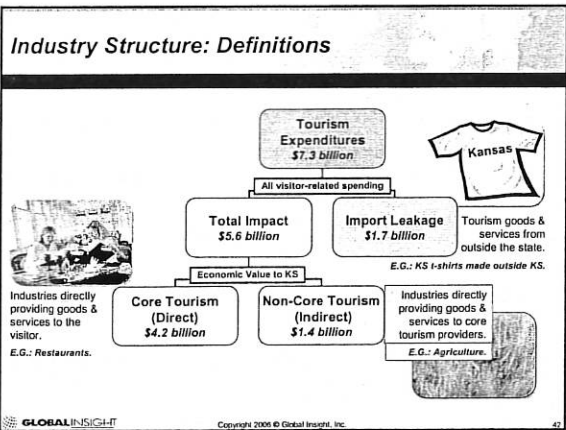
Long Term Strategic Plan



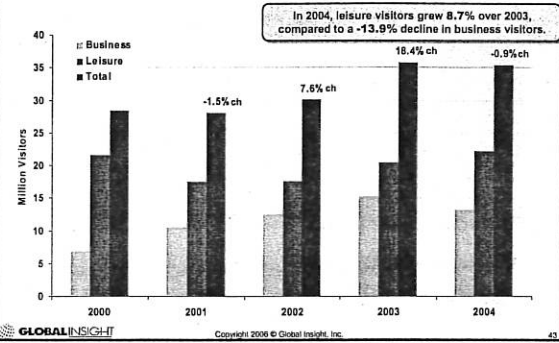
What? Development and implementation of a nationally recognized plan to fund and promote the Kansas tourism industry

Why? Replace statewide interdependency with statewide integration creating collaboration and cooperation among all Kansas industries and geographic regions.

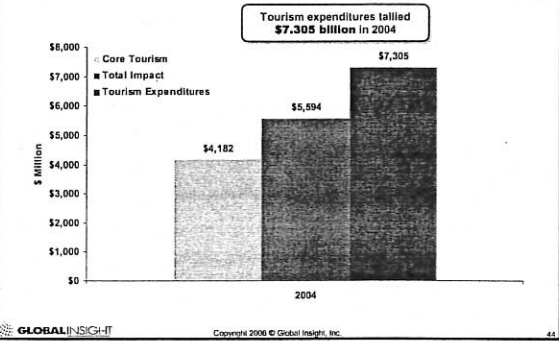




Visitors to Kansas



Total Tourism Expenditures

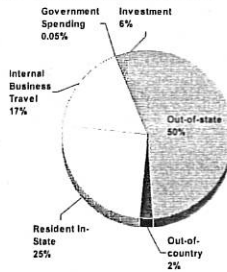


Breaking Down Tourism Expenditures – \$7.3 Billion

Visitors from other states represent the largest portion of tourism expenditures in Kansas. Residents' travel in the state is also important with 25% of the total.

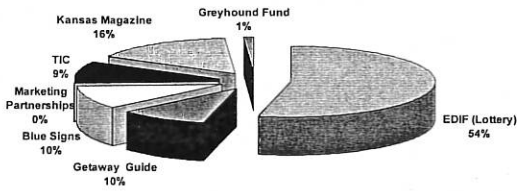
	Millions	Share
In State	3,556	49%
Other U.S.	3,570	49%
International	179	2%
Total*	7,305	100%

* Numbers may differ due to rounding

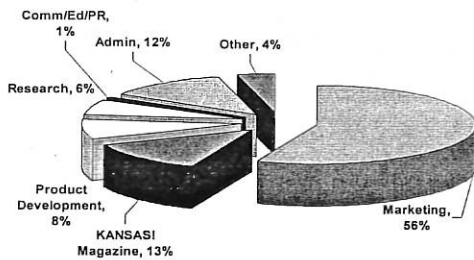


Budget

Division Revenue



Division Expenses



KANSAS

Department of Commerce

(785) 296-3481

www.kansascommerce.com



Governor's Film Task Force Report Executive Summary

Governor's Charge:

In 2005, Governor Kathleen Sebelius convened a task force comprised of resident industry representatives, legislative leadership, government agency staff and film industry advocates and experts to provide policy recommendations related to film production in Kansas. The Governor requested the resulting policy roadmap be realistic, sustainable, comprehensive and inventive. She emphasized the roadmap should integrate (1) indigenous film production; (2) education/film workforce development; (3) targeted recruitment of studio and independent films and (4) the cultural intangibles related to film production in Kansas.

Rationale for Investment in Film Production:

Film production in Kansas, at all levels can create new economic growth and if stimulated through appropriate and judicious use of incentives, can provide a competitive return on investment to Kansas. In addition to enhanced revenues and increased job opportunities, film production can provide intangible benefits to the culture and image of our state as well as ancillary benefits to our tourism industry.

Conceptual Elements:

In order for financial incentives to be maximized they must be joined with enhanced education and film workforce development as well as an inventive restructuring of the oversight, staffing and film recruitment efforts in Kansas. Under-resourcing any film industry initiative will only serve to waste state financial resources, place Kansas in a non-competitive position and result in a lack of focus to adequately build the industry over time. Three conceptual elements must be triangulated simultaneously to make Kansas competitive in the film production industry:

- Kansas must **attract** film and media projects suited to the state by drawing national attention to our state through best practices, appropriate capital investment, and targeted recruitment efforts.
- Kansas must **cultivate** both the indigenous film community and a skilled workforce and provide efficient coordination between the two
- Kansas must **retain** the tangible and intangible benefits of film production by linking education and training to the resident industry, imported projects and the broader cultural environment.

Strategy:

If Kansas is to compete in the film production industry, lure its native talent back to the state and build a quality workforce for the film production industry, Kansas must commit to a long-term strategy and a sustainable investment approach.

- 1. Develop and deploy investments of state financial resources that are held accountable based upon quantitative data and reporting success.**
 - Create tax incentives based upon qualified expenditures for film production within the borders of Kansas. To be competitive Kansas would need the following:
 1. To be competitive regionally – a \$2 Million incentive pool
 2. To be competitive nationally – a \$10 Million incentive pool
 3. To be competitive internationally – a \$20 Million incentive pool.
 - Provide flexibility to award tax incentives to foster growth and success of the indigenous film industry as well as large-budget imported film productions:
 1. Studio and large independent -- 30-40% direct rebate of qualified expenditures in Kansas.
 2. Low budget independent – 25% investment tax credit
 3. Micro-budget film productions – Exemption of state and local sales tax and transient guest taxes.

- 2. Establish a cooperative educational structure that employs class-work, internships, certification programs and transferable credits across various state institutions to achieve a technically skilled and creative workforce in film production.**
 - Create the Kansas Film Academy to foster the development of curriculum in high school, college and adult education programs.
 - Ensure all educational institutions collaborate in certification and degree programs.

- 3. Reorganize and refocus the Kansas Film Commission to facilitate the synergistic assets of Kansas that will be critical to the creation of a successful and sustainable film industry.**
 - Reconfigure the Kansas Film Commission and create the Kansas Film Office in the Department of Commerce.
 - Create a not-for-profit industry support organization for the purposes of enhanced programming and creative showcasing of the unique arts, culture and landscape of Kansas to the national and international film industry.



KANSAS
as big as you thinkSM



Governor's Film Task Force Report

October, 2006



For more information on this topic contact:
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Fax: (785) 296-3490
kdfilm@kansascommerce.com

www.kansascommerce.com

Economic Development & Tourism
Date: 1-17-07
Attachment # 4-1



Governor's Film Task Force Report
Contents of Report

1. **Governor's Charge**
2. **Conceptual Elements**
 - a. Kansas must attract
 - b. Kansas must cultivate
 - c. Kansas must retain
3. **Tactics - Components of the Plan**
 - a. Attract film and media production and investment to Kansas.
 - b. Train a Kansas workforce.
 - c. Encourage indigenous Kansas film production, investment, and new media development.
 - d. Enhance and engage the broader cultural assets of Kansas.
4. **Strategic Recommendations**
 - a. Develop and deploy investments of state financial resources
 - b. Establish a cooperative educational structure
 - c. Reorganize and refocus the Kansas Film Commission
5. **Important Considerations**
 - a. Integrating the four components
 - b. Building in adaptability and anticipating changes
 - c. Long-term undertaking
6. **Supporting Materials & Resources**
 - a. Industry Overview
 - b. Honest Assessment
 - c. Benefits of film and media production in Kansas
 - d. Film Incentive Analysis
 - e. MPAA 2005 State by State Tax Incentives for the Film Industry
 - f. Kansas Film Commission Reorganization Charts

1. Governor's Charge

When Governor Kathleen Sebelius took office in 2002, Kansas, along with most other states, was suffering the most severe economic downturn in nearly seventy years, since the Great Depression. As a result, the state's economy and the state budget were dramatically reduced and ensuring government efficiency and meeting core responsibilities became the primary challenges. The general economic picture seems to be improving significantly, but economic stability and recovery are still somewhat tentative and uncertain.

During the past four years there has been insufficient revenue available to responsibly and effectively provide the funds necessary for film incentives and support, or to appropriately staff and manage those programs. This is especially true in light of the status of competing budget priorities such as education and health care. Additionally, the Kansas Department of Commerce has seen increases in unfunded or under-funded new program mandates from the Kansas Legislature, stressing an already reduced staff and program budget.

However there has been ongoing interest in the possibility of increasing film production activity in Kansas in pursuit of the economic and cultural benefits of such activity, most recently represented two very successful and well-attended Kansas Film Summits sponsored by the Department of Commerce. In light of the perceived opportunities for Kansas, the possibility of addressing other pressing public priorities, and the apparent upswing in the national and state economy, Governor Sebelius convened a task force comprised of resident industry representatives, legislative leadership, government agency staff, and key advocates and experts to provide policy recommendations related to film production in Kansas. If and when there is available funding, the Governor would like to direct limited resources toward a comprehensive, responsible, sustainable, Kansas-specific approach to film production and development. The Task Force is to provide a plan or roadmap for that policy decision when it arrives.

In general, the Governor requested that such a roadmap be:

- Realistic
- Sustainable
- Comprehensive
- Inventive

She additionally suggested that the initiative be an integrated approach with specific components addressing:

- Education/workforce training
- Indigenous film production
- Targeted studio and independent film production
- The cultural intangibles related to film production in Kansas

The Governor's charge, and the desire of Task Force members, is to offer specific recommendations based upon the market and industry realities of film production that are of concern anywhere film making is successful, and upon the specific opportunities and limitations offered by the people, culture, and economy of Kansas. We commend the Governor for linking her support of a film initiative package to its comprehensive and realistic nature. We strongly recommend an approach to supporting film and media production in Kansas that integrates incentives to attract imported projects with significant focus upon educating and training a potential Kansas workforce, targeted collaboration with industry and local entities to grow the indigenous film industry, and leveraging Kansas' existing natural and cultural assets.

