Report to

The New York Film, Television and Commercial Initiative

From

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NEW YORK'S BIG PICTURE
ASSESSING NEW YORK'S POSITION IN FILM, TELEVISION AND COMMERCIAL PRODUCTION

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PREFACE

The New York Film, Television, and Commercial Initiative (NYFTCI) — a New York City media production industry coalition made up of studio owners, trade association executives, producers, labor union representatives, and city and state officials — contracted with a research team composed of the Cornell University's New York State School of Industrial and Labor Relations, the Department of City and Regional Planning of Cornell University, and the Fiscal Policy Institute to study the current state of film, television, and commercial production in New York in the context of trends over the past ten years, and thereby to inform their decisions about future strategies to enhance their position.

Matters to be studied included: (1) the dynamics affecting New York's role as a production center, (2) employment and occupational trends, (3) demographic composition of the workforce, (4) emerging location patterns, (5) factors influencing location decisions, and (6) the economic magnitude and impact of this industry in New York.

In general, Cornell's Department of City and Regional Planning assumed responsibility for data collection and analysis with respect to production trends, location patterns, and government incentives; the ILR School for employment, compensation, occupational and labor relations trends; and the Fiscal Policy Institute for economic impact analysis.

This report is a joint effort of the research team and the many organizations and individuals in the industry that contributed their data and insights to this study. We are grateful to all of them. We are especially grateful to the co-chairs of NYFTCI, Stuart Suna (Silvercup Studios) and John Amman (IATSE), for their leadership, commitment, and contributions.

This study examines the production side of the film (or motion picture), television and commercial production industries in New York. Our focus is on the production rather than the distribution of entertainment films and television programs and of audio-visual advertisements (commercials). While these three industries each have their own dynamics, they have much in common when it comes to the actual production process, a fact that is reflected in their being grouped together in the government's industry classification scheme (under "motion picture"). Thus, unless otherwise noted, this report refers to the film, television, and commercial production industry in the aggregate, in short form as *"the Film/TV/Com production industry"*, and sometimes as *"the production industry"* or *"the industry"*. When we are discussing just one part of the broader industry, we will specify that (e.g. *"film production"* or *"film industry"*). Some variations on this nomenclature in the report owe to the categories used by the data source cited.

For more information on the methods employed in this study, see Appendix A at the end of this report.

INTRODUCTION

This study is intended to help policy makers understand the current dynamics and economic significance of film, television and commercial production to New York's economy. The entertainment industries, with film and television production as key components, are among the most important U.S. industries, constituting our second largest international export. The advertising industry, the production of commercials being one component, has been centered historically in New York.

The market for entertainment products is global and has become increasingly complex because of the multiplication of distribution technologies and the expanding range of ways in which entertainment products can reach the consumer. With an expanding global reach, revenues have continued to grow, even in these high-risk industries.

Since the mid-1980s, major distributors and producers of film and television products have consolidated, enabling them to repurpose products across distribution platforms, reduce risks, and increase profits through the ownership of creative intellectual property. The major firms have also been able to exercise their market power with producers who are under pressure to cut production costs and find financing for the films and television programs they want distributed.

At the same time that the restructuring of these industries has increased pressure on producers to reduce costs and find financing, changes in technology and investments by firms and governments have opened up a range of new international production locations, particularly in the English speaking world. In 2005, a substantial number of the movies produced by the major U.S.-based studios were produced outside the United States. Essentially, location choices made for creative reasons have been replaced by location choices made for economic reasons.

Although initially reluctant to match the production costs, labor flexibility and financing deals available internationally, states within the United States have become increasingly aggressive in bidding for film production through tax and other incentives. And, with costs for talent rising, below-the-line expenditures for crew, while consuming a shrinking proportion of budgets, are seen as the one component under producer control, leading to a worldwide search for lower cost labor.

How do these trends affect New York's role as a leading center for film, television and commercial production? In complex ways, certainly: New York has always been a favorite location for film, television and commercial production and has numerous advantages as a site not only for location shooting, but for all phases of the production process as well. New York City is a creative hub and a primary center for acting talent and all the occupations required for media production. The City also has a wide array of production facilities and business services specialized in the entertainment industry. Access to new ideas and new technologies enables New York's producers and unions to quickly identify and adapt to emerging entertainment markets.

Our study is designed to build on these assets and to assess trends in production, employment, and location in film, television, and commercial production as a way to understand how the broader trends in media entertainment and advertising are playing out in New York. Our goal is to provide all the interested parties with critical information and an analysis that can guide policies to insure the future of these key industries in New York.

EXECUTIVE SUMMARY

The Dynamics of New York's Role in Film, Television and Commercial Production

Key Finding: Production in New York is expanding but primarily in television.

