Economics Research Associates

Final

White Paper:

Trends in Film, Music, & Digital Media

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20 E. Jackson Boulevard Suite 1200
Chicago IL 60604
312.427.3855 FAX 312.427.3660 www.econres.com
Los Angeles San Francisco San Diego New York
Chicago Washington DC London

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Executive Summary of Findings

Economics Research Associates (ERA) was retained by the Louisiana Department of Economic Development (LED) to evaluate 1) the current film and music industry trends, 2) the estimated impacts of the state's film incentive program, and 3) the prospects for moving the state's film and music industry initiatives to the next level of economic development. This document is part of a broader evaluation of the state's strategic direction, and accompanied by a separate document outlining ERA's industry-specific recommendations.

Media and Content

One of the most complex economic structures in the world today is the media industry. Recent technological changes have altered funding, creation, and distribution of content. The main technological change which has given rise to an evolving industry structure is a transition to digital processes. This is matched by ongoing change in the business structure. The benefits of digital processes can be characterized in four main ways:

- Because the technology involved in the creation of content is more commonly available, and the equipment can be made a lower relative costs, digital technology allows for **lower creation costs** with larger operations realizing significant cost savings, and smaller enterprises becoming more feasible commercially;
- **Lower storage costs** are an important factor for large content companies. Storage costs associated with entities that own large libraries of content can be significant, and lowering such a cost allows for smaller operational overhead, and therefore a more profitable business model;
- Digital content is **more durable** than analog based technology. With other technology – such as tape – use wears down the clarity of the content in audio and audio-visual products. Digital products have a much longer half-life whereby they can survive many more uses than their analog counterparts;
- And lastly, digital content is **more easily repurposed** for other uses. Tape or analog based technologies must be "re-cut" to enable its use in a form other then was originally intended. This is a time-consuming and specialized process which makes it more difficult to repurpose content. What is more, repurposing allows content owners more potential revenue streams at lower costs, as it becomes more feasible to create products from the base content in other formats or uses.

Industries allied to media and content largely function as an export market, that is, value from such products is largely derivative of product consumption outside of where it is produced – in this case, Louisiana. What is more, such creative industries have other advantages:

- They are relatively clean, and typically do not generate environmental impacts that need to be mitigated;
- Wages throughout the industry are generally higher than wages for comparable work elsewhere in the economy;
- They can provide a boon to tourism industries in terms of branding, encouraging travel, and both tourist and production activity can help to sell additional room nights, and increase restaurant and retail sales.

For these and other reasons, the support of content-related enterprise is rightfully perceived by many governments as having a place in their industrial policies. Because of the strong contracting and subcontracting relationships that are the core of the film and music industries, there are opportunities to develop multiple rounds of economic growth and job generation that come about from the flexible specialization form of production which is characteristic in these industries. Media enterprises are typically marked by relatively high up-front (fixed investment) costs with increasing returns to scale as the marginal cost of showing someone a film or selling an extra music track are negligible.

In both film and music, commercial viability is enabled through a series of arrangements and agreements which move the process of content creation from a funding source, to production, to distribution, and lastly exhibition. In creating sustainable, home-grown film and music industries, a strategy must work to address each element of the process. In both industries in Louisiana, this is especially true of funding (capital formation) and distribution.

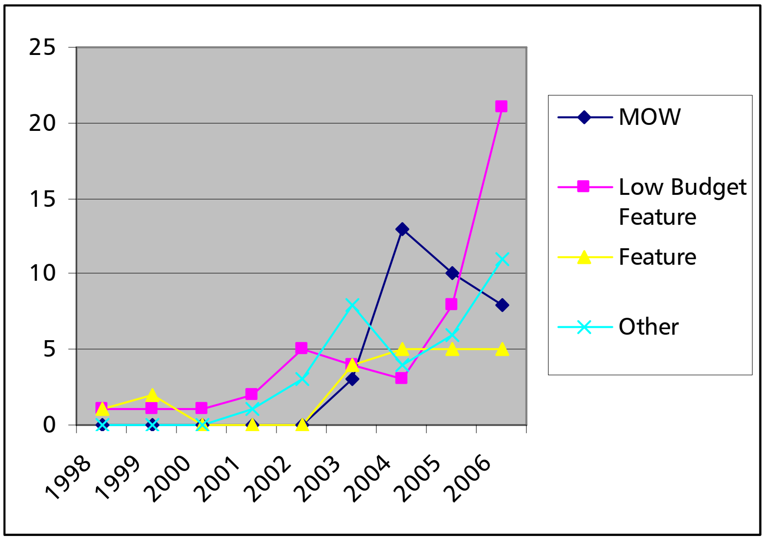
As a result of the relatively high up-front industry costs, the music, film and television business require unique knowledge for investors and potential supporters. In the early process, this limits the capital formation except among savvy players. Even the Louisiana film incentives program took time to establish a significant level of activity in the state. Establishing some investment vehicles which allow investors limited risk but allow the local industry to grow might offer some opportunities for capital formation, enabling more locally-oriented growth.

The process of film and music distribution are being reshaped by technological change. For both, commercial viability no longer requires "mass-market" commercial potential as used to be the case. Increasingly, savvy industry players can overcome the lower threshold for commercial viability by using more sophisticated distribution methods. In film, independent direct to DVD and/ or deals with distributors such as Netflix can enable commercially viable, locally created products independent of the major Hollywood studio system. Music products in some ways, can take even greater advantage of evolving distribution techniques because of the lower cost-to-market in creating such products. Again, new, alternative distributors such as iTunes and specially created platforms (promoted, custom distribution Internet sites) enable a distribution channel outside of the typical label-centric system. To be sure, both studios and labels will continue to heavily influence the music and film process. But commercial viability for smaller enterprises no longer *requires* large industry businesses.

However, the paths of the two industries diverge. The process of content creation in the film industry has proportionally a much higher level of supporting labor, referred to as "below the line". Getting products to market in the music industry requires a smaller level of support labor, as the process is generally less labor intensive.

Film Industry

The Louisiana film incentives program, enacted in 2002, has created a significant level of film activity in the state. As detailed further in this report, the state industry has seen some of the highest statewide film activity employment growth in the country alongside New Mexico. Since 2001 both Louisiana and New Mexico have experienced compound annual employment growth of 23 percent per year. What is more, Louisiana now boasts the third highest film concentration ratio of U.S. states behind California and New York. An illustration of the increase in film activity can be seen in the following chart.



The key insights from ERA's economic impact analysis are:

- In Louisiana, the motion picture industry's total output multiplier is 1.847, which ranks in the top quarter of the state's industries;
- The total value added to the Louisiana economy because of film spending in 2003 was \$7,452,996: it rose to \$343,843,992 in 2005 due to increased activity;
- In a stable industrial scenario, spending in 2003 was enough to support 5,437 jobs through the entire economy. This scenario clearly shows Louisiana has made leaps in the amounts of jobs its film economy can support. By 2005, Louisiana was able to support 13,445 additional jobs due to the increase in film expenditures.

The film industry is best characterized by the interaction between four elements of a local industry - infrastructure, labor force, markets, and stakeholders. These four factors work as a positive feedback system with each element contributing to the growth and development of the other. ERA's analysis of the Louisiana film industry relative to the previous four development requisites reveals that:

- Infrastructure capacity is currently being created or upgraded in the state. Basic road, airport, and hotel capacity exists, and soundstages and other first-generation infrastructure necessities are being planned and built;
- The state's labor force in the industry has grown dramatically in the last several years. The next logical steps would be to create training programs for new market entrants. At first, such a capacity would likely be for 'below-the-line' labor – the nuts and bolts of carrying out production. As the industry becomes more developed, it should expand to include above-the-line talent, perhaps through the statewide university system;
- Current locally-based markets continue to be under-developed. As of now, the dramatic increase in production industry is almost entirely for productions conceived and funded by establishments outside of the state. A home-grown, local film market does not currently exist;
- Louisiana has a small number of stakeholders or "industry champions". There are, generally speaking, a small number of locally-oriented establishments which have been able to utilize of the current incentives package. There does not seem to yet be a deeply rooted, advocate/ activist film community in the state as of now.

Music Industry

The state's music industry, according to employment and wage analysis shown later, appears to be underdeveloped relative to other states. What is more, there are likely to be significant challenges in regrouping the industry as previous analysis suggests that between 60 – 70 percent of the state's music industry existed in the New Orleans area.

The music industry in general is still strongly influenced by music labels. Labels by and large have crafted the funding and distribution mechanisms for music which are still used. For this reason the 'pirating' of copyrighted content was especially threatening to the label's business model, and inspired a concerted effort by the industry to prevent circumvention of the normal process of distribution. Increasingly, however, labels by necessity are adapting to new distribution methods, mainly as a result of consumer popularity.

New distribution techniques, as well as lower costs and more available sound recording equipment, enable the possibility of commercial success outside of the typical label-created process. To be sure, labels will continue to maintain a dominant presence in the industry, but technological changes enable a more scalable business model allowing for commercial success without the support of a label. In the report, ERA singles out four products of focus for further music industry development in Louisiana – venues, albums and singles (leveraging new distribution methods), music writing, and scoring.

ERA reviewed the development of music industries in five cities, as this is generally the best scale from which to draw conclusions related to industry development. The cities were New York, Los Angeles, Nashville, Austin, and Seattle. A few observations are noteworthy regarding the development mix within these cities. First, all have one or several signature events or attractions. These can include large performance and training facilities, and/ or events which have been successfully parlayed into a more prominent presence in the music industry. An example of the latter is Austin's successful development of the *South by Southwest* event into a more significant industry development platform, extending the city's reach into national and international talent and industry professionals.

Second, cities which draw talent at a national or international level include New York, Los Angeles, and Nashville. These cities are marked by high levels of national music industry presence, as well as numerous, well-publicized "champions" of the industry in these areas. For these cities, courtship of the industry is a more passive endeavor, as the industry already has a significant local presence. For Austin and Seattle the pursuit of music industry development has been, by necessity, a more aggressive effort. In Austin, the city was able to successfully position itself as a "live music capital", and Seattle's pursuit of the music industry has been a combination of local government efforts in support of local venues, a noteworthy industry champion (Paul Allen), and a small number of savvy, locally-based labels. Both Austin and Seattle had strategies emphasizing local venues. And in both cases, the cities were able to successfully establish themselves as regional industry draws, with a noteworthy national/ international reputation.

Third, in Austin and Seattle the combination of private-sector industry champions, and local and/ or state government support for establishing a local music industry were pivotal. The founders and supporters of *South by Southwest* worked with city officials (and later state officials) to craft a strategy for establishing the local industry. And in Seattle, the Mayor's office worked to support venues, while Paul Allen and a small number of local labels (private sector champions) worked towards augmenting the local music offerings and enabling a more commercially viable industry structure.

Fourth, distinctive sound is an obvious element of the industry in all five cities. For New York and Los Angeles, the local sound was, basically, the national sound as these two cities were (are) centers of gravity for industry talent. In Nashville, it was originally country music, Austin had a unique combination of rock and country, and in Seattle it was originally Jazz (1920's) and later grunge (1990's). All found ways to take a distinctive sound, cultivate a following, and begin establishing an industry infrastructure around such a following.

The music industry is an industry in transition. This is a time when a well-organized approach by the State of Louisiana, might have a significant affect on how that industry reshapes itself. The key components of the change are the possible emergence of a more versatile communications and distribution marketplace in the Internet, the possible re-emergence of audiences appreciating a distinctive music scene and sounds, the increase in the number of outlets which can promote music and might be willing to step outside of music label category marketing, and changes in the cost and scale of the production and distribution of music products. On a small scale many of these have been redefined with Jazz Fest and other regional music successes. A greater concentrated effort could help move such a smaller-scale process to more sustainable and significant economic development initiatives.

Games Industry

Recently, the State of Louisiana enacted incentives geared towards developers of digital media and video game products. As this is still a relatively young, developing industry segment, there is not significant industry-specific data available. Later in this report, ERA reviews available data related to this market and its trends. Primary sources of data used are from the Entertainment Software Association and a study commissioned in 2005 by The Chamber of Greater Baton Rouge.

When using the terms "digital media" and "video game development", it is important to distinguish between the two. Digital media is a technological process which has broad ramifications in the ways that content is created, and delivered to end users. The video game industry is one subset of this much larger digital media market.

Importantly, developer and publisher processes need not be in the same physical location. One key finding of a survey conducted for The Chamber of Greater Baton Rouge found that professionals in the video game industry largely agreed that development could be separated geographically from publishing. Another area of mutual agreement was that a primary need for the creation of a video game industry requires a relatively high concentration of related industry talent. Thus specialized training (perhaps at a university or specialized certification level) relating to industry functions is viewed as an important prerequisite to an ongoing industry development in this field. Software developer wages are higher than average wages for most areas of the economy. Various estimates peg the annual salary for a developer in this industry at roughly $70,000 per year. As with other knowledge-based industries, annual wages are comparatively higher than average wages across the economy, as well as within the Louisiana economy.

The current structure of the industry is one which is highly fractional at this point in time. There is one firm – Sony – with a high market share (33%) and more than a dozen which vie for much smaller market shares. It is clear from the figures reviewed in this report that the industry has not experienced heavy levels of consolidation and concentration – 3 or so companies with greater than 90 market share – which is more characteristic of mature industry structures. What the figures also illustrate is the likelihood of relatively high levels of entrepreneurial involvement which is more characteristic of evolving, high-growth marketplaces.

Relatively high levels of entrepreneurship is a finding consistent with the study commissioned by The Chamber of Greater Baton Rouge. Entrepreneurial-led industries have their own separate development obstacles as compared to mature industries. Such markets are 1) highly fractional (many firms competing for a rapidly changing market), 2) these smaller, individual firms have difficulty accessing important growth investment (capital formation), and 3) relatively abundant talent is an important catalyst to growth.

A small number of states or regional governments have enacted policies to support the development of the digital, interactive, or video game industry in their territories. This report reviews four programs in place in the U.S. and one in Canada – those of Georgia, Florida, North Carolina, Wisconsin, and Ontario. Louisiana's program, by comparison, is somewhat more aggressive in developing the games industry. The following is an overview of such programs.

Some analysts predict that "digital convergence" will accelerate the growth of the games industry. The process of digital convergence is one enabled by technological change. Historically, information required 'parallel' technologies for distribution and manipulation (separate phone, television, video game, computer systems, etc.). With new technology, this is no longer the case as it is possible to access multiple uses on a common platform or infrastructure. Thus, digital technology has created a 'convergence' of various information and media systems.

Though this process will undoubtedly create opportunities in various fields of information technology and media, it is, as of yet, unclear how much additional demand will be created for video games specifically. What video game technology does offer, is a foothold in the processes of interactive media technology which should benefit significantly from digital convergence. Increasingly it is expected that interactivity – whereby inputs, or signals from a user evoke some technological response from a program – will be a central technological function. And the video game industry is one area where it is possible to gain a foothold in such a market.

State of the Industry in Louisiana

This section reviews the film and music industry in Louisiana – from an employment and economic impact perspective – as well as a review of selected states that Louisiana competes against in the film industry. As more information regarding the current state of the state's film industry is available, much of the analysis centers around this particular industry. Where applicable, ERA compares the government data with responses from the survey process ERA conducted – interviewing those businesses in the state's related industries.

Location Quotients & Relative Industrial Strength

ERA first examines wage and employment data from the Bureau of Labor Statistics to get an industry overview of the number of firms, number of employees, and total wages paid. The U.S. Bureau of Labor Statistics also measures industrial strength by using NAICS codes. The Location Quotient compares the strength of individual industries in a study area with the strength of those industries in a "base" area. In general, these rankings can be thought of as a "concentration" ranking revealing those states for which relatively high (or low) concentrations of a particular industry can be found.

An interpretation of the Location Quotients (or "concentration ratios") is as follows:
- LQ 1.0 = The industry represents the same share of employment as it does nationally;
- LQ > 1.0 = The industry represents a greater share of employment in this state than it does nationally;
- LQ < 1.0 = The industry represents a lower share of employment in this state than it does nationally.

Many states have a location quotient less than one because California and New York are magnets that have a high percentage of film and music industry activity. Therefore, other states will have lower location quotients. The following table shows the top 10 states in terms of industry concentration for 4 main industry classification – sound recording, film production, artists and performing artists, and internet publishing and broadcasting.

State Rankings

Rank	All Combined	Sound Recording	Film Production	Artists & Performing Artists	Internet Publishing and Broadcasting
1	California	Tennessee	California	California	Ohio
2	New York	New York	New York	Nevada	Massachusetts
3	Illinois	Illinois	**Louisiana**	New York	Washington
4	Tennessee	California	Texas	Colorado	Utah
5	Utah	Nevada	Utah	Vermont	Colorado
6	Massachusetts	Dist. of Columbia	Illinois	Wyoming	Virginia
7	Colorado	Texas	Hawaii	New Mexico	New York
8	Nevada	Puerto Rico	New Jersey	Tennessee	California
9	Washington	New Mexico	Massachusetts	Idaho	Connecticut
10	Texas	Minnesota	New Mexico	New Jersey	Dist. of Columbia
-	**Louisiana (19)**	**Louisiana (32)**	-	**Louisiana (47)**	**Louisiana (35)**

Source: Bureau of Labor Statistics

The rankings correspond to the following government classifications:
- NAICS 512, excluding NAICS 51213, motion picture exhibition;
  - 51211: Motion picture and video production;

- 51212: Motion picture and video distribution;
- 51219: Post-production and other related industries;
- 5122: Sound recording industries;

- NAICS 516. Internet publishing and broadcasting;
- NAICS 7115. Independent artist, writers, and performers.

Notice from the table that there are several states which rank highly in multiple or all of the categories, most notably, California, New York, New Mexico, Tennessee, and Texas. Louisiana only ranks in among the top 10 in one category – film production (#3) – which has largely been due to the incentives program enacted by the state. Somewhat surprisingly, Louisiana ranks rather low compared to other U.S. states in sound recording (#32), and artists, and performing artists (#47). The rankings in these categories indicate an underdeveloped commercial infrastructure which may be unable to get industry products to market in a competitive way.

Film Industry

ERA reviewed wage and employment data for Louisiana and its competitors from information available from the Bureau of Labor Statistics. This data allowed ERA to estimate Louisiana's employment and wage situation relative to the states that Louisiana competes against. This sub-section focuses on the film industry.

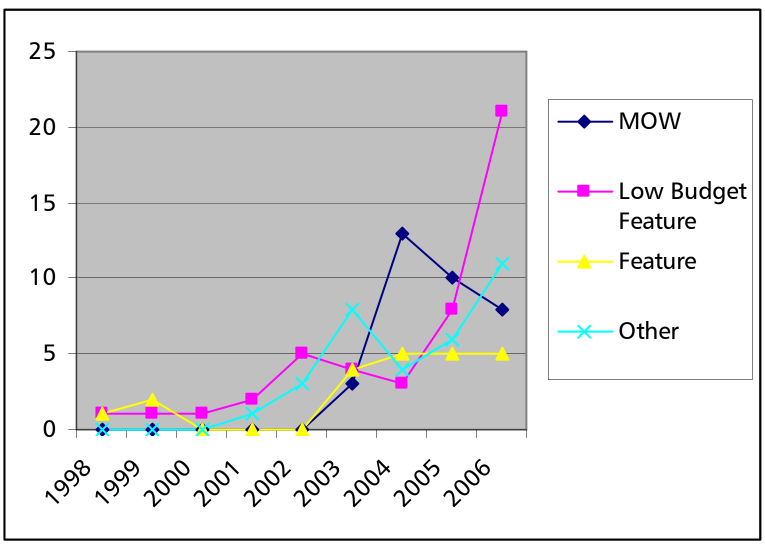
As shown in the following table and chart, the level of activity in the Louisiana film industry has increased markedly over the last several years.

Louisiana Film Activity

	1998	1999	2000	2001	2002	2003	2004	2005	2006*
MOW	0	0	0	0	0	3	13	10	8
Low Budget Feature	1	1	1	2	5	4	3	8	21
Feature	1	2	0	0	0	4	5	5	5
Other	0	0	0	1	3	8	4	6	11

*Year to date estimations

Source: Louisiana Film and Television Office, Internet Movie Database, LIFT, and ERA



Early on, the use of Louisiana incentives was primarily for MOWs (Movies of the Week, or, made for T.V. movies). However, as the number of MOWs shot nationally decreased and other states began competing more vigorously for film activity, Louisiana's activity derived from such products declined, though Louisiana does continue to have a number of such products shot in the state. Of late, the most noticeable trend is towards "Low Budget Feature Films" – defined by ERA in this report as films generally costing between $2 - $15 million, but no more than $20 million to produce. This is done to separate such films from larger budget "Blockbuster" films which can easily cost tens of millions of dollars. It is this level of activity for which forms the basis of ERA's analysis of the film industry.

It is important to review several facts concerning the data gathered by ERA. First, ERA's data does not measure the full employment in the film industry. ERA excludes data from film exhibition. Film exhibition refers to drive-in theaters, and movie theaters. This data is irrelevant to our analysis. Secondly, it is important that the client know that industry employment refers to the number of firms located in a given state, the number of employees those firms have, and the wages they pay. For instance, a company that is headquartered in Los Angeles but works in Louisiana is considered at as having total operation in Los Angeles. This means that the employment analysis is relative to the state in which the film company is based. Thus, Louisiana may be under-reported for some areas.

This analysis also does not include residual benefits of film industry activity, such as the crew's spending on hotels, food, and retail goods, as detailed information was not available. This analysis should be viewed as a measure of the states "home-grown" industry – the firms that work in the industry are based in the state.

ERA's definition of the film industry corresponds to the previous NAICS codes listed for the industry. The following three tables describe the film industry in Louisiana and in selected competing states. These tables show the level of the employment, regardless of where they do business.

Total Number of Establishments in the Film Industry

	2001	2002	2003	2004	2005	*CAGR*
California	13,862	14,304	14,353	14,545	14,591	1.3%
New York	5,600	5,291	5,253	5,267	5,271	-1.5%
Tennessee	672	703	770	789	838	5.7%
Illinois	1,612	1,601	1,563	1,573	1,696	1.3%
Hawaii	219	205	226	225	240	2.3%
New Mexico	225	227	226	225	253	3.0%
Georgia	920	972	1,008	1,010	1,051	3.4%
Louisiana	**256**	**255**	**244**	**231**	**269**	**1.2%**
Pennsylvania	914	857	861	853	858	-1.6%
North Carolina	440	538	493	520	538	5.2%

Source: Bureau of Labor Statistics

The number of establishments in most states has grown moderately over the last several years. States marking a decline in the number of industry business are New York and Pennsylvania. In general, this is consistent with an increase in the level of film industry consolidation, as is discussed further in later sections of this report. Louisiana's film industry establishments increased from 2001 to 2005 at an annual rate of 1.2 percent, to 269 establishments.

Total Number of Employees in the Film Industry

	2001	2002	2003	2004	2005	*CAGR*
California	133,306	151,617	149,728	162,791	154,043	3.7%
New York	56,513	49,494	44,777	43,901	46,526	-4.7%
Tennessee	3,532	3,919	6,850	6,661	4,189	4.4%
Illinois	9,149	8,247	7,649	7,707	8,375	-2.2%
Hawaii	1,064	1,509	1,158	1,567	1,544	9.8%
New Mexico	661	842	718	951	1,518	23.1%
Georgia	5,421	5,444	4,626	4,543	4,690	-3.6%
Louisiana	**1,177**	**1,106**	**1,726**	**2,350**	**2,695**	**23.0%**
Pennsylvania	4,745	4,906	5,010	4,460	4,566	-1.0%
North Carolina	2,093	2,207	2,091	2,091	2,205	1.3%

Source: Bureau of Labor Statistics

As shown in the previous table, growth in film industry employment has been significant in Louisiana and New Mexico – both marking annualized growth rates of 23 percent, the highest film industry employment growth in the country. Louisiana's employment in the industry grew from an estimated 1,177 to an estimated 2,695 jobs – an increase of roughly 1,520 jobs, or 130 percent from 2001 to 2005.

The next table shows corresponding changes in wages to film industry employees in the state.

Total Wages in the Film Industry

($ ooo's)	2001	2002	2003	2004	2005	*CAGR*
California	$12,361,365	$13,701,634	$13,739,976	$15,457,275	$15,225,141	5.3%
New York	$4,052,057	$3,734,063	$3,722,008	$3,963,014	$4,175,014	0.8%
Tennessee	$152,600	$163,523	$286,284	$302,156	$225,569	10.3%
Illinois	$466,009	$443,798	$415,485	$413,442	$477,643	0.6%
Hawaii	$21,188	$36,281	$26,809	$55,119	$43,847	19.9%
New Mexico	$20,198	$27,308	$22,500	$24,281	$60,570	31.6%
Georgia	$258,446	$236,700	$207,768	$208,943	$233,149	-2.5%
Louisiana	**$29,899**	**$29,709**	**$34,602**	**$53,104**	**$89,089**	**31.4%**
Pennsylvania	$242,409	$230,160	$254,841	$254,382	$243,114	0.1%
North Carolina	$76,489	$66,623	$64,625	$71,717	$85,686	2.9%

Source: Bureau of Labor Statistics

Employment growth in the Louisiana film industry has coincided with exponential wage growth in the industry. Though total wages to employees in the Louisiana film industry is modest compared to production centers such as California, and New York, total Louisiana film industry wages grew from around $30 million in 2001 to roughly $90 million in 2005. The compound annual growth in wages is estimated at slightly over 31 percent, with absolute wages over the period growing some $60 million annually, or roughly 200 percent. Recall that absolute job growth over the period was roughly 130 percent. A corresponding 200 percent wage increase implies one or both of the following – 1) an increasing number of 'highly skilled' or specialized industry wage-earners pulling up figures of average industry wages, and 2) a scarcity of film industry labor thus putting upward pressure on average wages. The reality is likely a combination of these two scenarios.

Film Industry – Estimated Impacts

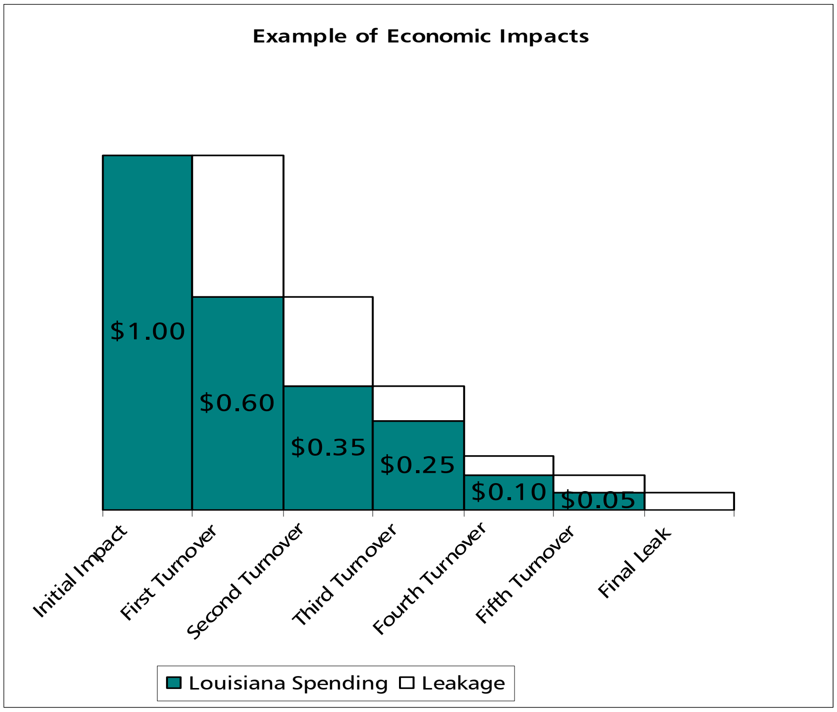
As data relating to the Louisiana film incentives program was available, ERA estimated impacts derived from such incentives. An impact analysis requires two distinct 'states' – meaning, a status quo, and a conditions stimulated by some new catalyst (in this case, film incentives). Music industry incentives have not been present long enough to gauge such impacts, only the film industry incentives are evaluated in terms of impact in the report. At a future stage, after the new incentive package has been in place for a longer period of time, it will be possible to gauge music industry impacts resulting from such incentives.

"Economic Impact" refers to jobs, wages, spending, etc., that occur in an economy because of a particular business activity/ incentive package in place. In this report, the stimulus we examine is the spending by filmmaking, based on data supplied by the Louisiana Film and Television Office.

When a dollar is spent, it reverberates continuously though multiple sectors, and generating wages, profits, and subsequent spending on other goods and services. For example, if someone were to purchase home repair supplies at a local hardware store, the money spent on those goods would first go to the store owner, then the store owner would spend on supplies, and operations, suppliers of services and goods to the hardware store must purchase their goods and supplies from others, and so on. When companies such as production companies spend money on film production, they set the local economy in motion. Some of the activity will remain in Louisiana, but some activity will leave the state. Of the activity that stays in Louisiana, those companies spent some of their extra revenues on labor and supplies from Louisiana, and some leaked out of the system. The process continues until all the spending has occurred.

A "leak" refers to the money that exited the system and is no longer being spent on subsequent turnovers in the model. In this case, the system is the State of Louisiana economy. Therefore, leaks can take several forms. Money spent by Louisiana firms on goods and services produced out of state count as "leaks," as do dollars that flow out of the country – supplies brought oversees or back office services outsourced overseas. Additionally, profits taken by Louisiana owners of capital (landlords, business owners and the like) are also considered "leaks," not because they exit the state, but because they exit the system of repeat-spending. Profits and economic rents paid to property owners are leaks out of the system, but they are a part of the economic impact. Those are considered "value added," which is discussed later in more detail.

The next chart summarizes a hypothetical example of a $1.00 expenditure and the multiple turnovers that follow. The white boxes represent leakage in terms of dollars flowing out of state, overseas, to landowners, or business owners as profits.



The chart represents a hypothetical industry and state economy. It shows that of $1 spent in the state economy, 60 cents goes toward in-state producers of good and services, and 40 cents leaks out. In the second iteration, 35 of the 60 cents stay in Louisiana, in the third round, 25 of the 35 cents stay. Eventually it will all leak out of the economy through profits or imports.

This reverberation across sectors is the study of economic impact. ERA's analysis quantifies that changes in Louisiana's economy that take place in response to spending by filmmakers in the state. The underlying driver of economic impact analysis is the multiplier. In the previous example, a $1 direct expenditure led to a 60 cent impact in the first turnover, which led to a 35 cent impact in the second turnover, etc. In total, that $1.00 led to an additional economic activity, for a total of $2.25 of total activity. Its multiplier, therefore, is 2.25.

Multipliers usually are between 1.0 and 3.0. A 1.0 multiplier means that there is 100 percent leakage at the first turnover-that all the good and services in the second turnover come from out of state. High multipliers indicate that local firms are well integrated and that goods and services are closely linked to other complementary good and services within the state. It follows that a dollar spent in an industry with a high multiplier has a greater effect on the local economy than one spent in an industry with a low multiplier.

It is important to note differences between purchases by the film industry and purchases of film products and services. An industry analysis examines the response of the economy to spending or activity performed by a group of firms. In this case, the motion picture industry. The industrial analysis examines purchases of good and services across the economic spectrum by only one industry. Alternatively, one could examine the spending on only film industry products by any type of firm, individual, or government. ERA's analysis is an industrial analysis. Therefore, the spending by the film industry can come in any number of other sectors. It is also possible to determine the additional tax revenue state may realize from sales, income, and corporate taxes levied on this activity.

ERA examines the film industry in Louisiana for 2002 through 2005 – the full years for which incentive program information, as well as impact information are both available. Using this information from the Louisiana Film and Television Office and combining it with IMPLAN data, ERA estimates the following for each year:

- **Total output** (*resulting from film activity*) – This is the overall value of the transactions that result from the industry. Total output is akin to "gross domestic product" or "gross state product" measurements that gauge total economic activity in a country or a state. It is an intangible measurement;
- **Total value added –** This is the amount by which Louisiana's citizens are made wealthier because of a given activity. Value added takes the form of wages, income to business owners, profits, and sales taxes paid to the state;
- **Total employment added** – This is measured in terms of full-time equivalent (FTE) positions, and extends across all industries. The number of FTE jobs does not necessarily correspond to the exact number of workers being hired, however, it is the measurement of the increase in employment. This can be viewed in terms of overtime, the combination of part-time positions, bonuses for extra work, or actual full-time positions. ERA also measures the total new wages that result from the industrial activity;
- **Total Employee Compensation –** This includes wage and salary payments, including health and life insurance benefits, retirement contributions, and other non-cash transactions. It covers all payments made by employers to employees.

IMPLAN – Calculating Economic Impacts

ERA uses IMPLAN, a software program first developed by the USDA Forestry Service to perform impact analysis for planning. IMPLAN's database includes state-level data for 528 industrial sectors and, critically, the ways in which those sectors interact with each other. The state-level data is specific to Louisiana. The national and state-level data allow ERA to quantify the effects of adding jobs or final demand in any industry, and to model those changes across all 528 industrial sectors.

IMPLAN uses social accounting matrices, or a set of social accounts, to generate multipliers and to describe economic relationships. Put simply, social accounts tract monetary flows between sectors and institutions in the economy. These monetary flows occur because of the final demand for goods and services, or the producers' demand for goods and services. Final demand is consumers' demand, whereas producers' demand is the necessary trades that take place in order to meet final demand.