Governor's Film Task Force Overview

On March 19, 2005, the Kansas Film Commission hosted the 1st Annual Kansas Film Industry Summit in Lawrence. Over 150 film industry professionals from across the state took part in discussions related to the status and future of the Kansas film industry. Participants were asked to define issues and concerns, as well as encouraged to offer creative solutions.

Based on this input, the Governor created the Kansas Film Industry Task Force, consisting of knowledgeable film professionals and key partners, under the direction of the Department of Commerce to assess the ideas and concerns addressed at the summit and to formulate a strategic plan that coordinates the full breadth of state filmmaking resources and organizations, allowing the industry to speak with one voice.

The Task Force met several times over the past year to discuss a range of topics facing the film industry in the state of Kansas. The general topics of discussion were ultimately divided among two subcommittees focused on business and educational issues respectively.

The Mission of the Governor's Film Industry Taskforce was to provide a vision for the future of the Kansas film industry and formulate a strategic plan that coordinates the full breadth of state filmmaking resources and organizations and addresses the following issues:

- The most appropriate type and amount of direct financial investment by the state to help grow an indigenous film industry.
- Identification of other strategies beyond direct investment that would help support and grow a film industry in Kansas.
- The most efficient organization of existing resources, both public and private.

Roster of Members

Scott Allegrucci (Business Chair)
Clark Balderson
Judy Billings
Llewellyn Crain
Dennis Fallon
Joel & Kelly Fein
Bill Gilbert
Representative Lana Gordon
Cynthia Haines
Tim Hamill
Matt Jacobson (Education Chair)
Senator Nick Jordan
Senator Laura Kelly
Ben Meade
Patti Watkins

Kevin Willmott (Task Force Chair)
Representative Valdenia Winn
Michael Wunsch & Sarah Strnad

Kansas Film Commission

Peter Jasso
Erin Schroeder
Barbara Nash – Advisory Board President

Department of Commerce

Howard Fricke
Bill Thompson
Patricia Clark

2. Conceptual Elements

There exist three concurrent elements for implementation of the strategy that must be continuously woven into all three recommended actions in order to build a viable film industry in Kansas and provide a return on investment to the Kansas economy:

a. **Kansas must attract**

- Substantial film and media projects (and the resulting revenue) suited to the state
- Expertise and training in film technology and production
- Appropriate capital investment in film and media production, infrastructure, and technology
- National and industry attention for innovation, best practices in policy, and positive performance of the initiative
- Positive leads for other endeavors such as tourism and traditional business recruitment resulting from enhanced image and cultural environment

b. **Kansas must cultivate**

- The indigenous film community and economy
- A skilled resident workforce
- Local and regional capacity for film production
- Awareness of, engagement with, and support for film and media
- Desire and ability to represent Kansas in film and media
- Efficient coordination and collaboration within the resident industry and between film and other cultural assets and programs

c. **Kansas must retain**

- Resident filmmakers, entrepreneurs and innovators, especially those educated in Kansas
- Creative human and economic capital that would otherwise leave Kansas and be invested elsewhere
- The links between education and training, resident industry, imported projects, and the broader cultural environment
- As many of the tangible and intangible benefits of film production in the state as possible

In addition, partnerships will be critical to the success of the strategy in order to leverage production incentives, educational and training systems and the resulting new focus of the Film Commission:

Partners with an immediate defined role in strategy implementation:

- Kansas Department of Commerce
- Kansas Department of Revenue
- Governor's Cultural Affairs Committee
- Kansas Arts Commission
- Kansas Humanities Council
- Kansas Board of Education
- State and private universities
- Community colleges

- Cities of Lawrence and Wichita
- Kansas Media Industry organization
- Kansas Historical Theaters Association

*** Partners with a possible or likely role in the future:**

- Kansas Center for Entrepreneurship
- Kansas Department of Wildlife & Parks
- The Kansas Connection
- Private foundations such as Kauffman and Hall
- National Media Organizations like the Independent Feature Project

3. Tactics – Components of the Plan

The strategy of the Kansas film initiative should focus on the four inter-dependent and synergistic tactics critical for success critical in the Governor's charge:

a. Attract film and media production and investment in Kansas.

Financial production incentives provided by the state are critical to the success of all other tactics and to the initiative overall. Production and location incentives that are competitive, attractive and effectively targeted to the scale and type of production are the engine that will drive all other components of this film initiative.

Incentive programs should be flexible enough to:

1. Place Kansas in a reasonable position in the competitive environment for big budget imported film production projects.
2. Target indigenous film productions that have a unique affiliation with Kansas but are smaller scale.
3. Employ a mix of rebates, tax rebates, investment tax credits and/or tax exemptions on qualified expenditures.
4. Cap the incentive per production and per state fiscal year to accurately project budget exposure.
5. Be increased incrementally as successful utilization proves a return on investment to the State of Kansas.

Selective targeting and active recruitment of the most likely and productive projects for Kansas will be critical to the success of any film incentives offered. These are projects that are specifically set in or about Kansas ("In Cold Blood," "Capote," "Sarah – Plain and Tall"), the Midwest or the Great Plains. And projects whose budget can be maximized using specific Kansas natural, cultural and historical resources and incentives

Management of the incentive portfolio and the above mentioned target and recruitment effort will require adequate staffing and coordination of resources from the state and all partners previously mentioned in this report.

b. Train a Kansas film workforce:

1. Film training is not just applicable to making movies. Film training is also useful in creating content and programming for internet, video games, television, medical/military/industrial training films and simulations, advertising, documentaries and news media. Technical media training and creative media skills will be increasingly valued and demanded in a digital, interconnected world economy. This, in turn, will create well paid and important career paths. Thus an investment in education and workforce development should logically become a critical part of a state film initiative.
2. In order to attract large budget imported film projects Kansas will need sufficient numbers of skilled and trained residents to support those productions. Without this workforce, Kansas will not perform to industry expectations and we will lose a key advantage in a highly competitive and mobile industry.

3. Without a skilled workforce necessary to support large film productions, Kansas will be unable to attract or retain sufficient numbers of imported projects to justify any incentives we may be able to offer.
4. Because Kansas is a geographically large state with the established center of the resident film industry a significant distance from many interested and talented residents, a dynamic, flexible education and training system is essential. Without cooperation between educational institutions, collaborative certification and degreed programs with class hour credit transferability only a portion of Kansas residents may benefit from the curriculum development and training programs.
5. Kansas has a reasonable hope of being accurately and interestingly portrayed in the media only if we build a Kansas trained workforce and increase the number of native filmmakers. The best chance of that is if we can educate and train enough Kansans, and then retain a few of them with the necessary vision, ability and desire to produce films in Kansas. Currently, we are exporting many such Kansans, greatly reducing the odds that they will come back or that they will maintain interest and creative ambition invested specifically in Kansas.

c. Encourage indigenous Kansas film production, investment, and new media development.

A priority of a state led film initiative should be to encourage indigenous Kansas film production, investment and new media development. An indigenous film community includes the driving creative force of a producer, but also the skilled crewmembers. The benefits of incorporating that priority in the initiative include:

- Without purposeful recruitment of indigenous film producers, Kansas becomes completely dependent upon outside imported film projects to realize any tangible economic benefits from film production in our state. This is a volatile and unpredictable environment and highly competitive from both a national and international perspective. It is readily apparent that Kansas does not have deep enough pockets to play this game for very long.
- The effects of individual, imported film productions, while positive are also temporary and localized by their very nature. While Kansas would retain retail and tax revenues without the expense of providing public services over the long term, imported film projects are transient and temporary.
- Only skilled, committed Kansans are likely to create rich, meaningful, accurate and entertaining stories about Kansas and then insist those projects be produced within the state regardless of incentives. This is the most viable way to ensure Kansas is portrayed positively, progressively and interestingly in the media – or portrayed at all.

d. Enhance and engage the broader cultural assets of Kansas.

In addition to financial incentives, trained workforce, and targeted recruitment of indigenous film production the broader cultural environment and assets of Kansas will be key to the success of a state film initiative.

The broader cultural assets of Kansas that are advantageous and can be leveraged for increased film activity in the state include:

1. Nature – Flint Hills, Cheyenne Bottoms, Tallgrass Prairie, buffalo, Gypsum Hills, etc,

2. Culture – Farming and ranching, “Midwestern values”, indigenous art and literature and music, etc.
3. Heritage - Bleeding Kansas, Free State, Santa Fe Trail, Native American History, cattle heritage, etc.

Possessing these assets is not enough, they must also be accessible in term dictated by the market for various products and experiences, as well as being reasonable preserved and protected from exploitation. **Cooperation and purposeful engagement by the service and hospitality sectors, as well as local community involvement, can further leverage the cultural assets.**

Excellent examples of use of available cultural assets include the movies “*Sideways*”, “*Brokeback Mountain*” and “*Dances with Wolves*”. In each of those film productions natural, cultural and heritage-based assets acted as non-financial incentives to the production companies. In turn, the California wine industry had a significant increase in visitation and revenues, the Dakotas were fueled by increased tourism in search of the “authentic” Native American culture, and even though “*Brokeback Mountain*” was filmed in British Columbia, the state of Wyoming (in which the screenplay was actually set) received significant increase in visitation information requests. See Addendum “D” for a more complete narration on these examples.

4. Strategic Recommendations

If Kansas is to compete in the film production industry, lure its native talent back to the state and build a quality workforce for the film production industry, Kansas must commit to a long-term strategy and a sustainable investment approach.

a. Develop and deploy investments of state financial resources that are held accountable based upon quantitative data and reporting success.

- Formulate incentive programs that are targeted toward three groups of film productions:
 - Studio and large independent -- \$3 million and above – these would typically be projects that would come in from out-of-state.
 - Low budget independent -- \$500,000 to \$3 million – these would typically be films made by the indigenous film community in which funding is largely provided by individual investors usually residing in-state.
 - Micro budget – Less than \$500,000 – these would typically be independent productions of the type that are often made through digital technology and are distributed via ancillary markets such as DVD.

A critical decision regarding this incentive package is the overall scope in terms of Kansas competing regionally, nationally or internationally for projects. Based on conversations with officials at the Motion Picture Association of America, the following amounts were determined to be the minimum competitive levels:

1. Regionally – a \$2 million incentive pool
2. Nationally – a \$10 million incentive pool
3. Internationally – a \$20 million incentive pool

The association also provides insight into the types of incentives that are competitive in the marketplace:

- Studio and large independent -- Provide a direct rebate of a percentage of qualified production costs to the production company:
 1. Regionally – 40% rebate
 2. Nationally – 30% rebate
 3. Internationally – 30% rebate

NOTE: The reason for the higher regional percent is to be competitive with Missouri, which has a sellable tax credit program.

- Low budget independent -- Provide a 25% investment tax credit to individual investors.
- Micro-budget -- Provide a state and local sales tax exemption and transient guest tax exemption on qualified expenditures.

Please note that the overall incentive pools outlined above would cover the three types of production categories and the actual mix of how the incentives would be awarded annually would vary year-to-year. In addition, all the incentives will be awarded on the basis of verifiable project expenditures. These expenditures will be verified by Film Commission staff. As a result, it is important that there is an appropriate number of staff to ensure that there is quality program oversight.