- New York has some distinctive comparative advantages in film, television and commercial production**.** It is a creative hub for the industry – a substantial proportion of the directors participating in the Sundance Film festival are located in New York. Because of multiple employment opportunities for actors — in legitimate theater and commercials as well as in media entertainment — New York is a primary center for acting talent. More than a third of U.S. actors are found in New York City, 12% of film editors and 10% of set designers. New York also is a headquarters for Cable and Broadcast television and so has strong buyer-supplier connections in televised media.

- The available evidence indicates growth in film, television and commercial production in conjunction with the expansion of global entertainment and advertising markets. That said, there have been changes in production methods and product types, which affect the extent and type of production taking place in New York City. For example, while television production (in terms of number of productions and dollar volume) is increasing, at least a portion of that increase is in cable TV programming, a medium that is dominated by low budget productions and more likely to use independent contractors and less likely to use a unionized labor force.

- Significant new investments in sound stage capacity have enhanced New York's attractiveness as a production center. Tax incentives instituted by the state and city appear to have had a positive marketing impact. While these measures support existing and previously committed productions as well as new projects, the state and city film offices report an upswing in shooting days, and industry experts report an increase in the number of TV pilots.

- Commercial production has continued to decline in New York City in conjunction with the loss of advertising agency headquarters. New York is now the home to one-third of all the advertising agency headquarters in the world as compared with one-half only twenty years ago. The loss of the ad agencies to L.A. and London has adversely affected production in New York.

Employment Trends

Key Finding: According to data reported by the government, employment in New York's film, television and commercial production firms has slowed or stagnated since the late 1990s, with some exceptions. Changes in total wages and salaries paid by firms reveal an increase in the level of activity in these industries since the third quarter of 2004.

- Between 1995 and 2004, employment measured in terms of the number of full-time and part-time jobs in firms in New York State peaked in 2000 and declined for the rest of the period of study. However, total wages and salaries paid, which might be a better indicator of the level of activity in this industry, have shown significant recovery since the 3rd quarter of 2004.

- Compared with rest of the U.S. including California, New York's share of jobs in production and post-production firms increased between 1998 and 2001, but has declined from about 22 percent in 2001 to about 15 percent in 2004. Since 2001, California has strengthened its position as the top producing state with 63 percent of jobs in firms in 2004.

Demographic Characteristics

- Census data on the demographic characteristics of selected occupations in the industry indicate that the labor force of key below-the-line occupations is predominantly male. In terms of its racial and ethnic composition, the labor force of the selected below-the-line and above-the-line occupations is predominantly white. These patterns differ from the demographic composition of the workforce as a whole in New York State.

Employment and Wages by Occupation

Key Finding: According to payroll and benefit fund records, while there are variations by profession and sector, New York employment, workdays and wages for above-the-line professionals show a slight upward trend from 2000 to 2004. For below-the-line crews, there were variations by occupation, but overall workdays and hours were slightly down, while earnings showed increases. From 2004 to 2005 there is evidence of increases in employment.

- While overall employment in the New York film, television and commercial production industry is about the same as ten years ago, there are wide variations in employment and earnings by occupation.

- From 1994 to 2004, the number of New York SAG members with earnings increased but their total earnings remained the same, which means that more actors shared a shrinking pool of money (when adjusted for changes in the cost of living). A positive development is the fact that employment opportunities for background actors (extras) increased over the same period. This may have partially offset income losses for actors who sometimes cross lines between principal and background roles.

- For below-the-line crews, the employment trend was generally negative from 2000 to 2004, with the exception of film editors and teamsters who registered an increase.

- When analyzed by production segment, employment for both actors and studio mechanics remained stagnant in feature films, declined in commercials and increased in television.

- In the past ten years, while employment in these industries in New York was stagnant, Los Angeles saw increases. Regarding actors, total earnings for Los Angeles SAG members in film increased 93 percent, while those for New York grew only 4 percent. In television, total earnings for SAG members rose 63 percent for Los Angeles and dropped 19 percent for New York. In commercials, Los Angeles member earnings jumped to double the total for New York.

Location Patterns And Regional Competition

Key Finding: California has captured a disproportionate share of the growth in production and employment since 2000.

- Overall, analysis of production/location trends indicates that New York has held onto its position as the second most important center for feature film production, averaging about 15% of total film starts. This appears to be due to New York's concentration of talent and expansion of sound stage capacity. Television production in New York has increased, with a higher portion of pilots being shot in New York in 2005 than in the previous five years. New York's dominance in information and education industries has strengthened its hand in cable production.

- Commercial production continues to decline, but this has been occurring for twenty years, and appears to be a result of a slow incremental relocation of the advertising industry to Los Angeles, the increasing use of digital technology, agency or director preferences, and labor flexibility considerations.