IMPLAN's modeling allows researchers to define given trade areas and to model transactions in relevant industries. The IMPLAN multipliers are based on data from the Bureau of Labor Statistics, the U.S. Census, and other government agencies. The multipliers are in 2003 dollars, so all economic impacts in this report are based on 2003 dollars for comparison purposes.

Model Inputs

The economic event in question is film industry spending in Louisiana. Film spending falls into one of these broad categories.

Types of Expenditures

- Wages;
- Retail Expenditures;
- Catering;

- Hotels;
- Sound;
- Maintenance.

Types of Products
- Commercials;
- Feature Films;
- Music Videos;
- Made for T.V.

ERA examines the above categories because they are linked to filmmaking. The Louisiana Film and Television Office provided data on the use of film incentives for production within the state since they were enacted. The values are based on film industry expenditures in the state. ERA examines four measures of economic impacts: Total Output, Total Value Added, Total Wages, and Total Employment.

Total Output

The model generates a multiplier to describe the economic activity that takes place as a result of a change in final demand. The spending by the film industry in Louisiana is the change in final demand, and the multiplier can be applied to that change. If an industry has a total output multiplier of 1.5, then $100.00 of spending will generate $150 of total output. The table below shows various industries throughout Louisiana and their corresponding multipliers.

Sample Industry Multipliers, Louisiana

Facilities support services	1.853451
Scientific research and development services	1.852233
Waste management and remediation services	1.850115
Miscellaneous wood product manufacturing	1.849452
Prefabricated wood building manufacturing	1.848719
Noncellulosic organic fiber manufacturing	1.84806
Other new construction	1.848011
Motion picture and video industries	**1.847922**
Meat processed from carcasses	1.847706
Management consulting services	1.845871
Other ambulatory health care services	1.845515
Accounting and bookkeeping services	1.845487
Wood windows and door manufacturing	1.843424

Source: IMPLAN

The motion picture industry ranks 54th of 528 industries examined having a total output multiplier of 1.847. The change in total output, or the "economic impact" is made up of three component impacts: direct, indirect, and induced.
- *Direct Impact* – the amount of spending gained by the state as a direct result of the business activity;
- *Indirect Impact* – the resulting transactions necessary to support this spending;
- *Induced impact* – the extra spending that result from greater incomes.

Together, these represent the total output, or the economic impact. The three effects can be separated into three component multipliers. For the film industry, they are shown in the following table.

Louisiana Film Industry Multiplier	
Direct Effects	1
Indirect Effects	0.589
Induced Effects	0.258
Total Effects	**1.8479**
Source: IMPLAN	

The direct effect multiplier is always 1.00 in an industrial analysis: direct effects are the definition of spending. The indirect effects and the induced effects are the key insights from this analysis. ERA's model applies a deflator to spending in years 2004 and 2005 to account for the effects of inflation. The model's input/ output tables are in 2003 dollar: it is best to perform the analysis in these same terms. The following table shows estimated direct, indirect, and induced impacts as a result of increased film industry spending in Louisiana.

Estimated Total Output

	2002	2003	2004	2005
Direct	$11,823,238	$211,317,328	$392,888,896	$569,609,664
Indirect	$7,108,715	$124,529,028	$228,863,784	$328,023,713
Induced	$3,151,799	$54,651,604	$99,328,256	$140,810,527
Total	**$22,083,753**	**$390,497,955**	**$721,080,940**	**$1,038,443,860**

Source: Louisiana Film and Television Office, and IMPLAN

Recall that changes in total output reflect changes across the entire economy. Therefore, some industries will benefit more from filmmakers than others will. ERA performed three sub-analyses for each year. Each describes in more detail the economic impact of the spending by filmmakers. They are: Total Value Added, Employment and Compensation, and Tax Estimates.

Total Value Added

Total value added is different from the total output. "Value added" has four components:

- Employee compensation income – this includes wage and salary payments, including health and life insurance benefits, retirement contributions, and other non-cash transactions. It covers all payments made by employers to employees;
- Proprietary income – these are payments received by self-employed individuals as income;
- Other property income – This includes interest, rents, royalties, dividends and corporate profits;
- Indirect business taxes – these are sales and excise taxes paid by individuals to businesses (for onward transmission to government entities).

The reason for examining "total value added" is that it is the degree to which the state economy is enriched by a given activity. Total output is as intangible a measurement as gross domestic product. It is the tangible measure of wealth creation for individuals (employee compensation), business owners (proprietary income or corporate profits), investors (dividends, economic rents, and royalties), and governments (sales and excise taxes).

Estimated Total Value Added

	2002	2003	2004	2005
Direct	$2,628,394	$46,977,420	$87,342,136	$126,628,480
Indirect	$2,939,491	$51,166,588	$93,717,528	$133,865,197
Induced	$1,885,111	$32,447,092	$58,881,884	$83,350,316
Total	**$7,452,996**	**$130,591,102**	**$239,941,554**	**$343,843,992**

Source: Louisiana Film and Television Office, and IMPLAN

Employment

The majority of the value added is employee compensation. This section examines the wages paid to employees and the number of jobs added because of the spending by filmmakers. The table below shows the additional wages paid in Louisiana because of the filmmaking.

Estimated Total Employee Compensation

	2002	2003	2004	2005
Direct	$1,398,912	$25,002,832	$46,486,180	$67,395,584
Indirect	$1,506,362	$26,205,877	$48,031,901	$68,655,283
Induced	$876,992	$15,190,974	$27,804,801	$39,687,379
Total	**$3,782,266**	**$66,399,682**	**$122,322,886**	**$175,738,248**

Source: Louisiana Film and Television Office, and IMPLAN

This extra income translates into the following number of jobs:

Estimated Total Employment (FTE)

	2002	2003	2004	2005
Direct	69.5	1,179	2,099.5	2,915.3
Indirect	37.1	630	1,121.9	1,557.9
Induced	213.7	3,628.4	6,461.3	8,972.1
Total	**320**	**5,437**	**9,683**	**13,445**

Source: Louisiana Film and Television Office, and IMPLAN

It is important to note that one limitation to economic impact analysis is that it measures transitory effects. Especially in the film industry where there is not a steady flow of business, and especially in Louisiana where the film infrastructure does not guarantee stable activity, these employment figures should not be taken too literally. The figures above refer to full-time equivalent (FTE) positions, it does not necessarily mean that 5,437 people were fully employed in 2004 because of film spending. The added employment could take the form of part-time work, overtime hours for existing employees, or 1099 contract work. This is undoubtedly reflected in the slight discrepancy between direct industry employment from the impact analysis (2,900), and industry employment figures from the Bureau of Labor Statistics (2,700) shown previously in this section. The table shows the number of jobs that would be created if the entire marginal increase in employment were used to hire full-time employees. As the spending increased over 2003 to 2005, so to did supportable employment.

Tax Impacts

Economic activity like wages, sales, and profits generate tax revenue for the federal government, as well as for state and local governments. This includes fees paid to governments, including motor vehicle licensing fees, fines, and payments for permits. This is neither a subset nor an outright addition to "total value added".

Estimated Tax Impacts

	2002	2003	2004	2005
Tax Impacts:				
Federal	$777,217	$13,193,393	$23,494,188	$32,624,011
State & Local	$570,287	$9,680,720	$17,238,981	$23,938,036
Tax Totals	**$1,347,504**	**$22,874,113**	**$40,733,169**	**$56,562,047**

Source: Louisiana Film and Television Office, and IMPLAN

The table shows that in 2003, Louisiana and its local governments received an extra $9,680,720 because of growth in filmmaking activity. In 2002, it was just $570,000. Note that these are not direct taxes on the film industry, but taxes charged to all industries on the activities that result from the spending by the film industry. The analysis treats film industry incentives as a government subsidy: therefore, the tax impacts above are before exemptions for sales tax, and rebates. Therefore, the previous numbers do not represent a net increase in state funds available to spend. Rather, they indicate the effect of such spending on local, state, and federal tax rolls.

Interpreting the Results

The key insights from this economic impact analysis are:

- In Louisiana, the motion picture industry's total output multiplier is 1.847, which ranks in the top quarter of industries;
- The total value added to the Louisiana economy because of film spending in 2003 was $7,452,996: it rose to $343,843,992 in 2005 due to more activity;
- In a stable industrial scenario, spending in 2003 was enough to support 5,437 jobs through the entire economy. This scenario in clearly stable as Louisiana has made leaps in the amounts of jobs its economy can support. By 2005, Louisiana was able to support 13,445 additional jobs due to the increase in film expenditures.

Music Industry

As mentioned previously, ERA has not conducted a music impact analysis because an impact analysis requires a "change of state", and the newly enacted music incentive package in Louisiana has not been available long enough to gauge economic impact. ERA does, however, evaluate in general the economic state of the music industry in Louisiana in terms of employment and wages.

According to the Bureau of Labor Statistics (BLS), the number of those employed full time in the sound recording sector, and as artists or performing artists is around 170. This is consistent with ERA's previously stated observation that 1) the formal industry structures for the music industry do not appear to exist to any large degree right now, and 2) the amount of labor required to sustain a music industry is much smaller then that in the film industry. The BLS does not segregate musicians and artists in its data collection methods. As musicians are not separated from artists and performing artists, ERA reviews in more detail the sound recording sector and the artists *and* performing artists sector.

The following table details the number of firms (establishments) in the industry from 2001 to 2005. Similar to the overview of the film industry, the same states tend to dominate the concentration of music industry in the selected states. The number of Louisiana firms working in the industry has been the same since 2001 at slightly greater than 100, with little variation from one year to the next. Most surveyed states experienced flat to slightly increasing numbers of firms in their respective industries. These figures are shown next.

Total Sound Recording, Artists, and Performing Artists Establishments

	2001	2002	2003	2004	2005	CAGR
California	6,270	6,908	7,447	7,908	8,140	6.7%
New York	2,611	2,598	2,681	2,737	2,747	1.3%
Tennessee	449	501	546	563	607	7.8%
Illinois	847	846	844	853	927	2.3%
Hawaii	80	78	93	94	99	5.5%
New Mexico	132	136	131	133	137	0.9%
Georgia	416	480	528	566	582	8.8%
Louisiana	**106**	**118**	**118**	**106**	**106**	**0.0%**
Pennsylvania	402	384	408	423	455	3.1%
North Carolina	198	237	227	246	269	8.0%

Source: Bureau of Labor Statistics

Again, a small number of states dominate the music industry, as was the case with the previously-surveyed film industry. Growth in terms of employment was mainly flat in the music industry, with some states marking slight growth in employment from 2001 – 2005, some remaining relatively flat, and roughly half experiencing a shrinking employment base in the industry. Of note, is the fact that Louisiana has experienced -8 percent annual growth over the surveyed period. This implies significant music industry employment difficulties and market shortcomings, as this is the worst performing state of those surveyed. Industry employment by state is detailed in the following table.

Total Sound Recording, Artists, and Performing Artists Employed

	2001	2002	2003	2004	2005	CAGR
California	22,425	22,935	25,568	20,896	20,343	-2.4%
New York	9,115	8,604	8,284	8,263	8,433	-1.9%
Tennessee	2,059	2,542	2,447	2,383	2,691	6.9%
Illinois	3,749	3,844	3,596	3,713	3,531	-1.5%
Hawaii	164	173	181	179	189	3.6%
New Mexico	363	367	323	421	409	3.0%
Georgia	1,578	1,304	1,420	1,736	1,732	2.4%
Louisiana	**235**	**238**	**247**	**216**	**167**	**-8.2%**
Pennsylvania	1,624	1,942	2,021	1,605	1,586	-0.6%
North Carolina	681	795	798	830	910	7.5%

Source: Bureau of Labor Statistics

And lastly, is the level of wages in the industry. These figures are shown in the next table. Somewhat surprisingly, as Louisiana has experienced a fairly significant shrinking of the industry labor market (-8%) aggregate wages have actually increased at an annual rate of 5 percent per year. This implies much higher average wages per person employed in the industry.

Total Sound Recording, Artists, and Performing Artists Wages

($ 000's)	2001	2002	2003	2004	2005	CAGR
California	2,879,833	3,143,618	3,355,597	3,729,184	3,427,685	4.4%
New York	1,092,601	996,014	1,001,462	1,128,690	1,140,873	1.1%
Tennessee	75,277	91,937	94,360	97,933	143,747	17.6%
Illinois	179,779	220,549	196,576	184,208	157,747	-3.2%
Hawaii	6,016	4,672	5,570	7,057	7,083	4.2%
New Mexico	13,109	13,817	12,742	15,315	15,179	3.7%
Georgia	48,861	45,288	51,267	61,720	70,517	9.6%
Louisiana	**8,421**	**6,955**	**7,223**	**7,480**	**10,235**	**5.0%**
Pennsylvania	57,649	62,520	66,729	57,835	57,612	0.0%
North Carolina	38,081	27,131	25,761	28,188	32,230	-4.1%

Source: Bureau of Labor Statistics

Worth noting is the fact that an unusually large share of the state's music industry was concentrated in the New Orleans area – both Orleans Parish and surrounding parishes. Previous analysis conducted by the Louisiana Music Commission throughout the 1990's estimated that between 60 and 70 percent of the state's music industry was concentrated in the New Orleans area. As a survey by the Bring New Orleans Back Cultural Subcommittee, and conducted by ERA, just over 10 percent of musicians had returned to the city as of early 2006. There will continue to be needs in this industry which are beyond typical industry development techniques.

Games Industry

As this is still a relatively young, developing industry segment, there is not significant industry-specific data available. Here ERA reviews available data related to the broader industry trends in this market which are shown later in the report. Primary sources of data used are from the Entertainment Software Association and a study commissioned in 2005 by The Chamber of Greater Baton Rouge. Specific data related to Louisiana industry was not available, though ERA is aware of a number of smaller companies in the field which are currently experiencing robust growth.

According to the Entertainment Software Association, since 1996, U.S. unit and sale growth of video games and consuls averaged 13 and 12 percent per year, respectively. U.S. dollar sales by the largest companies rose from just under $3 billion in 1996 to roughly $7 billion in 2005. U.S. unit sale growth rose from around 75 million to 230 million over the same time period. Growth has reached a plateau in recent years, however. The slightly higher growth in unit versus dollar sale growth implies slightly higher prices per unit in the industry.

Estimates of the global marketplace sales in the video game industry are estimated at slightly more that $30 billion according to the study commissioned by The Chamber of Greater Baton Rouge. This would imply a total U.S. market share of roughly 25 percent of the global industry – which is consistent with the U.S. economy's share of the global economy. Increasingly, it is expected that relatively higher rates of growth in the industry will occur in East Asia and particularly India, as an emerging middle class consumer is expected to fuel growth for the industry. Applying a longer term growth rate for industry sales and unit growth, implies a domestic U.S. video game market growth of roughly $1 billion per year over the next several years. Insufficient data was available for estimation of Louisiana's share of this developing market.

Film Industry Background

The process of film production is an industrial enterprise that comprises three separate but interdependent activities: (1) production, (2) distribution, and (3) exhibition.

The goal of this section is to identify, from both a local and global perspective any relevant film industry trends which could be used for the formulation of recommendations in an accompanying document. Like most other industry at the beginning of the 21st century, the motion picture production industry has moved towards globalized production as a strategy to maximize combinations of labor rates and capital costs. As a result, Louisiana, along with many other production centers outside of Los Angeles and New York, finds itself trying to attract production activity within an increasingly competitive environment.

The Evolution of Film Production

This report uses a rather expansive definition of filmmaking, ranging from television commercials to industrial safety videos, to feature films destined for the big screen. Ticket sales for feature films exhibited in movie theaters once represented movie studios' primary revenue generator. Today, movie studios' revenues are much more diverse, coming from retail sales of DVDs, downloads from Movielink, DVD rentals, and cable television rights. People play movies on their computers, televisions, iPods – even in the seats in front of them on airplanes. Exhibition of movies in cinemas accounts for just fifteen percent of most studios' revenues.

Technology has changed moviemaking, and will continue to do so. In the days when cinema exhibition was king, movie studios controlled the three core business functions in the industry: production, distribution, and exhibition. Today, those functions are less discrete and less concentrated in the hands of a few studios.

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

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

The Production Team

The production crew consists of *above-the-line* and *below-the-line* talent. Above-the line talent refers to the creative talent involved in a film (director, producer, writer, and actors) while below-the-line talent involves all other crewmembers, including technical, professional and skilled tradespersons. The key people on most productions are a director of photography, sound mixer, gaffer, key grip, production designer, property master, wardrobe master, key makeup artist, special effects expert, stunt coordinator, location manager, and still photographer. The producer, director, and production manager select these members of the crew based on three main criteria: (1) technical requirements, (2) budget, and (3) experience from past engagements/ reputation or trust. This set of criteria is the basis for structuring the rest of the crew.

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

The table on the following page outlines the evolution of the entertainment industry in the U.S. As shown, in the second half of the 20th century the most notable events were:

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

More recently, DVDs and other new technologies (digital filmmaking, etc.) have impacted the film industry as will be discussed later in this section. With the exception of Movies of the Week (MOWs) which are specifically made for television, most movies that appear on television, video, and/ or cable were originally made for a theatrical release. It is only in recent years that feature film-type television productions have been made specifically for television (*e.g.,* HBO's *Band of Brothers*).

U.S. Entertainment Industry – Historical Developments

Time Period	Event
1890s	Film production emerges in France, Britain, and the United States. The French company, Pathe Freres, is the first major production and distribution company during this era. The industry is small-scale and locally-based.
1910s and 1920s	The major U.S. motion picture companies begin to form and vertically integrate production, distribution, and exhibition. Production becomes gradually large-scale and systematized.
1930s	American studios begin to dominate domestic and global box office.
1940s	Anti-trust legislation (1948) forces studios to divest exhibition interests. As a consequence, international markets become increasingly important to studios, which causes foreign governments to begin enacting legislation to support and protect their domestic industries.
1950s	Advent of television which competes for entertainment dollars.
1960s	Hollywood studio era ends and is replaced by agency and "package" system. Studios continue to control markets via distribution agreements, but production and exhibition sectors are less important.
1980s	Two significant events: (1) Video and pay-TV ancillary markets emerge, forming a secondary source of revenues for film product (including television). The largest revenue components for Hollywood product become video, theatrical and television. These new markets also stimulate the demand for more film product, and the production of film product increases dramatically, with the new independents and mini-majors supplying the majority of the increased output. Studios become horizontally integrated with producers and distributors. (2) The advent of the high-budget feature film which places upward pressure on marketing costs.
1985	Rupert Murdoch's News International buys Twentieth Century Fox to create synergies with its broadcast outlet. Murdoch also creates a fourth television network, Fox TV.
1990s	New era of studio system wherein studios merge with media giants (e.g., Time Warner/AOL) to form vertically and horizontally integrated companies. As production budgets escalate and cost cutting measures are enforced, production centers such as Canada start competing with incentives aimed at attracting U.S. production.
2000-Current	

Source: Economics Research Associates

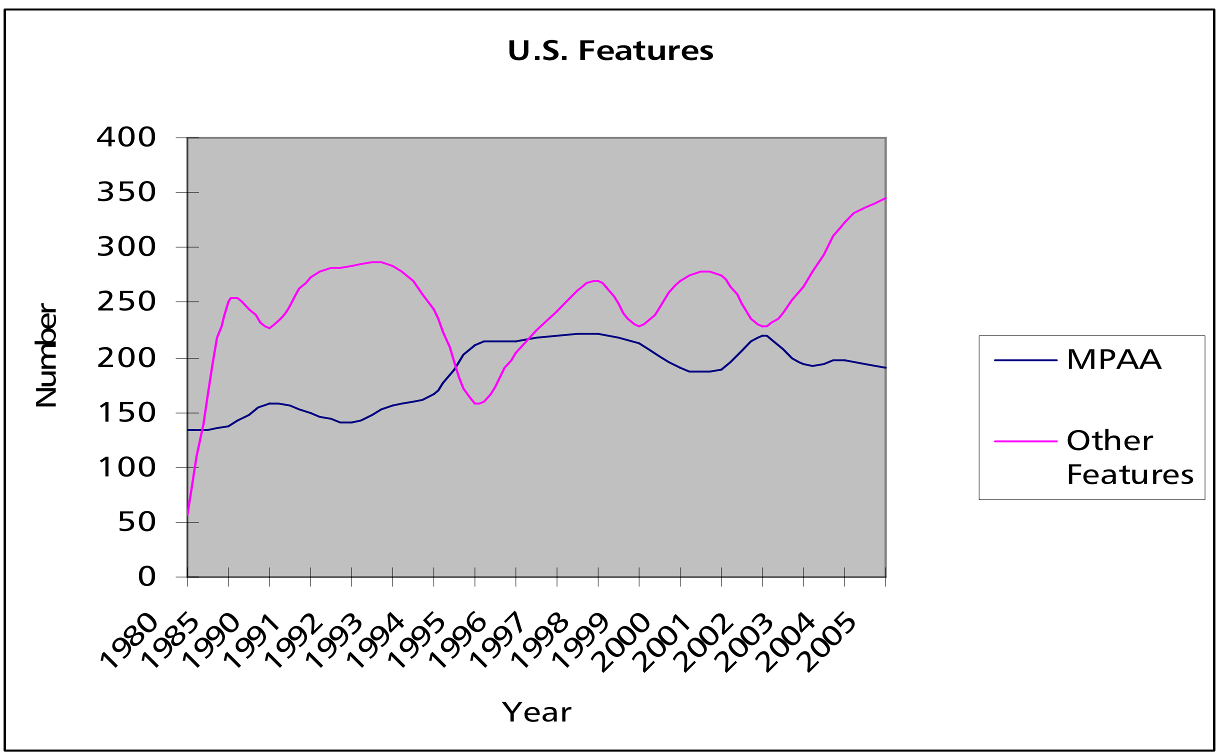
Health and Size of the Movie Industry

The movie industry is not in a state of decline: it is in a state of change. As independent films become more popular, and as DVDs penetrate into more and more households, it does *not* appear that major studios' core business is threatened, though substantial *operational* changes may be needed. The number of new films being released by major Hollywood Studios (referred to as MPAA studios), as compared to other feature releases is shown in the following table, and depicted in the next graph.

Films Released

Year	MPAA	Other Features	Total Features
Absolute Change	**42%**	**505%**	**180%**
CAGR	**1.47%**	**7.79%**	**4.39%**
2005	190	345	535
2004	198	322	520
2003	194	265	459
2002	220	229	449
2001	188	274	462
2000	191	267	458
1999	213	229	442
1998	221	269	490
1997	219	242	461
1996	215	205	420
1995	212	158	370
1994	166	244	410
1993	156	284	440
1992	141	284	425
1991	150	273	423
1990	158	227	385
1985	138	251	389
1980	134	57	191

Source: MPAA



The number of new films being released by major Hollywood Studios (referred to as MPAA studios) has stayed flat since 2000 with the exception of 2002. The growth has been in other films – which in this case is both mini-majors (owned by the studios) and independent films. More importantly, the long-term trend (since 1980) has favored growth in these, non-MPAA features. As will be discussed throughout this report, these other features tend to have different production and distribution characteristics than larger 'blockbuster' movies. Overall compound annual growth in the released features is just over 4 percent, with MPAA features registering annual growth of around 1.5 percent, and smaller, non-MPAA and independent features growing at an annual rate of almost 8 percent.

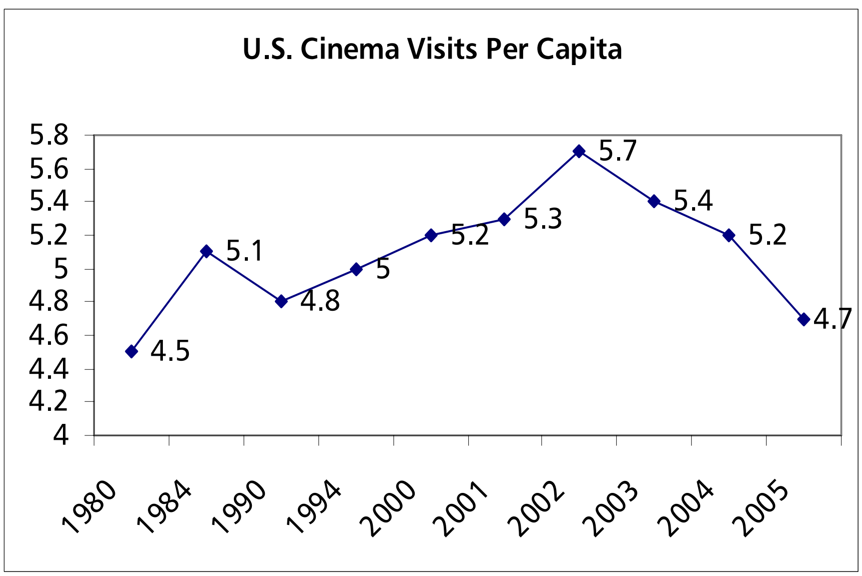
It is interesting to note from the chart below that average box office receipts do not appear to have been affected greatly by the introduction of more films. Though 2005 does appear to be a tough year overall for box office receipts, it is too early to tell whether this is a trend that resulted from the extra supply of films, or, more likely, uninspiring product.

Average Box Office Receipts, Feature Films

	2001	2002	2003	2004	2005
All New Releases	$18.2	$21.2	$20.7	$20.0	$15.8
MPAA New Releases	$34.8	$32.8	$41.6	$34.6	$38.1

In millions
Source: MPAA

The only data point that presents a somewhat worrying picture for the industry is the number of U.S. movie visits per capita. After steadily rising from 1980 through 2002, this figure has lost almost all that ground in the last three years.



Increasingly, however, looking at only the U.S. market for movie visits does not reveal a complete picture. In fact, the largest frontier for Hollywood studios is box-office and DVD sales abroad. The revenue from box office receipts in the U.S. declined slightly in 2005, but has hovered around $9 billion since 2002. Worldwide box office receipts have increased at a healthy rate, rising from about $16 billion in 2000 to $23 billion in 2005. The following table shows these U.S. and worldwide trends in box office receipts.

Trends in Attendance

	2000	2001	2002	2003	2004	2005
U.S. Box Office Receipts*	$7.66	$8.41	$9.52	$9.49	$9.54	$8.99
Worldwide Box Office Receipts*	$15.92	$16.96	$19.76	$20.34	$25.23	$23.24
Percent of Worldwide in U.S.	48%	50%	48%	47%	38%	39%
U.S. Theater Admissions†	1.42	1.49	1.64	1.57	1.54	1.4

*in billions of dollars, †in billions of paid admissions
Source: MPAA

It is important to note here that most of a feature film's revenues does not come from box-office receipts. Other sources like DVD sales, DVD rentals, network television broadcasting, and cable broadcasting account for the majority of a film's revenues. Therefore, there is room to grow revenues even if box office receipts are flat.

Movies have been getting more expensive to make in recent years though they have fallen from their peak in 2003. Marketing costs now take up an increasing percentage of a film's total costs to produce, especially among mini-major films. Data are unavailable for independent films. In 2001, marketing accounted for 23 percent of a mini-major film's budget, in 2005, that figure was 39 percent. Those films now appear to have a similar share devoted to marketing as do films produced by the major studios, which is likely due to the increasingly competitive nature of the industry, especially with respect to securing theatrical distribution.

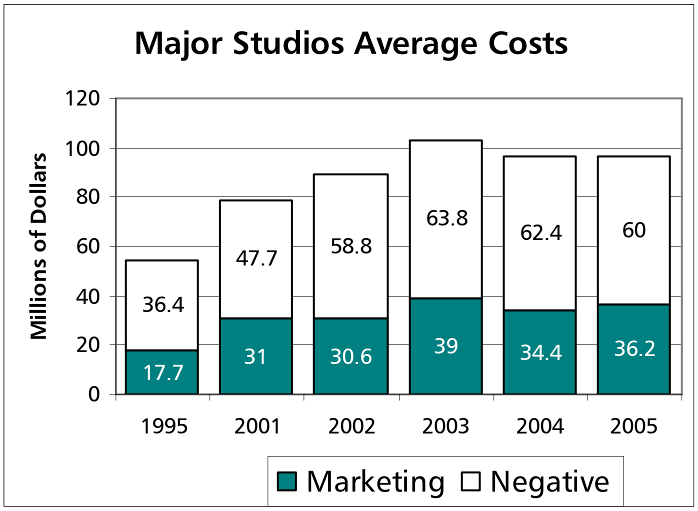
These figures are important because they highlight how the different processes of the film industry can inhibit the creation of a locally-oriented industry. Recall that the industry is comprised of 1) production, 2) distribution, and 3) exhibition. Moving from production to distribution requires a marketing effort. What is more, for smaller, locally-oriented producers, securing distribution arrangements (which are in large part related to marketing ability) can be an obstacle. This has important implications for the creation of a "home-grown", locally-oriented film industry as it implies another level of effort for which local companies must be equipped.

The average total costs for films rose sharply between 2001 and 2003, but softened for 2004 and 2005. Last year, the average major studio feature film cost $96.2 million to produce and market. Total costs for mini-major films also peaked in 2003, at $61.6 million, but have dropped to $38.7 million in 2005. It should be noted that the number of mini-major films has increased in that time, a factor that may be responsible for pulling down the averages.

MPAA Marketing & Production Costs Per Film

	1995	2001	2002	2003	2004	2005
Marketing Costs*	$17.7	$31.0	$30.6	$39.0	$34.4	$36.2
Production Costs*	$36.4	$47.7	$58.8	$63.8	$62.4	$60.0
Total costs*	**$54.1**	**$78.7**	**$89.4**	**$102.8**	**$96.8**	**$96.2**
% Marketing	33%	39%	34%	38%	36%	38%

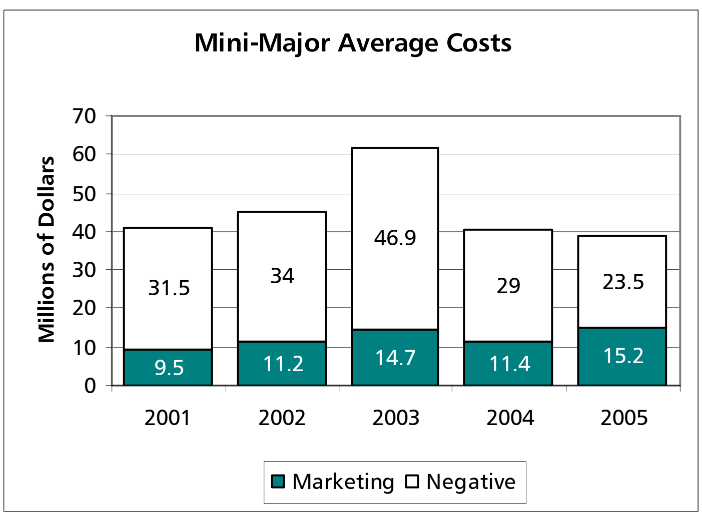
Source: MPAA
* in millions



Mini-Major Marketing & Production Costs Per Film

	2001	2002	2003	2004	2005
Marketing costs*	$9.5	$11.2	$14.7	$11.4	$15.2
Production Costs*	$31.5	$34.0	$46.9	$29.0	$23.5
Total costs*	**$41.0**	**$45.2**	**$61.6**	**$40.4**	**$38.7**
% Marketing	23%	25%	24%	28%	39%

Source: MPAA
* in millions



Main Products

The following is a brief overview of relevant trends in the visual (film, television, etc.) production industry. Broadly speaking, there are 5 – 6 types of products which are part and parcel of three main production and distribution processes.

The following are the most common products created in the visual production process:

- **Feature Films** can be divided into higher budget "Blockbuster" films and lower budget feature films. Blockbusters have budgets typically ranging from $30 million to $100+ million, whereas smaller budget features have budgets closer to a $2 to $15 million range per film. Daily shooting rates run as high as several thousand (or tens of thousands) of dollars per day. Both feature film products are typically intended for theatrical distribution (either small, or large-scale), though they derive significant income from repurposing for T.V., DVD, and other sales;

- **Movies of the Week** (MOWs) are "made for T.V." movies. They are more cost sensitive than most other types of film product, and typically have modest budgets ranging from several hundred thousand dollars to a few million dollars;
- **Television Series** are perhaps the best source of steady income in the industry. Each half-hour episode takes an average of four days to shoot, while a weekly hour series takes approximately one week of shooting time, part of which is spent on location. A television series consists of 26 episodes. A single television series could be expected to use 150+ day per year in the location where it is produced;
- **Television Pilots** for prospective series are similar to MOWs. Since their budgets are low, they are extra-sensitive to costs;
- **Industrial (Commercials & Music Videos)** have smaller budgets, but for local businesses, can produce higher margin returns per unit of production. Commercials are typically shot in areas with high concentrations of industry (e.g. New York, Atlanta, etc.). Product costs are typically in the range of a few hundred thousand dollars.

These types of products are usually created for one of two main purposes:

- Theatrical distribution in the U.S. and/ or internationally. Such films are typically later repurposed and sold in television and home entertainment markets (DVD, etc.);
- The television market – shows, commercials, music videos, etc. – which is a significant market supported most notably by advertising sales and also subscription services.