The taskforce worked with the Department of Commerce to prepare an analysis comparing the economic impact of various film attraction projects and “traditional” business recruitment projects such as manufacturing, warehouse/distribution or other traditional business operations. That analysis is included in the supporting materials section of this report.

The analysis compared incentive scenarios and the economic benefit to the state. The challenge in providing incentives to film projects versus traditional businesses is that the “hard dollar” economic benefit is not as great as for the film projects. As a result, the argument in support of incentives for film projects must extend to the overall benefits as discussed in this report, which include state image enhancement and other intangible benefits.

b. Establish a cooperative educational structure that employs class work, internships, certification programs and transferable credits across various state institutions to achieve a technically skilled and creative workforce in film production.

- Creation of the Kansas Media Academy to foster and develop curriculum in high school, college and adult education programs and ensure all educational institutions collaborate in certification and degree programs.

The Kansas Media Academy

A networked curriculum of classes and training programs spanning from late middle school through graduate level studies and accessible to non-matriculated students as well that provide coordinated and accredited educational and professional training opportunities in media and film to Kansans. This entity would help to streamline film education and training throughout the state in three key categories (high school, college, and adult). It is important to note that the Kansas Media Academy is not a physical place but rather a conceptual organization comprised of representatives from participating organizations that would meet to coordinate film education efforts, pool resources, and set uniform standards in the effort to make all film education in the state a cohesive unit that maximizes state resources.

At the high school level, the goal would be to create an extra-curricular organizational system similar to the Kansas Thespian Association with an annual Symposium that would add an extra day to the Film Industry Summit. In addition, curriculum for existing and newly created film related classes would be coordinated through the academy so that high school students who

choose to pursue a college film degree would not be relearning the same material their freshman year.

At the college level the goal of the academy would be to get shared and transferable credit among participating institutions. These institutions would share course offerings and a certification and/or degree program (up to the graduate level). This would allow resources across the state to be better utilized. Curriculum would be coordinated through the Academy so that all courses work in tandem. Community colleges might focus on an industry-approved certification/training program in technical aspects of film making – like grip work, camera operation, Avid editing, budgeting, etc. – that has value within the industry and could be applied toward credit at one of the in-state universities for a degree. Universities would share accredited courses so that a student can take qualified approved courses at one institution that are accepted for credit at the other(s). On a limited basis faculty teach courses, segments, or seminars at the other institution(s), and/or classes or seminars sponsored by all partner institutions. In addition, institutions that currently offer little or no film courses might offer an approved film course from the Academy catalog that would then apply toward a degree should they decide to pursue the field further. Recent film graduates could act as faculty if no qualified candidates are available in a given community.

At the adult level, the goal would be to set up a training program geared toward careers in film. In the short term, this would take the form of monthly seminars, or “Master Classes”, dedicated to business and technical aspects of film. The long-term goal would be to establish a more complex continuing education curriculum and training program similar to UCLA Extension.

c. Reorganize and refocus the Kansas Film Commission to facilitate the synergistic assets of Kansas that will be critical to the creation of a successful film industry.

- Reconfigure the Kansas Film Commission (rename to Kansas Film Advisory Board) and create the Kansas Film Office in the Department of Commerce
- Create a not-for-profit industry support organization for the purposes of programming and creatively showcasing the unique arts, culture and landscape of Kansas to the film industry.

The current structure of the Film Commission could be altered to reflect the changing industry. The Kansas Film Advisory Board would oversee and steer three distinct but equal entities that address different parts of the industry: government, industry, and education and act as both a state agency and a specially recognized 501c3 (see attached organizational charts in the supporting materials section of this report). To ensure cohesion and cooperation between all three entities, officers from the boards of the industry and education components will also serve as Film Advisory Board members. The Kansas Film Advisory Board would then act as an umbrella organization that would coordinate and synthesize all efforts into a cohesive unit.

Governmental services would be entrusted to the Kansas Film Office which would continue to perform duties traditionally assigned to film commissions: promote the state, manage incentive programs, act as an information clearing house via the website and production guide, act as government liaison and provide general production services to prospective and active productions operating in the state.

Industry and artistic concerns would rest with a non-profit organization tentatively called the Free State Film Society, which would operate, similar to an IFP or Austin Film Society. This organization would have its own board consisting of industry professionals that would act as a kind of "film chamber of commerce" to encourage private participation in the growth of the local industry and address concerns facing the business community. The organization would also steward cultural programs like the Free State Traveling Picture Show and provide artistic services such as fiscal sponsorships and grants. The organization would work closely with other state agencies like the Arts Commission on various programs and would participate in educational efforts like the Master Class.

One program in particular would be Project: Free State. This would be similar to Project: Greenlight in that the state would select one filmmaker per year and provide them with a \$100,000 budget for the production of a digital feature. The program would be highly structured so that the process would also act as both a promotional tool and educational program.

The educational component would center on the Kansas Media Academy, which would also make use of the 501c3 status.

Initial budgets would come from the Film Office, which asks for a \$100,000 operating budget per component plus the cost of Project: Free State. Staffing would also come from the Film Office which asks for a total staff of 4 FTE (an addition of 2 FTE to existing staff.), The Office would consist of a director and three assistants who would act as liaisons to the three entities. Estimated total cost of restructuring: \$600,000 per fiscal year

5. Important Considerations

a. Integrating the four components or tactics of the strategy so that investments made in any one complement the others.

Our very strong recommendation is that the initiatives outlined in this plan be undertaken, perhaps in phases, but as a cohesive and coordinated whole. No single component should be wholly excluded from the strategy if long-term sustainable success is expected. Likewise, no single component should be retained – even the critical engine of financial production incentives – exclusive of the other three if long-term sustainable success is the goal.

Leadership and implementation of the different components must be coordinated through a single Kansas Film Commission Advisory Board, comprised of agency and industry experts involved in and responsible for education, workforce training, production services, indigenous production, program management, cultural assets, service industries, and other activities directly related to film and media production. These individuals collectively will be responsible for managing and implementing various aspects of the film initiative strategy.

b. Building in adaptability and anticipating changes in film and media markets, technology, distribution, and production.

Changes in content, distribution, and technology brought about by internet, web-based programs, and a fracturing audience base are affecting the decisions and investments of advertisers, whose revenue underwrites the current network television model. Industry experts currently anticipate dramatic changes (already underway) in TV programming, advertising revenues, and network structure, and many predict the complete demise of network television as we know it within a decade. Additionally, digital technology and internet-based viewing and distribution options could dramatically change the production and distribution of feature films (perhaps even entirely replacing actual film), thus affecting all aspects of the industry from profit margins to studio structure to where movies are first viewed to how movies are actually made.

Kansas must be prepared to stay competitive annually according to changes in the industry and competition from other location production incentives.

c. Attracting and developing significant film production activity in Kansas is a long-term undertaking.

Kansas cannot expect that positive economic or cultural results will be immediate, nor can we expect that such results will be sustained without ongoing, aggressive, competitive management and investment. Competition for studio location shooting will be stiff and ongoing, film and media production technologies and market dynamics will undergo tremendous change, and the indigenous Kansas industry will take time to organize and gain a competitive foothold. Incentives and support programs must remain available, competitive, and flexible on terms largely defined by the industry. In addition, public and private partners must continue to collaborate in order to maximize the potential impact of film production in Kansas.

Ultimately, some years will be better than others to Kansas – in terms of significant location production activity – for reasons that are beyond the ability of the state to control or influence regardless of incentive investments or program activity.

October 9, 2006

Governor Kathleen Sebelius
Kansas State Capitol
300 SW 10th Street
Topeka, KS 66612

Dear Governor Sebelius,

On behalf of the members of the Kansas Film Industry Task Force, I present these recommendations for your consideration. Based on our collective experience and research, we feel the contents of this report represent the most appropriate actions for state support of the local film industry.

We thank you for the opportunity to examine this issue in detail and look forward to assisting the state in moving the Kansas Film Industry forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Willmott". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kevin Willmott, Chair
Kansas Film Industry Task Force



Supporting Materials and Resources



a. Film Industry Overview

1. The process of making and distributing a film.

The project

A movie project may be based upon interest in and ownership of a published book, a previously released movie, an original idea, or another story source. It may be driven by a director, writer, actor, individual producer, production company, or studio that has a vested interest in the project. Wherever the idea comes from, it generally only becomes a film project when a screenplay is created to guide development, budgeting, and shooting, and intellectual property rights and creative ownership of the story are determined. The project may be a feature-length film for theatrical release, a feature intended to be sold directly to DVD, a long-format film project specifically designed for television, an original television series, a documentary intended for theatrical release and/or television, or a short film, among others.

For 35mm film (the industry standard), it takes 24 individual frames or cells along a continuous strip of film moving at a standard speed to comprise one second of film footage as viewed on a screen – about 1.5 feet of film per second. Film projects are also shot on a variety of other formats including 16mm and 70mm film stock, and increasingly are being shot in High Definition or other digital video formats. Generally the filmmakers have some idea of the intended audience, format, and expected distribution/exhibition circumstances of the film from the outset.

Types of projects

There are a number of ways to categorize films currently being made. Films can be classified according to genre (thriller, action, sci-fi, romantic comedy, animated, etc.), as documentary or narrative fiction, according to their finished length (feature or short) or their intended distribution (theatrical, TV, DVD), by media format used (35mm film, 16mm film, beta, mini DV, HD), or by general budget size. For the purposes of public policy recommendations focused largely upon financial incentives, fiscal investments, and the possible economic impact of film production in the state, we are using descriptive categories based largely upon the general budget size, suggesting production impact and workforce requirements, as follows:

- Short (student, educational, or projects with final running times of 60 minutes or less; all small or short format media development – Budget less than \$100,000)
- Low Budget (independently financed local projects without distribution arrangements in place - Budget less than \$1 million)
- Independent (independently financed theatrical film projects or long format content for TV with possible distribution in place - Budget between \$1 million and \$15 million)
- Studio (fully financed feature film projects or long format serial content for TV [mini-series, series] with distribution/exhibition in place and involving significant import of staff and resources – Budget over \$15 million)

Financing

Once the project is defined and budgeted, money must be secured to cover the costs of actually producing the movie. Ideally, funds secured should match the combined expected pre-production, production, and post-production budget, and there would be contractual arrangements (likely with contingencies) to market and distribute the film (as with most studio projects). Sometimes shooting begins as soon as funds are secured to cover the production phase as budgeted, even without securing

the funds needed for post-production, marketing, and distributing the film (as with some independent projects). Funds can and nearly always do come from a number of sources, including individuals, financial and securities organizations (in the form of equity investment or loans), production companies and studios, government incentives for location shooting (in the form of rebates or tax breaks), retail companies (in exchange for product placement), and distribution companies (in exchange for fees and/or box office profit-sharing arrangements). Wherever the money comes from, there are generally clear, legally prescribed conditions for repayment and/or profit sharing and/or ownership of the finished product.