- New York is second only to California in terms of the number of state residents who can work in the film and television industries. The number of actors, directors and producers as well as individuals who work in key below-the-line occupations is overwhelmingly higher in California and New York compared to other producing states.

- Industry conglomeration is a major force driving producers -- of feature films and television series, pilots and made-for-TV movies, even commercials -- to assess locations on other than creative grounds. Concentration in film and television has reduced the number of gateways to distribution and allowed the conglomerates to transfer production risks to producers. In addition, the cost of production and distribution of feature films has risen dramatically because of higher above-the-line budgets and new marketing costs for distribution beyond theater exhibition via the multiple platforms where a feature film will eventually make most of its money (videocassette and DVD, network TV, cable, proprietary and foreign markets). Under increasing pressure from their financial backers/distributors as a result, producers are looking for locations that will not only reduce their production costs in below-the-line labor but also provide them with the up-front financing that is required for today's deals with conglomerate distributors.

- Canadian provinces provide significant production location alternatives because the Canadian and Provincial governments provide generous subsidies to non-domestic production companies, but also because Canada has invested for over fifty years in developing regional television-oriented production workforces and facilities. Canada also indirectly subsidizes production via state provision of healthcare. In addition, the low value of the Canadian dollar provided a cost advantage to U.S. producers between the early 1990s and the early 2000s. There have been significant differences between Canadian provinces in tax incentives and other benefits provided to foreign producers. British Columbia has been the most important center for foreign producers forced to find locations that will reduce costs or provide financing. Ontario is still the headquarters for domestic production, but a distant second for foreign production.

Factors in Location

Labor Costs

Key Finding: In comparing New York and L.A., actual differences in crew cost have become less significant, but there remains a perceived difference.

- One of the attractions of New York as a center for film, television and commercial production is its deep pool of talent and crew. Labor unions (or guilds) represent the vast majority of these workers both in New York and major alternative locations. Reflecting the higher cost of living in New York and long traditions of unionization, union contracts provide stronger protections in a few categories of below-the-line employment, which may add to labor costs. In recent years, unions have moved to narrow or eliminate these differentials through national standardization of contract provisions and negotiation of special arrangements for low budget productions.

- Our analysis suggests that cost differentials between New York and Los Angeles are, if not insignificant, highly variable depending on the type of production and budget size.

- In practice, "boutique" contracts are negotiated taking into account the needs of individual producers and their budgetary constraints. Thus, union contract terms for New York producers are showing increasing flexibility.

<u>Government Incentives</u>

Key Finding: A growing list of U.S. states and other units of government here and in other nations have been persuaded to respond to the financial pressures on producers induced by industry restructuring, and now offer producers a widening array of tax-funded programs designed to defray part of project production costs or financing.

The Economic Impact of New York's Film, Television and Commercial Production Industry

Key Finding: The direct value added by these industries to the New York State economy was an estimated $5.4 billion in 2003. Total value added to the New York economy resulting from Film/TV/Com production — including direct, indirect, and induced effects — was an estimated $11.7 billion in 2003. This study used 2003 (prior to implementation of the NYS and NYC tax incentive programs for film and TV production) as the baseline year for developing a detailed, rigorous estimate of the industry's economic magnitude. Based on the change in total wages paid in Film/TV/Com production, this report estimates that New York State's production industry grew by 7.2 percent in 2004 and by 6 percent in 2005. This resulted in an estimated total value added in 2004 of $12.5 billion, and $13.3 billion in 2005.

- In the 2003 baseline year, New York State's industry *directly* employed 36,400, with an additional 31,200 people employed *indirectly* in industries supplying goods and services needed by Film/TV/Com production. Total direct employee compensation was $3.3 billion, and Film/TV/Com production supported activity resulting in $1.4 billion of employee compensation in the indirect industries.

- Because Film/TV/Com production in New York State has extensive backward linkages into local supplier industries, because of New York's unique talent pool and skilled workforce, and because the industry is relatively well paying, the industry has one of the highest employment multipliers among all industries in New York. With a type I employment multiplier of 1.9, every 100 direct jobs in the Film/TV/Com industry is associated with an additional 90 jobs in industries supplying goods and service to Film/TV/Com production. This industry has a type II employment multiplier of 3.1, meaning that every 100 direct jobs supports an additional 210 jobs in indirect (supplier) and induced industries (those related to consumption spending made possible by the compensation received by those employed directly or indirectly).