Increasingly, there has been a proliferation of 'alternative' distribution methods with the internet still viewed as the most promising medium of the future. To date, there is no 'common' commercial model for optimizing the distribution of content over the Internet. Internet distribution is often sponsored by advertising, subscription fees, pay-as-you-go product sales, or some combination of the three. The developed industry models – which are still in a period of transformation – are reviewed in the following pages of this report section.

Feature Film Production Trends

Today, there are three levels of production and distribution in the feature film industry: (1) the studios which control all aspects of feature film production and produce primarily high-budget products, (2) the mini-majors which are owned by the studios and produce smaller-budgeted features backed by studio marketing dollars; and (3) the independents which either produce, distribute, or perform both functions for even lower-budget, story-driven, and foreign films. Since non-studio product comprises an increasingly larger percentage of total feature film production in the U.S. each year, ERA has included a brief review of the mini-majors and independent film companies.

Hollywood Studios

Commonly referred to as the "majors," Hollywood studios have become, via a series of mergers and acquisitions, huge media conglomerates that operate both production and distribution chains in film, television, video, music, and publishing. According to recently released statistics from the Motion Picture Association of America (MPAA) shown earlier in this section, between 1980 and 2005, the production cost of the average studio feature film rose from $9.4 million to $60 million. It should be noted that: (a) this figure excludes marketing costs (e.g., print and advertising); and (b) this figure represents a decrease of $3.8 million, or just over 6 percent since 2003. Marketing costs have, however, increased steadily to $36.2 million in 2005, bringing the average total combined cost of the average Hollywood feature film in 2005 to more than $96 million.

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

Mini-Majors

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

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

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

Economic Studio Model

Historic Model

Looking at the evolution of the studio system and its revenue structure, until the late 1940s a studio could expect to earn back all of its incurred expenses from theatrical production. Since the studios controlled production, distribution, and exhibition during the Hollywood era, rates of return on movie investment could range anywhere from 30 to as high as 100 percent. With the advent of television, revenue streams from television sources began surpassing those of theatrical releases during the 1950s and 1960s, only to be replaced by video during the mid-1980s.

From the 1970s into the early 1980s, studios began to divest some of their less profitable assets to focus on the business of film. However, media mogul Robert Murdoch's News International takeover of Twentieth-Century Fox in 1985 to supply feature film product for the company's television outlets, began a new era wherein studios began integrating their businesses along both horizontal and vertical lines. As a consequence of other media/ entertainment mergers that later followed suit, the media conglomerate was formed.

Current Model

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

Another standard rule of thumb in the industry is that one out of ten (or ten percent of) studio films released will generate a profit during its theatrical release, 20 percent will break even, and 70 percent will lose money. Studio-produced feature films are therefore viewed as loss leaders during their theatrical release that will earn back profits from a combination of (a) foreign markets which typically constitute an average of 60 percent of a film's profits, and (b) the video and DVD sales market.

It should be further noted that studios' reliance on these sources means that studios make back 80 to 90 percent of their money only after a period of 3 to 4 years from a combination of foreign markets and ancillary revenues. This is partially due to the fact that theatrical product is competing with an array of new technology and leisure opportunities available today. Today, a feature film's box office receipts comprise only part of a total gross that includes the sale of rights to broadcast and cable networks, sound track recordings, merchandise and other tie-ins, etc.

Future Model

The convergence of traditional entertainment forms such as music, movies, and television into a single entity of streaming data is becoming a reality. The advent of convergence, wherein consumers will be allowed to view film products over the internet, television, or on personal computers, will dramatically alter the business model for studios. Several Hollywood studios are working on plans to sell movies directly to consumers over the internet. While legal and security issues remain, such a system of internet distribution would allow studios to increase their profit margins, bypassing third parties such as video stores and cable networks. However, it should be noted that it will be several years before most U.S. households have the high-speed Internet connections necessary to download material from the internet, and theatrical, DVD, and television distribution would be expected to remain vital revenue generators and distribution platforms for studios.

Independent Film Production

These smaller production companies typically produce features with much lower budgets than the majors and mini-majors. Depending on their size and capital resources, budgets can vary from several hundred thousand to several million dollars. These films tend to focus more on scripts that attract strong casts to produce compelling films at much lower capital investment levels, or, alternatively, to produce low-budget, "semi-disposable" films that depend on a stock genre that will guarantee an audience and later distribution on cable TV and video. Due to their low budgets, independent film productions are frequently dependent upon hiring local crews versus importing labor from other areas. This trend has potentially significant implications for states such as Louisiana seeking to build industry infrastructure, as labor is an important ingredient in local industry infrastructure.

To help spread the financial risk associated with feature film production, studios are increasingly co-financing productions between independents and/ or other studios. These partnership arrangements help spread financial risk associated with production. The independent filmmaker's greatest source of funding recently has come from foreign sales. Due to the recent poor attendance at major film markets and the slow selling climate, however, there is currently an oversupply of film projects without distribution agreements – a distribution "bottleneck". Should this trend continue, the number of "guerilla" filmmakers outside of film schools may decrease in the future. It should be noted that "guerilla" is a term that refers to ultra low-budget filmmakers, frequently film school students or film enthusiasts, who shoot with limited cash, supplies, and resources.

While studios and mini-majors dominate theatrical distribution, independent studios are a force in lower-budget niche movies and are continuing to diversify themselves beyond simply producing filmed entertainment. Other areas of expansion include commercials, music videos, internet entertainment, and computer games. Additionally, large video companies such as Blockbuster have shifted away from being a passive, secondary outlet for studio product following a theatrical release toward becoming a buyer or financier of independent films. Blockbuster reports that approximately 10 percent of its annual stock consists of movies that the company has either bought or produced.

As previously mentioned, non-studio releases constitute a growing portion of total releases. For instance, in 1980 they accounted for only 30 percent of the total releases that year, and last year represented nearly 65 percent. This increase can be attributed to several recent trends in feature film production: (a) the decrease in the output of studio product due to rising production costs, (b) the multiplex phenomenon which began in 1995 and has since dramatically increased the number of screens in the U.S, (c) co-financing arrangements between independents and studios, and (d) the proliferation of inexpensive technical equipment such as digital video cameras.

Digital Video Cameras

With the advent of non-linear (digital) editing in the 1990s, the television and film industry began using tools that simplified production processes. Digital editing made it possible to re-construct an entire edited sequence with the press of a button. It changed completely the process of merging scenes into a sequence.

Digital video cameras moved to film sets as a way to look at each scene as it was being shot, and give directors the opportunity to understand that the scene "works" without waiting for dailies, again shortening and simplifying the production process. With the advent of high-end, high-definition digital cameras, the film camera is beginning to be replaced by a digital camera. Once again, this shortens and streamlines the production process. A smaller shooting crew is necessary, the film does not need to be processed and transferred. All these changes play into the cost reduction efforts in place in the film production business.

The next big cost savings (after the capital cost of installation) will be digital screens, which use satellite or a high bandwidth fiber connection to send a film to the theatre to be distributed by a digital projector. This saves the costs of making prints and offers more flexibility for distributors and theatre operators to respond to the market.

Television Production Trends

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

Television programs have a similar pattern of production to film. The main difference is that production runs can potentially be more stable, lasting years rather than weeks. Television networks (ABC, CBS, NBC) have acted as distribution companies, they have also maintained production arms. As a hybrid, they developed their own projects, and if they didn't produce a program, they certainly had a major hand in shaping it.

In cable television, the first programs were repurposed from the movie studios and were television program reruns. In the 1990's more cable networks began doing more original productions with MTVs Real World and HBO's series (HBO has been producing its own television movies as have Lifetime and now ESPN). Mostly, each of these shows is now a semi-autonomous production unit that offers employment to workers only as long as the specific show that they work on is in demand.

Television Networks

Following years of explosive growth, broadcast television has been strongly impacted by recent economic trends, specifically: (1) a steadily decreasing portion of their market share to cable and independent networks, and (2) decreasing advertising revenues. The end result has been the need to "downsize" or lower production costs in this increasingly competitive environment. As a consequence, the major broadcast networks have been purchasing fewer scripts and decreasing the number of deals they have with writers and producers.

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

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

Episodic Television

Another recent trend in network television has been the proliferation of reality programming, which has reduced the number of episodic, script-written comedies, and drama shows. This has also presented a new, viable economic model for television networks. Reality programming is less expensive to produce since it does not require actors and has fewer directors and producers. For instance, an analysis comparing the CBS network reality television series, *Survivor*, with the NBC drama, *Law & Order*, showed that 18 hours of the reality television series generated nearly $51 million in cash flow, compared to 52 hours (including reruns) of the drama series.

In general, competitive pressures and industry-wide cost-cutting have made reality programming essential since scripted shows are more costly. Reality shows do not require costly writers and stars. In general, they cost between $500,000 and $900,000 an hour to produce, and programmers do not have to purchase 22 episodes. By comparison, network dramas and sitcoms range from several million to as high as the record $10 million that NBC agreed to pay Warner Bros. to keep *Friends* for a 10th season. Further, the decrease in viewer-ship among networks for sitcom and drama audiences, has elevated the influence of low-cost reality programming as networks compete against cable television for viewer-ship.

Cable Television

There are two types of cable television: basic cable and premium channels (*e.g.,* HBO, Showtime, etc.). The expansion in the cable market has taken up much of the downturn in the made-for-television network market (*e.g.,* MOWs). In addition, both theatrical filmmakers and international producers are benefiting from the expansion in the U.S. cable movie market. Multi-million dollar cable productions such as HBO's *Band of Brothers* now compete for viewer-ship with theatrical releases. Other examples include the SCI FI Channel's 20-hour series, *Taken*, which was executive-produced by Steven Spielberg at a cost of $40 million. In the case of *Taken,* the strategy of the SCI FI channel was to increase advertising revenues since they are paid a set monthly fee by cable operators based on subscriber fees.

This new outlet benefits both traditional television and theatrical film producers who have been impacted by network cost cutting and decreased production at the studio level. HBO Films, for example, now makes between 10 and 12 original films per year with budgets ranging from $3 to $15 million, and Showtime expects to spend $6 to $7 million on original movies over the coming years.

Recently, however, cable networks have been revising their programming strategies and funneling more resources into series versus original movies. HBO, for example, has been producing series such as *The Sopranos* and *Sex and The City* that compete with network series for viewer-ship. While cable television was once the second distribution platform for feature films following their theatrical release, films are now available on video, DVD, and pay-per-view before being aired on cable television.

Mobile Broadcasting

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

The table on the following page summarizes some of the major trends in television production and how they impact local production in the U.S.

Television Trend Summary

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

Source: Economics Research Associates

Commercial Production Trends

Traditional media commissions at advertising agencies have also been drastically reduced, which makes the playing field even more competitive since agencies are dealing with smaller budgets. As advertising budgets have decreased, many companies have laid-off internal, creative talent and outsourced providers of creative content. This includes both independent production companies and freelance professionals such as former advertising executives and art school graduates with proper software. The challenge for producers creating commercial productions for clients is increasingly to produce a high-quality product at reduced prices.

The business consolidation of the 1980s and 1990s decimated the regional commercial production market for advertising. Where one city might have boasted four or five banks doing major advertising campaigns each year with high quality production, there may be three or four banks all with a national campaigns created for the national market by out of town production companies. Other commercial productions find increasing competition from lower cost “one man” production companies with pro-sumer (low-end professional grade, high end consumer grade) lower cost and lower end production equipment.

Other Trends

Many of the recent trends are being driven by technological advances such as digital filmmaking and mobile broadcasting. Similar to other industries, advances in technology have impacted the nature of film production by allowing filmmakers to take their productions to foreign locations. As will be discussed further, technological advances are also driving the globalization of production, making it easier for filmmakers to take their projects to distant locales.

Technology has provided filmmakers with more choices and flexibility regarding the location for principal photography during a film shoot. The impact of this new technology and the flexibility that it offers producers will likely have an effect on location production. Location shooting is now more feasible since cameras, sound and lighting equipment is much lighter. There are two countervailing forces at work that need to be resolved before any clear trend can be delineated.

In the first place, new technology will allow for the creation of so-called “virtual locations”. The improved ability for digital masking and special effects may lead to an overall reduction in location filming as filmmakers are more realistically able to portray a scene without having to be physically present. In this sense, content creation becomes less sensitive to local circumstances, as the function can be fulfilled most anywhere with the necessary technological infrastructure.

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

Distribution

Technological advancements have made the film and television industry one of the most rapidly changing industries in the world. The most significant advances involve changing distribution models with new technologies such as the Internet and digital cinema. Advances have made distribution less expensive, faster, have provided more outlets, and new media has brought together multiple industries such as film and television, the Internet, and music industry.

Currently, film product that is shot on digital video is either (1) transferred to film and then shipped to theaters for theatrical exhibition on a traditional projector; or (2) transferred to DV tape and shown on a digital projector in a theater. Once digital cinema is established, the finished product can be encrypted and then sent to theaters via satellite distribution. This method significantly lowers the shipping and film print costs that are associated with standard film production.

Digital Filmmaking

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

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

Editing

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

Digital technology and more powerful computers have made editing on location possible. Although Avid technology still dominates the field, Apple's Final Cut Pro system is gaining in popularity. Current software such as Final Cut Pro and After Affects can be loaded onto laptops and enables editing to take place on the set. Producers can now view dailies in their laptops with high-quality picture and sound. The result is a faster turnaround in total production time.

Such advances in technology have had a tremendous impact on the post-production sector. The biggest technology trend affecting film post is digital acquisition which eliminates film developing and telecine. The end result is that such technology can shorten the entire production process.

Home Entertainment

During the 1930s, "filmed entertainment" referred solely to movies. In today's expansive and complicated media environment, however, this can refer to film, broadcast television, PAY-TV and cable, video and DVD sales. Each of these media presents a different economic model. For instance, VHS and DVD sales have increased as the home entertainment market has become more accessible and less expensive. Recall in the first section of this report the increasing household penetration of home entertainment products. The vast majority of U.S. households have television and VCRs, and the number of home theater systems, direct-to-home satellite systems, and DVD players has increased substantially over the period. The emerging dynamics of evolving home entertainment options is expected to continue to shape how content is funded, created, and delivered.

Film Festivals

Film festivals have become an important way for independent films and directors to get the attention of distributors and audiences. These festivals are held all over the U.S. (and the world). The most famous of the festivals are attended by top film distributors and others in the business. The less famous of the festivals have fewer distributors in attendance and count on audience buzz and media reviews to elevate their offerings. Increasingly, such festivals are a natural outgrowth of a developing/ developed film industry infrastructure.

Digital Vs. Film Production

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

Source: Scientific American, & Economics Research Associates

De-Centralization of Film Production

As noted previously, to lower expenses associated with production, producers are increasingly scouting low-cost locations such as Canada, Eastern Europe and Australia that offer production incentives, or searching for "soft money" contributions such as tax shelters. Within the United States this trend is also taking hold with an increasing number of states sponsoring incentive programs – some modeled after the Louisiana program – to encourage greater film production in their respective geographic areas. This section reviews the factors behind this trend – pulling production activity away from the traditional production centers in the U.S. and towards other states and countries.

Factors Driving the Globalization of Film Production

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

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

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

- Monetary exchange rates;
- Tax incentives;
- Lower cost labor;
- Lower cost infrastructure; and
- Lower cost set construction.

The common thread is, obviously, lower costs.

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

In the past, film editing involved numerous hours of manual labor during which reels of film were physically cut with the consenting permission of the director, producer, and other major above-the-line players. Recent technological advances, however, allow film to be transferred to videotape, digitized and then transmitted via the internet to an editor who uses computer software and technology to edit a product. The edited version of the film product can then almost immediately be sent via the internet back to the director for approval. Technology has provided filmmakers with more choices and flexibility regarding the location for principal photography during a film shoot, and this has only accelerated the de-centralization of the product.

The Development of Global Production Centers

Recognizing the direct and indirect economic impacts that a large U.S. studio production can have on their local economy, recently several countries, most notably Canada, and U.S. states, have enacted legislation and/ or provided funding to develop their production infrastructure. This involves both the training and development of their crew base or the establishment of production facilities and sound stages. Canada has been the most aggressive country in terms of pursuing U.S.-based production, though some of the countries that have emerged as Canada's potential competitors include: Australia, United Kingdom, Ireland, Mexico, New Zealand, South Africa, and the Czech Republic.

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

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

Clearly, Louisiana is still in a process of creating some of these features in its emerging film industry. The local traditions of an indigenous film industry, an industry-trained labor force, and suitable soundstage facilities are still in the process of being created. Advantages for Louisiana include favorable climatic conditions, as well as lower relative production costs as a result of the state's incentive program.

Many of the countries outside of North America that compete to attract off-shore production possess state-of-the-art production facilities that rival many of those in the U.S. and Canada. The interplay of other currencies relative to the U.S. dollar can also play a key role in attracting U.S.-based productions – though the current weakness of the dollar has the reverse effect. Fox Studios Australia in Sydney, for instance, has scheduled back-to-back, high-budget, feature film productions such as Fox Studios' *Moulin Rouge*, and Lucasfilm's *Star Wars: Episode II*. With the vast number of domestic and foreign production facilities, both existing and proposed, Hollywood's dominance as a production center is being challenged. The production "pie" is being split up and is sought after by production centers outside of the traditional 'centers of gravity' for the industry – namely, Los Angeles and New York.

Global Industrial Policies

Businesses that make films, commercials, music videos, still photographs, television series, and similar products are free to decide where to carry out various business processes necessary to produce their products. They don't all have to be done in the same location: editing can be done overnight halfway across the world, and that work can be available for review by the director (on site) the day after a series of scenes is shot. Similarly, the State of New York found that many films' "hero shot" was done in the city with familiar landmarks as backdrops, but that filmmakers fled to soundstages in Toronto to complete their work.

For a caricature of the globalizing forces in the film industry, consider "Crouching Tiger, Hidden Dragon". The film was co-financed by Columbia (a Hollywood studio, owned by Sony, a Japanese firm), a private group called the Asian Union Film and Entertainment, and the state-run Chinese Film Co-Production Corporation. It was produced by Ang Lee, whose family is from mainland China (and now lives in Taiwan). The film was set in mainland China and was not in English, though it managed to gross $100 million in U.S. box office receipts.

Hollywood studios make approximately half their revenues abroad, compared to about 30 percent in 1980. Together, China and India have a third of the world's population, whereas the U.S. has about 4 percent. Growth in China's film industry is stunted by government censors, who allow precious few Hollywood films to be shown, and despite an increase in filmmaking in recent decades locally made films are often uninspiring. While Hollywood provides the highest-revenue productions worldwide and is indisputably the entertainment capital of the world, India produces more than twice as many films as the U.S. does, and has a thriving "Bollywood" entertainment and cultural center of its own.

The state of Louisiana should be aware of the economic factors that drive the globalization of production centers because it is on these grounds that it competes with lower-cost production centers around the world. These trends are facilitated by the technological advances in the industry: new production centers with highly developed production infrastructures and crews have allowed films to be shot outside of the main production centers. Lower input costs mean that a production company based in Louisiana can produce projects for clients halfway around the world (the good news) and vice-versa (the bad news). In an effort to stimulate the competitiveness of the local film industry and promote the domestic culture, many national and regional governments have instituted policies that support their respective film production sectors.

The purpose of this section is to outline global and U.S. state economic development strategies that various governments have instituted to encourage the development of their local film production industries. The remainder of this section reviews current policies in place and how they have served to develop and support local industries.

Rationale Behind Industrial Support of Film Production

Global film production can be viewed as either (a) an economic commodity; (b) a cultural commodity; or (c) a hybrid of the two. In the U.S. it is generally considered an economic commodity. As an economic commodity, active support from the industry both in the U.S. and other countries reflects the recognition that film production should form part of a nation's economic industrial policy, providing employment for a skilled labor force and driving substantial economic activity. As a cultural commodity, film production exports a sense of place and provides a tangible representation of culture. Cultural industries are also mutually supportive of tourism and the arts in general.

Production as an Economic Commodity

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

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

Production as a Cultural Commodity

Active support for indigenous film industries forms part of a government's cultural policy. The rationale behind this state support for film production is that locally produced films are reflective of a region's culture or arts, which must be protected from foreign cultural hegemony. After World War I, the issue of

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

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

Film Production and Local Economic Development

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

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

Employment of a local workforce is particularly noteworthy since film production/ crew jobs tend to pay higher wages than other blue-collar jobs using similar skills.

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

1. Firstly, the industries are relatively clean. They typically do not generate environmental impacts that need to be mitigated;
2. They are generally high-wage industries employing a large proportion of the labor force from skilled, blue collar sectors such as electricians, carpenters, set dressers, etc.;
3. Wages throughout the industry are generally higher than wages for comparable work elsewhere in the economy.

Because of the strong contracting and subcontracting relationships that are the core of the film and video production industries, there are opportunities to develop multiple rounds of economic growth and job generation that come about from the flexible specialization form of production which is characteristic in these industries.

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

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

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

These four factors work as a positive feedback system with each element contributing to the growth and development of the other. ERA's analysis of the Louisiana film industry relative to the previous four development requisites reveals that:

- Infrastructure capacity is currently being created or upgraded in the state. Basic road, airport, and hotel capacity exists, and soundstages and other first-generation infrastructure necessities are being planned and built;
- The state's labor force in the industry has grown dramatically in the last several years. The next logical steps would be to create training programs for new market entrants. At first, such a capacity would likely be for 'below-the-line' labor – the nuts and bolts of carrying out production. As the industry becomes more developed, it should expand to include above-the-line talent, perhaps through the statewide university system;
- Current locally-based markets continue to be under-developed. As of now, the dramatic increase in production industry is almost entirely for productions conceived and funded by establishments outside of the state. A home-grown, local film market does not currently exist;
- Louisiana has a small number of stakeholders of "industry champions". There are, generally speaking, a small number of locally-oriented establishments which have been able to utilize of the current incentives package. There does not seem to be a deeply rooted, advocate/ activist film community in the state as of now.

The filmed entertainment industry is about making storytelling profitable. Thus, generally speaking, no film, television show, or other media event can afford to put logistics entirely before the story. Certainly, stories must work around logistics, physical constraints, and costs, but ultimately, locations and facilities serve the needs of the script. Productions move away from traditional production centers for varying reasons, the most common of which are as follows:

- **Artistic**. Locations are chosen because of the needs of the script. If a script needs a town, forest, lakeside, or certain kind of coastline, the producer, location manager, and/ or production designer will search for a location that fits the project's artistic needs or the director's desire;
- **Financial**. Sometimes a project's budget is such that financial incentives will prompt a company to take a production away from familiar, convenient locations and facilities. Often, the potential liability of being outside of one's familiar surroundings is enough to deter decision makers from this approach. In addition, unless the local labor and talent are expert, relatively cheap, and available, other costs such as travel, hotel, and per diem allowances will mount quickly, offsetting the intended savings (see "Economic Factors" section below for further detail);
- **Convenience/ Whim**. If a director, producer, or other key individual decides he or she prefers a certain location or facility, then the production situation might change quickly and without notice. For example, while filming *Natural Born Killers*, Oliver Stone decided that he enjoyed being around the Chicago area. So, at the last minute, production shifted from returning to Los Angeles where Stone had originally intended to shoot the sound stage work. The entire crew had to scramble to find the proper facilities in Chicago because Mr. Stone wanted to stay there. Admittedly, there are not many above-the-line talents with Mr. Stone's clout, but there certainly are several. Others who have exercised this kind of authority include Joel Silver, George Lucas, and Francis Ford Coppola;
- **Contractual**. Certain productions are simply obligated to use particular facilities. For instance, the episodic television series Party of Five which was produced by High Productions, a wholly-

owned subsidiary of Sony Pictures Entertainment (SPE). SPE obligated High Productions to use Culver Studios as a condition for financing. Similar arrangements exist with productions such as those developed and produced in Vancouver by Stephen Cannell;

- **Local Commitment.** It is interesting to note that in some secondary production centers, key decision makers in the film industry frequently bring their projects to their "home towns" in order to work in a familiar environment or to accommodate the needs of the stories they have produced that come from their own experience. One of the best known examples of this is the film industry in Baltimore which, to a large extent, has been supported by continuing work of Barry Levinson and John Waters, which has, in turn, supported a round of development of secondary producers and directors who trained on their projects and, in turn, bring their own smaller projects into the city.

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

Types of Global Government Programs

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

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

Direct and Indirect Subsidy Programs

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

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

Tax and Business Incentives

Tax incentives also assist film production by providing funding for local, and sometimes "qualified" foreign productions. To qualify for such programs, many governments frequently impose local content requirements for "qualified" productions available for incentives. It should be noted that such incentives can exist at federal and state/ provincial levels – as is currently happening within the U.S. As will be discussed later in this section, Canada has numerous provincial incentive programs for non-Canadian production companies working in Canada.

Service Production

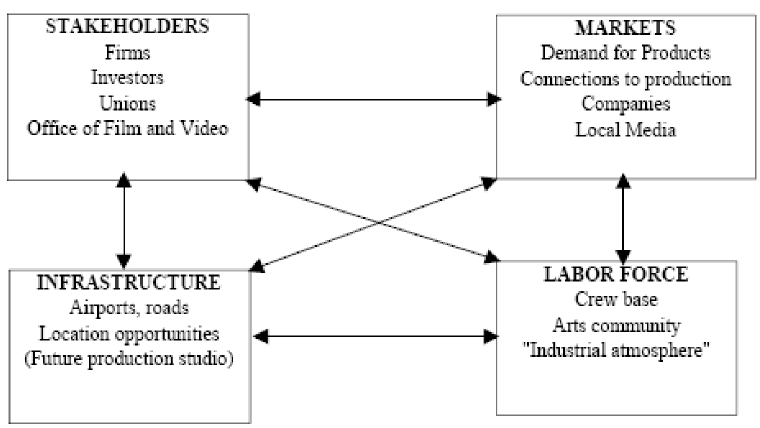
Production and post-production facilities sectors are frequently dependent on foreign productions ("service production"), most notably U.S.-based ones, to stimulate this sector. A variety of favorable financing opportunities not created by government action such as favorable exchange rates, non-union,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

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

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

The next table illustrates the stages and impacts that the introduction of production incentives (which can include tax and other business incentives, most notably on the cost of local labor) can generate in terms of attracting production and creating a local industry. The introduction of production incentives such as a rebate on the cost of local labor serves to train and develop a local crew base, which in turn attracts more productions with higher budgets. The end result is that local labor wages increase as crew persons become more skilled, and the attraction of more production can create a local demand for more infrastructure such as sound stages and other production-related services.

FILM INDUSTRY DEVELOPMENT DYNAMIC



Source: Economics Research Associates

Co-Productions

Co-production arrangements date back to the beginning of the century, most notably between European countries. During the first half of the 20th century, for instance, European filmmakers began signing co-production agreements between fellow countries, primarily in an effort to combat the economic and cultural dominance of Hollywood. France and Italy were the first European countries to sign the Franco-Italian Agreement in 1949. Co-production deals allow filmmakers to:

- Tap into the financial resources and incentives available in both countries;
- Circumvent film import restrictions and quotas;
- Gain access to another country's distribution networks;
- Gain access to knowledge and marketing techniques used by foreign distributors.

National Policy Overview

Perhaps the strongest and best-known example of a national government using financial and tax incentives to attract production is the Canadian system. The Canadian government offers numerous financial and tax incentives at both the federal and the provincial levels. These linked services provide extensive tax credits. The table below shows the number of U.S. films shot in various countries between 2001 and late 2005:

Runaway Productions	
Canada	142
Britain	18
Mexico	14
Australia	13
Czech Republic	11
Italy	8
Germany	8
France	7
Romania	7
South Africa	6
New Zealand	5
Bulgaria	5
Brazil	3
Morocco	3
India	3

Source: Los Angeles Times

ERA has selected the following programs to discuss in further detail, though a more detailed understanding of other selected national policies can be found in the appendix of this report.

- In **Canada**, British Columbia offers an 18% rebate on local wages, Ontario offers an 18% tax credit on local wages, and that rises to 20% when the labor is related to digital animation or visual effects. The federal government offsets 16% of local labor costs;
- **Mexico** has streamlined its permit regulations to make it easier for filmmakers to shoot in Mexico City;
- **Australia** offers a tax refund of 12.5% of money spent on production goods and services for projects with budgets in excess of $9.7 million. All investments in television, movie, and miniseries productions are tax-deductible. There are often local rebates, grants, and fee-free permitting;
- **New Zealand** offers production grants of 12.5% of money spent on projects. Additionally, all those expenses may be deductible from taxes;
- **South Africa** has announced $40 million in subsidies to local and foreign film producers over the next three years. Budgets of $4 million and greater are eligible for tax rebates. Additionally, many production and post-production expenses are tax deductible;
- The **U.K.** is subsidizing low-budget films with a 20% tax cut. Additionally, there are generous tax write-offs for larger projects.

The presence of cheap labor, attractive scenery, and low taxes, and light bureaucratic requirements make locations in South America, Asia, and Eastern Europe attractive to filmmakers, even without tax incentives. Canada, Australia, and New Zealand are attractive to filmmakers because of their English-speaking populations, Western culture, educated workforce, and developed service industries. South

Africa may soon join these three countries, but poverty, political, and racial tensions continue to discourage the development and maturity of the industry in South Africa. Canada is especially attractive because of its very close proximity to the U.S. (production centers of Vancouver and Toronto are not far from population centers in the U.S.). Australia's talent pool runs deep, and Sydney is emerging as a regional center of film production with extensive studio facilities, albeit a 17-hour commute from Los Angeles. Director Bryan Singer was pleased with his decision to film "Superman Returns" in Australia – a production rumored to be worth $200 million, with $80 million spent in New South Wales, Australia.

Many press items that mention "runaway productions" include popular concern, as well as criticism from the Film and Television Action Committee, a lobby set up to fight runaways, but the factors before the actual decision-makers in the industry are convincing. Many high-profile directors sing praises of Australia and New Zealand, and the cost advantages are compelling. The U.S. passed a tax cut for filmmakers in 2004 that allows filmmakers to deduct the entire cost of a motion picture production in the year in which the expenditures are made. Production budgets must be between $1 million and $15 million (there is a $20 million cap for filming in depressed areas) and 75 percent of the labor must be in the U.S.

State Policy Overview

Shooting a film abroad is not without its disadvantages, and many filmmakers decide that it is better to shoot in the U.S. In those cases, the film industry in Louisiana competes against other states that offer financial incentives. Incentives in other states – both new and revised – are making for an increasingly competitive landscape. The incentives packages apply either rebates or credits to qualifying expenditures. There is an important difference. A rebate is money back from the state, whereas a tax credit is a reduction in the filmmaker's overall tax liability. As discussed previously, there are six general areas in which a state may issue incentives:

- **Sales and use taxes.** Filmmakers spend money in state on goods and services that are subject to state and local sales taxes. These can be waived in two forms. First, the production companies sometimes get a state-certified coupon that waives sales tax at the point of sale. Alternatively, states may refund sales tax after filmmakers submit expense reports detailing qualified expenditures;
- **Hotel taxes.** All out-of-state labor – or even out-of-area labor – generally requires overnight stays in hotels. Some states waive the hotel tax for qualifying stays. A qualifying stay generally requires at least 30 days of consecutive nights, and the tax credit or rebate is applied either to the total stay, or to all nights past the required minimum. Although this benefits feature filmmakers, it has the effect of incentivizing out-of-area labor;
- **Labor taxes.** States can subsidize the cost of in-state labor by providing a tax credit for a portion of in-state labor costs. This offers an incentive for a filmmaker to hire local, rather than out-of-state, labor;
- **Investment credits.** Some of the most generous incentives packages are investment incentives. These allow filmmakers to recoup some of the costs of investing in the film infrastructure;
- **Flat Rebate or Credit.** Some states provide a flat rebate or credit, as a percentage of all spending that occurs in a state – labor, hotels, retail, investment, and other qualifying expenditures;
- **Fee-Free Filming.** Many states provide state parks, municipal and state buildings, and other public property available to filmmakers free of charge. It is also common for public employees like police to be fee-free as well.

The following is a review of the incentives programs in place in various U.S. states. LED has outlined seven states (**in bold**) which are viewed as competitive with Louisiana.