Pre-Production

Pre-production activities include location scouting and securing, principal casting, scheduling the actual shoot, departmental budgeting, contract negotiations, hiring key department heads (Production Designer, Editor, First Assistant Director, Costume Designer, Director of Photography, etc.) and other staff not already attached, bidding and contracting special services (visual effects, etc.), securing rights (music, names, images, etc.) purchasing and leasing required equipment and resources, construction (sets, costumes, props, etc.), coordinating transportation, food services, lodging, cast rehearsals, and other activities. The length of the pre-production phase depends upon the overall budget and the complexity (number of locations, size of cast, period and setting) of the project.

Production

The production stage of a movie brings together all the planning and preparation undertaken in pre-production according to a very specific shooting schedule (including contingencies for weather, schedule conflicts, etc.) in order to create the fundamental raw material that will be assembled during post-production into the story that the project is concerned with. This raw material is what is actually captured on film (or on tape) as the actors, stunt people, animals, background extras, production staff, constructed elements, and setting interact according to the screenplay, the director, and the production schedule. Many people are engaged in many activities during production, but only what is actually captured on film is used to make the final product. While the screenplay is written in traditional narrative sequence, actual shooting rarely takes place according to that sequence due to schedule and budget realities, location availability, practical efficiency, creative considerations, and uncontrollable elements or accidents. In fact, single scenes as written in the script may be shot over several non-sequential days during production. Actors are sometimes not accompanied during filming by all or any of the other actors in the scene being filmed, even the ones they are talking to. Many movies rely upon special visual effects – some very subtle, some very prominent – necessitating actors and production staff to accommodate elements that are non-existent during shooting, but will be added in post-production. If visual effects are required, separate contract entities will be working (digital rendering, miniaturization, etc.) while principal photography is occurring, likely in another location or even country, in order to prepare those special effects elements for insertion into the film during post-production. Most film projects with sufficient budget involve at least one second unit, which is another, smaller production unit tasked with capturing establishing footage, some stunt footage, or other elements (including principal footage on larger projects) at the same time principal photography is taking place. While most films are “single camera”, that is, they involve one point of view (ultimately the one the audience is offered), many films involve several types of cameras specifically designed to capture quality images in different circumstances, and some involve multiple cameras all shooting at the same time from different angles or points of view. All films involve multiple set ups of the camera, cast, and crew, including close-ups, wide shots, master shots, etc. These many set ups of the same crew, actors, and elements in order to capture different angles or versions of the same

portions of the script are part of what makes filmmaking so time consuming and detail-oriented. In fact, the vast majority of what takes place during production is logistical, even for the actors. It involves numbing repetition and replication, absolute accuracy, and obsessive coordination of staff, resources, and continuity, all while the clock is ticking on the available budget and allotted schedule. Production is complete when the director, editor, and producers are satisfied that they have completed the shooting schedule according to the script and have acquired enough quality raw material on film in order to begin assembling all the elements of the project into a finished product. Production tends to be the most stressful, expensive, and uncontrollable phase of filmmaking, and is typically what most people think of when they imagine the film making process.

Post-Production

Once principal photography is complete, the editor will assemble a rough cut of the film from all the elements acquired in production. Film stock shot in production must be transferred to a digital tape format, then loaded into the hard drives of digital editing equipment. In fact, the editor may have been putting this cut together during production as film is processed and transferred to digital editing equipment. To this cut, the editor, director, and producers will add all other elements of the project that were not captured in principle photography, including reshoots, second unit photography, special visual effects, music (original and obtained), additional or replacement dialogue and sound effects, graphics, titles, and more – all of which will have to be carefully mixed and monitored in order to fit as seamlessly as possible into the existing cut. They will cut and recut these elements until a version of the story is created that satisfies the requirements of the studio, executive producers, marketing division, director, or whomever else has final say regarding the project. Adequately funded projects will have a marketing team working during or even prior to the production process to help direct the targeted audience for the film toward its release date. Pieces of the cut are used to make trailers, teasers, websites and advertisements to tantalize prospective viewers with bits of the story, cast, and even production process. When approval and/or release schedules require it, the final cut is transferred from digital format to film stock and undergoes a master audio mix, detailed timing and synchronization of separate audio and visual elements, color timing and correction, and negative cutting. The contractually required prints are made which will be the reels distributed to theaters for audience viewing.

Distribution

Traditionally, finished movies (as celluloid film stock) are distributed to and shown in movie theaters, where the audience purchases tickets and sits to watch the movie. This is still the core method of distributing feature films, but it is no longer the most profitable. DVD sales (directly to consumers, to retail outlets, and to rental stores) have surpassed box office sales in terms of gross receipts from movies. Very recently several studio distribution divisions and partners reached agreements with several other companies to distribute movies digitally as compressed files streaming on the internet to individual consumers who pay to download the file to their computer or cell phone with various limitations on the use of the digital file. Until recently, the release of the DVD lagged behind the theatrical release of a movie to allow full market saturation and maximum first run profit from the film, before releasing a version that did not require a trip to the theater. However, DVD releases are being moved closer to theatrical releases in order to capture that revenue sooner and capitalize on the buzz of the opening, and the same is likely to be true of digital releases. Whereas studios originally distributed their movies only to theaters (which they owned), now there are multiple opportunities for an audience to see a movie and for the movie to generate revenue, including first run theatrical release in the U.S., second run theaters, foreign release, television (first run and reruns), pay

cable, satellite movie services, airline movie services, DVDs, and digital internet services. Studios often finance the release of their own films, although many studios have spun off distribution companies or divisions that handle this for them (and sometimes for other independent productions).

There are also a host of distribution companies that negotiate partial financing of film production in exchange for the rights to distribute them in certain markets (for a healthy share of the box office). John Cassavetes used to drive prints of his movies around in his car and negotiate directly with individual theaters to show them. In today's film market, distribution is the bottleneck that greatly reduces the number and variety of films shown in the mass market, or produced in the first place. As difficult and expensive as it is to make a movie, it can prove even more difficult and expensive to market and distribute one. In fact, the average marketing budget of a studio film has surpassed the average production cost. Many films – mostly independent productions, but also some studio projects – get all the way through the post-production process to a finished product and then never get released for an audience to see. Some of these films may be of low quality or production values, but many simply do not (in the opinion of studio and distribution executives) appeal to a large, mass-market audience justifying the expense of marketing and distributing them. Some of these will be released directly to DVD or increasingly to the internet, and will be given little marketing support, both increasing (less investment = lower cost recoup) and undermining (less exposure = less revenue) their opportunity to generate some profit.

2. Quick Industry History

American movies began as completely independent projects shown in the arcades, nickelodeons, and exhibition halls of the silent-film era, which were packed with eager movie audiences comprised largely of recent immigrants. Silent films quickly became so popular that the owners of these venues began making their own films to keep up with the demand. At the beginning of the 20th century, the Edison Trust controlled the basic patents on movie cameras and projectors in America, and through a sympathetic U.S. Justice Department began filing a constant stream of lawsuits against these film companies. In order to escape the legal actions and anti-Semitism that threatened to crush them, the companies moved across the continent to the newly incorporated village of Hollywood, California where they found fewer restrictions and oversight and plenty of room to grow.

In less than a generation the entrepreneurial early film producers had become studio moguls and the highest-paid executives in America. By 1947, the studios they oversaw generated \$1.1 billion in revenues, making movies the third largest retail business in America, behind grocery stores and automotive sales. They earned their money almost entirely through their share of ticket sales at movie theaters, where in an average week, 90 million Americans – out of a total population of 151 million – went to see a movie for forty cents. They either owned or indirectly controlled all the movie theaters in the country. The early studios also controlled their expenditures since in 1947 the average cost to produce a studio movie was \$732,000, average distribution and marketing together only came to \$90,000, and average net receipts for a studio film were \$1.6 million. Additionally, studios directly employed all the people needed to make movies, including actors, directors, writers, and producers, by way of strictly enforced contracts, and they shared little if any of the profits with these employees.

By 1949, the Justice Department was pressing an anti-trust lawsuit against the studios, given that they controlled the production, distribution and exhibition of all movies in the country. Lower court decisions were not favorable for the studios and, in order to avoid the anti-trust action, they signed a consent decree and sold their exhibition properties.

It was at this time that another challenge to the studios' control over movies and audiences emerged. In 1947 only 1 million American homes had televisions in them. That number would more than quadruple by 1949. While content development and broadcasting times for TV were very limited at first, it was only a matter of time before a substantial portion of the 90 million ticket-purchasing moviegoers would start choosing to stay home and watch free television. Over the next 50-plus years box office revenues and studio profits derived from theatrical release of motion pictures declined against the cost of producing, marketing, and distributing movies. With the advent of television programming, audiences began being trained to enjoy and expect entertainment in the comfort of their own homes on a weekly, then daily basis. They still went to the movies, but not nearly as often as they had prior to TV. As the studios lost total control over exhibition, their control over the talent and mechanisms of production also eroded. Stars, directors, producers, writers, and others critical to moviemaking began to free themselves from studio contracts and became much more independent.

TV paved the way for other home viewing options such as VHS players, cable networks, pay TV, and DVD. While television drastically eroded the studios' audience base, these other entertainment venues became the studios' salvation. In order to stay profitable, the studios began to respond to overtures from larger corporate entities. Once purchased by various multi-national corporations, the studios had access to the capital leverage needed to either purchase or merge with home entertainment and television competitors, or start their own home entertainment divisions. By 2003 the studios were taking in almost five times as much revenue from home entertainment as from theaters.

By the early 1980's, film projects produced independently of the studios began once again to find substantial audiences and markets, helped largely by the increased number and exposure of reputable film festivals and the home entertainment market. In fact, the independent film movement helped redefine and identify a market of viewers for foreign films and independent American films guided by an aesthetic distinctly different than the mass-market studio fare filling multiplexes. Some of these projects harkened back to various periods when a greater number of motion pictures were produced annually, meaning more high quality movies were made for a broader range of smaller markets.

In addition, the industry is rapidly becoming an all digital process – production, editing, projection, and distribution all have become reliant to some degree upon digital technology, meaning actual film stock has become rarer and in some respects less efficient. The overall effect is that as digital technology and the means of production becomes more readily available, moving images become increasingly ubiquitous, media literacy and technical abilities become increasingly critical and accessible, creative possibilities increase and cost becomes less of a barrier.

By the late 1990's the studios and their corporate parents had gained effective control of the independent film movement, mostly by way of the bottleneck of distribution – which they controlled, by purchasing or partnering with independent production companies, or by starting their own divisions dedicated to foreign and art house releases.

Theatrical releases have become loss leaders for studios, essentially part of the marketing process necessary to secure home entertainment and licensed product sales. In 2003 the studios spent approximately \$11.3 billion to produce, market, and distribute their own films, and another \$6.7 billion for films of their so-called independent subsidiaries, for a total of \$18 billion. In the same year they recouped only \$6.4 billion in world box office receipts. The worldwide market for videogames is larger (by gross receipts) than that for motion pictures. Currently, the remaining six studios are minority portions of much larger multi-national corporations that also own television and cable networks, home entertainment technology, and internet companies, along with many varied business interests beyond entertainment.