- This economic impact analysis breaks new analytical ground in several respects, and presents the first comprehensive picture ever of the economic impact of New York's film, television and commercial production. The federal government's new industry classification for motion picture production, introduced in the late 1990's, which classified several categories of motion picture-related occupations as "Independent Artists", and the growing utilization of independent contractors, meant that we had to develop a hybrid methodology to expand the specification of New York's Film/TV/Com production industry. Using the widely regarded IMPLAN input-output model as a foundation, a customized model of the New York film, television and commercial industries was developed to better reflect the characteristics of the local Film/TV/Com production industry.

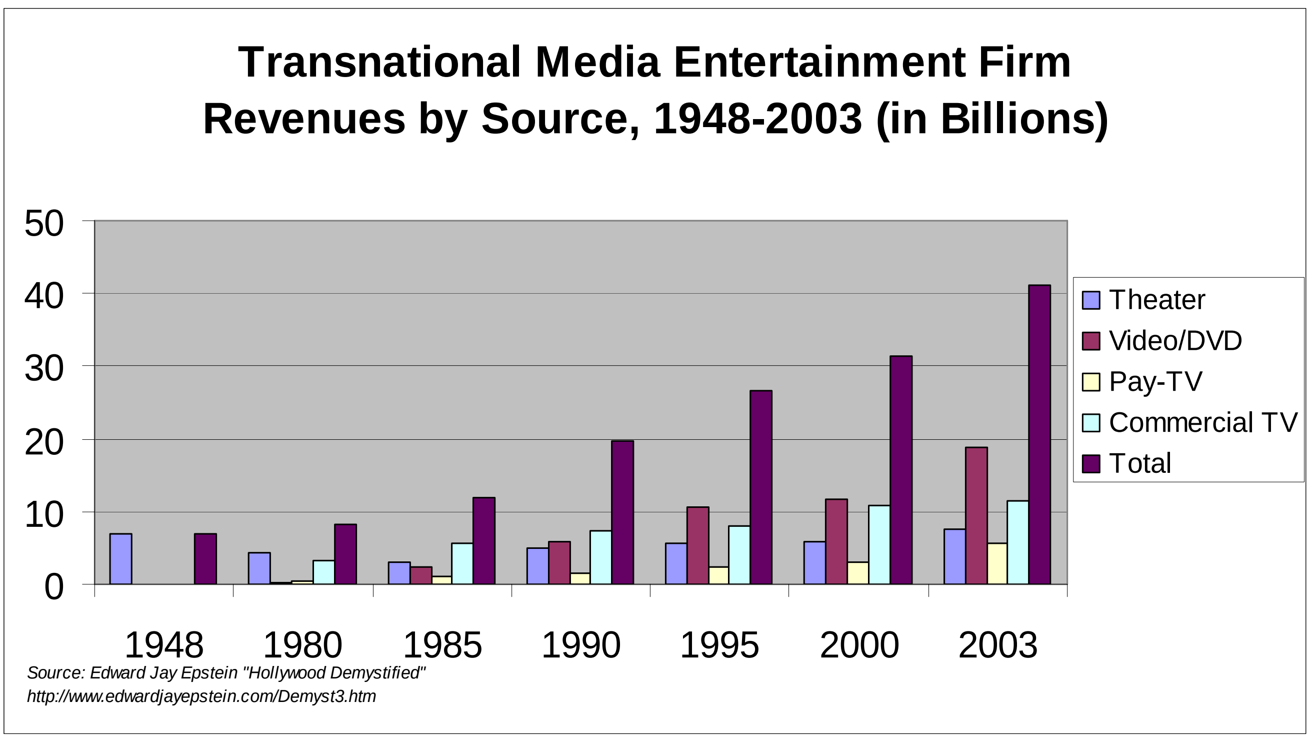
PRODUCTION TRENDS

Industry Growth and Differentiation

Overall, the film and television industries have continued to expand globally through the 1990s and into the early 2000s. As these industries have expanded, however, the firms that dominate distribution have garnered their revenues from multiple sources. The traditional source of profits -- from theatrical releases -- has declined as a proportion of total revenues, and other sources, such as pay (or cable) television, videotapes and DVDs, and more recently, video games, have increased in importance as sources of revenue. This has important implications for New York, which has long been the center of broadcast television and is a strong center for cable television production as well as the second most important location in the U.S. for feature film production. Revenues are up in all segments over time, but there has been a diversification of sources. **(Chart 1)**

Corporate concentration in media means that fewer firms are distributing this range of products. This has had implications for the location of commercial production firms and employment in broadcast television – two historic New York strengths – while new segments have emerged related to the expansion of distribution channels.

Chart 1



New York Trends

This data, from the New York Mayor's Office of Film, Theatre and Broadcasting, can provide only an outline of production trends in New York, particularly because it cannot capture production on sound stages, which are increasingly important in television. It does give us some interesting information about the decline in the use of New York for on-location shooting of feature film, and the importance of television — both Cable and commercial — in the contemporary production scene.