Incentive Programs by State

States	Sales Tax Rebate	Sales Tax Point-of-Sale Exemption	Lodging Tax Exemption	Investor Tax Credit	Production Company Tax Credit	Annual Cap (millions)	Per Production Cap (millions)	Interest Free or Low Rate Loans	Tax Free States	Wage/ Withholding Credits
South Carolina		**X**	**X**		**30% ®**	**None**	**None**			**20%**
Wisconsin		X		25%	25% ®	None	None			15%
New Mexico					**25% ®**	**None**	**None**	**X**		**50%**
Rhode Island		**X**	**X**	**15%-25%**	**25% (T)**	**None**	**None**			**10%-20%**
Illinois		X	X		20% (T)	None	None			20%-35%
Louisiana		X		25% (T)		None	None			10%-20%
Massachusetts		X			25% (T)	None	$7			20%
Connecticut		**X**	**X**		**30% (T)**	**None**	**None**			
Oklahoma		X		25%	10%, 15%, or 25% ®	$5	None			
Hawaii			(high-tech)	100%	15%-20% ®	None	$8			
Pennsylvania		X			20% (grant)	$10	$2			
Arizona		**X**	**X**		**10%, 15%, or 20% (T)**	**$30-$70**	**$5**			
North Carolina		X			full 15% ®	None	$7.50			
Montana		X	X		8% ®	None	None		X	12%
Mississippi		X			10%	None	None			10%
New York					10%-15% ®	$37.50	None			
Missouri					50% (T)	$1.50	$1			
Minnesota		X			15% ®	$1.70	None			
Utah		X	X		10% ®	$1	None			
Vermont		X	X		10% ®	$1	None			
Florida		**X**			**15% ®**	**$20**	**$2**			
Oregon			X		10% ®	$1	$.03-$.25		X	6.20%
Georgia		**X**			**9%-12% (T)**	**N/A**	**N/A**			
Colorado			X		10% (T)	$0.50	None			
Maryland		X				$6.80	$2			50% (grant)
Maine		X	X							10%-12%
Tennessee	X		X						X	
Washington		X	X						X	
Alabama		X	X							
California		X	X							
Kentucky		X	X							

New Jersey		X		X	
Texas		X	X		
Virginia		X			
Alaska					X
Arkansas	X				
Delaware					X
Idaho		X			
Iowa		X			
Kansas	X				
Nevada					X
New Hampshire					X
South Dakota					X

*® denotes refundable tax credit
*(T) denotes transferable tax credit

LED has identified seven state programs to examine in more detail. This subsection compares the tax incentives to filmmakers in the following states: South Carolina, New Mexico, Rhode Island, Connecticut, Arizona, Florida, and Georgia. Recall the current programs in place for these states from the previous table:

- South Carolina has a sales tax exemption, granted at the point of sale. Additionally, it has a lodging tax exemption and offers production companies a 30 percent refundable tax credit, with no annual cap and no cap per production;
- New Mexico offers a 25 percent refundable tax credit to the production company. It has no sales tax or lodging tax exemption. It has several programs to promote job growth within the industry, and it has a zero-interest loan program for investments made in the state. Several restrictions apply to that fund;
- Rhode Island has a sales tax and lodging tax exemption, an investor tax credit of between 15 and 25 percent, and a 25 percent transferable tax credit to the production company. It places no caps on available tax credits per company or in aggregate;
- Connecticut offers a 30 percent transferable tax credit to the production company and also offers sales and lodging tax exemptions. Like its neighbor, Rhode Island, Connecticut places no caps on the credits that may be given to filmmakers;
- Arizona offers a sales tax exemption at the point of sale, as well as a lodging tax exemption. Its tax credits are transferable and range from 10 percent to 20 percent. The State's annual cap is $70 million and any production can claim no more than $5 million;
- Florida offers a 15 percent refundable tax credit to production companies, with a $20 million annual cap. Individual productions can claim no more than $2 million. Florida also offers a sales tax exemption;
- Georgia offers a sales tax exemption as well as a transferable tax credit to the production company of between 9 and 12 percent. It has no caps on incentives;

The difference between a refundable tax credit and a transferable tax credit is a crucial one, but it is often overlooked. Refundable tax credits are far more lucrative to filmmakers. When productions have negative tax liability, a refundable tax credit entitles them to a check from the state for their negative (out of pocket) liability. In the instance of a transferable credit, however, the production company must sell its remaining tax credits to other taxpayers (often wealthy individuals or companies).

This is undesirable to filmmakers for several reasons. First, buyers of these transferable tax credits do not pay the full value of the tax credits – they buy them at a discount. Second, the process involves accountants, lawyers, and other middlemen, who also must be paid for their time. Third, the entire process is an administrative burden, and often takes many months for the production to claim the proceeds of their remaining tax credits. Every step in this process chips away some value from the incentive. This contrasts with a refundable tax credit, whereby productions often get a check for their full negative liability within 30 days of ending their production.

Among these selected states, South Carolina (30 percent), New Mexico (25 percent), and Florida (15 percent) offer refundable tax credits, Rhode Island (25 percent), Connecticut (30 percent), Arizona (up to 20 percent), and Georgia (up to 12 percent) offer the more cumbersome transferable tax credits. For this reason, South Carolina's 30 percent refundable tax incentive is considered to be the most aggressive in the nation at this moment. (Connecticut's is transferable and although Wisconsin has passed a 30 percent incentive, it is working to find the funding for it.)

ERA notes that all selected states offer a sales tax exemption at the point of sale. It was once popular for states to offer a sales tax rebate, in this case, filmmakers would save receipts for all retail purchases and then apply to receive the sales tax back in the form of a rebate. Most states have moved away from this system, as it also poses an administrative burden.

Among the selected states, Rhode Island is the only one with an investor tax credit. It is common for production companies to build structures for one film, and leave them in the state for use in the future. This credit makes that more attractive for filmmakers.

Of the states surveyed, 12 have annual caps on the amount the state is allowed to spend on their respective film programs. Of the 7 states selected for further analysis, at this time 2 have annual caps – Arizona ($70m) and Florida ($20m). Nine of the surveyed states have per production caps, with Arizona and Florida limiting per production state incentives to $5 million and $2 million, respectively. Of the states with annual caps on their film programs, Arizona's $70 million annual limit is the highest. In general, a per production cap is desirable to the extent that it targets focus on a specific industry niche. In Louisiana, low budget features and MOWs function similarly with both typically being shot for less than $15 - $20 million.

Workforce Development & Training

An experienced, qualified labor force is an essential component in any region's production infrastructure. The availability of capable, technical personnel encourages production by both local companies and outsiders. The advantage for outsiders is that it lowers production costs by allowing companies to import fewer personnel, in addition to eliminating the travel costs and per diem charges. In this section ERA reviews a small number of selected training programs. A more detailed understanding of selected programs is provided in the appendix of this report.

The Role of Film Schools in Labor Force Development

The collapse of the studio system means that film schools have supplanted studios in the training of filmmakers. More than two dozen schools in the U.S. currently offer a master of fine arts in filmmaking, the most notable of which are located in Los Angeles and New York City. Other such as Florida State University have invested in Hollywood-quality production facilities to create a professional training environment for their educational programs.

Training and Apprenticeship Programs

Local production companies, particularly local television stations, often serve as the training ground for indigenous talent. In addition, film schools in the U.S. have also served as training grounds for labor force development by creating internship programs. There are several training programs detailed in the appendix of this report. The following are two highlighted film schools operating in the U.S. that have created successful internship programs.

North Carolina School of the Arts, School of Filmmaking

Located in Winston-Salem, the NCSA originally opened in 1965 as the first state-assisted residential conservatory in the nation. The School of Filmmaking opened in later fall of 1997. Construction of the campus was completely funded by the State of North Carolina. The school has a "studio village" consisting of three soundstages are 8,000, 4,000, and 2,500 square feet, respectively. These studios are not available for outside productions for legal reasons since they are situated on state property. Their usage is restricted solely to student and non-professional productions.

Santa Monica College, Academy of Entertainment & Technology

The Academy of Entertainment and Technology (AET) at Santa Monica College trains students in three areas (1) computer and traditional animation, (2) interactive media, and (3) entertainment production management. The Academy opened in Fall of 1997. The program was designed by professionals in the industry. It is structured as a partnership with entertainment and interactive industry employers, and provides current design and technical training. Situated on a 3.5-acre campus in Santa Monica, the specially designed facility includes screening rooms, state-of-the-art computers and industry software, video and audio editing bays, and computer classrooms and labs.

The Academy Advisory Board, along with other participating companies, provides in-service training for faculty and provides student internships. Members of the Advisory Board include partnership companies ranging from film and television companies, visual effects houses, interactive companies and music companies. The Academy also has an intensive Middle College program for high school students to assist them in developing portfolios for jobs in the entertainment industry.

Government Programs Involved in Workforce Training

The following is a discussion of some of the production-specific training programs that have been instituted under the Workforce Investment Act (discussed below). It should be noted that these programs have been put in place in the state of California, where the majority of the country's film production industry is concentrated. Nonetheless, these programs represent some of the collaborative means by which government and industry forces have combined forces to provide job specific training.

Workforce Investment Act of 1998

The Workforce Investment Act (WIA) of 1998 rewrites federal laws governing workforce preparation programs including job training. It supersedes the Job Training Partnership Act (JTPA). The program provides a new comprehensive approaches to providing workforce investment activities through statewide and local systems. In Program Year 2000, the state of California received $629 million in WIA funding.

Under the WIA program, Satellite One-Stop centers have been established throughout the U.S. to provide specific services that reflect the needs of their respective communities. These services include job training and placement assistance. WIA services are established in each of the 50 states by Local Workforce Investment Areas (LWIA).

Video Symphony's ETP Program

In April 1998, the State of California Employment Training Panel (ETP) awarded a $700,000 contract to Video Symphony to train employees of companies within the entertainment and digital media industry. ETP is a business- and labor-supported state agency funded by the employment training through California companies that wish to provide high-skills training for their employees. Video Symphony is a Burbank-based digital media company that specializes in professional-level training on editing, computer graphics, video, film and imaging programs.

The purpose of the program was to help employees enhance their technical skills and to better assist California technology firms in competing with digital media houses outside the state and country. The training provided California digital artists, film, and video editors the opportunity to enhance their technical skills. Qualified companies are those that employ at least 5 people full-time and engage in film, video, CD- or DVD-roms, or digital media for entertainment, Internet, or broadcast purposes.

Pasadena City College's Corporate Connection

Pasadena City College (PCC) has an instituted two programs - the Workforce Improvement Network (WIN) and Corporate Connection (CC). As local community colleges take a more active role in regional economic development, these programs are designed to provide customized training for the business community. The project came about as the result of ED-NET, which is the economic development network established through the Chancellor's Office of California Community Colleges. ED-NET created three initiatives to assist either: (1) a displaced workforce, or (2) provide skills training to unemployed persons who need to be trained on the latest technology. The development of ED-NET led to the creation of the WIN Center which provides (a) a workplace learning center, (b) a biological technology center, and (c) a multimedia entertainment center.

PCC used their computer lab to provide two WIA training classes that were funded through the Verdugo Private Industry Council (PIC). Under the WIA, PICs have been established to assist businesses provide training in growth occupations and to connect newly skilled job seekers with potential employers. Los Angeles County alone has 8 PICs.

NOVA

NOVA is a federally funded employment and training agency that is administered by the city of Sunnyvale in Silicon Valley. The program was created in 1983 by 6 northern California cities in Santa Clara County, the **No**rth **Va**lley Job Training Consortium (NOVA) in response to federal legislation known as the Job Training Partnership Act (JPTA). In July 2000, the JTPA was replaced by the Workforce Investment Act (WIA) and the 40-member NOVA Workforce Board was subsequently created. This Board is a public/private partnership consisting of representatives from both the private and local government sectors. The organization is funded from a combination of local, state, and federal sources. NOVA's employment and training services are administered by the City of Sunnyvale on their campus.

Training and other services are available to eligible applicants when grants monies are available. Private firms can receive employee training at competitive rates as well. Since its founding in 1983, the organization reports to have served over 6,000 employers and 60,000 applicants.

Louisiana Soundstage Development Considerations

Summary

Soundstages are an integral part of any developed film marketplace, and the development of greater soundstage infrastructure is one next logical step in the evolution of the industry in Louisiana. In this section, ERA evaluates the potential of Louisiana soundstage development and focuses on three key areas of emphasis:

- Level of activity and potentially supportable stage space (current and future);
- Locational factors;
- Issues regarding individual developments (considerations for evaluation).

By ERA's estimates (shown in this section) newly proposed soundstage developments far exceed our expectation of supportable soundstages in the foreseeable future. The state currently has 6 soundstages, while our current estimate is for up to 10 supportable stages as of today. Factoring in future potential growth an additional 15 stages could be supportable over the next 10 years. Current proposals are for some 32 new stages over the same timeframe, however. Clearly there will need to be some caution in supporting many of the proposed new developments – which ERA addresses later in this addendum.

There are potentially 3 primary "centers of gravity" for studio and soundstage developments in Louisiana – meaning, places where supporting infrastructure makes studio development and operation possible. The three most desirable areas for soundstage development at this point in time are (in order of importance) – the Orleans Parish/ Jefferson Parish/ North Shore area, Shreveport area, and Baton Rouge area. Some capacity exists and is being expanded in the Orleans Parish/ Jefferson Parish area. Modest capacity currently exists in Shreveport, and Baton Rouge does not have any noticeable capacity or activity at this time.

With respect to development costs two countervailing influences are currently at work in the post-Katrina Louisiana environment. On one hand capital costs for these types of developments must be low for them to survive over the long run (i.e. over the course of a 30-year bond) as facilities can be full one year and nearly empty the next, though debt payments must be maintained no matter the level of activity. On the other hand, the currently available incentives (film and infrastructure credits, roughly a 40% subsidy) combine to create a potent force favoring the highest level of capital expenditure possible. ERA understands these countervailing influences but cautions that these facilities should be viewed within the context of the long-term ability to fill the spaces.

Stripping out non-building expenses (land, distribution or production fund components, reserves, etc.), ERA's experience is that the hard cost to build studio facilities of this type elsewhere ranges from \$110 to \$125 per sq. ft. for stages, with blended building costs (including post production, Class A office space, etc.) of \$130 to \$150 per sq. ft. ERA is aware that the post-Katrina era has brought construction inflation pressures that will increase these figures, by about 35 percent in some places in the state – based on input from local construction specialists. Thus the order of magnitude for building costs in many places in post-Katrina Louisiana could potentially be in the area of \$200 per sq. ft. after accounting for inflation of 30 – 35 percent. Additional development program costs not included in this estimate could be equipment and ancillary service costs.

As a caveat to this analysis, the state should keep in mind the variable and fickle nature of the film business. We expect more U.S. states and foreign countries to try to sweeten the attractiveness of business in their location. Further, film / entertainment technology is changing. A conservative approach to sound stage subsidies is recommended.

Potentially Supportable Soundstage Space

Potentially supportable soundstage space in Louisiana, both now and into the future, depends on a number of factors – some more predictable then others. Chief among them, however, are assumptions as to the ultimate willingness of the State to sustain increasing expenditures related to the film incentives program. In this estimate, ERA assumes that the current package will remain in place into the foreseeable future, and over the course of the 10-year estimate made here.

As has become commonly recognized in the industry lately, Louisiana has been undersupplied in terms of soundstage infrastructure. Information from the Louisiana Film and Television Office and individual studio operations indicates that there are currently 6 operational soundstages in Louisiana which can be used for the purposes of film production. Some of the stages can be combined to create a larger soundstage area, but the maximum number is estimated at 6. These figures are shown in the following table.

Current Louisiana Stages

Development Name	Number of Stages*
Nims Center (Harahan)	2
Louisiana Soundstage (LaPlace)	2
Stageworks (Shreveport)	2
Current Stages	**6**

Note: *Some stages can be combined to create a larger stage area

Source: Louisiana Film and Television Office, and development web sites

The next table indicates the number of potentially supportable soundstages in 2006. The estimate is based on 1) the number of productions in the state by type, 2) typical stage day usage by type of production, 3) potential use of stage space in Louisiana as a percentage of productions in the state (70%), and 4) a desirable utilization rate for soundstage developments (65%). The data indicate that around 10 soundstages could potentially be supportable in Louisiana as of 2006, though 6 are currently documented in the state. Thus, potentially an additional 4 soundstages in Louisiana could have been supportable over the last year (2006).

Potentially Supportable Soundstages - Current 2006

Type	2006 Activity	Stage Days by Product Type	Total Stage Days at 70% Use Rate
MOW	8	40	224
Low Budget Feature	21	110	1,617
Feature	5	160	560
Other	11	7	54
Total	45		2,455

2006 Supportable Stages at 65% Utilization Rate	~10

Source: Louisiana Film and Television Office, Internet Movie Database, LIFT, and ERA Estimates

As mentioned previously, a key determinant of the number of potentially supportable soundstages in the state is the type and quantity of tax credits made available – i.e. how much the State is willing to spend on tax credits, and how those credits are structured. Though this is somewhat uncertain moving forward, for the purposes of this analysis, ERA assumes the current incentive package structure will remain in place into the foreseeable future. Other key assumptions relating to potentially supportable soundstage space made by ERA here include:

- Previously cited soundstage stage days by type of production;
- Growth in the state's film industry comes down from the current 20% estimate to a stabilized rate of 6% by 2011;
- 70% of Louisiana productions would use soundstage space;
- A desirable soundstage utilization of 65% per stage;
- The current estimate of 6 Louisiana soundstages;
- Most stages in the 15,000 – 20,000 sq. ft. size, with a small number of larger stages, and a few smaller stages;
- By 2015, the state's expenditure on film incentives would be in the order of $250 - $300 million annually, leveraging in excess of $1 billion in production expenditures.

Combining these assumptions allows for an estimate of potentially supportable soundstages moving into the future.

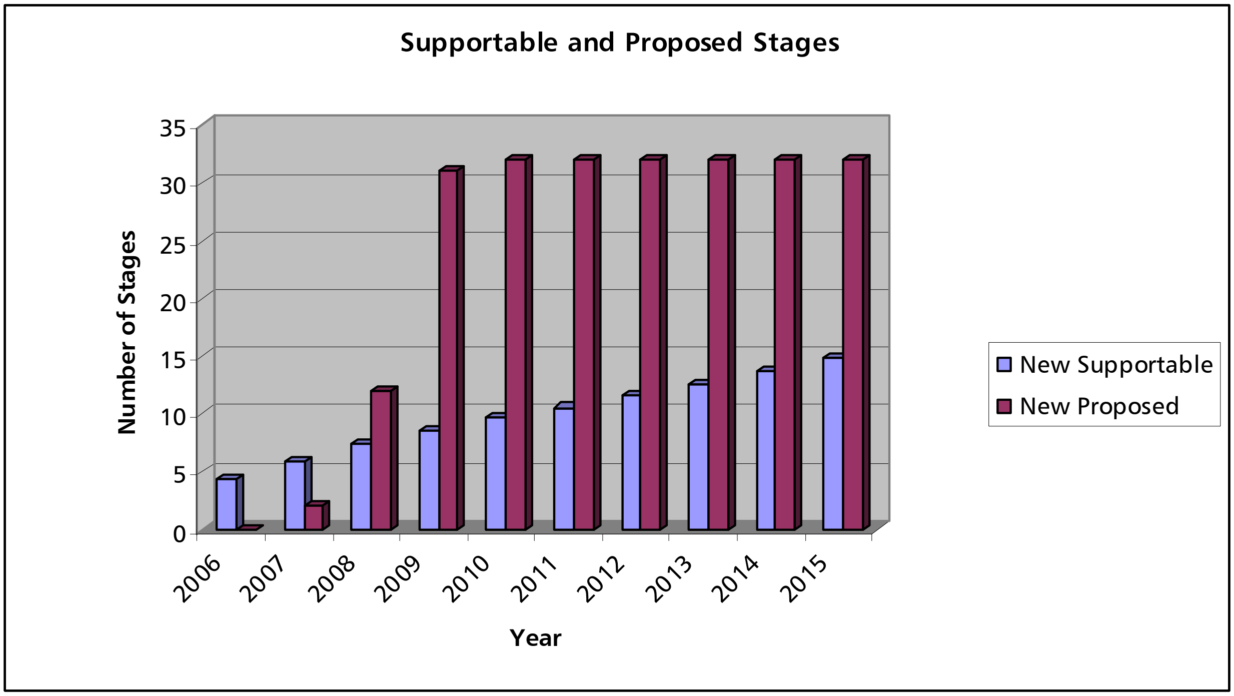
Estimates of the number of proposed soundstages are derived from State Infrastructure applications shown in the next graphic. Some 7 new studio and soundstage developments are being pursued currently with some more likely than others to be developed. The 7 proposed developments would have a combined 32 stages, nearly all expected to be placed in use before 2010. ERA phases in these developments in our analysis to reflect the potential opening of the proposed developments. Nevertheless, 32 stages (in any timeframe) would be a substantial increase in soundstage infrastructure, and each development should be vetted carefully.

Infrastructure Project Applied for as of December 2006

Project Name	Location	Estimated Budget
Film Factory	New Orleans	$ 185,000,000.00
StageWorks	Shreveport	$ 2,500,000.00
Louisiana Wave Studio/Tank	Shreveport	$ 1,300,000.00
LA Film Institute	Baton Rouge	$ 500,700,000.00
Celtic Media Center	Baton Rouge	$ 55,800,000.00
Emerald Bayou Studios	New Roads	$ 100,000,000.00
Center Stage	Shreveport	$ 6,671,270.00
Armada Studios	Clinton (E. Feliciana)	$ 75,400,000.00
Studio City Louisiana	West Baton Rouge	$ 495,000,000.00
		Total Estimated Budgets
		$ 1,422,371,270.00

Source: Louisiana Film and Television Office

The next graphic and following table combine the estimated growth and resultant supportable soundstages in Louisiana's film industry (derived from the previous assumptions) and the proposed new developments (derived from infrastructure applications). The figures indicate that proposed developments far exceed supportable soundstage space in the near term. Based on the industry growth rate estimate, an additional 15 soundstages in Louisiana could be supported over the next 10 years. Applications for new soundstages total 32. Clearly, it is unlikely that all of these developments will be supportable in the marketplace.


Supportable and Proposed Stages
Number of Stages
35
30
25
20
15
10
5
0
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Year
New Supportable
New Proposed

Louisiana Industry Growth & Potentially Supportable Soundstage Space

	Current	2007	2008	2009	2010	2011	2012	2013	2014	2015*****	
Growth Rate Assumption*	20%	15%	12%	9%	7%	6%	6%	6%	6%	6%	
Resulting Stage Days**	2,455	2,823	3,162	3,446	3,703	3,925	4,161	4,410	4,675	4,956	
Supportable Stages at											
65% Utilization Rate	10	12	13	15	16	17	18	19	20	21	
Current Stages***	6	6	6	6	6	6	6	6	6	6	
TOTAL IN EACH YEAR											
Additional Supportable Stages	**4**	**6**	**7**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	
New Proposed Development******	**0**	**2**	**12**	**31**	**32**	**32**	**32**	**32**	**32**	**32**	
											Total
LIFT (N.O.)				4							4
Louisiana Film Institute (B.R.)				8							8
Celtic (B.R.)		2	2	2	1						7
Emerald Bayou (New Roads)			1								1
Center Stage (Shreveport)			3								3
Armada (E. Feliciana)				1							1
Studio City (B.R.)			4	4							8

Notes:
* Growth rate assumption is based on an estimated 2006 growth rate of 20% and long term growth rate of 6% by 2011, figure shows incremental decline to stabilization in 2011
** Resulting stage rate assumes 70% of state productions would use soundstage space
*** Estimate includes purpose built, and large, warehouse-type stages that have been in use for production
**** Includes known developments which are currently under consideration for incentives
***** By 2015, this level of activity and supportable stage space assumes Louisiana would spend between $250 and $300 million annually on film tax credits, leveraging in excess of $1 billion in production activity

Source: Louisiana Film and Television Office, Internet Movie Database, LIFT, studio development web sites, and ERA Estimates

Locational Factors

Pulling from previous study in the Louisiana marketplace, and reviewing whether conditions in some areas are improving from previous levels, the following table summarizes a review of five key regional areas. The areas studied were – Orleans/ Jefferson Parish, the North Shore area, Shreveport, Baton Rouge, and Lafayette. General assessments as to each location's ranking with respect to the three critical industry components – infrastructure, labor force, and markets – are shown in the following table.

Locational Considerations

	Orleans/ Jefferson	North Shore	Shreveport	Baton Rouge	Lafayette
Infrastructure					
Airports	Superior	Superior	Fair	Fair	Poor
Hotels	Superior	Fair	Fair	Good	Fair
Land Availability	Poor	Good	Good	Good	Good
Location Opportunities	Superior	Superior	Fair	Fair	Poor
Labor Force					
Number of Workers	Superior	Fair/ Improving	Good	Fair/ Improving	Fair
Depth of Services	Superior	Fair/ Improving	Good	Fair/ Improving	Good
Arts Community	Superior	Superior	Fair	Fair	Poor
Markets					
Media Outlets	Superior	Superior	Fair	Fair	Poor
Special Events	Superior	Poor	Fair	Fair	Poor

Order of Rankings
1 Superior
2 Good
3 Fair
4 Poor

Source: ERA Film Study

Taking all important factors into consideration, the most desirable location for studio and soundstage developments appears to be in the Orleans Parish/ Jefferson Parish/ North Shore area. The combination of infrastructure, labor force, and indigenous sources of market support favors this region. Lafayette is the least desirable area when ranked by these criteria. Shreveport and Baton Rouge are comparable, though Baton Rouge is likely more favorable in the aftermath of Katrina – given the shift in labor and businesses. As the table indicates, several variables in the Baton Rouge area appear to be improving, though the market does not as of yet have much activity.

Individual Development Considerations

When reviewing individual development proposals, a number of considerations are must be had. As noted there have been numerous applications/ proposals for new studio and soundstage development. However, as was also noted previously, not all of this development is likely to be supportable in the near term. By applying some basic criteria, the state should be able to winnow proposals down to those which are best aligned with the interests of the state's economic development goals. ERA segments considerations into three main categories here – alignment with state goals, ability of management team to achieve stated goals, and costs and operational program assessments – each with sub-components to be considered.

Alignment with State Goals

Some programs are better aligned to state goals then others. ERA assumes here that the state's goals are to 1) create jobs throughout the state, 2) increase value added, and 3) enable indigenous film industry activity. Given these basic criteria, some important considerations include, but are not exclusive to:

- Number of similar developments in the geographic region/ area of the state;
- Number of temporary and full time jobs created from program;
- Resulting wages from such jobs, and economic impact;
- Ability of program to bring in additional film industry activity to the state;
- Local ownership and share of capital (Louisiana value added);
- Ancillary economic development benefits (training program, etc.).

Management Team Ability

When reviewing a potential development and operational program, it is important to evaluate the ability of the project team to achieve stated operational goals. There are a number of factors in such an analysis, but some basic factors include:

- Consistency between the development program, stated goals, and market potential;
- Management team's experience and track record in achieving stated goals (in Louisiana and/or elsewhere);
- Solidified agreements and letters of commitment with respect to the operational program.

Costs

Two countervailing influences with respect studio developments are currently at work in the post-Katrina environment. On the one hand capital costs for these types of developments must be low for them to survive over the long run (i.e. over the course of a 30-year bond) as facilities can be full one year and nearly empty the next though debt payments must be maintained no matter the level of activity. On the other hand, the currently available incentives (film and infrastructure credits, roughly a 40% subsidy) combine to create a potent force favoring the highest level of capital expenditure possible. ERA understands these countervailing influences but cautions that these facilities should be viewed within the context of the long-term ability to fill the spaces.

Though soundstage building costs can vary from one development to the next, ERA has reviewed the potential costs of developing such facilities in Louisiana. We reiterate that ERA is not an engineering firm, but include here our general understanding of the magnitude of costs based on our work in the industry elsewhere, as well as in Louisiana.

Stripping out non-building expenses (land, distribution or production fund components, reserves, etc.), ERA's experience is that the hard cost to build studio facilities of this type elsewhere ranges from $110 to $125 per sq. ft. for stages, with blended building costs (including post production, Class A office space, etc.) of $130 to $150 per sq. ft. ERA is aware that the post-Katrina era has brought construction inflation pressures that will increase these figures, buy about 35 percent in some places in the state – based on input from local construction specialists. Thus the order of magnitude for building costs in many places in post-Katrina Louisiana could potentially be in the area of $200 per sq. ft. after accounting for inflation of 30 – 35 percent. Additional development program costs not included in this estimate could be equipment and ancillary service costs.

Music Industry Background

Early Recorded Music History Revisited

In the growth of the music industry, the historic role of the record labels is intricately connected to the evolution of the technology of the audio recording and listening apparatus. With Thomas Edison as founder of General Electric and Alexander Graham Bell creating a "talking machine" in 1877, the late nineteenth century would be culturally marked by movie cameras and phonographs. By 1900, Edison had a million dollars of phonograph sales and Edison, Victor, and Columbia emerged as three dominant record labels. By 1915, a diamond disc player supplanted the original cylinder phonograph format. In the next few years, Charlie Chaplin and friends formed United Artists bringing Hollywood into the sound track recording business and independent record labels issued early jazz and blues recordings.

The 1920's saw the merger of General Electric and AT&T, and the creation of the Radio Corporation of America (RCA). The radio was now a dominant form of musical entertainment and Decca records acquired the Decca Gramophone Company. The 78rmp record became industry standard as EMI developed stereo recording. This decade of acquisition and mergers witnessed American Recording Company (ARC) acquiring Warner Brothers and independent labels, and morphing into the CBS William Paley network. ARC and Decca were the prominent record labels.

Through the 1940's, Bing Crosby was the original investor in Ampex's new "reel to reel" tape recorder. Crosby's friend Les Paul became a musical pioneer with his solid body electric guitar. The West Coast got its first major label, Johnny Mercer's Capitol Records. And within five years, Ahmet Ertegun started Atlantic Records in New York City, the Weiss's tarred Elektra Records in San Francisco, specialty independents included Apollo, Jukebox and Chess. Labels were proliferating and forming what would be the engine of the industry for the next several decades. The domination of the labels accompanied the invention of the 33/ 3 and 45 rmp vinyl microgroove record.

The Label's Golden Age

The decade of the 1950's characterized an explosion of the influence of American musical sounds on popular culture. With the dominance of radio as an entertainment vehicle, the emergence of television and the ever-increasing role of Hollywood studios in the music business, the strongest labels created stars, influenced airplay, programmed television shows, and enabled new American musical styles. With a plethora of musical entertainment options, the role of the record labels help define and coalesce niche markets and distinctive musical sounds. In 1952, Sam Phillip's Sun Records signed Elvis Presley. In 1953, CBS launched Epic records as a jazz and classical music subsidiary. Bill Haley and the Comets recorded "Rock Around the Clock" for Decca Records, the first big Rock and Roll hit tune. A prime example of the cross-pollination amongst the movie, television, and record labels is the Paramount Pictures launch of ABC Records in 1955. The biggest sellers of the label were featured on the American Bandstand Television show, aired on ABC. Host Dick Clark also worked for the label, focusing the attention of the American teenage age market on the "Philly" teen scene.

While Bell labs perfected the transistor radio, Sony launched this portable music mode in 1955. With more music even more accessible, Warner Brothers created a separate wholly owned Warner Brothers Record Company and label. Small independent labels became famous with big stars. Bobby Darrin's "Mack the Knife" was catalyst to Atlantic spin-off Atco. Monument Records signed country stars Willie Nelson and Roy Orbison. Scepter records booked the Shirelles and Chris Blackwell celebrated Jamaican reggae on the Island Records label.

The technological advances of the early 1960's included the introduction of the cassette by Philips and its electronic manufacturing company. With this popular devise, Philips also entered the label business establishing Phonogram – precursor to PolyGram. Berry Gordon, founder of Motown a decade before, now owned three labels, testimony to the popularity of his sound and stars. Soon-to-be giant, MCA records acquired Decca. "I want to hold your hand" marked the Beatles and British conquest of American Tin Pan Alley and soft rock sound and Roll.

The paradigm for consolidation is the Warner Brothers activity. Warner acquired Sumatra's Reprise label in 1963 and was later purchased by Seven Arts. With phenomenal sales and unlimited growth potential ahead, Warner Seven-Arts acquired Atlantic and Elektra records. By 1969, this giant was renamed Warner Communications. Film conglomerate 20th Century Fox formed the label 20th Century Records. The labels that dominated the industry included: CBS, RCA Victor, PolyGram, Capitol, and Warner Brothers. Their influence and power prevailed for the next four decades.

As distribution became a key to financial success, labels Warner, Elecktra and Atlantic formed WEA in 1970. Mentored by Atlantic Records Ahmet Ertegun, the manager of popular act Crosby, Stills & Nash formed Asylum Records in 1971. David Geffen still prevails as a major music mogul merging both Asylum and Electkra with Warners in 1973. Sugar Hills was formed in 1974 becoming the first label devoted to rap music.

Former CBS Records executive Clive Davis brought his influence and talent to Arista Records. RSO Records, acquired by PolyGram in 1975, evidenced the popularity of Disco. The Bee Gees, Michael Jackson's Thriller, and Saturday Night Fever lead the charts.

By 1981, the compact disc created a new product for music listening. Philips and Sony worked together on both the disc as well as the new CD players. Rap grew in popularity amongst all music listeners and Rick Rubin and Russell Simmons created Def Jam. The Seattle sound was captured by Bruce Pavitt and Jonathon Poreman in the 1986 Sub Pop Records label. The major labels continued to restructure alliances. General Electric, in the span of one year, bought RCA Victor and sold it to BMG. Time and Warner merged and entered the music field. Sony purchased Columbia for over $2 billion.

The 1990's saw the cassette eclipse the popularity of CD's and vinyl commanding over 55% of all purchases. In 1992, a music revolution very quietly started as the Moving Pictures Experts Group (MPEG) embraced the World Wide Web by approving MP3 for storage of computer audio files. Business as usual was the continued realignments: PolyGram purchased A&M, EMI purchased Virgin Records, Elecktra bought SubPop, and Nirvana's fame and David Geffen started the new DreamWorks label.