* Taken largely from *The Big Picture* by Edward Jay Epstein, 2005.

Past Kansas Efforts

Past efforts to service the local industry, though limited, has been primarily vested in the state film commission. The Kansas Film Commission was created in 1982 to attract and service film production in the state of Kansas. The Commission is funded entirely by the Economic Development Initiatives Fund and currently covers expenses for two full time employees and their activities in marketing Kansas and assisting film crews shooting in the state.

The Kansas Film Commission is the first point of contact for any production looking for contacts, resources, direction, and advice. The Commission's purpose is to serve as a liaison between prospective filmmakers and the state of Kansas, as well as encourage statewide film education and awareness efforts. The experienced and knowledgeable staff of the Kansas Film Commission assists companies with a wide variety of production issues, including locations, facilities, governmental assistance, personnel, and support services. The Commission also works closely with community contacts in all branches of state and local government to make filming in Kansas more efficient.

Since its inception, the Film Commission has sought to increase dollars spent in Kansas by filmmakers not only by promoting Kansas as an attractive film site, but also by elevating national awareness of indigenous talent and resources through events and programs designed to draw international attention and by providing free resources to aid their efforts to produce films locally.

b. Honest Assessment

We believe it is critical that any initiative regarding film in Kansas derive from and be guided by an underlying long-term strategy, not simply a reaction to current trends or competitive activity. The current proposed strategy rests upon the charge given to the Task Force by the Governor and guidance from the Department of Commerce. Ultimately, it depends entirely upon an honest and comprehensive assessment of Kansas vis a vis the requirements and realities of the film industry, the production process, and the competition among states and countries to attract major production activity. It may be that Kansas simply does not have the available capital reserves, or cannot forgo the necessary expected revenue, to effectively compete head-to-head with many other state or national incentive programs and locations for large imported film projects over the long term. Accordingly, our recommendations call for a broad, integrated, and sustained approach, with an incentive component that is competitive at the national level, but with an initial focus on those projects ideally suited to locations in Kansas and the Midwest. In order for Kansas to compete at the national level and to grow an indigenous film economy we believe it is critical to apply our incentive strategy toward specific and, initially, limited goals, rather than just throwing money at the entire market.

Furthermore, the state must be prepared and able to surrender or refund a portion of expected revenues in exchange for quality production activity, employment, and expenditures. We must also be prepared to maximize and secure the impact of imported projects by way of a skilled resident workforce, a thriving indigenous film industry, quality support services, and the means to leverage the full array of cultural assets related to film. Additionally the state must appropriately budget and staff for aggressive, ongoing management, coordination, and marketing of a sustainable broad-based initiative if we hope to see success.

Location Isn't Everything

While there is much talk about the theoretical advantage Kansas has as a shooting location due to improvements in digital editing technology and the increased ability to make any one place (on film) look reasonably like any other place, it is important to remember that cheating locations works both ways. And if specific locations can often be manipulated on film it follows that in many instances what secures production activity is a mix of other advantages, particularly financial incentives, a skilled local workforce, a quality service and hospitality infrastructure, and the appeal of specific local cultural and landscape assets. The primary exception to this is when a project relies upon very specific Kansas locations or cultural realities and the filmmakers feel that they want to or must shoot the project in Kansas (similar to *Sideways* and Santa Ynez, California – discussed in a later section). Otherwise, it is worth noting that, in film and TV production, location isn't everything. For instance:

- *NYPD Blue* – a quintessentially New York drama shot on the Fox lot in Los Angeles.
- *Seinfeld* – a quintessentially New York sitcom shot entirely on set in Los Angeles.
- *West Wing* – the ultimate insider Washington DC drama shot at Warner Brothers in Burbank.
- *Boston Public* and *Boston Legal* – set in Boston but shot in Manhattan Beach, just south of Los Angeles International Airport.
- *The X-Files* – Vancouver and environs double for everywhere (everywhere it rains, anyway).
- *Capote* – Manitoba doubles for Western Kansas and virtually no one could tell the difference.
- *Cold Mountain* – an epic about the American Civil War shot largely in Romania.
- *Brokeback Mountain* – the northern Wyoming mountains of British Columbia, Canada.

One notable example worth examining is the recent feature film *Ice Harvest*, starring John Cusak and directed by Harold Ramis. The story is based on a book by native Kansan Scott Phillips and set specifically in his home city of Wichita. Nevertheless, it was shot in and around Chicago, though the studio wanted it to go to Toronto. Because both Cusak and Ramis are proud Chicago natives with strong professional ties and residences still there – they chose Chicago out of personal loyalty, as well as for any available incentives and workforce. Moral: Grow your own!

It is not as simple as saying Kansas lost *Ice Harvest* due to lack of incentives and workforce, although that certainly played a role. It is probably also true to say Kansas lost *Ice Harvest* because Kansas isn't producing or retaining enough of its own Harold Ramis' or John Cusacks – skilled, credible filmmakers with influence on production decisions, who want to stay in or return to the state in order to make films set here.

For television series, the required cultural, transportation, service, and production infrastructure (including post- and pre-production), as well the availability of highly specialized contract labor and technology, means that most TV production is dependent upon metro Los Angeles or in some cases Vancouver where such developed concentration exists. Second units ensure that editors are fed establishing shots from the show's setting, very rarely featuring principal actors, and the illusion is sealed. There are exceptions worth studying, such as EUE/Screengems studios in North Carolina, but they are exceptions. Television serial production schedules are grueling and firmly bound to the weekly airing of episodes. As such, people working in television tend to want to be close to home and other support services, which usually means greater Los Angeles. Canada has been successful with its approach involving generous incentives, developing a skilled workforce and quality infrastructure, and leveraging its cultural assets to attract significant television production activity that is still based in Los Angeles. In many of these instances, however, the production and especially the post-production

processes are actually co-located in Vancouver or Toronto and Los Angeles, and often the American staff does not like the commute.

A television series set and shot in Kansas could have tremendous economic and intangible impact upon the state. However, to successfully secure a serial TV project, Kansas would have to offer production incentives as well as local state-of-the-art production and post-production staff, facilities and technology, and the hospitality infrastructure to house and serve the cast and crew on an ongoing basis. These elements represent formidable investment and collaboration that would be tied to (most likely) a single project and the vagaries of network scheduling, advertising revenues, and audience response.

For a number of reasons (mostly related to their temporary nature, audience expectations, and budget realities) filmed long-format projects, as opposed to television serial projects, are much more adapted to and dependent upon location shooting. Improvements in technology increase filmmakers' ability to make one location look like another location altogether. This makes it easier to make a backlot in LA or Manitoba look like Kansas, as well as making it somewhat easier for a location in Kansas to look like LA or Manitoba. In the end, the entertainment industry is relatively small and production is relatively difficult. Regarding location shooting, this means:

- Demands upon production crew and staff are unforgiving, and deadline oriented – days are long and stressful, schedules are tight.
- Films are very expensive to make at best, so even small errors and delays are costly.
- If location shooting creates problems for a production resulting from errors and delays – especially if related to the quality of the local workforce and/or support services – the production crew will talk and virtually everyone in the industry will be listening.
- A reputation thus damaged is more difficult to overcome in the industry than no reputation at all.

Kansas: Big, Diverse, Divisive

We acknowledge the rural/urban and east/west distinctions in the culture of the state and the historic tendency to exploit these for political purposes. On the one hand, elected officials and economic decision-makers say, “let the market decide” regarding the geographic location and economic concentration for any industry or economic endeavor. And regarding film in Kansas, the market has decided. The reality is that most of the indigenous local industry is concentrated in the northeastern part of the state, particularly in the Kansas City metro and Lawrence area (including Missouri communities), and to some degree in Wichita. This region is where most of the state's film makers, production companies, and media capital are concentrated, and it is where the vast majority of those Kansans who earn a living wage in film and media (including grips, electricians, editors, camera operators, caterers, transportation coordinators, props specialists, and others) live and work, supported largely by ongoing advertising and corporate/industrial projects and the occasional television or feature film project (often out of state). This is an observable fact, and it is not unusual or unique.

For example, Los Angeles, California is the nexus for a film economy that draws and supports talent and other resources from many communities worldwide. Austin, Texas is the nexus for a smaller film economy that draws talent and resources from other communities within Texas and the region. Production may take place outside LA or Austin and workers in the film industry may live outside LA or Austin, but the cultural and economic capital that drives film activity is concentrated in LA and Austin. Production activity taking place in Austin or Los Angeles provides direct economic benefit to the entire states of Texas and California by way of tax revenue, employment, and distributed retail spending. So it is with the KC metro area and the state of Kansas (as well as a good deal of

Missouri and some of Nebraska and Iowa). Past film production activity in Kansas suggests that, while the capital investment, industry support, regular employment, and community capacity of the northeast and metro areas of Kansas will be the base of operations for most qualified independent and studio production activity, the shooting locations that major film projects want and expect in Kansas are often found in smaller and rural communities around the state.

On the other hand, there are film makers and specialized production staff – working in Kansas and elsewhere – from Wichita, Wamego, El Dorado, Independence, Junction City, Pittsburg and other Kansas communities not in the northeastern metro corridor. In keeping with the Governor's charge and with the desire of all interested parties to tap the indigenous talent pool and unique character of Kansas, our recommendations must balance the economic and cultural realities that concentrate film activity in the metro area of northeastern Kansas with the fact that many Kansans with film making talent and skills reside, and have connections, throughout the state. Wherever possible, we would like to provide interested Kansans the opportunity to acquire information, education, and training focused on the film and media technologies that are increasingly ubiquitous and important in shaping their lives. Additionally, we seek to empower those Kansans to return the economic and cultural dividends of film production activity to their communities of origin if possible. At the very least, we would like to retain – even temporarily - those Kansans committed to film and new media opportunities, rather than directly and promptly exporting them to places like Los Angeles, Chicago, New York, or Austin. Additionally, for any Kansas film initiative to be effective and marketable, it must accommodate the reality that many projects wanting to shoot in Kansas will also shoot in Missouri

There is, however, a tendency of some political and economic decision-makers in the state to enforce regional partisanship upon public policy recommendations as a result of perceived local political pressure and in direct contradiction to existing market realities. The reasons for this tendency are varied and historic, but if the goal is effective, accountable, and sustainable public support for the film and media sector of the Kansas economy (in order to achieve the greatest public good and return on investment for all Kansans) this tendency must be responsibly checked according to existing market and demographic realities.

Art vs. Business

Filmmaking involves both core creative aspects and core economic aspects, at all levels within the industry. Tension between creative and economic requirements is endemic to film making. In the past decade alone, several major entertainment corporations have narrowly avoided or have succumbed to bankruptcy as a result of their efforts to navigate this tension and the realities of the current film marketplace. In part, this situation fuels significant misunderstanding of the industry by those not directly involved in it. Movie stars, name directors, and large budget feature films generate lots of excitement, even though they represent a limited (and transient) fraction of the available economic impact of film production in Kansas. Economic analysis tends to exclude the creative decisions and individuals that are the raw material driving investment in and the profitability of the film industry. Elected officials can be concerned with the content of or famous people involved in films produced using public resources according to personal or political, rather than market-driven criteria. In Task Force proceedings we have discussed the challenges of public support for film making in Kansas based largely upon misunderstanding or ignorance of the larger film industry. We might term this the “fame factor.”