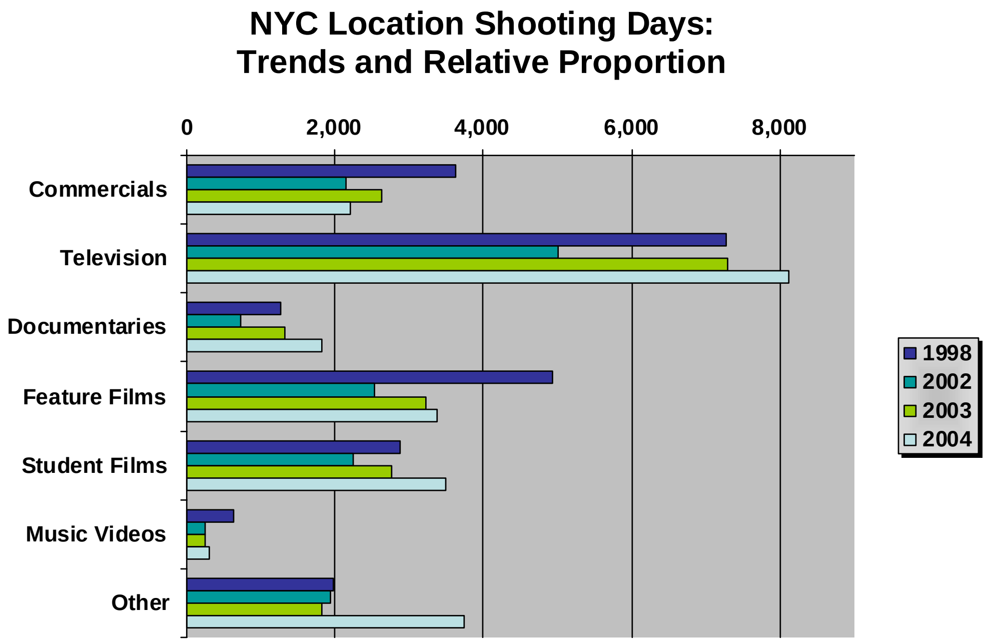
If we look at New York's production trends relative to the sources of revenue by the dominant firms, we can see some interesting parallels. Television, including production for Cable (as indicated by the documentaries category) is increasingly important in New York's production mix. **(Spreadsheet 1)**

Spreadsheet 1

Change from 1998 to 2004 by Production Type: NYC				
Type	**Location Shooting Days**		**Permitted Projects**	
	Percent change	**Compound Average GrowthRate**	**Percent change**	**Compound Average GrowthRate**
Commercials	-39.16%	-8%	-27.72%	-5%
Television	11.70%	+2%	-1.20%	0%
Documentaries	44.22%	+6%	30.15%	+4%
Feature Films	-31.61%	-6%	-4.72%	-1%
Student Films	21.18%	+3%	35.44%	+5%
Music Videos	-50.95%	-11%	-42.16%	-9%
Other	88.91%	+11%	50.75%	+7%
Total	**2.12%**	**0%**	**3.56%**	**+1%**

Source: Data on permits issued for on-location shooting in New York City by the NYC Mayor's Office of Film, Theatre and Broadcasting

Chart 2



Everything but commercials shows signs of a recent recovery.

Data from the Mayor's Office of Film, Television, and Broadcasting support a picture of declining commercial production from the overall high point of 1998, and the recovery of production in other industry segments in the past year. A notable feature is the strength of television production and of documentaries, attesting to New York's niche strengths in the information and education sectors. **(Chart 2 above and Chart 3 below)**