The major starts and sounds of the 90's launched new labels. Madonna created Maverick Records, Rhino Records and American Recording furthered the commercial success of rap. The record breaking and headline making business deal was the MCA story. Matsushita purchased it for $6.6 billion in 1990. In 1996, Seagram's, under Edgar Bronfman, shuffled the label deck by acquiring MCA and forming the Universal Music Group. During the next three years, UMC grew to include PolyGram, Island, Def Jam and Mercury. Geffen owned all of them by the year 2000, and MCA was renamed Geffen.

Dawn of a New Century – Digital Media

The Twenty-first century music world started at the end of the Twentieth century with the Digital Millennium Copyright bill. The technological revolution was the introduction of the portable MP3 player, a product of Diamond Multimedia. The mega-mergers of this new century included Canal+ and Seagram's becoming Vivendi Universal, and AOL merging with Time-Warner. Both were later considered vastly overrated in concept and proved commercially disastrous. However, the size and scope of these media acquisitions and strategies were dwarfed by the exponential growth of the internet. The record labels would never be the same in terms of power, profitability, and cultural influence.

Napster and MP3.com made music available at no cost to consumers, and many took advantage of these new exchange platforms. Suddenly, the music was simultaneously free and easily accessible. The age-old rivalry of the record labels temporarily ceased. The majors bought their way in to their drifting audience. BMG and Warner launched MusicNet. Universal and Sony started PressPlay. BMG even tried to buy Napster which was responsible for helping to cannibalize the traditional music industry structure. The copyright battles were fought by the Recording Industry of America (RIIA). Both Napster as well as individual listeners were being sued for obtaining music illegally on the web. The record labels, traditionally at the forefront of popular culture, were now trying to preserve a position in part of an evolving industry structure. The accessibility of music online altered the notion that owning the stars and owning the labels was a lucrative economic asset.

In 2003, Steve Jobs created the iTunes Music Store. With the iPod as the download tool, movies, TV shows, iPod Games, Podcasts, Audiobooks and all things audio, visual, and musical could be downloaded and customized. By pricing each legal download at just under a dollar (99 cents), the economic landscape of the music industry was dramatically altered. In two years, iTunes Music Store eclipsed the sales of all major music outlets, it outpaced Tower Records and became the seventh most successful American outlet. After selling over one billion songs, Apple secured its primary position in the online music world, and continues to expand its potential in numerous consumer-based distribution methods. With a substantially smaller piece of the pie, the future growth of the record labels became uncertain. Consequently, by 2004 only four major labels survived: Universal, EMI, Warner, and the newly merged Sony/ BMG.

The most far-reaching legal event in the 2003 music world was symbolized by RIAA (Recording Industry Association of America) going after the KaZaa website that offered person-to-person music file swapping. The record labels began suing individual swappers. The full significance and play of the Clinton Digital Millennium Copyright had come to pass. The acronym DRM became a familiar headline word. In fact, DRM is short for Digital Rights Management, a system for protecting the copyright of data circulated via the Internet or other digital media by enabling secure distribution and/ or disabling illegal distribution of the data. Though the technology is still evolving and being perfected, it would enable the owners of content an to continue receiving fees based on usage.

The RIAA represents the collective clout of the music industry's traditional producers and providers. The record companies and movie studios have spent the last several years attempting to thwart creators of file-sharing software, contending they should be held liable for copyright infringement by their users. The file-sharing software developers have largely failed in their arguments that they warn users not to illegally transfer materials and so shouldn't be held responsible for how people use their products.

In 2006, the RIIA and major label interests prevailed in their lawsuits. EDonkey settled its record industry battle for $30 million and agreed to refrain from copying, distributing, or otherwise infringing on copyrighted works. The EDonkey Web site now features a statement, similar to one on the Grokster site, informing visitors that illegal down-loaders can be prosecuted and ominously warning visitors that they aren't anonymous by displaying and claiming to log their IP address. The eDonkey settlement will be paid to Arista Records LLC, Atlantic Recording Corp., Capitol Records Inc., Elektra Entertainment Group Inc., Sony BMG Music Entertainment, and UMG Recordings Inc. This was just one of many RIIA cases.

With the influence of the web, the prevalence of the iPod and the emergence of "broadband" as the multi-purpose technological entertainment provider, the music industry had its own evolving structure. The newly created American Idol Fox Television series created those overnight sensations formerly products of the powerful Hollywood studio and Record label conglomerates, with significant distribution and marketing efforts behind them. Using a Nielsen rating measurement, American Idol drew a greater market share than the Grammy Awards show that featured Madonna and U2.

Selected Industry Products

Much like the film industry, there are a small number of products which are part and parcel of the industry's infrastructure and commercial structure. ERA highlights four primary products here – venues, albums and singles, music writing, and scoring. Generally speaking, each of these products have differing financial arrangements and structures, though the audience or consumer may be the same. To be sure, there are large numbers of other potential products, but they are largely derivative of these four product categories.

- **Venues** are some of the most prominent manifestations of the music industry. Venues have been around as long as music itself. These outlets are the starting point for individual musicians and bands, as they provide income and enable individuals or bands to begin cultivating a following. Another positive function of venues is that they create entertainment product which is desirable to resident and visitor markets alike;
- **Albums & Singles** are other prominent music industry products. They are the most closely associated with the process of sound recording. Though these products remain as industry staples, the process of creation and delivery/ distribution have begun to change rapidly in the last several years. Though labels continue to be central to the creation and distribution of these products, alternative distribution methods (discussed later) provide opportunity for getting such products to market without the assistance of a label;
- **Music Writing** is a less visible music industry product, or otherwise known as "mail in money". Those that write music need not perform it. Indeed, a musician can maintain a livable income writing music that others perform. Individuals simply write music which is then offered for sale to labels and musicians or bands;
- **Scoring** another common, but less visible, industry product is known as scoring. Visual media products typically require a musical score to accompany the visual products. Commercials, films, and television products all typically have accompanying musical scoring which can be done from anywhere. Such a product could dovetail with the current film incentives program in Louisiana.

Venues

Support of venues is typically a local endeavor. These outlets are the starting point for individual musicians and bands, as they provide income and enable individuals or bands to begin cultivating a following. Another positive function of venues is that they create entertainment product which is desirable to resident and visitor markets alike. Key elements of the financial feasibility and success of venues are 1) size of the local, resident population, 2) number of young adults as a proportion of the nearly population (college and university students, etc.), and 3) the size of the visitor base. For these reasons, venues thrive in places that have two or more combinations of such market elements (New York has all three, Seattle and Austin have two of the three market elements). In general, the interaction of these three sources of market support formulate the base metric by which venues can survive and thrive.

These broader market elements of a locally-based marketplace for venues is largely out of the control of local music industry. However, there are a number of steps at the local level which can be taken to make venues more accessible to these three potential markets. In some places, specific corridors for venues are created which have separate governing and commercial zoning rules relating to the needs of live performance venues. As is almost always the case in the music industry, marketing and promotion to the three outlined markets is a key element of success.

Albums and Singles

Albums and singles are perhaps the largest music industry product in a business sense. The music industry in general is still strongly influenced by music labels. Labels by and large have crafted the funding and distribution mechanisms for music which are still used, as well as the 'category marketing' system to which music is assigned. For this reason the 'pirating' of copyrighted content was especially threatening to the label's business model, and inspired a concerted effort by the industry to prevent circumvention of the normal process of distribution. Increasingly, however, labels by necessity are adapting to new distribution methods, mainly as a result of the consumer popularity of new listening alternatives and distribution methods.

New distribution techniques, as well as lower costs and more available sound recording equipment, enable the possibility of commercial success for these products outside of the typical label-centric process. To be sure, labels will continue to maintain a dominant presence in the industry, but technological changes enable a more scalable business model allowing for commercial success without the support of a label.

A key function of the business process of selling albums and singles sales, however, will continue to be marketing and promotion. Regardless of whether these products are distributed through label distribution methods or independent distribution platforms, a well promoted platform would be needed. Put simply, it is not enough to create a web site or alternative distribution platform, people must also know that such a platform exists, and what the value proposition is for a potential consumer.

Music Writing

Songwriting can be a lucrative profession for some individuals. A songwriter may make money in a variety of ways. One may receive revenue from CD sales, airtime on radio stations, song use for T.V sitcoms, movies, and other functions.

The right to perform one's work is given in the copyright law. This is a significant source of income for songwriters and publishers. Generally organizations negotiate license-fee agreements with the users of music (radio and T.V. stations, cable stations, concert halls, wired music services, airtimes, websites, etc.) which give the user the right to perform the music and lyrics of any member of these organizations. Of the 3 billion dollars generated worldwide each year, three U.S. organizations account for approximately a billion in collections the American Society of Composer, Authors and Publishers (ASCAP) account for 55% of the total.

The performing right is one of the most important rights given to writers through copyright laws. It is based on the concept that a writers creation is a property right and that a license must be acquired by any user of music in order for that user to perform a copyrighted musical work.

Writers are compensated in a variety of different ways. However, the most common way is through the per song statutory mechanical royalty structure. The current U.S. mechanical rate (known as the statutory rate) is 8.5 cents per song. In terms of album sales the 8.5 cents royalty would be multiplied by the number of songs on the album. Mechanical royalties are paid by the record company to the music publisher or to a representative who then shares them with the writer.

There are however certain instances when this compensation structure in not used. For instance, when the writer is the recording artist, royalty figures may be less than those mentioned above. The mechanical royalty rate is reduced when the recording artist or producer has written or co-written a song, has ownership or control of a song, or has any interest in any composition on the album or single. These compositions are called *controlled compositions*. Instead of 8.5 cents a writer would receive something closer to 6 cents. There are many ways for writers to be compensated, but the majority of the time they are compensated by the mechanical rate or by a controlled composition structure.

Scoring

Film scoring is one of three ways that music and sound can be added to films and motion pictures, and it is closely aligned with the State's goal of attracting and retaining film-related enterprise. Motion picture music falls in to three categories: underscore, the pre-existing song or song and original master recording, and the song written specifically for the film. Using one of the three, a producer attempts to establish a mood, elicit emotions, and create interest in the movie by using music. Although there are three different ways to add music to films, the focus of this section is to examine music scoring.

The underscore is the music that makes up the majority of music used in film. It is the music one hears under dialogue, in scene changes, romantic scenes, and throughout other sections of the picture. Scoring can be done by an orchestra of 50 persons, a small ensemble, a single instrument, or synthesizer. Due to certain advancements in media technology, scoring for U.S. films is being done in foreign countries and further away from the actual production itself, although in some cases producers require that the scorer work on in the studio.

Most contracts that a scorer signs with a major studio or independent production company is standard for almost all composers. Factors affecting whether or not the contract is standard or non- standard is settled upon the experience and success of the composer, the size of the film or music budget, and through negotiation. The contract specifies the types of service to be done by the composer, the time the composers work ought to be completed, the fee for the services, transportation and living expenses, the ownership of the copyright, and the handling of performing rights payments.

The scorer is responsible for all of the underscore for the film as well as for arranging and orchestrating the score, to conduct an orchestra to record the work, to produce, supervise, and edit the recording of the score, and to deliver the final edited and mixed master recording in accordance with the film's postproduction schedule. Most composers are brought into the film shortly before postproduction, and the time to compose the score is generally short – usually about 4-12 weeks.

The composing fees paid to the scorer vary depending on a number of factors. Composing fees can range from $20,000 for a lower-budget film in to excess of $1,000,000 for a big-budget studio release using the services of a well-known composer.

Music Industry Development

In order to better understand the growth and evolution of the music industry in specific geographical areas, ERA has surveyed five cities. ERA uses cities as growth in this industry typically takes place in such units (it is the appropriate scale), and there are few state-wide efforts to grow the industry which could be reviewed. In general, the development pattern of the industry in selected cities provides insights and implications for potentially growing the industry on a larger scale.

The growth of the music industry in key American cities is a complex study of the interconnections of individual artistic talent, social and cultural mores, and the emergence of a regional musical "sound". As the cluster of musical talent increases it becomes the catalyst to successful record labels, the building of strong cultural venues and performances centers, the creation of festivals and music oriented attractions, and the support and business infrastructure necessary to carrying out the functions of the industry. With this aggregate in place, we can note the well-publicized formation of public/ private partnerships and governmental agencies to help foster individual artists, sustain industry endeavors, and create a centralized resource center to increase profitability.

Selected City Profiles

New York, Los Angeles, Nashville, Seattle, and Austin are five American cities with distinctive music-based industries. The scope of musical influence in Western culture is so broad reaching and pervasive that many of these musical centers have multiple musical sounds ranging from opera to rap. For the purpose of evaluating key ingredients that underpin successful music business centers, we can clearly trace the broadcast oriented endeavors of Nashville and Austin and the record label sales influence of Seattle. Detailed information relating specifically to each city can be found in the appendix of this report.

A detailed review of music industries the selected cities reveals that there are several commonalities between the cities. What is more, by classifying cities along the lines of those which have significant national or international industry presence (New York, Los Angeles, and Nashville), and those that have a more regional market orientation (Austin, and Seattle) similarities are revealed. The following table contains a summary of the main points of similarities and differentiation between the selected cities.

Music Industry Summary Table - Selected Cities

	New York	Los Angeles	Nashville	Austin	Seattle
Notable State Government Support	X			X	
Notable Local Government Support	X	X		X	X
Signature Event or Attraction	X	X	X	X	X
Venue Focus				X	X
National Label/ Industry Presence	X	X	X		
Local Labels	X	X	X	X	X
Champion	MANY	MANY	MANY	SOME	A FEW
Distinctive Sound	X	X	X	X	X
Attract	NTL./ INTL.	NTL./ INTL.	NTL/ REGNL	REGNL	REGNL

Source: Various Source, and ERA

A few observations are noteworthy regarding the development mix within these cities. First, all have one or several signature events or attractions. These can include large performance and training facilities, and/ or events which have been successfully parlayed into a more prominent presence in the music industry. An example of the latter is Austin's successful development of the *South by Southwest* event into a more significant industry development platform, extending the city's reach into national and international talent and industry professionals.

Second, cities which draw talent at a national or international level include New York, Los Angeles, and Nashville. These cities are marked by high levels of national music industry presence, as well as numerous, well-publicized "champions" of the industry in these areas. For these cities, courtship of the industry is a more passive endeavor, as the industry already has a significant local presence. For Austin and Seattle the pursuit of music industry development has been, by necessity, a more aggressive effort. In Austin, the city was able to successfully position itself as a "live music capital", and Seattle's pursuit of the music industry has been a combination of local government efforts in support of local venues, a noteworthy industry champion (Paul Allen), and a small number of savvy, locally based labels. Both Austin and Seattle had strategies emphasizing local venues. And in both cases, the cities were able to successfully establish themselves as regional industry draws, with a noteworthy national/ international reputation.

Third, in Austin and Seattle the combination of private-sector industry champions, and local and/ or state government support for establishing a local music industry were pivotal. The founders and supporters of South by Southwest worked closely with city officials (and later state officials) to craft a strategy for establishing the local industry. And in Seattle, the Mayor's office worked to support venues, while Paul Allen and a small number of local labels (private sector champions) worked towards augmenting the local music offerings and enabling a more commercially viable industry structure.

Fourth, distinctive sound is an obvious element of the industry in all five cities. For New York and Los Angeles, the local sound was, basically, the national sound as these two cities were (are) centers of gravity for industry talent. In Nashville, it was originally country music, Austin had a unique combination of rock and country, and in Seattle it was originally Jazz (1920's) and later grunge (1990's). All found ways to take a distinctive sound, cultivate a following, and begin establishing an industry infrastructure around such a following.

State Music Programs

ERA has reviewed four state-level programs geared towards supporting the music industry in their respective states. The programs are in place in Texas, Georgia, New York, and Oklahoma. It is important to note the Louisiana music program is significantly more aggressive then state programs in other states. Overall, state-level music programs appear modest, and are typically geared towards an exclusion of the state, and/ or local sales and use tax. These programs are most often run as sister programs to a state's film program.

Texas

The Texas Film Office has been in place since the early 90's. It was founded with the goal of "promoting the music industry in the state by informing members of the industry and the public about the resources available in the state for music production".

The Texas Film Office is state funded and a clearinghouse for information and business promotion. The state prides itself on the Texas Music Directory, a 448-page directory that makes networking easier for industry professionals. The state researches its music industry and publishes its research information online for easy access.

Texas also has a music incentive program. It is a Sales and Use Exemption. The incentive has two primary sales and use tax exemptions:

- Most items purchased, used, rented or repaired during the studio master recording process are exempt from the 6.25 percent sales and use tax, as well as local sales and use taxes.

- A producer may claim 100% exemption from sate and local sales and use taxes on qualifying machinery and equipment purchased, repaired, leased, or rented and used in the production of audio recording master. If the equipment is exempt, any part, repair, or maintenance labor is also exempt.

Georgia

The size of Atlanta's music market and access to talent coupled with the state's incentive program creates an environment for which a music production company can thrive. Georgia offers the following incentive programs for music production companies. It should be noted that Georgia does not have an incentive program set up for recording artist. The programs mentioned are related to production in music, such as producing a music video.

- **The Georgia Entertainment Industry Investment Act**: This Act grants credit to qualified productions. It is available to traditional motion picture projects such as feature films, television series, commercials, and music videos.

- **The Georgia Sales and Use Exemption**: Offers saving for film, video, and music production companies working in Georgia. Companies can get immediate point-of-purchase sales tax exemption of up to 8% on material and service purchases.

New York

New York music industry has produced great amount of income for the state without the use of music incentives or tax breaks. New York is arguably the music capital of the world and thus, there is relatively little state support for the industry. However, New York does offer performing grants and assistance to aspiring musicians though an agency known as the New York State Council of Arts (NYSCA).

The New York State Council of Arts began making grants in 1967 with a purpose to "foster the creation, production, performance, and presentation of musical events of outstanding professional quality". The program supports public performance, music recordings, radio production, and projects that explore new technology in music.

NYSCA awards are granted to nonprofit organizations incorporated in New York State, Indian Tribes, and to units of local governments. Individuals and unincorporated groups may only apply through an eligible nonprofit organization. These grants are seldom made for under $2,500, and the council rarely funds the full amount of the requested amount. The normally grant less than 50% of the projects budget.

Oklahoma

The State of Oklahoma created the Oklahoma Film and Music Office in 1979 to foster growth within the film, television, video, and music industries within the state, and to simultaneously attract these industries to the state. Oklahoma also offers services such as evaluation of locations, liaison service for productions, and assistance from the federal, state, and local officials.

Oklahoma offers a Tax credit for the construction of Oklahoma Film & Music Facilities. Companies that build facilities in Oklahoma are offered a tax credit of 10% for the construction of a project costing $500,000+ and 25% for projects costing over a $1,000,000. The credit cannot exceed Oklahoma taxpayers' liability and the credit is neither non-assignable nor transferable. This incentive is called the Construction Tax Credit.

Another incentive offered by Oklahoma to enhance music activity in the state is the Reinvestment Tax Credit. This credit gives tax payers who invests in music projects produced in Oklahoma a 25% income tax credit on profits made when those profits are reinvested in other music projects.

Summary

The music industry is an industry in transition. This is a time when a well-organized approach by the State of Louisiana, might have a significant affect on how that industry reshapes itself. The key components of the change are the possible emergence of a more versatile communications and distributions marketplace in the Internet, the possible re-emergence of audiences appreciating in a distinctive music scene and sounds, the increase in the number of outlets which can promote music and might be willing to step outside of music label category marketing, and changes in the cost and scale of the production and distribution of music products. On a small scale many of these have been redefined with Jazz Fest and other regional music successes.

Games Industry

Recently, the State of Louisiana enacted incentives geared towards developers of digital media and video game products. As this is still a relatively young, developing industry segment, there is not significant industry-specific data available. In this section, ERA reviews available data related to this market and its trends. Primary sources of data used are from the Entertainment Software Association and a study commissioned in 2005 by The Chamber of Greater Baton Rouge.

When using the terms “digital media” and “video game development”, it is important to distinguish between the two. Digital media is a technological process which has broad ramifications in the ways that content is created, and delivered to end users. The video game is one subset of this much larger digital media market.

Industry Overview

The video game industry is, relative to other industries, comparatively young. Experimentation with the underlying technology involved in video games (including arcade games) began to evolve significantly in the 1960’s, with the first video game patent applied for by Ralph Baer in 1968. At this point and throughout the 1970’s game developers were still struggling with the underlying technology of video games.

Business relating to video games began to take root in the 1970’s and grow and flourish throughout the 1980’s. The companies involved in developing and selling games and game systems began to master the first-generation technology of video games, and establish an early stage business model around their programs and product offerings. In the early 1980’s Atari established itself as the industry’s front-running firm, and towards the late 1980’s Nintendo eclipsed Atari and Sega began moving into the video game market more aggressively. Video game unit and cartridge sales grew from $400 million annually in 1979 to annual sales of roughly $3.4 billion in 1989 – a roughly 10-fold increase.

The 1990’s saw the first generation (Generation Y) which was able to conveniently and affordably play video games from their homes, mostly using home television monitors. This trend-change would lay the foundation for industry expansion throughout the late 1990’s and into the early 2000’s, as this group gained disposable income and continued its propensity towards video game-playing. Improvements in clarity, complexity, and quality of video game offerings boost sales and popularity of video game systems characterized the industry throughout the 1990’s and into the 2000’s. In the last several years increasing focus by developers and game companies has been given to mobile and wireless technology. Annual sales from 1989 to 1999 roughly doubled from $3.4 billion annually to $7 billion annually.

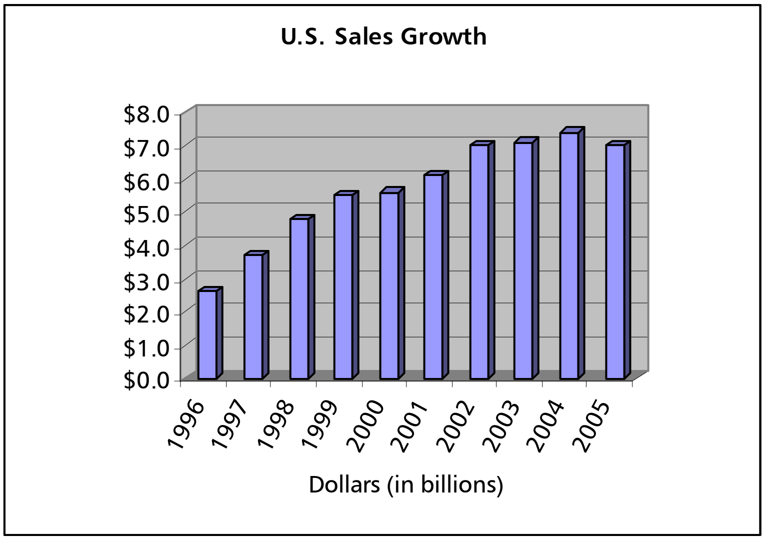
The table on the following page shows a more detailed timeline of the video game industry’s development over the last several decades.

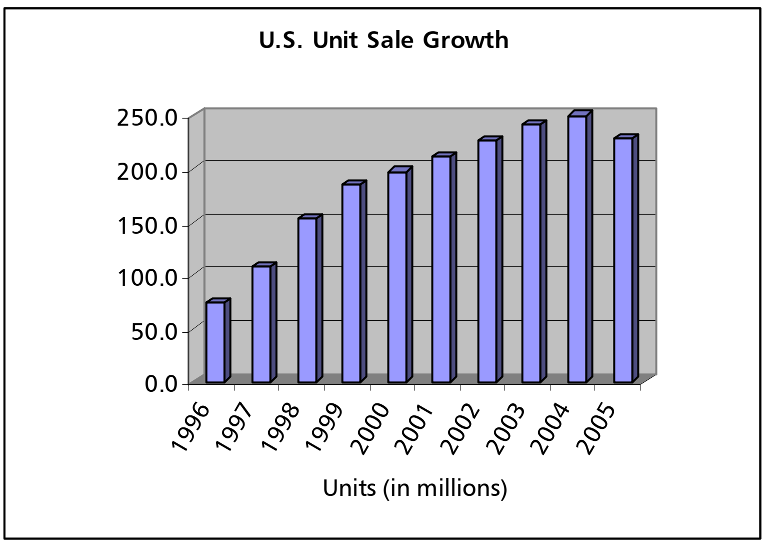
Video Game Industry - Development Timeline

Year	Event(s)
1960's	Early development of the *Spacewar* game by Steve Russell, Peter Samson, Dan Edwards, and J. Graetz. Ralph Baer (and Sanders Associates) develops the concept and technology for the first game using a standard home television monitor. In 1968 he applies for the patent on his invention of the television video game system.
1970's	Sanders Associates makes its first licensing agreement for the TV video game, with RCA. Sanders Associates completes about a dozen prototype television video game systems, which Magnavox shows to its distributors. Nolan Bushnell forms the Atari Japan subsidiary company in Japan. Magnavox begins shipping Odyssey home video game systems to distributors. The system is test-marketed in 25 cities, with 9000 units. Atari ships the *Pong* stand-alone coin-operated video game. Atari releases a home television version of its *Pong* video game (*100,000 units sold*). Shipments of Magnavox Odyssey video game systems during the year: 100,000. Coin operated video games establish themselves in the U.S. marketplace. In Japan, Nintendo unveils the Color TV Game 6 video game system (1m snits sold). New market entrants - Milton Bradley, APF Electronics, Coleco Industries, and others.
1979	Annual coin operated video game sales reach $1m, sales of U.S. game systems and cartridges reach $400m.
1980's	U.S. Federal Appeals Court for the Fifth Circuit in New Orleans rules that playing arcade video games is an activity protected under the First Amendment of the U.S. Constitution. (Was previously banned in a Texas municipality.) Continued new entrants into the marketplace, and significant growth. Atari assumes market share dominance throughout the early 1980's. Various municipal ordinance around the country are passed with the intention of restricting use and placement of video and arcade games. Throughout the 1980's there is a rapid growth in the number of game offerings. In the mid-to-late 1980's the industry is characterized by joint ventures and partnerships, as firms attempt to solidify their positions in the marketplace. Nintendo extends it influence and position in the video game market with new offerings. Products include the NES (Nintendo Entertainment System) and a hand-held Game Boy mobile video game unit. Sega Enterprises introduces the Genesis home video game system in the U.S.
1989	Annual video game system and cartridge sales in the U.S.: $3.4 billion.
1990's	Throughout the decade, technological advances in clarity, complexity, and quality of video game offerings boost sales and popularity of video game systems - especially with generation Y. Nintendo, Sony, Sega establish themselves as vanguards of the video game industry. In the late 1990's Microsoft begins to experiment with video game technology.
1999	Annual industry sales approach $7 billion in the U.S.
2000 - Current	In 2001 Microsoft launches the Xbox game system in the U.S. Numerous variations of Sony Playstation, Nintendo, and Nintendo Game Boy are released in the marketplace. Increasingly product lines are extending into mobile and wireless technologies.

Source: Ken Polsson *Chronology of Video Game Systems*, and ERA

Overall, the video game market has experienced relatively high growth in the last several years, as game-playing became more common among younger adults (especially males). The following table and graphs show the Entertainment Software Association's numbers relating to sales and unit volume in the industry over the last ten years. The figures are for major companies' sales in the U.S. market over the period.





U.S. Video Game Sales and Unit Growth

New Sales	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	CAGR
Dollars (in billions)	$2.6	$3.7	$4.8	$5.5	$5.6	$6.1	$7.0	$7.1	$7.4	$7.0	12%
Units (in millions)	74.1	108.4	153.0	185.2	197.1	211.0	226.4	241.4	250.0	228.5	13%

Source: Entertainment Software Association, and ERA

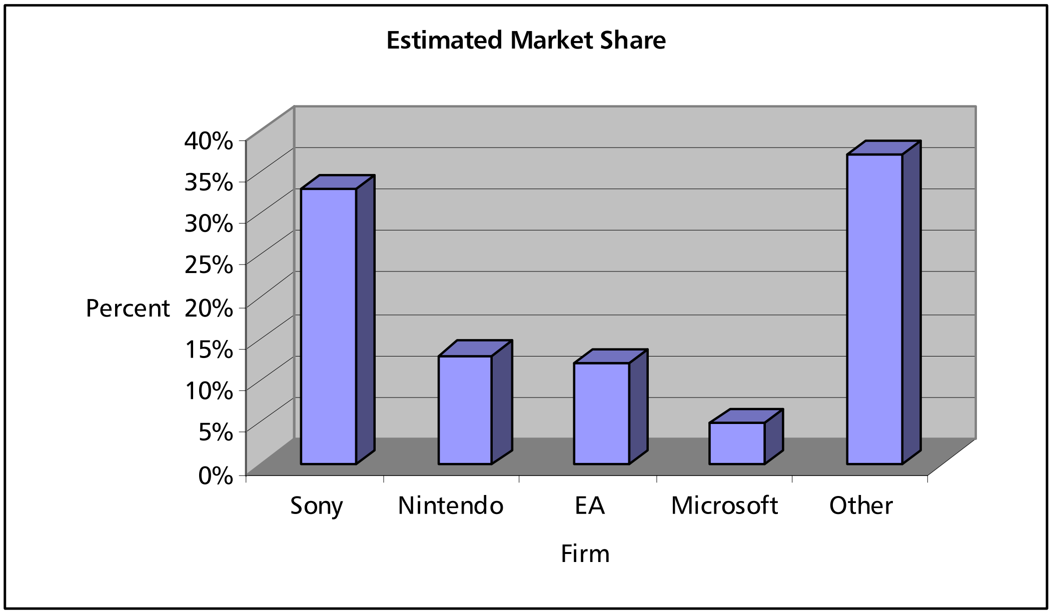
Since 1996, U.S. unit and sale growth of video games and consuls averaged 13 and 12 percent per year, respectively. U.S. dollar sales by the largest companies rose from just under $3 billion in 1996 to roughly $7 billion in 2005. U.S. unit sale growth rose from around 75 million to 230 million over the same time period. Growth has reached a plateau in recent years, however. The slightly higher growth in unit versus dollar sale growth implies slightly higher prices per unit in the industry.

Estimates of the global marketplace sales in the video game industry are estimated at slightly more that $30 billion according to the study commissioned by The Chamber of Greater Baton Rouge. This would imply a total U.S. market share of roughly 25 percent of the global industry – which is consistent with the U.S. economy's share of the global economy. Increasingly, it is expected that relatively higher rates of growth in the industry will occur in East Asia and particularly India, as an emerging middle class consumer is expected to fuel growth for the industry. Applying a longer term growth rate for industry sales and unit growth, implies a domestic U.S. video game market growth of roughly $1 billion per year over the next several years. Software developer wages are higher than average wages for most areas of the economy. Various estimates peg the annual salary for a developer in this industry at roughly $70,000 per year. As with other knowledge-based industries, annual wages are comparatively higher than average wages across the economy.

When reviewing the digital media industry, it is important to distinguish between publishers and developers. Publishers are primarily involved in deal making – securing deals between platforms (consoles) and developers, contracts, and dispersal of funds. Developers are primarily responsible for the actual development of games, including all elements of the process needed for creating a functioning game – software development, programmers, game designers, artists, etc. Developers are central to the process of creating the functional video game product.

Importantly, developer and publisher processes need not be in the same physical location. One key finding of a survey conducted for The Chamber of Greater Baton Rouge found that professionals in the video game industry largely agreed that development could be separated geographically from publishing. Another area of mutual agreement was that a primary need for the creation of a video game industry requires a relatively high concentration of related industry talent. Thus specialized training (perhaps at a university or specialized certification level) relating to industry functions is viewed as an important prerequisite to an ongoing industry development in this field.

The current structure of the industry is one which is highly fractional at this point in time. There is one firm – Sony – with a high market share (33%) and more than a dozen which vie for much smaller market shares. It is clear from the figures shown next that the industry has not experienced heavy levels of consolidation and concentration – 3 or so companies with greater than 90 market share – which is more characteristic of mature industry structures. What the figures also illustrate is the likelihood of relatively high levels of entrepreneurial involvement which is more characteristic of evolving, high-growth marketplaces. Market share estimates are shown in the following graph and table.



Estimated Market Share		
Sony	33%	
Nintendo	13%	
EA	12%	
Microsoft	5%	
Other	37%	
	Other Includes	
	Atari	4%
	THQ	4%
	Activision	3%
	Take-Two	3%
	Konami	3%
	Namco	2%
	Ubi Soft	2%
	Sega	2%
	Other	14%

Source: Euromonitor

Relatively high levels of entrepreneurship is a finding consistent with the study commissioned by The Chamber of Greater Baton Rouge. Entrepreneurial-led industries have their own separate development obstacles as compared to mature industries. Such markets are 1) highly fractional (many firms competing for a rapidly changing market), 2) these smaller, individual firms have difficulty accessing important growth investment (capital formation), and 3) relatively abundant talent is an important catalyst to growth.

State and Regional Programs

A small number of states or regional governments have enacted policies to support the development of the digital, interactive, or video game industry in their territories. This subsection reviews four programs in place in the U.S. and one in Canada – those of Georgia, Florida, North Carolina, Wisconsin, and Ontario. Louisiana's program, by comparison, is somewhat more aggressive in developing the games industry. The following is an overview of such programs.