There is a tendency to focus on one of these aspects of film making (creative or economic) to the exclusion of the other. Public officials and economic developers are not, in general, film makers. Many very successful filmmakers are not particularly good businesspeople or concerned with larger public policy. Getting hung up by either the “creative” aspects of film making or the “business”

aspects of film making avoids the central reality of film making: that it is driven by and integrates both creative and business impulses. In a public policy environment where public resources are in play, it is incumbent upon us to be very clear about the tangible, operational relationship – or lack thereof – between educational, artistic, or economic policy recommendations and the specific goals of each as they relate to film production. Concerns may exist as to whether public investment in film and media production, with its confluence of business and creative concerns, is an investment in economic development, workforce training, a well-rounded general education, or an artistic endeavor. While it may be necessary to segregate resources dedicated to a Kansas film initiative according to various budgets or institutional mandates, it is our expectation that the ubiquitous nature of film and media means that, so long as an integrated strategy exists, resources applied in any one “silo” - such as education, cultural assets, workforce training, or economic development - will likely affect outcomes in the others.

Regarding our own public policy recommendations in support of film and media production in Kansas, we do not believe that a government or particular private sector entity can be expected to make film making easy or secure from either a creative or an economic perspective. Successful filmmaking will never be easy, due in part to its collaborative nature, logistical requirements, the tension between creative impulses and economic realities, the vagaries of audiences and the market, and a host of other reasons. It is our goal that by implementing specific, integrated, and flexible measures, the State of Kansas may play a critical role in helping to make substantial film and media production possible in the state, and more productive for the state. In order to realize the success of a film and media initiative in Kansas, state and local government partners need to contribute, but focused and collaborative educational and industry partners are equally if not more important. Beyond that, success of an appropriate film economy in Kansas depends upon the individual film and media entrepreneurs and creators that Kansas can produce and attract.

The Competition

Many other states and countries are considering, have proposed, or have very recently passed production incentives. A list of these entities and their respective incentives is included in the supporting materials section of this report.

We must, when looking to other models of public film industry incentives and support, balance the wisdom of not reinventing the wheel, with the realities of existing competition for film production, the distinct cultural and economic potential of Kansas to grow and support film industry activity, and the industry-specific market and technological realities of film production.

New Mexico, for instance, has implemented (to date) very successful film incentive programs, and Kansas has done well to study these. However, film industry money, talent, and individuals have been drawn to New Mexico for decades based upon the cultural capital the state possesses in the form of Santa Fe, Taos, outdoor recreation, landscape, views, culture and history, and established artistic traditions. Fifty years ago, when specific real locations were more critical to certain films, New Mexico benefited and saw limited infrastructural investment from Hollywood. Additionally, the culture, history, and landscape of New Mexico have historically drawn a certain number of film and artistic professionals looking for inspiration and/or second homes. Perhaps most importantly, New Mexico has a 12 billion dollar Severance Tax Permanent Fund set aside for public investments, including film production.

Austin, Texas has a vibrant and growing film scene that also provides a usable model for the state of Kansas. However, like New Mexico, Austin has significant and established cultural assets in the form of an internationally vital music scene, which has in turn helped support theater and film activity by way of a host of restaurants, bars, clubs, venues, etc. that attract and retain money, talent,

and creativity. The University of Texas has played a critical role in the development of the film community in Austin, offering graduate level and practical film programs that attract and train talented young filmmakers from around the country. The Austin Film Society, a private, non-profit industry and arts organization continues to play a crucial role in the growth and development of the film industry in Austin through education, organization, outreach, and funding. These three components in Austin – the existing music and cultural scene, the University of Texas, and the Austin Film Society – form a core partnership that has, over decades, transformed Austin into a successful regional film center. In particular, this environment has developed and retained such key figures as Richard Linklater and Robert Rodriguez – both Texas residents who have enjoyed successful commercial film careers and who remain committed to and invested in Austin, creating and locating major film projects in the state, and helping to justify substantial infrastructure and workforce investments. It should be noted that, while Texas has film incentives, most of what UT, Linklater, Rodriguez, the Austin Film Society, and others in the region have accomplished has taken place without the use of government financial assistance. It has happened in Austin because a core group of entrepreneurs, artists, educators, and community advocates wanted it to happen there.

Nearly twenty years ago North Carolina – a state with considerable tourist, hospitality, educational, and cultural assets as well as appropriate budget and marketing initiatives supporting these – participated in significant infrastructural investment focused on film production, only to see Dino De Laurentiis sell his studio facilities there, leaving soundstages empty until EUE/Screengems purchased and revitalized them.

In this respect, New Mexico, Austin, and North Carolina have assets and a history of interaction with the film industry that Kansas either does not possess or has not historically invested in. As such, we should not assume that Kansas can or should simply lift the policies and strategies employed by these or other examples and expect the same results.

Canada offers a powerful example of the comprehensive development of a film production base, including tax-based incentives to attract major projects and the development of quality infrastructure and a skilled resident workforce. However, it must be noted that Canadian efforts continue to take place on combined local, provincial, and federal levels, and that between those resource bases “Canada” can devote considerably more financial resources to film and media production than the State of Kansas has or will have available. Even with such investment on several levels, and having successfully captured a healthy portion of location production, Canada is finding that, especially in a changing world currency market, they cannot rest on their laurels in the face of increasing competition from more favorable foreign labor markets and incentives, including those in a number of states in the United States.

There are a number of benefits that justify state investment in attracting outside major film and media projects, including the direct in-state spending realized during production, increased state and local tax revenues, the opportunity to help train and sustain a resident film workforce, the opportunity for Kansas residents and students to participate and learn, as well as more intangible benefits such as the chance for national and international media exposure, image enhancement, and a sense of pride derived from those. The transient or temporary nature of major outside projects has its own advantages in that it relies upon and invests in the hospitality and retail service sectors of the economy (which Kansas could certainly benefit from), while adding to the tax revenue base that provides public services that benefit residents, like education, transportation, and public safety. However, the transient and temporary nature of such major outside projects means that in order to develop and retain the resident workforce, wages, tax revenue, and capital investment provided by such projects, the state must (a) continue to attract such projects on an ongoing basis, year in and year out, in a very competitive industry and state incentive marketplace, (b) partner with and encourage an indigenous

film economy and cultural environment by which Kansas remains attractive to outside investment and projects, retains a qualified resident workforce, and encourages responsible and sustainable capital investment, all of which effectively harvest and maximize the benefits of such outside projects, or (c) integrate both strategies.

As indicated elsewhere in this report, the movie industry involves substantial risk and change, as well as substantial possible rewards. While the Task Force recognizes the necessity of state government participation in the industry by way of incentives aimed at attracting significant outside projects, we also exercise a note of caution regarding investment in and dependence upon that single strategy alone, given the highly competitive and changing realities of the industry and the incentives environment, as well as the more complex reality of other states' success.

c. Benefits of film and media production in Kansas

Why should Kansas invest in financial incentives and strategic support for film production? There are a number of reasons. While some benefits of film production have distinct caveats discussed in detail throughout this report, all the benefits driving other states' investment in attracting film production activity apply to Kansas as well. In some cases, particularly regarding the more intangible elements, the positive impact of significant film production could be amplified in Kansas as compared to many other states.

- Competitive economic Return On Investment
 - Broad multiplied impact within the economy
 - Very quick turnaround from state investment to economic impact
- Significant intangible benefits
 - Image and marketing
 - State culture and quality of life
 - Tourism
 - Business recruitment and retention
- Broad, geographic, economic, and cultural impact within the state
 - Skilled, mobile workforce
 - Recurrent, temporary production
 - Dispersed employment, spending, and industry activity targeting both rural and urban areas
- New addition to the Kansas economy
 - Create new revenue and jobs otherwise lost
 - Given the level of past investment, budgets, and efforts, film production activity in Kansas can only increase

Benefits accrued during actual production and location shooting:

1. Direct spending by film production in-state
 - a. Retail – groceries, hardware, production equipment, etc.
 - b. Transportation – airlines, taxis, car services, shipping, etc.
 - c. Lodging – for entire cast and crew
 - d. Services – catering, restaurants, specialty set services, etc.
2. Direct spending by individuals on film crews while in-state
 - a. Retail
 - b. Restaurants and other services

- c. Entertainment
- d. Fuel and rental cars
3. Quality, well-paid jobs doing skilled work. Also workforce training opportunities for media and film skills, which are in broad demand and have many applications in the new economy.
4. Educational opportunities
 - a. Internships
 - b. Paid positions
 - c. On-the-job training
 - d. Professional mentoring, contacts, and best-practices

Benefits accrued to Kansas as a result of successful production and release of films shot in or featuring Kansas:

5. Image enhancement and awareness
6. Broad public exposure for the state
7. Tourism marketing and visitation benefits
8. Enhanced indigenous arts and culture
9. Traditional business recruitment benefits
10. Enhanced state pride
11. Increased entrepreneurial and creative opportunities in Kansas

What makes film different from most other industries?

1. Temporary projects and mobile workforce.
 - a. Film productions and crews add significant direct spending and tax revenue to the economy. Including tax revenue used to attract productions, their cost to public services and resources benefiting residents (education, public safety, roads, etc.) is limited, temporary, and less than the revenue they inject into the economy.
 - b. Big local impact without ongoing requirements or obligations placed upon local budgets and infrastructure.
 - c. Multiple part-time, temporary jobs add up to flexible, highly paid annual employment.
2. Economic impact of regular large production projects will be spread around the state over time.
 - a. Productions are not factories and will locate across the state over time, according to individual production requirements
 - b. Local (often rural) communities will receive the bulk of the direct (temporary) economic benefit from actual shooting.
 - c. Urban/metro areas will benefit from long-term capital investment and skilled workforce.
3. Significant image and awareness impact
 - a. Stimulates tourism
 - b. Intangible positive impact upon business recruitment and retention
 - c. Helps boost any and all marketing related to the state
4. Specifically leverages indigenous hospitality and cultural resources
 - a. Highlights recreation / entertainment / hospitality assets
 - b. Enhances indigenous art and culture
5. The industry's primary infrastructure and workforce is concentrated in Los Angeles
 - a. Other locations can successfully "import" significant revenue and jobs without short term infrastructural investment

- b. Other state's competitive incentives have yielded significant economic results quickly
- 6. Ubiquitous product
 - a. The output of the entertainment industry is consumed in one form or another by the majority of people worldwide
 - b. Much of the labor is highly skilled and transferable across new economy sectors

Important Intangibles

While the focus of a film initiative utilizing public funds and managed through the Department of Commerce must be the jobs, revenue, and investment that are the benchmarks of any successful economic development program, there are a number of other aspects involved in the success of film in Kansas which the state must address as part of a comprehensive and sustainable initiative.