Chart 3

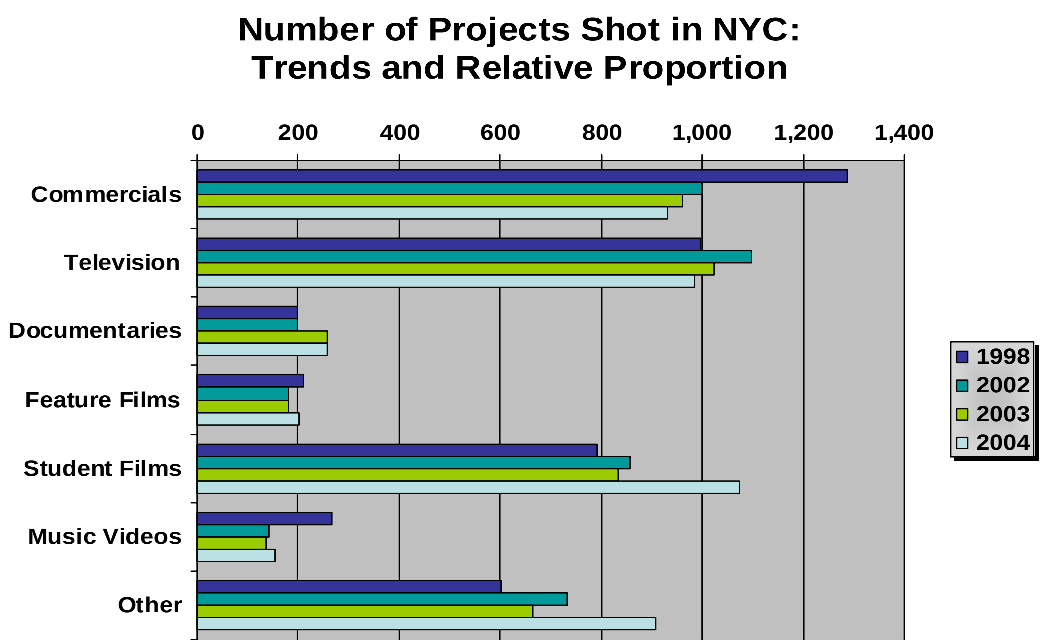
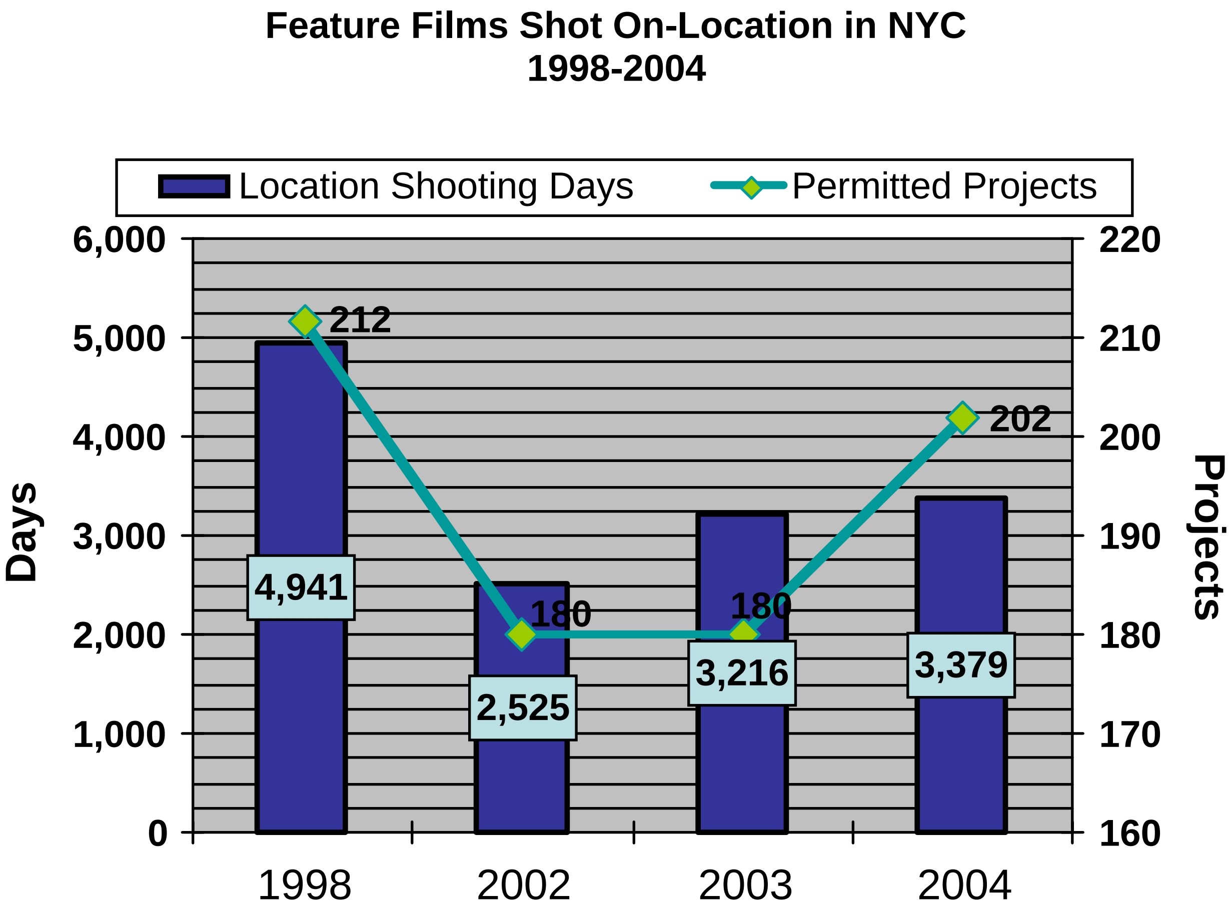


Chart 4



However, while feature film project numbers are recovering, shooting days have not kept pace.