Georgia

Georgia initially revealed plans for their incentive program in November 2006, and by April the incentive program was enacted. The incentive takes the form of a credit against Georgia income taxes. Georgia's program is similar to the program set up in Louisiana, though comparatively the Georgia program is less aggressive. Some highlights of their program include

- Limited tax liability can be transferred as long as the transferor recoups at least $0.60 on the dollar;
- Qualifies expenditures on editing, animation, coding, special effects, and other costs generated when creating a product which is to be distributed outside of Georgia;
- Qualifying companies earn a state tax credit of 9% of the base investment for production in the state;
- Additional credit for 3% of the aggregate of all Georgia residents employed by the project;
- Additional 3% for companies who invest in designated Tier 1 and Tier 2 counties.

Florida

Florida offers cash reimbursement for companies of up to 15% on the total Florida budget of a filmed entertainment program that spends at least $850,000 in qualified expenditures. The maximum reimbursement that may be given is $2 million dollars. Projects available for this incentive include films, videos, television shows, and digital media effect (VFX) production. The production costs that are considered "Qualified Expenditures" are:

- Wages, Salaries, and other forms of compensation for crew, performers, actor, etc.;
- Expenditures on good and services including: sound stages, sound recordings, set, and digital effects.

Digital Media Companies have an incentive which states that a qualified digital media effects company which furnishes digital material to filmed entertainment may be eligible for a rebate of 5% of it annual gross revenue, with the stipulation that it can't exceed $100,000.

North Carolina

North Carolina had also been in the process of instituting an incentive bill for game development. One stipulation is that companies cannot claim tax credits on the cost of making games that fall under the states obscenity statues. To qualify for this tax credit companies must be making product distributed on electronic media that "contains a computer-controlled universe with which users may interact in order to achieve a goal" – meaning, interactive media and games. There also needs to be a substantial amount of text, sound, fixed images, animated images, and 3D geometry. The incentive would give a 15% tax credit for money spent in-state on equipment and labor costs. This bill recently failed to move beyond the Finance Committee of the North Carolina House.

Wisconsin

Wisconsin legislators have been proposing competitive tax breaks and other business incentives in order to attract game developers and other creative industries to the state. A tax incentive packaged was recently put together for the benefit of the film, television, commercial, and video game industries. The bill creates:

- A refundable tax credit of 25% of direct production expenditures for feature films, television movies, episodic and mini-series television, video games and broadcast advertising production;
- A 15% state income tax credit for film, television, and electronic game production businesses that make a capital investment by starting a business in Wisconsin.

Ontario

Ontario's entertainment industry is the third largest in the world behind New York and California. Ontario expects that video games will be the biggest worldwide growth market in entertainment over the next 4 years and because of this, they have boosted its Interactive Digital Media Tax Credit to 30% for small business in the provincial budget.

Interactive Media Conclusions

Some analysts predict that "digital convergence" will accelerate the growth of the games industry. The process of digital convergence refers to a process enabled by technological change. Historically, information required 'parallel' technologies for distribution and manipulation (separate phone, television, video game, computer systems, etc.). With new technology, this is no longer the case as it is possible to access multiple uses on a common platform or infrastructure. Thus, digital technology has created a 'convergence' of various information and media systems.

Though this process will undoubtedly create opportunities in various fields of information technology and media, it is, as of yet, unclear how much additional demand will be created for video games specifically. What video game technology does offer, is a foothold in the processes of interactive media technology which should benefit significantly from digital convergence. Increasingly it is expected that interactivity – whereby inputs, or signals from a user evoke some technological response from a program – will be a central technological function. And the video game industry is one area where it is possible to gain a foothold in such a market.

Appendix I – Louisiana Film Activity

Year	Title	Type
1998		
	Primary Colors	Feature
	The Secret Kingdom	Low Bud. Feature
1999		
	Inspector Gadget	Feature
	Double Jeopardy	Feature
	Crazy in Alabama	Low Bud. Feature
	Bad City Blues	
2000		
	Dracula 2000	Low Bud. Feature
2001		
	Monster's Ball	Low Bud. Feature
	Surface Calm (short)	Low Bud. Feature
	Going to California	TV Series
2002		
	Trespassing/ Evil Remains	Low Bud. Feature
	The Badge	Low Bud. Feature
	The Scoundrel's Wife	Low Bud. Feature
	Love Liza	Low Bud. Feature
	Crossroads	Low Bud. Feature
	Baby	Music Video
	LeAnn Rimes	Music Video
	Lincoln Navigator	Commercial
2003		
	Ray	Feature
	Mr. 3000	Feature
	Runaway Jury	Feature
	The Haunted Mansion	Feature
	A Love Song for Bobby Long	Low Bud. Feature
	Waiting	Low Bud. Feature
	Because of Winn-Dixie	Low Bud. Feature
	Home of Phobia aka Freshman Year	Low Bud. Feature
	Growing Pains Reunion 2	MOW
	A Twisted Trust	MOW
	Flood of Fear	MOW
	Music Videos (5 videos)	Music Video
	Deacon John's Jump Blues	Documentary
	Travel Channel	Television/Mardi Gras coverage
	Sky Italia Launch Campaign	Commercial
2004		
	Skeleton Key	Feature
	Last Holiday	Feature
	Glory Road	Feature
	Dukes of Hazard	Feature
	Dreamer	Feature
	Backwater	Low Bud. Feature
	Pool Hall Prophets	Low Bud. Feature
	Five Fingers	Low Bud. Feature

Infidelity	MOW
Stuck in Suburbs	MOW
Pop Rocks	MOW
Searching for David's Heart	MOW
Search for the World's Greatest Kid Magician	MOW
Miracle Run	MOW
Brooke Ellison	MOW
Frankenstein	MOW
Dead Will Tell	MOW
Thief	MOW
Canal Street Brothel	MOW
Heartless	MOW
Odd Girl Out	MOW
Jessica Simpson	Music Video
Payless Commercial	Commercial
Malachance	
Soldiers Don't Cry	

2005

All the King's Men	Feature
The Reaping	Feature
Failure to Launch	Feature
Big Momma's House 2	Feature
Fantastic Four	Feature
Roadhouse 2	Low Bud. Feature
Factory Girl	Low Bud. Feature
Bug	Low Bud. Feature
Little Chenier (Bayou)	Low Bud. Feature
Local Color	Low Bud. Feature
Retirement	Low Bud. Feature
Stay Alive	Low Bud. Feature
Venom	Low Bud. Feature
For One Night	MOW
Pizza Wars	MOW
Elvis	MOW
Faith of my Fathers	MOW
Campus Confidential	MOW
Locusts	MOW
Vampire Bats	MOW
Snow Wonder	MOW
Oil Storm	MOW
The Last Time	MOW
Scarlett	TV Pilot
Shooting Gallery	Video
Call to Fly	Video
Voodoo Music Fest	Music Festival Coverage
Lubu	
Getting Lucky	

2006*

Click	Feature
Aquamarine	Feature
Deja Vu	Feature
Black Water Transit	Feature
Deadly Exchange	Feature
Premonition	Low Bud. Feature
PDR	Low Bud. Feature

	Mr. Brooks	Low Bud. Feature
	Deal	Low Bud. Feature
	Just My Luck	Low Bud. Feature
	Microwave Park	Low Bud. Feature
	The Guardian	Low Bud. Feature
	Basketcase	Low Bud. Feature
	Downloading Nancy	Low Bud. Feature
	Frail	Low Bud. Feature
	Georgia Heat	Low Bud. Feature
	Jekyll and Hyde	Low Bud. Feature
	Merchant of Venice	Low Bud. Feature
	Monkeytrail	Low Bud. Feature
	Prince of Pistols	Low Bud. Feature
	Season Before Spring	Low Bud. Feature
	Shame On You	Low Bud. Feature
	Sinners & Saints	Low Bud. Feature
	The Third Eye	Low Bud. Feature
	Tuscaloosa	Low Bud. Feature
	Yellow Handkerchief	Low Bud. Feature
	Low Life	MOW
	The Year Without Santa	MOW
	Initiation of Sarah	MOW
	The Thing	MOW
	Perfect Day	MOW
	Not Like Everyone Else	MOW
	Match Race/ Ruffian	MOW
	Life is Not a Fairytale	MOW
	Hidden Palms	TV (7episodes)
	Travelers	TV Pilot
	The Serious Business of Happiness	Documentary
	Solstice	
	Pride	
2007+**		
	Emperor	Feature
	Sweet Dreams	Low Bud. Feature
	Fantasy Land	Low Bud. Feature
	Femrylders Wolves	Low Bud. Feature
	Raisin in the Sun	MOW
	The Dragon Slayer	
	Texas Lullaby	
	The American Standards	
	Til Death	
	The Prom	

Source: Louisiana Film and Television Office, Internet Movie Database, LIFT, and ERA

* To Date

** Prospective

Appendix II – Other Film Policies by Country

United States

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

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

At present, the most common types of incentive programs to attract film production in the U.S. are programs such as sales tax rebates on equipment used during the course of production, hotel tax rebates on stays of 30 days or more, or fee-free permitting on public lands. Some of the more innovative incentives, including special grants, financing sources, and special training programs that currently exist or have been used in the U.S.

Federal Incentives

As mentioned, the U.S. is currently one of the only countries in the world that does not have an industrial policy for filmmaking. A petition asking the federal government to impose countervailing tariffs on U.S. films produced in Canada with Canadian government subsidies was recently withdrawn. The petition alleged that the Canadian government was engaged in unfair trade practices by using tax credits that provide substantial cost breaks to productions that film in Canada and employ Canadian crew members. The Film and Television Action Committee, which submitted the petition to the Commerce Department, proposed to fine companies an amount equal to the subsidies before the film could be released in the U.S.

Existing Film Production Programs/ Services

The few existing film production programs in the U.S. are aimed at independent film production as follows. As discussed previously in the report, independent feature films have become an increasingly large portion of the total number of features released in the U.S. each year.

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

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

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

Small Business Administration Loan Program

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

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

Europe

Various countries in Europe have historically had strong, local film production industries. Cultural industries in Europe such as film production are considered to play a vital cultural and social role. As such, Europe has strong industrial policies in place to promote this sector at both the regional and pan-European levels.

In 1993 the negotiations on the Uruguay round of the General Agreement on Tariffs and Trades (GATT) were stalled over the protection of the European cinema market from Hollywood competition. In 1999, U.S. films accounted for 70 percent of European box office admissions. Until recently, most European governments had strict screen quotas requiring a certain amount of EU product be screened for every non-EU product. The government has agreed to phase out quotas over the next several years. Spain is one of the last governments in Europe to end these quotas.

It should be noted that television broadcasters play an important role in both television <u>and</u> film production. For instance, in the UK during the 1980s, the fourth British terrestrial channel, Channel 4, began investing directly in feature film production by commissioning films that were given a theatrical "window" before being shown on television. The company financed an estimated 15 films annually.

MEDIA Plus Program

The MEDIA Plus program is a pan-European audiovisual policy. The MEDIA Plus Development program was designed to improve the competitiveness of businesses in the European Union, in particular small- and medium-sized companies, and to support the transnational movement of European works to promote "linguistic and cultural diversity" in Europe.

Eurimages

Founded by the Council of Europe, Eurimages provides production finance for European co-productions.

Europe represents a group of individual markets, each of which is in a different stage of development. The following describes policies and state of the film production sector in Europe's leading film production countries.

Ireland

Local Production

Irish feature film production traditionally consists of low- to very-low-budget productions or European co-productions. The box office share of local product in Ireland is very small, and the number of "Irish" films has decreased dramatically over the past year and a half from between an average of 6 to 9 in recent years to a total of 2 or 3. To combat this matter, the Irish Film Board, The Arts Council, Enterprise Ireland, and the Northern Ireland Film Commission recently commissioned a study to support the development of an art-house cinema chain that would be devoted to Irish film product.

The Irish government has sought to build the film and television sector versus acting simply as a source of operational aid. The Irish Film Board, Screen Commission of Ireland, Screen Training Ireland, Film Makers Ireland (FMI) and Enterprise Ireland, all provide a range of development and export opportunities to Irish companies.

In response to poor performance of and lack of new Irish film projects, the Strategic Review Group issued a report entitled *Strategic Development of the Irish Film and Television Industry 2000-2010* (referred to as the "Kilkenny Report") to provide a strategic review of Ireland's film and television industry. Among the Group's recommendations were:

- The continued existence of the Section 481 incentives were essential to the continued growth of the industry, and the Group recommended extending them for a period of at least 7 years;
- Growth of the film and television industry must become a central element of Irish industrial development policy;
- The growth of the industry centers on (a) stronger indigenous film companies, (b) production for television, and (c) high-quality script and project development.

Section 481 Tax Credits

Section 481 of the Taxes Consolidation Act of 1997 provides incentives for investment in films, allowing investors a significant tax deduction for their investment. One of the qualifications for Section 481 financing is that films must be produced on a commercial basis for exhibition to the public. A key objective to the creation of this tax code is to <u>maximize the Irish content</u> in production, including cast and crewmembers. The issuance of a certificate is therefore subject to conditions, the one of which is that not less than 75 percent of the production work is carried out in Ireland.

Despite the existence of Section 481 tax breaks and the fact that the Irish Film Board offers production finance to several Irish feature film projects annually, the local feature industry continues to decline and is currently being supported by several U.S. high-budget feature films annually.

Ireland, however, does have a long-running television series "Ballkissangel" which is based at Ardmore Studios, where numerous other companies are based. The series has been popular in the U.K. and in Ireland, and formed part of Ireland's strong television production sector.

Company Development Initiative

To improve the situation of the Irish film industry, this initiative was announced at the Cannes Film Festival in May of 2001. The CDI is backed by the Anglo Irish Bank with debt funding of up to $2 million over the initial 3-year period of operation. In addition, the Irish Film Board will commit development funding of up to $226,000 annually for the first 3 years of the CDI. These incentives will apply to a maximum of 5 companies that must each raise matching financing.

Service Production

As mentioned, the Irish film industry is heavily dependent upon foreign (service) production. Some of these films are made in association with Irish companies in order to raise Section 481 tax-break funding. Ireland has lured U.S.-based productions such as *Braveheart* and scenes from *Saving Private Ryan* away from the UK with its generous tax breaks. Spyglass Entertainment's current release, *The Count of Monte Cristo*, is the largest production to ever shoot in the country. The production utilized 3 stages at Ardmore Studios.

The Screen Commission's special function is to attract and facilitate foreign film and television production in Ireland. In addition to the Section 481 funding available for qualified productions, other attractions to foreign producers include:

- Industry veterans who have actively promoted the region;
- Favorable exchange rates;
- The existence of state-of-the-art infrastructure;
- Competent crews.

Another benefit for foreign producers shooting in Ireland is that upon completion of principal photography, the production receives a certificate which qualifies it as a "European" film. In this manner, the distribution of the film in Europe is not restricted by the European quota system.

Training Incentives

Ireland has one of the most ambitious government training programs that is gaining notoriety for producing quality film and television technicians and other skilled crew personnel. Overseen by the government-appointed, Screen Training Ireland (STI), the project was initiated 6 years ago. The role of the organization is to implement an infrastructure for the independent film and television production. Training courses range from production, direction, scriptwriting, camera/ lighting, sound production, production design, and scoring for both film and television production.

STI has linked up with top U.S. producers such as Chris Carter ("X-Files") and David E. Kelley ("Ally McBeal" and "The Practice") to have its trainees work on some of these productions. This focus on the creation of strategic partnerships with major companies and producers has resulted in the creation of a skilled labor pool with hands-on training in high-profile productions.

In addition, Northern Ireland has a program, TrainingWorks that is administered by the Northern Ireland Film Commission. The program aims to help individuals meet their training and development needs by providing individual, training packages which address the worker's specific needs. Qualified persons include only those individuals who have a minimum of two years experience in the film production industry. They are assigned a personal Training Works advisor.

France

France has one of the world's largest film industries, largely due to an enthusiasm for film product and an industrial structure that assists in film production at every stage, from project inception to distribution. The country is also a leader in co-production deals.

France is an interesting case study since its primary aim is strengthen its local production industry. This is in contrast to the aforementioned countries in this section which have been increasingly dependent on the service production sector, primarily for U.S.-based productions. This stance is closely tied toward France's protectionist policies in this industry. This protectionist stance extends to other areas such as marketing. For instance, French anti-competition law dictates that films cannot buy airtime on terrestrial television. The rationale behind this legislation is to protect the local industry against the U.S. majors who have higher advertising budgets.

Government involvement in the film production sector can be traced back to the 1950s when the French instituted an “avances sur recette” subsidy that established through a levy on ticket sales. These funds are then distributed to French producers who meet “French Production” standards (discussed below). During the 1980s, the Socialist Minister of Culture increased this fund and in 1985 implemented a tax-shelter system enabling investors to invest indirectly in film productions through vehicles known as “SOFICAs.”

Local Production

France is the largest film-producing territory in Europe, accounting for nearly one-quarter of total film production in the EU. Production in France increased by over 50 percent in the late 1990s. Centre National de la Cinematographie (CNC) is the French film industry’s primary support organization. The organization manages subsidies for the film and television industry. Filmmakers can tap into a system of subsidies managed by the CNC, which can account for up to 20 percent of a film’s budget. However, since the early 1990s, French television broadcasters have become the primary backers of the French film industry. The film branch of the television channel, Canal Plus, has become a major investor in the French film industry and is under contract with the CNC until 2004.

France is perhaps the one country that has been most vocal in stemming the flow of U.S.-based product at the expense of its own. Recently, the CNC has suggested several proposals to promote and encourage growth in the French film industry, including more government assistance in writing and development. In order to help French movies maintain their box office share, the CNC has also concentrated aid on the distribution sector.

On the export side, Unifrance, an organization whose primary purpose is to market French film abroad, reports that French film exports, including co-productions with France, increased by 40 percent over a 5-year period between 1994 and 1999. The report examined 6 European territories, the U.S. market, and the province of Quebec. This past year French exports such as *Amelie* and *Brotherhood of the Wolf* were both local and international box office successes.

SOFICA Tax Shelters

A SOFICA is a company formed for the financing of audio-visual products. The SOFICA program has strict cultural content requirements and can only invest in a qualified “French or European (an EU country) Production” or “International Production” according to certain qualifications and restrictions. To qualify as an “International Production,” or co-production, the number of French or EU artists must be directly proportional to the amount of French or EU contribution, and at least 20 percent of the production must occur in France.

Co-Productions

France is Europe’s leading nation in co-production activity. France has many international aspects of its film policy such as co-production treaties and other collaborative policies. For instance, in 1993 France produced 152 films, sixty of which (nearly 40 percent) were directed by non-French filmmakers. During the 1990s, France produced near equal amounts of co-productions and 100 percent locally made film productions.

Service Production

The French National Film Commission is currently working to attract foreign production. Much of their efforts have been stepped up following U.S. director Steven Spielberg’s comment that the battle scenes for the 1998 feature film *Saving Private Ryan* were shot in Ireland instead of Normandy due to a 52 percent levy in taxes that is placed by France on the salaries of French personnel. The accessibility of neighboring England's state-of-the-art production facilities and lack of language barrier generate significant competition for France, especially with regard to attracting U.S.-based productions.

India

The world's largest film producer in terms of annual production output, as shown in the next table, India's film sector (referred to as "Bollywood") is today considered one of the core national industries. Film production in India, for instance, sustains a variety of ancillary activities, including trade magazines, fan publications, and the music recording industry.

Despite the extensive power that the central government has played at the national level in the Indian film industry, it is primarily driven by private capital. The primary agency is the National Film Development Corporation (NFDC). Formed in 1980, the NFDC's role has expanded considerably in recent years to include the marketing and financing of films, involvement in arranging co-production deals, and the organization of film festivals. The organization also encourages good screenwriting by supporting annual, national competitions wherein the winners receive partial or full financing of their project by the NFDC. To support industry infrastructure, the organization offers movie exhibitors low-interest loans.

Top 10 Film Producing Nations

1	India
2	USA
3	Japan
4	Hong Kong
5	France
6	Philippines
7	Italy
8	Bangladesh
9	Spain
10	UK

Source: Screen Digest

Until recently, India's film sector has remained insulated from the rest of the world, producing movies that are well-received locally but are not commercially viable in other countries, in particular in the developed world. In this regard, Indian film production is a prime example of national cinema. Indian films typically contain similar themes, plots and music that appeal primarily to the Indian market, or to regions with a large Indian expatriate community.

Local Production

Film production in India has historically been closely tied to government policy. Successive governments have either imposed bureaucratic barriers on Indian production and distribution or ignored the industry. Previous governments have also feared disruptive foreign influences and promoted cultural nationalism.

India's film industry is in a period of transition. After several years in decline, production is once again increasing in India. This is partially attributed to government relaxation of import duties on film equipment and an exemption of export-related earnings for film and television. Furthermore, foreign companies can now receive automatic 100 percent Foreign Direct Investment approval for ownership in film companies.

Privatization

Proposals are currently being considered by the Ministry of Information and Broadcasting to privatize three public sector film bodies, the National Film Development Corporation (NFDC), International Film Festival of India (IFFI) and the Indian Film and Television Institute (IFTI). The government believes that support of these organizations is no longer beneficial.

Service Production

Until recently, the Indian government has discouraged foreign service production. However, recent efforts to attract foreign investment, particularly to the exhibition and studio side of the business, have changed that. The Indian special-effects company, Pentafour, recently worked on the U.S. animated feature *Sinbad – Beyond the Veil of Mists*, and the relaxation of foreign ownership rules has meant that several U.S. majors are looking to acquire local product for distribution in countries with large Indian populations.

India is also home to the world's largest film and television studio, Ramoji Film City, which is located a few hours from the city of Hyderabad. The studio is planning to market to and attract international producers seeking to save costs on production expenses.

Co-Productions/ Joint Ventures

Reflecting the newly founded openness of India's film industry to foreign interests, Indian-based production companies have entered joint venture and co-production agreements with foreign-based companies. Earlier this year, for example, UK-based Eyeland Films and Mumbai-based Tropicfilm formed a production company, Dekko Film, for the purpose pooling resources, sharing facilities, and serving as a consultant for film production in both countries.

Hong Kong

In 1998 the Television and Entertainment Licensing Authority established the Film Services Office (FSO) to maintain Hong Kong's status as a major production center and to enhance its position as a film trading and service hub in the Asia-Pacific region.

The Film Development Fund was established by the Government to support projects that promote the long-term development of the industry. The HK $100 million (US $12.8 million) fund provides grants to filmmakers that are considered beneficial to the industry as a whole. Projects that are non-profit making and/ or self-financed are given greater consideration. The funding can also be toward financing events and training programs. At present, it represents the Hong Kong government's sole involvement in local film production.

The objectives of the Fund are as follows:
- To enhance the professional and technological capabilities of the local film industry;
- To improve the professional skills of the industry's workforce;
- To encourage the production of more creative and diversified films;
- To facilitate the industry in the mastering and application of advanced technology so as to enhance the audio and visual effects of film;
- To stimulate further improvement in the quality of local film production and services; and
- To improve the production and operation environment of the industry.

Appendix III – Workforce Development and Training

University Programs

North Carolina School of the Arts
School of Filmmaking, Winston-Salem, North Carolina

Located in Winston-Salem, the North Carolina School of the Arts (NCSA) originally opened in 1965 as the first state-assisted residential conservatory in the nation. The School of Filmmaking opened later in the fall of 1993, its campus construction costs funded by the State of North Carolina. The School of Filmmaking is a unique arts conservatory that combines professional training with facilities, equipment and resources. It maintains a strong emphasis in all the film crafts, using both traditional and new digital media. Since North Carolina is at a geographic disadvantage in terms of access to the industry, the school has been devising creative means by which to provide their students with exposure. For instance, the school recently formed a partnership with Krispy Kreme doughnuts to fly forty of its graduates to Warner Bros. studios and have their films screened at the studio before studio executives and filmmakers.

Course Offerings

The School of Filmmaking offers a variety of courses that are production-oriented, as well as those exploring film history, theory and criticism leading to an undergraduate degree in filmmaking or a College Arts diploma. The curriculum builds from a generalist base of all students learning all creative and production jobs on their own films in first- and second-year courses, to specific instruction in one of the school's six concentrations --directing, screenwriting, producing, cinematography, editing and sound, and production design-- in Years Three and Four. There is also a wide range of elective courses open to third- and fourth-year students, as well as to special students who are interested in auditing specific classes.

Students who pass the first two years of rigorous conservatory training then advance to writing, directing, editing, producing and designing a variety of film and digital video projects. Third-year students engage in intermediate courses and serve as key apprentices in School of Filmmaking productions, in addition to developing and producing their own work. All four-year filmmaker students must complete a thesis project, and student works are screened in the on-campus theatre. The School of Filmmaking works closely with the Schools of Drama, Design & Production, Music, Dance and the Visual Arts, all of which collaborate on the filmmaking process.

Undergraduate Thesis Project

All Year Four filmmakers are expected to develop and produce a substantial project to receive the B.F.A. The project is not defined by arbitrary measures. It is, however, a project proposed by the individual student, developed in consultation with a committee of faculty mentors and meant to best showcase the student's talents within the area of chosen concentration. Fourth-year thesis productions are the equivalent of a thesis project. Students are required to read and abide by the procedures in the "School of Filmmaking Handbook" and the "School of Filmmaking Safety Handbook". Students will be required to complete all coursework, film production assignments, writing assignments and other work designated by faculty members in order to be recommended for graduation.

Graduate Program

The MFA program in Film Music Composition at the School of Filmmaking offers a unique opportunity for the nascent film composer to fully collaborate in a working production and postproduction environment with student filmmakers. Student composers score numerous student productions over the course of the two-year program, while honing their musical and compositional skills. Film Music Composition students will take courses specifically designed to equip the composer with a variety of skills: digital and analog recording, orchestrating, conducting, the film music business, scoring for feature film, television and new media, and collaborating with directors, producers, editors and musicians.

Campus Infrastructure

The school has a "Studio Village" consisting of three soundstages are 8,000, 4,000, and 2,500 square feet, respectively. The 62,000-square-foot facility opened in 1997. Other infrastructure in the Village includes a post-production facility, exhibition complex for screening which contains two theaters with 91 and 296 seats, and a back lot. In this regard, the school contains its own studio facility. The Village also houses the Moving Image Archives that contains the nation's second largest collection of motion picture and video archives. These studios' usage is restricted solely to student and non-professional productions for legal reasons because they are situated on state property. The School of Filmmaking also possesses an entire stock of professional film and video camera lighting, production, and post-production equipment.

The Master of Fine Arts program affords student composers more films to score than any comparable program in the world: potentially, each student could end up scoring more than 20 short films in each year of this two-year program. Students score films of a variety of styles--narrative fiction, animation, documentary and experimental. The products are of various lengths and formats as short as five minutes and as long as 20 minutes, on both digital video and 16mm film. The depth and intensity of the training, along with the curricular diversity offered by a specialized faculty, provide the variety of experience necessary to function successfully within the highly competitive world of film music composition.

THE UCLA SCHOOL OF THEATER, FILM AND TELEVISION

The UCLA School of Theater, Film and Television (TFT) is the only university in the country offering top-tier programs in theater, film, television and digital media under a common institutional umbrella. This integration of disciplines strengthens artistic convergence and crosses of media boundaries bringing live performance and moving image media together. The College of Fine Arts was established in 1960, with degrees available in art, dance, music, and theater arts. Following academic restructuring in the late 1980s, the UC Regents formally approved the establishment of two schools: the School of the Arts and the School of Theater, Film and Television. Today, UCLA has a reputation as the flagship arts campus of the University of California system.

UCLA has joined forces with two other internationally respected film schools, The Australian Film Television and Radio School, Sydney, and the National Film and Television School, London, to create an on-line global film school. Utilizing advanced technologies, the project offers courses in all aspects of moving-image media.

Students in production programs are responsible for financing their own film and video projects. Production expenses will vary depending on the nature of the projects and the medium in which the student chooses to work. Total estimated additional expenses per program are: BA-$1,000-$10,000; MFA Production/ Directing-$15,000-$50,000, MFA Animation-$3,000. There are many scholarship and grant programs available through the California University system.

Course Offerings

UCLA offers a Bachelor of Arts (BA), Master of Fine Arts (MFA), Masters (MA) and Doctor of Philosophy (PhD's) in Film and Television. The Master of Fine Arts program has concentrations in four areas, including: (a) Production/Directing, (2) Screenwriting, (3) Animation, and (4) a Producer's Program. The programs in animation and production/ directing are three-year programs, while the Screenwriting and Producer's Programs are for two years. The BA program is a two-year, upper-division program for students that have completed two years of general education requirements. Courses include film, television, and digital media study. Prior to graduation, students complete a project from their chosen field in critical studies, production, or writing.

TFT annually attracts the finest students from around the world, and the competition for admission is intense. The quality of education at TFT is superb, with small classes and an intensely interactive relationship between instructors and students. TFT has 140 nationally and internationally respected faculty members teaching a student body of just 410 undergraduates and 390 graduate students. Admissions of new students accepted in each program is: BA-30; MFA Production/ Directing-20, MFA Screenwriting-25, MFA Producers Program-15, MFA Animation-20, MA-15, PhD-10. Students are selected based solely on their talent and intellect, not their financial means, reflecting the multi-cultural American society.

These strong academic programs are enhanced by exceptional resources such as the UCLA Film and Television Archive -- the largest university-based film and television archive in the world -- and The Geffen Playhouse, one of Los Angeles' most prestigious performance venues. Located in Los Angeles -- the entertainment capital of the world -- TFT draws on industry leaders for its over one hundred faculty members and many well-known advisors and mentors, offering students excellent opportunities for networking.

Campus Infrastructure

UCLA's School of Theater, Film, and Television is located in three buildings on the northeast corner of campus. Melnitz Hall houses contain all Film, Television and Digital Media production facilities and a 276-seat theater with 16mm and 35mm projection capabilities. The Department of Film and Television's production facilities in Melnitz Hall consist of three sound stages, an animation lab, a scoring and re-recording stage, thirty editing suites, mixing rooms, and viewing rooms. Film sound stages 1, 2 & 3 are used for student productions, with Stage 3 containing a permanent set. Stages 1 and 2 each contain more than 2,000 square feet of space and are approximately 20 feet to grid with lighting catwalks at a height of approximately 13 feet. Stage 3 is used for teaching cinematography, lighting and directing.

Additionally, UCLA has three television studios in Melnitz, including a Master Control room, five video-viewing rooms, ten video-editing rooms, and a fully equipped remote van. Television Studios 1 & 3 are equipped with digital studio cameras. The Lab for New Media is an instruction/ production center for digital media, including special effects, web design and publishing, and interactive media. The Animation Workshop is an instruction/ production center for traditional and computer animation.

Costs Students in production programs are responsible for financing their own film and video projects. Production expenses will vary depending on the nature of the projects and the medium in which the student chooses to work. Total estimated additional expenses per program are: BA-$1,000-$10,000; MFA Production/ Directing-$15,000-$50,000, MFA Animation-$3,000. There are many scholarship and grant programs available through the California University system.

Florida State University School of Motion Picture, Television and Recording Arts

The Florida State Legislature created The School of Motion Picture, Television and Recording Arts (a.k.a. the Film School) in 1989 with the expressed mission to prepare men and women for successful careers in the film and television industries. The school operates on the main campus of The Florida State University located in Tallahassee, Florida, offering programs in undergraduate and graduate film production.

Recently recognized by The Directors Guild of America for its distinguished contribution to American culture, The Florida State University Film School provides professional training to a limited number of the very brightest students in the world. Only 30 men and women are selected each year to attend its programs, significantly fewer than any other major film school in America Since its establishment 13 years ago, the film school has graduated 600 students. The program is highly selective and graduates an average of 30 students per year. Recently the school received 7,000 requests for applications and admitted 15 freshmen, 15 transfers, and 15 graduate students. In 2004 a student-made thesis project was selected to compete at the Cannes Film Festival in the short film category. The director of the film was recently signed to a three-picture feature film contract with Miramax.

FSU is the only film school in the country that pays for the production costs of all of its students' films, thereby creating a level playing field for students to focus on art, craft and imagination, instead of fundraising. To ensure that this high caliber of education is available to the most talented student regardless of financial means, the university offers generous scholarships and assistantships, and tuition costs that are among the lowest in the country.

All graduate student thesis projects are shot on 35mm film with FSU funding $25,000 per film. FSU is the only film school in the country that covers students' production expenses. Under this arrangement the State of Florida, as an investor, owns the film rights to the film. The state's intent, however, is not to make money by licensing these products but to train and promote talent and to showcase locations in Florida. All equipment at the school is paid for entirely by the State of Florida. Every graduating student completes at least four sound films. Undergraduate projects are shot on 16mm film.

Course Offerings

The following programs are offered: Undergraduate Program in Production, Graduate Program in Production, Graduate Program in Professional Writing and Minor in Film Studies. FSU is keenly aware of the significance of integrating its programs with the working industry. FSU sends student films to festivals worldwide and has a distribution agreement with Atom Films, funded by Warner Bros, and Hypnotic.com (Universal) to commercially release selected student films. FSU has a feature deal with Roger Corman. FSU recently collaborated with Corman to produce a faculty-directed film, *Vampire Rock* that was primarily crewed by FSU students. The current residence and work locations of alumni are approximately as follows:

- 33 percent in Los Angeles;
- 30 percent in Florida;
- 20 percent overseas;
- 7 percent in New York;
- 7 percent in Atlanta;
- 3 percent in other areas.