While recent activity by the Department of Commerce is encouraging, Kansas has historically neglected to sufficiently invest in developing and managing the image and assets of the state as part of a coordinated strategy of economic and cultural development linking business recruitment, tourism, product branding and trade-marking, education, and the arts and culture of the state. Kansans have relied largely upon passive public awareness of free media coverage to define our image in the larger marketplace. As a result, we are perhaps best known for The Wizard of Oz, a flat landscape, wheat farming, graphic religious protests at funerals and churches, and state school board efforts opposing the teaching of evolution, if we are known at all. While actual consumer research paints a more nuanced picture, most Kansans believe that we are viewed by others as one of those big, homogenous, rectangular, red states that might be a great place to raise kids, but is generally a place to drive through on the way to somewhere else or to leave soon after graduation. To the extent that this is the image non-residents and residents have of Kansas, Kansans have invested little to tell a different, more robust and inviting story about the state. It is doubtful that most non-Kansans (even most Kansans) are aware of the quality and breadth of art and literature created by Kansans, or (due to very limited public access) the wetlands, prairies, and other landscapes that are unique to the state, or the cultural and culinary variety embedded in small towns and city neighborhoods throughout the state. Clearly, many of us feel that increased film production in the state could positively impact the image of Kansas by way of the exposure location shooting and popular films would give our nature, culture, and heritage, as well as the boost such projects would give the cultural and hospitality assets of the state.

As indicated previously, we believe there is a chicken-and-egg issue in this regard, in that a strong, positive image and an array of thriving cultural and hospitality assets seem to be as much a *prerequisite* for attracting and retaining film production activity and investment over the long-term, as they are the *result* of film production activity and investment. With regard to importing film production, money matters a lot, but it is also true that some industry decision-makers will be hesitant to locate a project in Kansas because they may doubt that the state offers the social, cultural, and hospitality amenities they and their crews want and need. They may even perceive Kansas to be indifferent or hostile toward imported film projects and workers. In this regard, the temporary nature of location film production works both ways: imported crews will know that their time in Kansas is limited (and highly paid) and will be mostly consumed with work, but as visitors to the state they also know they will be reliant upon the hospitality and service assets of the state, as well as the local production workforce. Unless they are from Kansas (and even then there are no guarantees) most movie stars or major directors are not going to concern themselves much with Kansas, even while here, and certainly not after they are gone. Popular movies and other media depicting Kansas can certainly have an effect upon the image others have of (and the pride Kansans take in) the state, but given that the state can't effectively control the content of those movies or the audience response to them, movies cannot substitute for coordinated, strategic publicity and marketing.

While we, as Kansans, have pride in our state and believe that it offers rich and surprising experiences for those willing to inform themselves and seek them out, we also know, as professionals involved in the entertainment industry, that most people in the industry outside of Kansas will not have the time or the inclination to investigate Kansas with a native advocate's zeal. We also recognize that Kansas has not historically devoted the time, strategy, or resources to create and manage competitive market awareness on behalf of the state. As such, we recognize the need, and the Governor's request, to include as part of the film initiative targeted measures and recommendations aimed at engaging the best of the state's natural, cultural, historic, and hospitality assets so that they may both enhance the attractiveness of Kansas from an outside, industry perspective, and be enhanced by the economic and cultural activity generated by film production in the state.

d. Film Incentive Analysis

The following analysis compares the economic impact of creating jobs in the film industry with creating jobs in other industries and business operations such as customer service centers, corporate headquarters, warehousing/distribution and manufacturing.

Film Analysis I (studio and large independent film) compares a film that spends \$6,500,000 in the state -- the direct expenditures for the Truman Capote film -- "Infamous" (total overall budget of \$13,000,000) that chose not to film in Kansas -- to a "traditional" business that makes a \$6,500,00 capital investment in the state.

Film Analysis II (low budget independent film) compares a film that spends \$1,000,000 in Kansas to a "traditional" business that makes a \$1,000,000 capital investment in the state.

Film Analysis III (micro-budget film) compares a film spending \$300,000 in Kansas to a "traditional" business that makes a \$300,000 capital investment in the state.

The following is background on the information and assumptions used in the analysis:

1. Revenue or capital investment -- see above.
2. Jobs generated
 - Film -- number of jobs came out of the Kansas, Inc. study on the film industry.
 - Traditional -- number of jobs came from the actual results of Commerce's Business Recruitment Section site location projects.
3. Average duration of jobs
 - Film -- these jobs are only place as long as the film is in production; one year was used for purposes of this study.
 - Traditional -- the duration of these jobs can vary greatly; seven years was used for this analysis.
4. Average wage
 - Film -- this figure was derived from a State of Louisiana Film Study.
 - Traditional -- this figure came from the actual results of Business Recruitment's site location projects.
5. Total payroll -- # jobs x average wage x average duration of jobs
6. Employee withholding tax rate -- provided by Kansas Dept. of Revenue.

7. Total annual employee withholding tax generated -- # jobs x tax generated per job
 8. Total multi-year employee withholding tax generated – tax generated x # years
 9. Sales tax rate – 5.3% is the state rate.
 10. Goods and services subject to sales tax
 - Film – assume that the portion of budget not spent on payroll is spent on the purchase of goods and services in the state. Film Analysis III provides an exemption for that tax.
 - Traditional – assume that these businesses can qualify for a sales tax exemption, therefore no sales revenue is generated.
 11. Payroll used for consumer expenditures – assume that 50% of a person's paycheck will be spent on goods and services subject to sales tax.
 12. Total tax revenue – total revenue realized by the state over the life of the jobs (refer to # 3).
 13. Incentives
 - Film
 - Film Analysis I – 30% rebate of eligible expenditures
 - Film Analysis II – 25% sellable tax credit to individual investor
 - Film Analysis III – state and local sales tax exemption on eligible expenditures
 - Traditional – estimated amount typically provided by Business Recruitment in formal site location incentive proposals.
 14. Incentives per job – amount of incentives per job created
 15. Years to pay off – estimate of the amount of time to “recover” incentives from tax revenue generated.
 16. Tax revenue after incentive payoff – amount of net revenue after incentives are “paid off”.
 17. Total revenue per job created after incentive payoff – amount of net revenue after incentives are paid off per job created.
- Other
- a. Multiplier effect – 1.66 multiplier was used based on an Austin, Texas Film Study.
 - b. State taxes only – this analysis only looked at the impact on state taxes and revenues since only state incentives were being considered.
 - c. Corporate income tax – this analysis did not attempt to estimate corporate income revenues due to the complex nature of state corporate tax code.

Film Incentive Analysis I

	<u>Film</u>	<u>Traditional</u>
1 Revenue or Capitol Investment	\$6,500,000	\$6,500,000
2 Jobs generated from above	65	97.5
3 Average duration of jobs	1 year	7 years
4 Average annual wage	\$30,000	\$37,000
5 Total Payroll	\$1,950,000	\$3,607,500
6 Employee withholding tax generated per job - 2.6%	\$780	\$962
7 Total annual employee withholding tax generated	\$50,700	\$93,795
8 Total multi-year employee withholding tax generated	\$50,700	\$656,565
9 Sales tax generated - 5.3%		
10 --- Goods and services	\$241,150	\$0
11 --- Payroll (based on 50% of total payroll spent on taxable goods)	\$51,675	\$669,191
12 Total tax revenue (Lines 8+10+11)	\$343,525	\$1,325,756
13 Incentives	\$1,950,000	\$390,000
14 Incentives per job	\$30,000	\$4,000
15 Years to payoff incentives with tax revenues		2.06
16 Tax revenues after incentive payoff	(\$1,606,475)	\$935,756
17 Total revenue per job created after incentive payoff	(\$24,715)	\$9,597

Film Incentive Analysis II

	<u>Film</u>	<u>Traditional</u>
1 Revenue or Capitol Investment	\$1,000,000	\$1,000,000
2 Jobs generated from above	10	15
3 Average duration of jobs	1 year	7 years
4 Average annual wage	\$30,000	\$37,000
5 Total Payroll	\$300,000	\$555,000
6 Employee withholding tax generated per job- 2.6%	\$780	\$962
7 Total annual employee withholding tax generated	\$7,800	\$14,430
8 Total multi-year employee withholding tax generated	\$7,800	\$101,010
9 Sales tax generated - 5.3%		
10 --- Goods and services	\$37,100	\$0
11 --- Payroll (based on 50% of total payroll spent on taxable goods)	\$7,950	\$102,949
12 Total tax revenue (Lines 8+10+11)	\$52,850	\$203,959
13 Incentives	\$250,000	\$60,000
14 Incentives per job	\$25,000	\$4,000
15 Years to payoff incentives with tax revenues		2.06
16 Tax revenues after incentive payoff	(\$197,150)	\$143,959
17 Total revenue per job created after incentive payoff	(\$19,715)	\$9,597

Film Incentive Analysis III

	<u>Film</u>	<u>Traditional</u>
1 Revenue or Capitol Investment	\$300,000	\$300,000
2 Jobs generated from above	3	4.5
3 Average duration of jobs	1 year	7 years
4 Average annual wage	\$30,000	\$37,000
5 Total Payroll	\$90,000	\$166,500
6 Employee withholding tax generated per job - 2.6%	\$780	\$962
7 Total annual employee withholding tax generated	\$2,340	\$4,329
8 Total multi-year employee withholding tax generated	\$2,340	\$30,303
9 Sales tax generated - 5.3%		
10 --- Goods and services	\$0	\$0
11 --- Payroll (based on 50% of total payroll spent on taxable goods)	\$2,385	\$30,885
12 Total tax revenue (Lines 8+10+11)	\$4,725	\$61,188
13 Incentives	\$11,130	\$18,000
14 Incentives per job	\$3,710	\$4,000
15 Years to payoff incentives with tax revenues		2.06
16 Tax revenues after incentive payoff	(\$6,405)	\$43,188
17 Total revenue per job created after incentive payoff	(\$2,135)	\$9,597

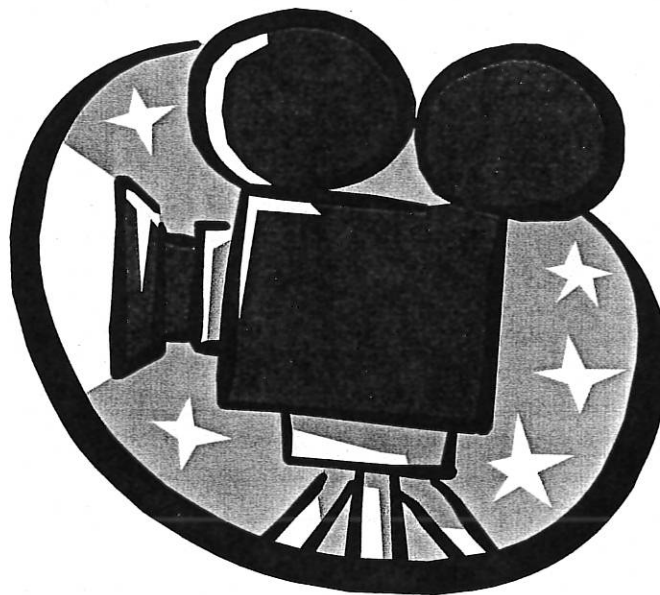
e. MPAA 2005 State by State Tax Incentives for the Film Industry



MOTION PICTURE ASSOCIATION OF AMERICA, INC.