The number of permits for feature films granted by the Mayor's office changed far less from 1998 to 2004 than the number of shooting days. **(Chart 4)** This suggests that production companies may have moved to using the City for "beauty shots" and shorter shoots, providing less work for people here and shorter stays by visiting crews.

New York's Comparative Advantage

New York is a leading center because it has distinctive advantages in media entertainment. It is a creative hub for this industry – a substantial proportion of the directors participating in the Sundance Festival are located in New York. The cluster of directors, producers and starring actors located in New York frequently plays a role in decisions to locate productions in the city. Because of the multiple employment opportunities for actors – in legitimate theater and daytime soap operas as well as film, cable and broadcast television and commercials – New York is a primary center for acting talent. By virtue of its long history and current strengths in all these production sectors, New York has an abundance of highly qualified crew in all the specialty occupations required for media production. The supply of a creative work force is constantly replenished through locally based educational and training facilities that are among the top rated in the United States. Instantaneous access to new ideas and new technologies enables New York's producers and unions to quickly identify and adapt to emerging entertainment markets.

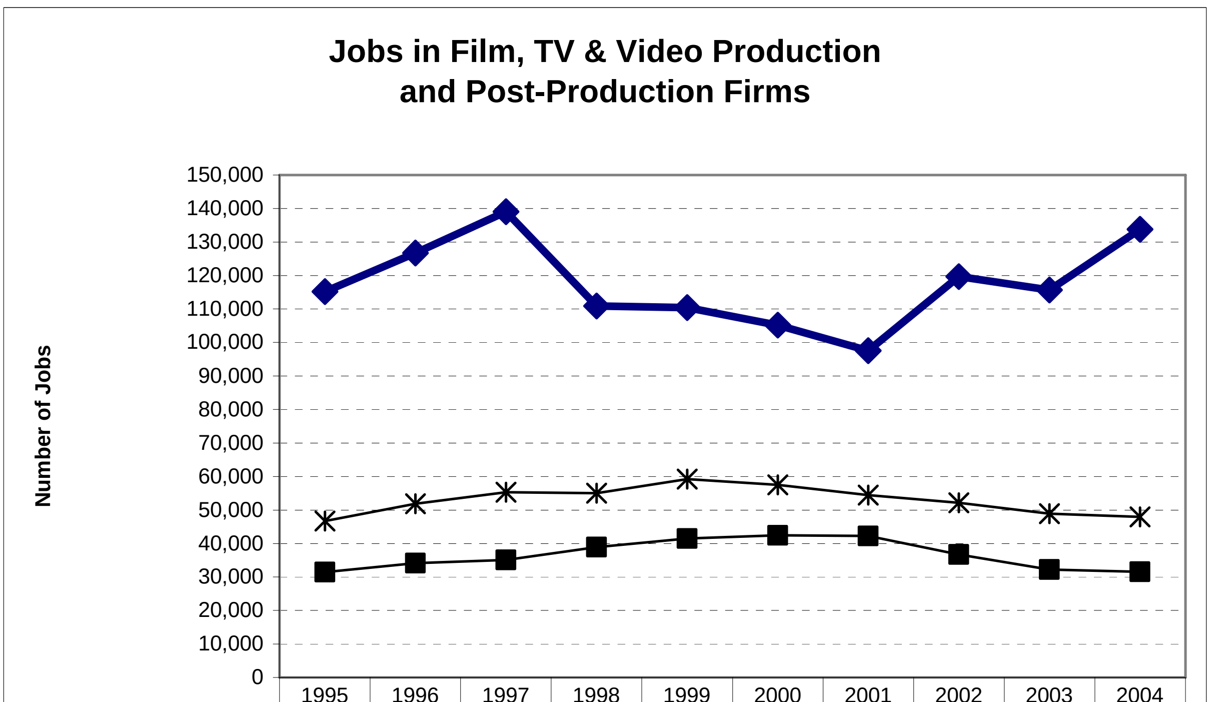
As a world capital, New York attracts filmmakers with its unique scenery, historic buildings and multicultural neighborhoods. New York's media complex is complemented by business services specializing in entertainment, including those in finance and accounting. In recent years, the importance of the media industry to New York's economy has been recognized, complemented by the expansion of studio facilities and the establishment of governmental offices that offer services and support to media firms carrying out production in the city and throughout the state.

EMPLOYMENT TRENDS

Distribution of Employment in the U.S.