The fact that nearly one-third of graduates still reside in Florida is unusual for a film school outside of the major production centers in Los Angeles and New York City. The school is also in the process of creating more relationships with the private sector, and works closely with northern Florida film offices in Tallahassee, Jacksonville, and Pensacola.

Campus Infrastructure

The FSU Film School is one of the best-equipped education facility dedicated solely to film production. FSU is the only university in America that owns and makes available to its students Super-16 and 35mm production equipment, including grip and camera trucks. Students work in dedicated production offices, shoot on professional sound stages, view their work in screening theatres tuned to industry specifications, and edit their work in non-linear digital post-production facilities. The facility is open and available to students 24 hours a day. The Film School is among the largest and best-equipped facilities in the world devoted to film education. The school has two insert stages on campus of approximately 2,500 and 1,500 square feet each. FSU also recently retrofitted a 14,000 square foot studio facility on 2.5 acres in Gadsden County. The facility, Critchfield Hall, is a former music-recording studio that contains a 3,300 square-foot-stage.

Alumni are unusually involved and actively work to transition graduates into the industry. They assign mentors to every graduate, and then coordinate with faculty and staff to create career plans for students before they leave the program. This provides virtually 100% of the school's graduates with meaningful work in the film and television industry within 12 months of graduation.

Full Sail: School of Film, Art, Design, Music &Media Production Winter Park, Florida

Full Sail is a film school located outside of Orlando offering degrees in the disciplines of recording arts, film and video production, digital media, computer animation, game design and development, and show/touring production. It was established in Dayton, Ohio, in 1979 and moved to the Orlando area the following year. Full Sail is accredited by the Accrediting Commission of Career Schools and Colleges of Technology. All Full Sail degree programs result in a Bachelor's or Associate degree.

Full Sail's degree programs range from 12 to 21 months, getting your through your education and out into the industry quickly. The Film Production degree program is 13-month program that starts every month year-round. All students are required to complete four basic courses, referred to as the "Mini School" before taking specialized courses in their degree program. Students who successfully complete the program are given an Associate of Science degree. All students are required to write, cast, film and edit their own scripts, in addition to rotating every position on a film shoot. Digital cinematography classes are also required. Class sizes range from 10 to 50 students.

In general, approximately 75 film students enroll in the film program each month. School statistics report a program completion rate of over 80 percent for all disciplines, with the digital media and film programs having the highest completion rates at 90 and 86 percent, respectively. The school further reports that approximately 75 percent of the their students find work in their field within one year. Tuition varies according to discipline the student is pursuing, with a degree in film production costing approximately $30,000 for the 13-month period including all books, supplies, and lab fees.

In 1996, Full Sail was named the "Most Innovative Program" by the Florida Association of Postsecondary Schools and Colleges (FAPSC). In January 2003, Electronic Gaming Monthly named Full Sail one of the "top five game-degree programs in the world", alongside DigiPen, University of Advancing Technologies, The Art Institutes, and Academy of Interactive Entertainment. In August 2005, Rolling Stone magazine named Full Sail "one of the 5 best music programs" in the country, noting the school's training in music production, engineering, and show production. The other schools in this list included Berklee College of Music, USC Thornton School of Music, Oberlin College, and Julliard.

Unleashed Magazine named Full Sail's Film program as one of the 5 "best film schools," alongside New York University (NYU), UCLA, American Film Institute (AFI), and Vancouver Film School (VFI).

Course Offerings

Full Sail was founded in 1979 as a recording studio workshop. A Film program was added in 1988, and the school was accredited to award specialized associate's degrees in 1990. A third degree in Digital Media was added in 1995, followed by Game Design and Show Production and Touring in 1998. The current courses include: Computer Animation, Digital Art and Design, Entertainment Business, Film, Game Development, Recording Arts, Show Production and Touring.

Degree Programs As of February 2006, Full Sail is offering the following degree programs: Bachelor of Science in Computer Animation, Bachelor of Science in Digital Arts & Design, Bachelor of Science in Entertainment Business, Bachelor of Science in Film, Bachelor of Science in Game Development, Associate of Science in Recording Arts, and Associate of Science in Show Production and Touring.

Campus Infrastructure

The school contains a 50-studio media complex that houses the latest technology. This includes dozens of computer labs and a performing arts hall (Full Sail Live). Students edit projects on Avid and Quantel post-production software. On-campus infrastructure for the film and video production program includes three soundstages, two Arriflex 35mm and two 16mm cameras, and a complete lighting and grip package. The school recently purchased vacant 75,000-square foot structure that formerly housed a department store and converted it to a studio facility. The new studio is located approximately one-quarter mile from campus. Therefore, the school has a total of four sound stages that are available to students.

Other Training Programs

Many independent production companies and art-house divisions of major studios have formed programs aimed at nurturing and providing work opportunities for aspiring talent. The following is a brief description of several collaborations, none of which are associated with any particular school.

Fox Searchlight, Searchlab

Fox Searchlab is Fox Searchlight Pictures' incubator for emerging filmmakers. The Lab identifies, supports and showcases the next generation of filmmakers. The Searchlab program researches film schools and festivals looking for young directors to sign a nonexclusive, one-year deal at Fox Searchlight. If selected, a filmmaker will make one short film for the studio. All filmmakers are provided with equipment and talent for their project. Upon completion for the short, filmmakers then pitch a feature-length project to the studio. If the studio passes on the project, then the filmmaker is free to shop the project to other studios. The Lab provides a small production budget, and equipment to create a short film that serves as an audition piece. The Lab and the Lecture Series are located on the 20th Century Fox studio lot.

Mission and Philosophy

The mentoring aspect of Searchlab is embodied in the Lab Lecture Series. The Series runs year round and to date has included 34 of Hollywood's best and brightest: Bryan Singer, Peter Bart, John Toll, Leonardo DiCaprio, Tobey Maguire, John Frankenheimer, Kimberly Peirce, Ridley Scott, Robert Wise, Baz Luhrmann, Joel Schumacher, Frank Darabont, Conrad Hall, and Robert Towne. Three Lab short films were selected to screen at the Sundance Film Festival this year (2003) - Abraham Lim's “Toy”, Jessy Terrero’s “The Clinic” and Kevin Connolly’s “Whatever We Do”.

Film & TV Connection, Los Angeles, California

The Film & TV Connection is an on-the-job training and mentorship program based in Los Angeles. The virtual school supplies training for film, television and video production, radio and recording industries. The courses are designed to provide 20 hours of training per week over a 6-month period or 10 hours per week over a 12-month period. Jim Petulla, president, reports to have a 90 percent placement rate upon completion of the program. During the last 20 years, the school has secured jobs for over 5,000 beginners in Recording Studios, Record Companies, Radio/ TV Stations and Film and Video Production Studios, worldwide.

The methodology is to connect local major Recording Studios, Record Companies, Radio/ TV Stations, Video and Film Production companies with an aspiring talented apprentice. The reason these apprentice association programs are so comparatively inexpensive is that the studio, building and all that equipment is already there. The only cost is for your instructor and text material. Fifty percent of the tuition goes directly to the instructor. Additional fees are given to instructors as a bonus once one becomes employed, either by them or by another Studio or Station. This fee structure gives each instructor a definite financial interest in employee placement.

Course Offerings

Entertainment Connection is an Employer Trained Alternative Education System. Its mission is to combine the best aspects of formal schooling with on-the-job training. Three Industry-wide apprentice programs are: Broadcasting. Radio and Television Broadcast Apprentice positions to train for On-Air or On Camera positions as a DJ, News Anchor or Reporter, Talk Show Host, Sportscaster or Voice-Over Personality. Recording Studio and Record Company Apprentice Positions to train to become a Recording Engineer or Music Producer. Film and Video Production Apprentice positions to train for and become a Director, Producer, Cinematographer, Camera Operator, and Digital Editor as well as Computer

Independent Film Project (IFP)

IFP (Independent Feature Project) was founded in 1979 on a belief that a truly vital American cinema must include the personal, idiosyncratic, and sometimes controversial voices of filmmakers working outside of the established studio system. As a not-for-profit organization with over 9,000 members, its mission is to foster a more sustainable infrastructure that supports independent filmmaking and ensures that the public has the opportunity to see films that more accurately reflect the full diversity of the American culture. The organization provides resources and networking opportunities for persons either working in the independent film field as well as film enthusiasts. Members have access to cheaper rental rates on equipment that is offered by over 200 industry-related vendors.

With six chapters in the cities of Chicago, Los Angeles, Miami, Minneapolis/ St. Paul, New York and Seattle, IFP sponsors year-round activities: screenings, workshops and seminars. IFP is also part of an international network of organizations supporting their own national filmmaking efforts that include: Ateliers du Cinema Europeen/ ACE, CineMart, UK based Film Council, German funder Filmstiftung NRW, Telefilm Canada, Cannes Film Festival and Market, Berlin International Film Festival and accompanying European Film Market, Rotterdam International Film Festival and accompanying co-production Market, Cinemart, and our long standing role as the U.S. representative for the Cannes’ Film Festivals’ Director’s Fortnight.

In addition to the various seminars, IFP continues to inform via its website and, with its sister organization IFP/West (in California), publishes FiImMaker. Established in 1992, Filmmaker: The Magazine of Independent Film is a quarterly publication covering the craft and business of filmmaking. The Magazine's voice is authentic in covering the behind-the-scene aspects of the creative, technical and business realities facing specialized film. With readership of more than 60,000, Filmmaker is available as a benefit of IFP membership or through direct subscription, and at retail chains.

IFP'S Independent Feature Film Market, held in September, invites more than 400 projects in various stages of development and completion to New York City to meet with buyers and financiers. At the same time of year, IFP presents its Gotham Awards, which include a $20,000-plus Open Palm prize to a new and needy filmmaker. In an effort to promote American independents internationally, the organization underwrites 10 filmmakers' trips to Rotterdam Cinemart. IFP's annual "From Script to Screen" conference takes place in April and invites projects for a prize competition. In conjunction with the Film Society of Lincoln Center, IFP also sponsors "Independents! Night", which screens 16 projects seeking funding throughout the year.

IFP/ West provides support, information and resources to indie filmmakers. Workshops and panel discussions such as the "Producer Series", "An Evening With ..." and "Independent Focus" draw a wealth of talent eager to share tips. The group maintains a list of member scripts (Script Project), key contacts (Skills Bank) and a library. Other benefits include screenings, access to an affordable health plan and discounts on everything from lab work to legal services. The IFP/ West's annual Independent Spirit Awards rewards "visionary filmmaking" and is held just before the Oscar ceremony in March.

Los Angeles Film School, Hollywood, California

The Los Angeles Film School is a rotating professional conservatory, founded in 1999 by Hollywood professionals who recognized the need for a new kind of film school, one that balanced the practical with the academic. The LAFS is located on Sunset Blvd. near Vine Street in Hollywood, California, and offers a special one-year, "hands on", immersion program, educating students in the science, craft and theory of filmmaking. Additional programs range from six months to two years. The two-year program involves feature film development projects during which students get heavily involved in the mechanics of the industry such as working out financing and marketing strategies.

The school stresses practical learning, giving video cameras to students the first week of the program, with which they create their first short film: a single set-up, minute long story. Students continue to produce increasingly more involved short film exercises, culminating in a thesis film project. Any student who wishes to make a short film as writer and or director can and every effort is made to give producers, editors, cinematographers, sound and production designers an opportunity to practice their craft on a student film production.

The school also joined forces recently with UCLA Extension's Entertainment Studies department to offer part-time courses at the Los Angeles Film School campus. The school has approximately 250 students and charges $25,000 in tuition for a yearlong production program that includes studies in directing, cinematography, and production design, lighting, sound and editing. Students are provided access to telecine, processing and post-production equipment but must pay for stock, catering and props. Classes begin every two months and will begin starting monthly in the near future. Class size ranges from 30 to 60 students. The school faculty is comprised of working filmmakers who take time between projects to teach at the school.

Tuition is $33,400 Domestic and $34,400 International. Approximately 65% of the students receive some form of Financial Aid during their stay at the Los Angeles Film School. A student may apply for one or a combination of loans up to the total cost of education. This includes the total of tuition, living expenses and production expenses.

Campus Infrastructure

The facilities on The Los Angeles Film School campus incorporate the latest in production and post-production technology into a state-of-the-art film curriculum. The school is a film studio all in one building. Students work first hand with A-list Hollywood talent to shoot High Definition, Digital Video and 35mm films with premiere location sound recording and lighting packages. Completed projects are screened in our 340-seat, stadium style, THX certified, Dolby Digital Surround EX, wide-screen motion picture theater equipped with both film and digital projection.

A 4,000 square foot digital soundstage, equipped with cutting-edge Sony High Definition cameras, and one of the largest hard cycloramas for creating virtual sets, are the centerpieces of the film school's High Definition complex. Students who concentrate in Editing utilize any of a dozen Avid Media Composer 1000 non-linear editing systems. Sound concentration students utilize four Digidesign Pro Tools Mix workstations and finish on our 96-input Solid Strategic Axiom digital re-recording console.

NOVA

NOVA is a federally funded employment and training agency that is administered by the city of Sunnyvale in Silicon Valley. The City of Sunnyvale operated a Patent and Depository Library since 1963, maintaining and providing public access to all U.S. patents issued by the Patent and Trademark Office (PTO). Changes in technology making the same information available elsewhere made it clear that this operation would become a drain on the General Fund of the City in fiscal year 1994-95. To remedy this situation while maintaining a valuable regional service, the City fostered a partnership with the PTO, leading to the creation of the Sunnyvale Center for Innovation, Invention and Ideas (SCI3) in November 1994.

Partnership Objectives

The objectives of the partnership are to: assist entrepreneurs and start-up businesses that use new technologies; help established firms maintain their competitiveness through better access to technological information, and increase the number of high quality jobs in the region. Specifically, SCI3 uses state-of-the-art technology to provide timely, accurate, and cost effective patent, trademark and related intellectual property information. When created, it was the only location outside of the PTO offices in Virginia with the ability to provide direct on-line image access to the patent database. It also has videoconference capacity so business people can communicate directly with patent examiners and other officials without flying to Washington. They are also able to participate in PTO-provided seminars on-site and file document disclosures.

NOVA Youth Employment Office

Sunnyvale administers a six-city Private Industry Council known as NOVA. Recently, NOVA established the Youth Employment Office (YEO), a one-stop career and employment center for youths. Federal funds were used as part of the seed money and are also used for part of the ongoing programs. The YEO is located where youth go: in a regional shopping mall. This initiative is unique for its community involvement, variety of programs offered, and accessibility, both to walk-in traffic and via the Internet. The location is provided at below-market rates by the Sunnyvale Town Center; federal, city, corporate and private foundation funding support services offered within the YEO.

Youth @Work

Youth@Work is an Internet-based interactive database, linking employers and educators with youth aged 14-24. Youth@Work provides broad access to the world of work and work experience and complementary job search training. Since 1996, Youth@Work has expanded from its original two-county area to include Santa Cruz and Monterey counties. NOVA Private Industry Council (PIC) initiated collaboration with public and private sector entities to meet the needs of young job seekers during the busy summer period and beyond. Smart Valley, Inc., a non-profit organization committed to fostering electronic community, brought together a number of leading high-tech companies to design an interactive job search vehicle. The goal was to create an integrated job search information and training system that would operate year-round, serve area employers as well as youth from all backgrounds, and be free of charge to users.

NOVA built a coalition of public sector agencies committed to providing sites, staff, and support to the effort, including the three Private Industry Councils in Santa Clara and San Mateo Counties, all six California Employment Development Department field offices, city and county LEOs and community-based organizations. NOVA has also formed a Youth Advisory Board to gather continuing input into the Youth@Work service. The David and Lucile Packard Foundation has also contributed substantially to Youth@Work.

In August 1996, NOVA and its partners unveiled Youth@Work, an on-line community service connecting employers with youth seeking work in Santa Clara and San Mateo Counties. Any computer linked to the Internet can access Youth@Work's database. For those without home or school access to the Internet, Youth@Work maintains public access sites distributed across the two counties, where youth can use terminals free of charge and receive instruction on their use if necessary. Youth can review a wide range of job listings, which can be searched by skills, interests, and location. To access the employer's contact information, youth must attend a job preparation workshop at a Youth@Work site, and then meet one-on-one with an employment counselor to receive additional preparation and job specifics. Counselors confirm that the applicant's skills and experience match the job requirements before releasing the employer's contact information.

Youth@Work provides employers with a convenient, effective way to hire young workers. Employers can list jobs by phone or fax, or directly on the Youth@Work web page. Employers' listings are suppressed from view until Youth@Work staff screens the listing. Youth Work's pre-screening process ensures that only qualified and prepared young applicants are referred for each job, which adds value for employers. The centralized, easy to use system encourages employers to participate in development and training of the workforce of the future.

Youth@Work has generated tremendous excitement, say local officials. The Youth@Work web site received over 100,000 hits in its first three months of operation. Employers, with more added every day have listed over 1,000 jobs. In response to the input of employers and educators, a career exploration module is now being built into the database, offering interactive listings and access to volunteer and internship opportunities, apprenticeships, and work experience programs.

Video Symphony's ETP Program

The Employment Training Panel is a California State agency created in 1982 as a cooperative business-labor program to retrain workers. ETP was designed to fund training that meets the needs of employers for skilled workers and the need of workers for good, long-term jobs. This employer-supported training is used to improve the economic climate by training new workers and retraining workers in danger of being laid off as a result of technological advancements in the workplace, and because of foreign and domestic competition.

Video Symphony specializes in professional level training to digital artists, film & video editors, audio editors, web designers, DV content creators, and animators, enhancing their technological skills in a rapidly progressive industry. Video Symphony has been training top industry professionals since it's inception in 1994. Top working industry professionals teach all classes. Video Symphony is an authorized training facility for leading digital media production companies including Apple, Avid, Digidesign, Newtek, and Sonic Solutions. Clients include Warner Bros., Universal, Sony Pictures Imageworks, Disney, ABC, NBC, CBS, Fox, hundreds of production companies, and thousands of freelance editors and artists.

Contract Awards

The first two contracts awarded to Video Symphony have advanced the skill set of over 1,250 employees at over 150 companies in the state of California. The contracts enable eligible companies to provide their employees professional training with digital media production software from Adobe, Apple, Avid, Digidesign, Macromedia, Newtek, and Sonic Solutions. Programs such as Avid Film and Media Composers, Final Cut Pro, ProTools, DVD Creator/ Fusion systems, Photoshop, After Effects, Dreamweaver and Flash are taught in small, intensive, hands-on classes. Qualified companies are those that employ at least 5 people full-time and engage in film, video, CD- or DVD-roms, or digital media for entertainment, internet, or broadcast purposes. In the third contract, the amount of $629,000, provides funding for the training of 500 California employees from multiple companies at Video Symphony's confidence in our ability and integrity to offer training that enhances the productivity of numerous California companies.

Eligible employees must work in California, and be subject to payroll withholdings to be eligible for training. They can enroll in 40 to 120 hours of classes. All classes are modular, and are 1-5 days in length. Employees from most companies engaged in motion picture and television production in California can become eligible after a short employer application process.

Industry Importance

ETP recognizes the multi-media and entertainment industry as being vital to California's economy. This highly successful program focuses funds to support job creation and retrain workers in high skill, high wage, secure jobs for employers facing out of state competition. Funds are provided through the Employment Training Tax on California employers participating in the Unemployment Insurance (UI) system. A major independent two-year study of more than 37,000 ETP trainees found the return to the California economy was over five times ETP's investment (e.g., $73 million invested by ETP resulted in more than $400 million benefit to the economy). Employers who participate in an ETP contract are subsequently more willing to increase their own investment in worker training.

Appendix IV – Music RIAA and Cities Overview

The Recording Industry Association of America (RIAA)

In 1952, The Recording Industry Association of America (RIAA) was formed as a trade association of America's record companies to foster a business and legal climate that strengthens and supports the creative and financial climate of its members. The American record companies are trade members. This powerful group is associated with the creation, manufacturing and distribution of over 90% of recordings in the United States. With 40 billion dollars, employment is in the thousands for artistic and technological recording capacity and represents one third of the world industry.

Historically, the RIAA has engaged in activities that primarily protect the international intellectual property rights and the First Amendment rights of artists. In addition, it works on firm constitutional principles that include first amendment rights. In its effort to promote and boost record sales hit records are rewarded with coveted awards. The RIAA certifies Gold®, Platinum®, Multi-Platinum™, and Diamond® sales awards. It recently started Los Premios De Oro y Platino™, a new award celebrating Latin music sales. The Eagles' Their Greatest Hits 1971-1975 was the first Platinum® album certified by the RIAA®. In 1999, the RIAA® launched the Diamond® Award during a highly publicized event on March 16th. The Diamond® award honors all artists who have albums or singles that have sold 10 million or more units. The RIAA award categories include all variations on record, cassette, CD, and DVD sales. In 1998, The RIAA® celebrated the 40th anniversary of the Gold record award.

The Recording Industry Association of America complies comprehensive market data on music trends in America and identifies consumer trends. In addition it analyzes and grades technical merit in recording and playing music in all formats. This data is available to all members and is used to forecast economic growth.

All of the programs and affiliations of the RIIA are directly linked by a mission to promote music in every aspect of our lives. Many of its outreach programs are achieved through alliances. The Creative Coalition is dedicated to educating and advocating on restricting censorship and maintaining the First Amendment, arts advocacy and children's education. The Musicians' Assistance Program provides treatment and recovery from drug and alcohol addiction and imparts a message of prevention to young musicians. As a political lobby, Rock the Vote is dedicated to protecting freedom of speech, educating young people and motivating them to participate by registering, voting, and speaking out.

International alliances include The International Intellectual Property representing the U.S. copyright-based industries -- films, videos, recordings, music, business software, interactive entertainment software, books, and journals. The International Recording Media Association shares valuable educational forums and market data. The Jazz Alliance raises the profile of the art form and fosters better working relationships within the international jazz community.

Since 1990, the growth of the digital music industry has put the RIAA in its highest profile, most visible role within the record label and recording industry, in the public communications vehicles, and in the courts. Music became less expensive, more accessible, more portable and more pervasive. As the new technologies created infinite possibilities, they also collapsed the rigid guidelines regarding royalties and strained the safeguards of distribution and copyright protection. The RIAA focused on a commitment to protect the economic interests of the artists and the copyright intellectual property owners.

The RIAA worked with Congress in the early 1990s to preserve copyright holders' rights. It achieved the passage of the Digital Performance Right in Sound Recordings Act (DPRA) of 1995. This created a royalty guideline for copyright holders similar to the royalty that performance rights organizations such as ASCAP and BMI collect. The Digital Millennium Copyright Act (DMCA) of 1998 provided for, among other things, a statutory license that would grant web casters the automatic right to use sound recordings in their streamed programming. These two acts were created to compensate artists, with labels compensated for digital performance. Sound Exchange® was established by the RIAA to oversee the administration, collection, and payment of the royalties to sound recording copyright owners and recording artists.

With the advent of the free downloading as well as the iPod shared files, the RIAA has used its power in the courtroom. The first lawsuits challenged the major websites offering free downloads. They then advanced to suing individuals who were downloading at these sites or sharing downloaded files. A link site operator may be liable for contributory infringement by knowingly linking to infringing files.

The RIIA has devoted considerable effort to winning such lawsuits. In the summer of 2006, Kazaa has agreed to pay a substantial sum in compensation to the record companies that took the legal action to stop copyright infringement on the Kazaa network. The RIAA Chairman and CEO, Mitch Bainwol said: "This is welcome news for the music community and the legal online music marketplace. Steadily but surely, we are passing another important marker on the remarkable journey that is the continuing transformation and development of the digital marketplace. The winners are fans, artists, labels and everyone else involved in making music, and our partners in the technology community." The RIAA believes this vigilant legal proactive role is vital for the music industry in its quest to find new investment and create new forms of music available for retail consumption.

Kazaa is one of the world's most popular peer-to-peer networks for the illegal trading of music and movies, and at its peak had 4.2 million simultaneous worldwide users. In May 2003, Sharman Networks declared Kazaa the most downloaded software ever, at 239 million downloads. RIAA maintains that illegal file sharing on the Kazaa network and other peer-to-peer networks has caused significant damage to the legitimate music industry internationally resulting in the steep decline of record sales and label profitability.

Music Industry in Selected Cities

New York City

Broadway

New York City's role as a cultural center of America is easily traced in its musical contributions. In the 1890's, Tchaikovsky's "The Sleeping Beauty" debuted in St. Petersburg and Carnegie Hall opened in New York City. The famous theaters and performances stages of the City, collectively known as "Broadway" created from the genres of operetta, variety, minstrel, and vaudeville the unique American musical sound.

By the 1920's, the American musical comedy gained worldwide influence. Broadway saw the composing debuts of Cole Porter, Rodgers and Hart, the Gershwins and many others. The Great Depression inspired the light-hearted musical comedy. Gershwin's "Of Thee I Sing" (1931) was the first musical ever to win the Pulitzer Prize for Drama. By the 1940's, Rodgers and Hammerstein's "Oklahoma" (1943) was the first fully integrated musical play, using every song and dance to develop the characters or the plot. The great talent of the 1950's, the composers Rogers & Hammerstein and Leonard Bernstein, and females stars like Ethel Mermen, Mary Martin and Gwen Verdon cemented the lasting viability of this New York/

American musical form. By 1960 with major spectaculars mounted in England, the American musical was as international in translation as traditional Opera.

Tin Pan Alley

Around 1885, a number of music publishers set up shop in the same district of Manhattan. This area was called Tin Pan Alley and functioned as the center of music publishers and songwriters who dominated the popular music of the United States in the late 19th century and early 20th century. Starting as a specific place on West 28th Street and Broadway, it was home to the sheet music publishers. While the advent of the phonograph and radio in the 1930's reduced some of its business power, it influenced American music up until the rise of 1950's Rock and Roll.

The business of protecting music intellectual property rights started here when a group of Tin Pan Alley music houses formed the Music Publishers Association of the United States in 1895. They unsuccessfully lobbied the federal government to extend the term of copyright for published music to 40 years, renewable for an additional 20.

The American Society of Composers, Authors, and Publishers (ASCAP) was founded in 1914 as an organization to mutually aid and protect the interests of established publishers and composers. By the end of the 1910s, it was estimated that over 90% of the sheet music and phonograph records sold in the U.S. paid royalties to ASCAP. Modern independent rock and hip hop labels and contemporary music magazines like Blender Magazine, Punk Magazine, Spin, and Rolling Stone emerged in this location, carrying on the music business legacy.

Jazz and Blues

In the late 1920's, jazz took hold in the architectural gumbo of Harlem, the center of African American culture in New York City. From 110th Street at Central Park to 125th and Lenox Street. New York was home to more blacks than any other northern city, including Chicago. Most of them lived uptown, in a particularly culturally sensitive, beautiful old neighborhood called Harlem. Home to the National Association for the Advancement of Colored People, the Urban League, and Marcus Garvey's Universal Negro Improvement Association as well as writers James Weldon Johnson and Langston Hughes and civil rights activist W.E.B. DuBois, Harlem became a symbol for defining black culture and contributions. Duke Ellington talked of Harlem as the world's most glamorous atmosphere. In New York City, jazz was fused with stride. The musical heroes were the virtuosos of the stride piano style, battling it out at the Saturday night "rent party" (the cost of admission paid for the rent). In the world of upscale nightlife, club owners made an effort to lure white clientele, to places like the Cotton Club and the Savoy Ballroom. Louis Armstrong became wildly popular and helped invent swing music.

Since the mid-1930s, Fifty-second Street, between Fifth and Seventh Avenues is the center of the New York jazz scene. Seven jazz clubs still flourished there in the early 1940s including the Spotlite, the Yacht Club, and the Three Deuces. Since the 1960s, jazz clubs have been centered largely downtown, around Greenwich Village. The opening of the Jazz at Lincoln Center in the Time Warner center has enshrined the importance of Jazz music in the history of American music as well as New York City.

Record Labels

Just as the music industry business clustered in New York so did the beginnings of the major record labels. The mergers and acquisitions of these entertainment conglomerates permeate the history of American music. Atlantic was one of the early giants that survived. Ahmet Ertegun and Herb Abramson formed Atlantic in 1947. Ertegun's father was Turkish Ambassador to the United States and brought his eleven-year-old son to New York. Abramson was born in 1917, went to high school in Brooklyn. They had good musical judgment, worked well with performers, and were able to sign many long-term contracts paying royalties the usual two percent. Most importantly, the label was always a pioneer issuing it's first 33 1/3 RMP album in1949, its first 12 inch LP in 1951, and Ertegun signing Clyde McPhatter and his new group named the Drifters to release the mega-hit “Money Honey”. In New York, the R&B scene was blending with a new pop sound when Atlantic released the landmark “Shake, Rattle and Roll” sung by the country group Bill Haley and the Comets. Ray Charles was signed to Atlantic Records in 1952, and his “Roll With My Baby”, the beginning of Soul. Atlantic was one of the first independents to record in stereo with hits like “Splish Splash” by Bobby Darin. In 1969, Ahmet signed the megastar group Crosby, Stills and Nash to Atlantic. David Geffen became a protégé of Ahmet Ertegun, and eventually started the very successful Asylum Record Label under the Warner-Elektra-Atlantic umbrella. Today, Atlantic is one of the few independent record companies from the 1940s and ‘50s to survive. The Warner labels have a large share of the world recorded music market. Using a powerful position in the world of music and believing it would bolster sales, Ahmet Ertegun was instrumental in founding the Rock and Roll Hall of Fame.

New York State and City Music Grants

Historically, New York City has consciously embraced the notion that exposure to culture strengthens the fabric of the city. In the 1940’s using the WPA parks as well as Lewishon Stadium at City College as venues, the Department of Parks and Recreations brought opera, symphony, and Shakespeare to the people. Today, New York State has granted $13 million dollars to the New York State Music Fund grant program developed and managed by the Rockefeller Philanthropy Advisors. The critical focus and mission is to award grants to organizations that reach underserved populations and to target contemporary music of all genres.

Among the organizations funded in this first cycle are Brooklyn Academy of Music, Carnegie Hall (to commission and perform new works), and the Mama Foundation for the Arts for Gospel for Teens in Harlem, the Westchester Arts Council (for performance series), and Lehman College's partnership with the Celia Cruz Bronx High School of Music (for music classes, performances, and lectures). The New York City Parks Foundation also received funding to expand its free concert series.

Maintenance of Cultural Institutions

The Department of Cultural Affairs has created dynamic public partnerships with private cultural organizations with the Cultural Institutions Group (CIG). The genesis of this public-private partnership began in 1869, with the creation of the American Museum of Natural History. The 34 members of this group are each located on City-owned property, and receive significant capital and operating support from the City to help meet basic security, maintenance, administration, and energy costs. In return for this support, these institutions operate as publicly owned facilities whose mandate is to provide cultural services accessible to all New Yorkers. Institutions range from the internationally renowned Metropolitan Museum of Art and the Brooklyn Academy of Music, to community-based organizations such as the Jamaica Center for Arts and Learning, the Bronx Museum of the Arts, and the Staten Island Botanical Garden.

The Institutions Unit staff oversees the disbursement of City funds to the institutions, representing the Commissioner at board meetings of the institutions, providing technical assistance in various areas of non-profit management, serving as a liaison between the institutions and other City agencies.

Los Angeles

The fate and fortunes of Hollywood and Los Angeles became intertwined through municipal incorporation as motion picture production companies from New York and New Jersey started moving to California to take cinematic advantage of natural sunlight and variety of natural surroundings. The music and film industries joined forces with the evolution of recording technology. Between about 1906 and 1927, numerous "sound-on-film" optical systems emerged, but they still had technical problems. Rather than leave the audience in silence, theater owners would hire musicians to play music fitting the mood of the film. By the early 1920s, most films came with a prepared list of sheet music. The late 1920s saw the birth of a new performing art, musical film. Technologically primitive "talkies" were introduced as vaudeville filler in 1907. However, the Warner executives were far more interested in music and singing. The Jazz Singer (1927) was the first full-length feature to use recorded song and dialogue.

As Hollywood adapted to sound films, musical films were an important part of Hollywood's movie output, ranking alongside Westerns, dramas, and comedies. All through the twenties, starting with smash hit "Lullaby on Broadway" musicals broke box office records. The starts included Fred Astaire, Ginger Rogers, and James Cagney. By 1939, Metro-Goldwyn-Mayer's Alan Freed was hired as associate producer of The Wizard of Oz, and rescued the film's signature song Over the Rainbow. He brought talent from the Broadway and the New York stage. This era allowed the greatest talents in movie musical history to flourish, including Judy Garland, Gene Kelly, Ann Miller, Donald O'Connor, Cyd Charisse and Mickey Rooney.

Music in the movies includes a wide variety of genres from classical scores and original soundtracks to authorized used of popular recordings. The AFI has established special categorizes honoring the 100 greatest, and the Academy Awards devotes a part of its show to nominated songs.