2005 STATE-BY-STATE TAX INCENTIVES

FOR THE FILM INDUSTRY



Compiled by Angela Miele
Vice President, State Tax Policy

STATE	<p style="text-align: center;"><u>TAX INCENTIVES</u> March 1, 2005</p>
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:	<p>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 commercial 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.</p> <p>No state tax on lodging after 30 days.</p>
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:	<p>No sales or use tax on production or postproduction 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 postproduction equipment by qualified persons.</p> <p>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.</p> <p>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.</p>

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 as an integral part of production activities. Subject to annual appropriation, there is a 15% rebate of qualified Florida expenditures for in-state productions spending at least \$850,000 capped at \$2 million on films, \$450,000 on TV series, \$150,000 for individual television episodes. No state individual income tax.
Georgia:	Sales and use tax exemption for the purchase or lease of a wide range of production and postproduction 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 photo processing produced for use in motion pictures for public commercial exhibition.

	<p>(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.)</p> <p>The 14.9% hotel tax is reimbursed for stays in excess of 30 days.</p>
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 postproduction 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, make-up, most expendable items.
Missouri:	Provides a transferable/carry forward (5yrs) 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.
Montana	No state sales tax. No business equipment tax on motion picture related vehicles and equipment brought into the state for the first 180 days. State 7% accommodations tax rebate 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 postproduction 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 postproduction

	<p>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 postproduction) 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 2 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. An additional 5% refundable tax credit against corporate, partnership, or unincorporated business tax liability, for taxable years beginning on or after January 1, 2005, against New York City tax liability with the same qualification parameters as the state credit. The City's annual credit cap is \$12.5 million.</p>
<p>North Carolina:</p>	<p>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.</p>
<p>Ohio:</p>	<p>No state sales tax on hotel stays in excess of 30 days.</p>
<p>Oklahoma:</p>	<p>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.</p> <p>The total payments will not exceed \$2 million per fiscal year. State sales tax rebate on hotel stays after 30 days.</p>
<p>Oregon:</p>	<p>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.</p>

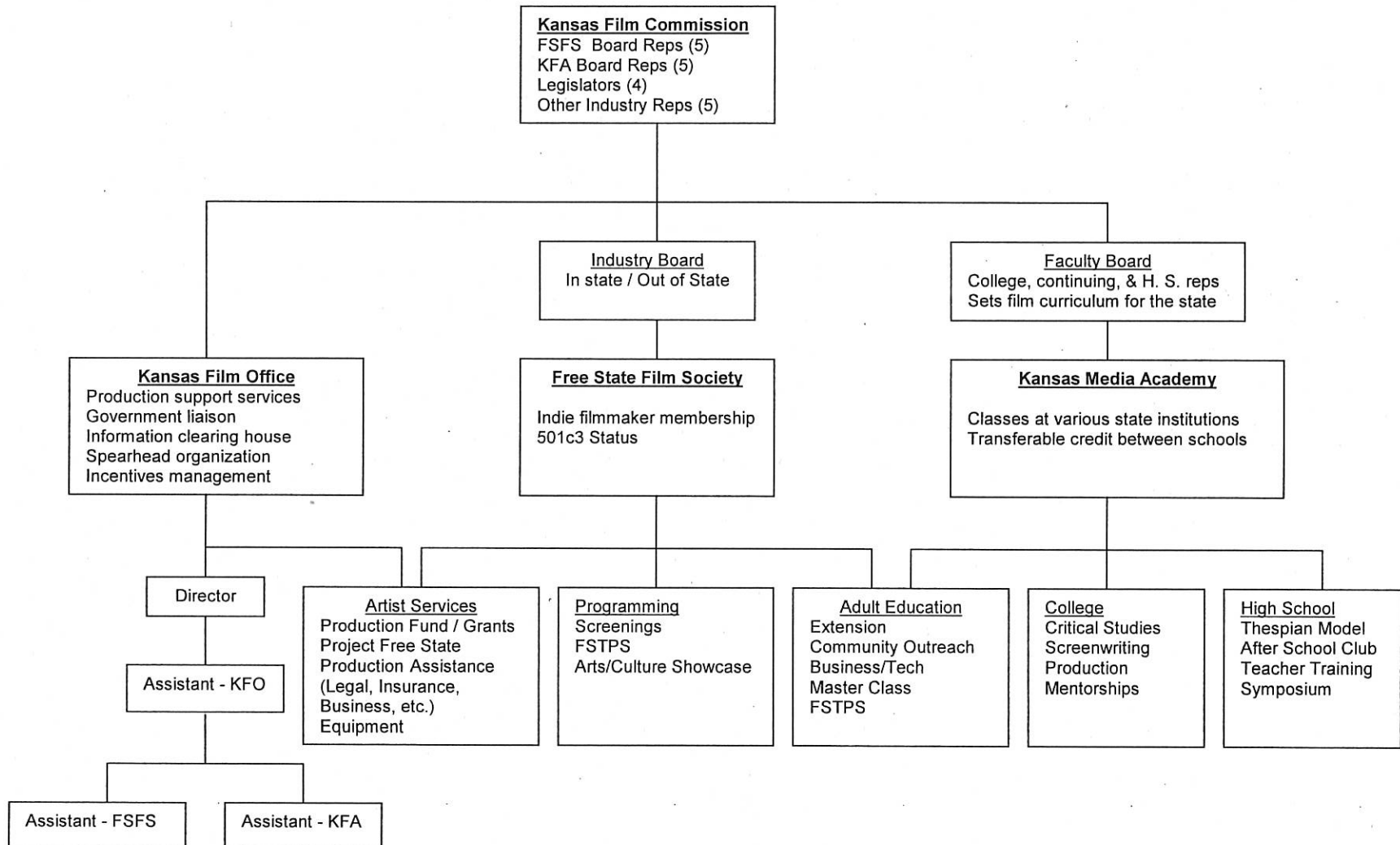
<p>Pennsylvania:</p>	<p>A 6% sales and use tax exemption for the purchase or rental of any tangible personal property and services in Pennsylvania used directly in the production or post production of a feature length commercial motion picture distributed to a national audience. Newly enacted assignable 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.</p>
<p>Puerto Rico:</p>	<p>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.</p>
<p>South Carolina:</p>	<p>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 five percent 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.</p>
<p>Tennessee:</p>	<p>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.</p>
<p>Texas:</p>	<p>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.</p>
<p>Utah:</p>	<p>Beginning <u>July 1, 2004</u> state sales and use tax exemption for the purchase, lease or rental of machinery and equipment used in the production or postproduction of motion picture, television, music video or commercial productions. Transient room tax rebate on hotel stays of 30 days or more.</p>

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.

Kansas Film Industry

Film Industry Perspective

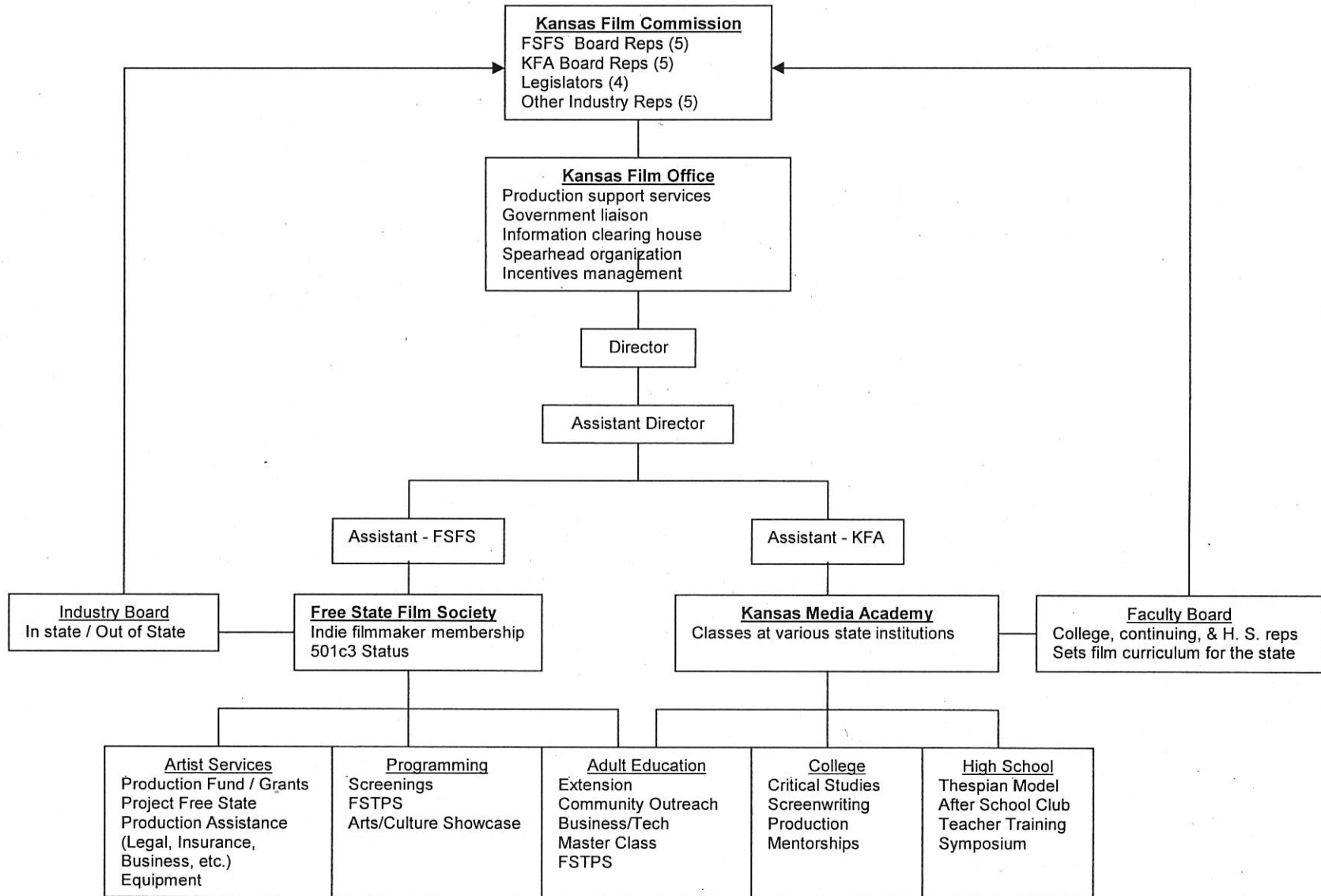
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Kansas Film Industry

Department of Commerce Perspective



Kansas Film Industry

Legislative/Legal Perspective