The Record Labels in Los Angeles

In 1920, Andrae Nordskog, an opera singer-turned-entrepreneur, became the first independent West Coast disc record producer. As manager of the Hollywood Bowl, he opened the first commercial recording studio intending to record some of the celebrities appearing at the Bowl. Theophilus Fritz launched The Golden Record Company of Los Angeles claiming the city was "peculiarly suitable for the manufacture of phonograph records on account of atmospheric conditions". While independent ventures came and went, the major labels were slow to express much interest in California. Columbia made its first visit in early 1921. Songwriter Johnny Mercer founded The Capitol Record Company in 1942, with the financial help of movie producer Buddy DeSylva and Music City record storeowner, Glenn Wallichs. Capitol was the first West Coast label, competing with RCA-Victor, Columbia and Decca, all based in New York. Recording artists included Paul Whiteman, Bing Crosby, Les Paul, Peggy Lee, Les Brown, and Nat King Cole. In 1946, it sold 46 million records. Capitol purchased the KHJ Studios on Melrose Avenue next to the Paramount Studios Lot in Hollywood, concentrating on popular music with stars the caliber of Frank Sinatra, The Andrews Sisters, Jackie Gleason and The Four Freshmen, Al Martino, and Nancy Wilson.

In 1957, the English record company EMI acquired 96% of Capitol Records stock, for $8.5 million. The Capitol Records building is one of the most distinctive landmarks in Hollywood, California. The 13-story earthquake resistant was the world's first circular office building, and is home to several recording studios. The wide curved awnings over windows on each story give it the appearance of a stack of vinyl 45s on a turntable. Capitol became American distributors of Badfinger, The Band, The Beach Boys, and The Beatles.

In the seventies, they launched two alternative labels: EMI America Records, and EMI Manhattan Records. Capitol added artists in a variety of genres during the 1980s: popular music groups and singers like Crowded House, Duran Duran. In 90's, stars include Selena, Blind Melon, Garth Brooks, Meredith Brooks, Coldplay, The Dandy Warhols, Dilated Peoples, Doves, Everclear, Geri Halliwell and Ice Cube.

In 2001, EMI merged Capitol Records label with the Priority Records label to manages rap artists including, Snoop Dogg, C-Murder, and Lil Zane.

Motown

Berry Gordy Jr., funded with an $800 loan from his family, created the first major black-owned record company in the world in January 1959 located in Detroit, Michigan. Berry wanted to break into a white dominated recording industry. Motown's phenomenal growth was due to the ability to spot raw talent and the strenuous professional training in choreography, stage entrances, ad-libbing, and dancing in synch. Tuition was free and attendance was high. The Motown label revolutionized the industry. Motown's first successful group was a teenage girl quartet called The Marvelettes writing and performing "Please Mr. Postman" in 1961. Later, Gordy experimented with teaming up individual artists to create new sounds. Diana Ross duetted with Lionel Richie; Stevie Wonder teamed up with Syreeta and The Supremes and The Four Tops to sing together in the 1971 smash-hit River Deep, Mountain High.

The growing social upheaval of the 1960's and the worsening conditions in downtown Detroit changed both Gordy's location and business strategy. In 1972, the Motown company moved to Los Angeles, California, and Gordy expanded the company out into film and television outlets as well as recording. In June 1988, MCA and Boston Ventures bought Gordy's interest, Boston Ventures then sold Motown Records to the Dutch-based Polygram conglomerate for $325 million. Motown's legacy now includes Boyz II Men, India Arie, rapper Q-Tip, and soul diva Queen Latifah. Universal Motown Records Group continues to be known as the largest music company in the U.S.

Distinctive Los Angeles Sounds

Gospel

In the 1930s and 1940s, pioneer gospel musicians and preachers who moved from the South and Midwest to the West Coast established major churches and choirs. Building on this legacy, Los Angeles became a national center for gospel. By the mid-1960s, established gospel artists such as James Cleveland and Bessie Griffin moved to Los Angeles to take advantage of gospel music opportunities in radio, records, television and with live singing in community choirs, quartets, and small groups. To raise awareness of LA gospel, the UCLA Ethnomusicology Archive and the Heritage Music Foundation are partnering in Gospel Archiving in Los Angeles (GALA), a yearlong collaborative project will pair the Archive's resources and expertise with HMF's stature and reputation in LA's gospel music community.

Laurel Canyon

From 1967-75, The Laurel Canyon scene was an epicenter for talented songwriters and emergent new singing stars. This special group included the Byrds, the Mamas and the Papas, Joni Mitchell, and Graham Nash. Always a bohemian enclave, Lookout Mountain Avenue was on an impossibly narrow, winding road with a couple of flimsy wooden guard rails. Tiny, Hobbit-like cottages were piled on top of each other. Mama Cass hosted regular salons. Joni Mitchell as well as Elton John had a regular hangout in The Troubadour, which opened as a folk club in 1957. In 1973, David Geffen and Lou Adler opened the Roxy as a direct competitor. The loving "softness" of laurel Canyon soon became transformed into the extraordinarily competitive entertainment world of Los Angeles.

The Los Angeles Music Center-Public/ Private Partnership

The Music Center complex opened December 6, 1964 as public/ private not-for-profit partnership with the County of Los Angeles, owner of the facility. The Center was established largely through the extraordinary efforts of Dorothy Buffum Chandler who raised $20 million in private donations. The Music Center, home to the Dorothy Chandler Pavilion, Ahmanson Theater, Mark Taper Forum, and Walt Disney Concert Hall has over 1.3 million visitors to one of the three largest performance centers in the country. The Music Center Education Division is nationally recognized for its school programs, teacher training, and development of arts curriculum provides high-quality arts education to more than 350,000 students and teachers annually through nearly 14,000 programs presented in 20 languages. Each year the Division presents more than 15,000 performances and other arts programs in more than 600 public and private Southern California schools.

A Board of Directors governs the Music Center. The County of Los Angeles owns the Music Center and provides funding for its maintenance, operations, grounds keeping, security, and ushers. Revenue from the operation of the Center garage offsets these expenses. The Music Center and the four performing arts companies are responsible for the productions presented in the theatres. The Music Center maintains and operates the buildings and the grounds and oversees occupancy of the theatres, restaurant facilities, and the Music Center Archives.

The Los Angeles Philharmonic founded in 1919, is under the leadership of Music Director Esa-Pekka Salonen (1992) and Executive Director Deborah Borda (2000). The Philharmonic Education Programs introduce children and the public to symphonic music and jazz with programs that include Symphonies for Youth, Open House at the Bowl and Symphonies for Schools. The Philharmonic Partners Program, launched during the 2000 – 2001 season, is a new initiative for selected schools to bring music into classroom curricula.

Center Theatre Group, founded in 1967, is led by Artistic Director Michael Ritchie (2005) and Managing Director Charles Dillingham (1991). CTG has served more than one million Los Angeles County residents with programs for students and teachers. P.L.A.Y. (Performing for Los Angeles Youth) reaches more than 35,000 Los Angeles County students annually.

Los Angeles Opera, founded in 1986, is a world-renowned company with a repertoire of perennial favorites and rare masterpieces in innovative productions, starring internationally established performers and promising new artists. Students and teachers participate in In-School Opera residency programs, Opera Clubs, Free Student Matinees and Accredited Teacher Training. The company also serves Los Angeles County residents, including senior citizens and families, through numerous free outreach performances and educational programs.

Nashville

The growth and sustaining success of the Nashville music industry is rooted in its very beginnings. The "Country" cowboy, frontier, lyrics, laments, and style had widespread appeal throughout the U.S. These almost "patriotic" songs were coupled with innovative entrepreneur's understanding of the power and profits in the broadcast programming. Cowboys were western, urban, popular and sensitive. Both early radio and early television brought the Nashville sound to almost every American city. Over a half-century later, the home of Country is reflective of its original homes.

On the Radio

WSM's first official broadcast day was October 5, 1925. Edward W. Craig was forceful personality behind the creation of WSM. As vice-president of his father's National Life and Accident Insurance Company in 1922, he was an avid fan of the "magic" of radio at the time when new stations were signing on. He believed that the power of radio could work for advertising his company as well as helping Nashville. In fact, WSM stood for the slogan "We Shield Millions". On broadcast day, hundreds gathered at Seventh and Union in front of the National Life Building. Two orchestras provided "live" entertainment over WSM via remote lines. Popular radio announcer Hay introduced 77-year-old fiddler Uncle Jimmy Thompson as part of a show called the WSM Barn Dance. The show was informal and improvised. WSM Barn Dance Saturday started a ritual called "come to town" day in the South with the courthouse lawn as gathering venue. The caliber of performers was as excellent as were the engineers and technicians creating the sound waves. Two years later, Hall renamed it "The Grand Ole Opry", the start of the longest running, live radio show in history.

An introduction to film and records

In 1940 Republic Pictures produced The Grand Ole Opry, a full-length Hollywood feature film starring Judge Hay, Uncle Dave Macon and Roy Acuff. Hollywood was very much a fan of the "Cowboys" and had already produced some very famous Western tales. This widespread success release confirmed that the world liked country music and that Nashville was its center.

WSM station played an integral role in establishing the city of Nashville as a recording center. The recording engineers began to make discs of their music programs and to book recording sessions in the studios. Eddy Arnold made the first modern country recording at the WSM studio in 1944. In 1947, one of the first million-selling records to come out of Nashville was made in WSM's studio "C", "Near You" by pop bandleader Francis Craig and his Orchestra.

First Commercial FM Station

In 1941, DeWitt, who had manned the audio controls at the first Opry broadcast lead the creation of America's first commercial FM station at an assigned frequency of 44.7 megaHertz, "W47NV". The reach included Kentucky and Alabama. Four years later it was renamed "WSM-FM".

Recording Studios

WSM engineers opened a studio in the ballroom of the Tulane Hotel dubbed "Castle Studio". It became the busiest studio recording country music in the early 1950's. Ryman Auditorium in downtown Nashville is world-famous for its extraordinary acoustics as well as the quality of its live recordings.

The Record Labels on" Music Row"

In the 1950's, "Music Row" was the direct result of WSM's success. It was located at Sixteenth Avenue South. As Nashville was fast becoming a music business center, WSM announcer David Cobb named it 'Music City U.S.A.'. Upon signing Elvis Presley and securing publishing rights to his songs, RCA chose Nashville as its southern location. The Everly Brothers and Chet Atkins soon followed Elvis to record in Nashville. After a string of hits, "All I Have To Do Is Dream", "Wake Up Little Susie", and "Bird Dog", New York and Hollywood-based publishing companies set up offices in Nashville.

Crossover-Sound

As Rock & Roll rose in popularity, the country sound fell. Bradley, pianist and bandleader for WSM, owned a recording studio on "Music Row". Atkins, a virtuoso guitarist, and RCA's A&R was running the Nashville studio in 1957. Together they would add mellow strings and vocal chorus and created "the Nashville Sound", a strong force in the shaping of Rock& Roll. Elvis Presley recorded more than 200 of his songs at RCA's Studio B on Music Row.

Nashville Sound

This distinctive Nashville Sound is a blend of pop and country, an outcropping of the big band jazz and swing of the '30s, '40s and early '50s, mixed with the storytelling of honky-tonkers. Jim Reeves from Texas was a pop balladeer. In 1947, he married schoolteacher, Mary White, moved to Shreveport and became an announcer on KWKH, the station that owned the Louisiana Hayride. One night in 1952, when Hank Williams didn't show up, Jim sang. By 1955 he joined the Grand Ole Opry. The February, 1957 release of "Four Walls" revealed an intimate, velvet tones over a muted backing.

Patsy Cline, born in Winchester, Virginia, on September 8, 1932 began learning piano at eight and became a young teenage singer at local clubs. In 1948, she won an audition and a trip to Nashville. In 1957 she won an Arthur Godfrey Talent Scout Show, singing "Walking After Midnight", and by 1961, she became a featured singer on the Opry. Her hits, "Release Me", "Imagine That", and "Leavin' On Your Mind", made her top female country singer. On March 5, 1963, Patsy died in an air disaster at Camden, Tennessee. Her sound is a major influence on singers like Loretta Lynn, Reba McEntire and Sylvia. In 1973, she was elected to the Country Music Hall of Fame.

BMI Record Label and Promoter of Country Music

BMI, founded in 1940, traditionally played an active role in bringing music to the public in all arenas. In Nashville, they worked early on with Acuff-Rose. BMI held its first public event in 1951. Two years later, BMI premiered its annual Country Awards, honoring songwriters and publishers. In 1962, BMI built a major office complex on Music Row in the heart of the industry's array of publishing offices and recording studios. The range of major songwriters during this period who became members of BMI is staggering. BMI hit songs included "Heartaches By The Number" and "I Can't Stop Loving You". With the creation of the "Outlaw", Willie Nelson became a national icon and "Urban Cowboy" a top grossing film.

During the last ten years, Country music is increasingly more popular as indicated by the Billboard ranking. BMI is still dominant in producing and recording award-winning country stars and songwriters. They are themselves a mini music industry with 84 percent of the members of the Country Music Association Hall of Fame affiliated with them. BMI's most successful artists include Alabama, Tim McGraw, Faith Hill, Shania Twain, and Vince Gill.

Country Music Association

The Country Music Association was founded in 1958 and became the first trade organization dedicated to promoting and growing the reach and profitability of the Country Music industry. It addressed the market segments of advertisers, live audience, media, record buyers and concert attendees. It has grown from 233 members to over 6,000, in 41 countries. There are fifteen different membership categories.

In 1961, the Board established the Country Music Hall of Fame to recognize Country Music's greatest contributors. In 1964, CMA celebrated the first National Country Music Month, and in 1967, its first home was opened on Nashville's Music Row. That same year, CMA developed a "CMA Code of Ethics" for use by performing artists. Its second annual CMA Awards was the first music awards ceremony telecast on a national network.

CMA oversees the annual selection of honorees with the induction into the Country Music Hall of Fame televised on the CMA Awards. In 1976, CMA initiated the CMA Speakers Bureau, a network of individuals who take the Country Music story to civic, educational and social organizations. The CMA Board established Mueives RIAA Cultural Award for its efforts to heighten awareness of Country Music worldwide and for support of legislation for protection of sound recordings. In 1989, CMA launched a marketing campaign targeting ad agency execs and corporate marketers with presentations about the selling power of Country Music. And in 1997, CMA started MINT (Music Industry & New Technologies), a one-day conference on the Internet, websites, software technology, intellectual/ copyright issues. In June 2001, the museum moved to a $37 million facility in Downtown Nashville operated by The Country Music Foundation.

The Country Music Hall of Fame and Museum

The museum's vast collections tell the story of country music over the last two centuries. On exhibit are historic country video clips and recorded music, permanent exhibitions, and live performances. Sing Me Back Home tells the story of country music from its pre-commercial roots in the nineteenth century. The museum started with the 1963 CMA announcement of plans. That same year, the state of Tennessee chartered the Country Music Foundation, Inc as a non-profit, educational organization charged with operating the Museum.

Museum educational highlights include approximately 10,000 clips related to the history of country in America, over 200,000 recorded cylinders and discs including 98% of all pre-World War II country recordings ever made, 60,000-80,000 cataloged images related to the history of country and American Folk music, a substantial collection of oral history interviews, and over 600 instruments, including guitars, banjos, pianos, drums, fiddles, steel guitars and mandolins. RCA Studio B – the recording home of popular music titans such as Elvis Presley, Chet Atkins, Eddy Arnold, and the Everly Brothers – is both a classroom for Nashville-area students and a popular cultural attraction. Its innovations in recording practices include the development of the "Nashville number system", a musician's shorthand for notating a song's chord structure. The studio is a learning laboratory for students enrolled in Belmont's Mike Curb College of Entertainment and Music Business for the study of recording fundamentals. It also serves as a classroom for Nashville-area middle and high school students

Nashville

The presence of hundreds of active music organizations attests to the prominence of Nashville's mutli-faceted music industry. From recording jingles to copyright law and live performance, and live sound recording, Nashville is still one of the places that talented artists move to both live and work. Of special note are those organizations formed to share information and encourage training and business growth.

Nashville is home to Access Nashville providing a master link to a range of Nashville music websites, including online music sources. The BlueShoe Nashville Music Guide includes current information on concerts, clubs, music festivals, and special performances in Nashville. The Butch Baldassari's Nashville Mandolin Network gives recording and concert information on Nashville Mandolin's Ensemble, along with news on mandolin workshops and special events. The Nashville Association of Professional Recording Services – Organization of the Nashville music industry. Nashville Publishers Network Association of music publishers is dedicated to establishing networks in the Nashville music community. One of the many strengths of the Nashville music industry is the strong community infrastructure in its many niche markets.

Austin

The growth of the music industry in Austin is a study of the highly successful combination of top-notch weekly live broadcast, a vibrant local music scene and the launch and sustained importance of a music/ entertainment/ business conference and festival. As the capital of Texas, Austin is in the heart of the West. The State of Texas has a confluence of Anglo, Latin, and Black cultures that produced the talent who helped define the uniquely American sounds of Rock and Roll, jazz, blues, and western swing as well as the world music beat. With the campus presence of the University of Texas as well as a thriving technology industry, Austin has solid base of enthusiastic, well-heeled music lovers with a liberal bent and a diversity of ethnical and cultural traditions.

A New Sound for the 1970's

In the early 1970's, the lush landscape and quaint, tolerant charm of Austin attracted hundreds of singers, songwriters and guitar players. They collectively created a new musical style, alternatively named "Outlaw country", "progressive country" or "redneck rock". The East Austin Victory Grill opened in 1945 and became a center of R&B as black soldiers were served without discrimination. In the 1960's, the "cosmic cowboy" music of Willie Nelson, Jerry Jeff Walker, and Michael Martin Murphey changed the shape of country as dramatically as the new "psychedelic" sound of Janis Joplin and The 13th Floor Elevators.

PBS Premieres its Longest Running Series

In 1974, a live audience filled a television studio, Studio 6A, leased by public television station KLRN (now KLRU) at the University of Texas at Austin. The title of the show came from producer Paul Bosner who traveled from Dallas and always noted the Texas Highway Department's 'Austin City Limits' sign at the north edge of town. Willie Nelson taped the pilot performance for Austin City Limits. This new public television program was created to spotlight the growing music scene in Austin, Texas. The program broke all 1975 fund-raising records across the South. PBS picked up 10 more programs for 1976 featuring Asleep at the Wheel and the Charlie Daniels Band. By 1977, Gary P. Nunn's "London Homesick Blues" soon becomes synonymous with Austin City Limits. Willie Nelson and Jimmy Buffett became national stars, Nashville stars as well as New Orleans musicians appear on the show.

During the 1980's, Austin City Limits created a Songwriters Special, and hosted Ray Charles, as the first African\ American talent, as well as the infamous Jerry Lee Lewis, the unique vocals of Bonnie Raitt and Austin's own Stevie Ray Vaughan. For its 10th anniversary, it threw a party for 5,000 in downtown Austin. Soon after, the show hosted Emmylou Harris, Fats Domino, and Johnny Cash with June Carter.

From the 1990's on, Austin City Limits introduced the Superstars as they rose to fame. In the 1990s: Mary Chapin Carpenter and Garth Brooks had their premiere. The diverse talent and artist included Dr. John, Garrison Keillor, and Lyle Lovett. In 1997 Austin City Limits declared itself "this country's music" to illustrate the wide-ranging impact of two indigenous American musical genres, blues and country.

Southwest Music and Media Conference & Festival

In the mid-80s, more alternative and youthful innovation appeared on the scene with the start of South By Southwest Music Conference, as bands from all over the world converged in Austin. Since 1987, South by Southwest (SXSW, Inc.) as a private company with a year-round staff, has produced the internationally recognized event.

While Austin has a rich cultural and musical tradition, its local musicians were a long way geographically from the record labels and entertainment centers of America. The mission of the festival and conference was to bring the music world to Austin. The festival and conference were intended to be a catalyst and tool for the development of new business opportunities. From the start, both national and international exposure and attendance was high. Austin had a strong live creative music scene, and was an appealing town to visit. By 1994, as film companies and high-tech companies started to play a more significant role in the Austin and the Texas economy, SXSW added a film and interactive component. Now, approximately 6,000 people attend every March.

The festival venue is downtown Austin. The Music and Media Conference showcases musical acts on over fifty stages. The Interactive Festival brings tech entrepreneurs and digital innovators together for four days of meetings. The Film Conference and Festival emphasizes the needs of the independent filmmaker. In 2006, over 2,100 members of the Music media community watched almost 1,500 musical acts. Almost 5,000 film attendees screened 230 films. Over 10,000 Film/ Interactive Trade attendees visited over 130 exhibitors. The Austin Convention & Visitors Bureau states that the three conferences deliver an economic impact of $38 million. Ancillary benefits include widespread national media attention and a 45% increase over the next highest month at music venues, bars and restaurants, from around the U.S. and numerous countries around the world.

City of Austin Promotes Live Music Venues

In Austin, the live music scene encapsulates the sound that is heard in over 150 live music venues on any given evening. While the venues started at Sixth Street, the city's most famous entertainment district, music now plays from stages at Austin-Bergstrom International Airport, in the parks, on the lakes, from the Warehouse District and at landmarks along South Congress Avenue. In 1991, blues musician Lillian Standfield approached the City's Music Commission with the concept that Austin could brand itself as the "Music Capital of the USA". City staff research found that Austin had more live music venues per capita than such music hotbeds as Nashville, Memphis, Los Angeles, Las Vegas or New York City.

The City of Austin has started a series of music initiatives in the community. A music series showcases local musicians with free concerts on Fridays at noon on the plaza at City Hall between April and October. The City created the Austin music channel as an economic development project to showcase local music and musicians. Austin Music Partners launched Music & Entertainment Television on October 1, 2005 on Channel 15 on both Time Warner and Grande Communications stations.

Texas Music Office

The Texas Music Office was created on January 20, 1990 by the legislative mandate "to promote the development of the music industry in the state by informing members of that industry and the public about the resources available in the state for music production". This state-funded business promotion and information serves as clearinghouse for the TMO's Business Referral Network: Texas Music Industry (7,600 Texas music businesses in 96 music business categories), Texas Music Events (690 Texas music events), Texas Talent Register (5,800 Texas recording artists), Texas Radio Stations (800 Texas stations), US Music Contacts, Classical Texas and International (720 foreign businesses interested in Texas music). It published an annual Texas Music Industry Directory. It offers its research and music industry studies to over 14,000 individual clients each year, from new bands trying to make statewide business contacts, to international journalists, and management contacts for Texas recording artists. It has an Internet Guide to Texas Music and a Texas Music Events Calendar.

State incentives include the Sales and Use Tax Exemptions Available for Producers of Audio Master Tapes. A producer may claim 100 percent exemption from state and local sales and use tax on qualifying machinery and equipment purchased, repaired, leased or rented and used directly in the production of audio recording masters. The Texas Music Office offers internships every four months to four students. Since opening in January 1990, 164 students from 12 colleges successfully completed the TMO's internship program. TMO fellowship recipients work at least 10 (and as many as 30) hours each week researching and marketing Texas music businesses, events, and talent. Responsibilities include:

interviewing Texas music business owners, inputting information into the TMO's databases, and assisting TMO staff with administrative duties.

Austin Music Foundation (AMF)

Austin Music Foundation (AMF) is a non-profit organization with programs and services dedicated to the education, development and advancement of musicians, the creation and preservation of Austin's unique musical heritage, and the development of a united and sustainable local music community. AMF offers a year round consultation service covering marketing, business strategies, and touring and promotion. The Austin Music Incubator provides awardees up to $15,000 worth of services for recording and marketing their record. Music Industry Boot Camp is a bi-monthly educational seminar helping musicians and industry professionals learn about the business aspects of the music. Speakers are professional, selected for their expertise and experience.

Seattle

This scrappy frontier town with its Pacific Maritime fog and rain has played an important role in the democratization of American music since the early jazz days of the 1920's. Because of its social and economic climate, its cultural hegemony and its stance as a western workingman's town with no undue regard for bigotry, conformity or conventional mores, Seattle has been at the forefront of decades of inventing new musical forms that often become the symbols of youthful rebellion. The growth of Seattle's biggest businesses from Boeing to Microsoft has resulted in the deep-pocket patronage from such eminent music lovers as Paul Allen with his Jimmy Hendrix fascination.

Jazz and the Workingman

Seattle has had a remarkable jazz history beginning in 1918 when Lillian Smith's jazz band played at Washington Hall. During the Prohibition, an authentic black jazz scene developed around Jackson Street and Twelfth Avenue. From 1937-51, Seattle became the center of the defense industry. The numerous workers, soldiers, and civilians frequented the over two dozen nightclubs along Jackson Street. Luminaries of the likes of Jelly Roll Morton, Ray Charles, and Quincy Jones showed up in Seattle. Many locals went off to Los Angeles and New York to foster their careers. However, touring musicians treated local Seattle players as peers and kept the Jazz tradition alive in Seattle. Jazz often thrived in Seattle in "dives", located in a black ghetto where gambling, prostitution, and illegal drinking were part of the scene. Considering the vast distances and the hardships of traveling cross-country, it is remarkable how many Jazz greats played in Seattle from the 1920's-1950's.

Dolton Records Sounds of the '50's

Dolton Records was started by Bob Reisdorff in 1959 and became the region's first rock 'n' roll-oriented label. It issued records by teenaged musicians from various Northwest towns including Olympia, Tacoma, Spokane, and Seattle. Its hits like the Fleetwoods "Come Softly To Me" became Billboard and CashBox winners. Its operation was based in downtown Seattle in the Dolphin Records warehouse and Reisdorff took copies of the 45 around to various contacts at KING radio. He then cut a distribution deal with the big-time Los Angeles-based label, Liberty Records. Doubleday Books claimed the name Dolphin; his label now became Dolton.

The next discovery was the region's top rock 'n' roll dance combo and the band's driving instrumental tune – "Straight Flush". The Bluenotes were the region's first white teenaged R&B group. Dolton scored again twice: the Fleetwood's "Mr. Blue" rocketed to No. 1, and the Frantics landed again on Billboard's Hot-100 chart with the single, "Fogcutter". By July 1960, "Walk – Don't Run" was on its way to becoming an international smash. Now Dolton concluded negotiations with Liberty Records who relocated the label to a new office complex in Los Angeles where Reisdorff would oversee the Dolton division. In late 1963, Reisdorff sold Dolton outright to Liberty Records.

Seattle Garage Rock

In 1963, local garage bands like the Kingsmen (Portland), Paul Revere and the Raiders (Portland), The Trashmen (Minneapolis) and the Rivieras (South Bend, Ind.) made the national charts. By 1964, American music witnessed the British Invasion. Garage rock bands emulated the harder, blues-based attack of The Animals, The Yardbirds and The Rolling Stones. As the name implies many of the "Garage rock" players were young and amateurish, and gathered and rehearsed in a family garage in a suburban, middle-class setting. Several dozen bands produced national hit records, including "Psychotic Reaction" by The Count 5 (1966), "Louie, Louie" by The Kingsmen (1963-64), and "Dirty Water" by The Standells (1966) and "The Witch" by the Sonics in Seattle (1965).

In the later 1970s and early 1980s, compilation LPs became widely known to record collectors. In the 1980s, another garage rock revival saw a number of bands earnestly trying to replicate the sound, style, and look of the '60s garage bands. Both styles were blended into the alternative rock movement and future grunge music explosion.

Seattle Starts a Great Wagnarian Opera Tradition

Founded in 1963, Seattle Opera is one of the leading opera companies in the United States, internationally known for its theatrically and musically accomplished performances. The Seattle Opera marketed itself brilliantly. Founding general director Glynn Ross soon achieved the highest per-capita opera attendance of any opera company in the nation. In 1970, Ross founded OPERA America, a service organization for opera companies. In summer 1975, Seattle Opera garnered international recognition by presenting Richard Wagner's complete four-opera Ring cycle, uncut, in a week's time. Only the Metropolitan Opera had ever done this nationally in the year 1939.

For the last 20 years, General Director Speight Jenkins has led the company. During Jenkins' tenure, the company has produced all 10 of Wagner's major works including two complete new productions of the Ring. Seattle Opera's 2001 presentation of Wagner's Ring des Nibelungen was the most successful production in the company's history, selling out all 36,000 seats a full year in advance of opening. The three complete cycles of the Ring drew audiences from 49 states and 19 countries.

Grunge and the Seattle Sound

This genre of alternative rock was inspired by hardcore punk, heavy metal, and indie rock and became commercially successful in the late 1980s and early 1990s. Bands from cities in the Pacific Northwest of the United States, such as Seattle, Olympia, and Portland, created grunge. It was hugely popular with Generation X in the U.S. Grunge music features "dirty" guitar caused by distortion and feedback, strong riffs, and heavy drumming. The lyrics express anger, fear, and depression. Grunge evolved out of the Pacific Northwest's local punk rock scene, inspired by local punk bands such as The Fartz, The U-Men, The Melvins, and the punk band The Wipers. The musical resemblance to such 1960s northwest bands as the Wailers and, most particularly, the Sonics, is unmistakable.

Mark Arm, vocalist for the Seattle band Green River invented the name. Grunge means dirt. The "dirt" reflected the "dirty" guitar sound and the unkempt appearance of most bands. Green River inspired other early grunge bands such as Soundgarden and Alice in Chains – Nirvana's style combined the sound of earlier grunge bands with that of The Pixies. Grunge's unique sound is often said to have resulted from

Seattle's isolation from other alternative rock scenes. In 1992 'Smells Like Teen Spirit' with its heady mix of metal and punk, that alternated Cobain's whisper with his guttural scream, made Nirvana an international star.

Sub Pop Records

Sub Pop is an independent record label started by Bruce Pavitt in Olympia, Washington in 1979. It is famous for first signing Nirvana, Soundgarden, Mudhoney, and many other bands from the local scene. It was a fanzine called Subterranean Pop inspired by the cassette fanzine Fast Forward. Sub Pop began alternating issues with compilation tapes of American bands. There were nine issues of Sub Pop in all: six magazines and three cassettes. It continued as a column in the Seattle newspaper The Rocket for several more years. In 1986, Pavitt moved to Seattle, Washington and released the first Sub Pop LP.

Pavitt and his partner Poneman started the Sub Pop Singles Club, a subscription service to sell singles by local bands on a monthly basis by mail. The first release of the Singles Club was Nirvana's Love Buzz/ Big Cheese, in November 1988. Singles Club was ended five years later in 1993, and re-launched in 1998. In 2002, the Singles Club was ended again. To further promote grunge's popularity, Pavitt and Poneman had a journalist from the British magazine Melody Maker come to Seattle to write an article on the local music scene.

In 2006, Sub Pop Records became the first Green-e certified record label. Through work with the Green-e program [www.green-e.org] and the Bonneville Environmental Foundation, Sub Pop purchased renewable energy certificates to offset 100 percent of the electricity they use in their office. They did this as a business action statement to do something about global warming.

Experience Music Project

Founder Paul G. Allen worked with architect Frank Gehry to create EMP as a dynamic exploration of American popular music. Paul Allen amassed the world's largest collection of Hendrix memorabilia, the initial base of EMP. The collection includes more than 80,000 artifacts that helped shape music history, including musical instruments, an extensive recorded sound archive, film, photographs, fanzines from around the world, stage costumes, handwritten song lyrics, and rare song sheets. It combines artifacts, archives, instruments, photographs and permanent exhibitory. It employs interactive technology and features live performances. EMP follows the role of rock 'n' roll, from its roots in jazz, soul, gospel, country and the blues, to its influence on hip hop, punk and other more recent genres.

EMP is committed to music offering a variety of programs for audiences of all ages including: lectures, demonstrations, concerts, master classes, workshops, lesson plans, and special conferences are just some of EMP's innovative and hands-on educational offering. The EMP Pop Conference first convened in Spring 2002 to bring academics, writers, and artists together in dynamic 20-minute sessions.

Music and the Mayor's Office

Under the auspices of the Mayor's office, Seattle takes an active role in promoting the many musical venues from performing halls to clubs and festivals. In an effort to booster tourism as well as engage visitors in Seattle's rich musical heritage, the Mayor's Office produced a pocket guide musical heritage map. This free, folding color brochure acts as a self-guided tour through the city's neighborhoods. Hendrix gets several mentions, including his first and last Seattle shows. "The mayor's a big music fan, everything from swing to Neil Young and lots of stuff in between", said Marty McOmber, a Greg Nickels spokesman. Nickels released a study last year that found Seattle's music industry generated 8,700 jobs and $650 million in annual revenue for the city.

"Seattle's music industry continues to grow", Keblas said. "In 1993, the grunge era was at its height, but it's bigger now. It's diversified. You can't just put your finger on it now. It's everything from hip-hop to indie rock to Benaroya Hall and the Opera House. It all grows in little pockets." The only local label to make the map is Sub Pop Records, forever associated with signing Nirvana's first recording contract with the 1989 "Bleach" album. Since then, the label has signed plenty of post-grunge artists, such as Sleater-Kinney, Hot Hot Heat, Kinski, and Postal Service.

The Northwest Music Fund (NMF) supports developing musical artists by assistance with early recordings, showcasing, touring, and professional music education through both grants and revolving loans.

Appendix V

General Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible, and they are believed to be reliable. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent, and representatives or any other data source used in preparing or presenting this study. No warranty or representation is made by Economics Research Associates that any of the project values or results contained in this study will actually be achieved.

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