According to government data, employment in film, TV and commercial production and post-production, measured as the number of jobs in firms, was increasing from 1995 to 2000 in New York State, but started to decline in 2001. Since then, however, California employment has recovered to almost its 1997 high, while New York has continued to decline. Since 2001, New York lost 10,756 jobs, while California gained 36,265 jobs. The employment of other producing states across the country has remained relatively stagnant, experiencing some growth between 1995 and 1999, but declining for the rest of the period examined. **(Chart 5)** These trends, however, do not reflect the magnitude of and changes in self-employment, as these series represent only employment that takes place within firms.

Chart 5



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
California	115,162	126,697	139,059	110,938	110,447	105,227	97,531	119,698	115,706	133,796
Rest of the US	46,711	51,857	55,338	55,034	59,218	57,519	54,443	52,155	48,960	48,006
New York	31,428	34,120	35,112	38,940	41,452	42,462	42,274	36,731	32,240	31,518

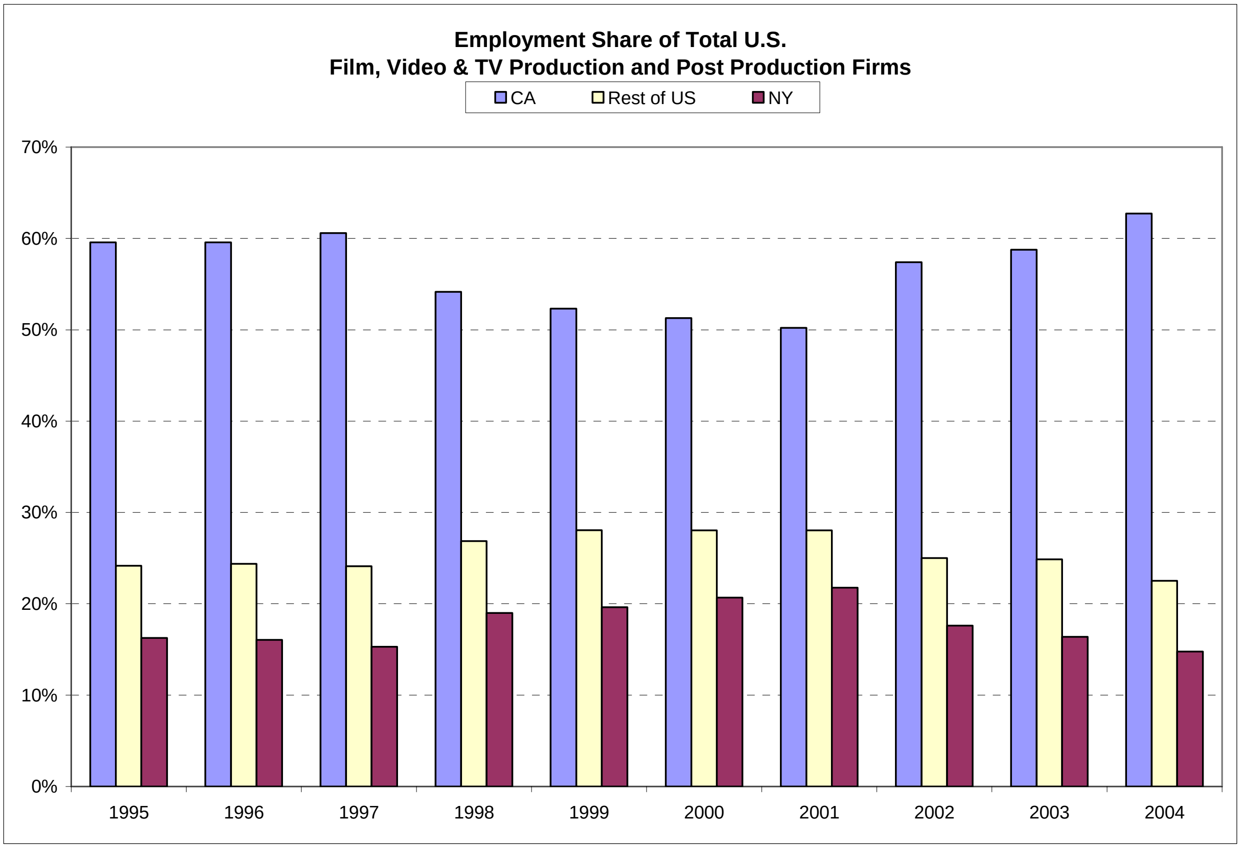
Source: U.S. BLS, Quarterly Census of Employment and Wages. NAICS codes 51211 and 51219.

Share of Jobs

New York's <u>share</u> of total U.S. employment in this industry experienced some growth between 1998 and 2001, but has declined from about 22 percent in 2001 to about 15 percent in 2004. **(See Chart 6 below)** California's share diminished during the period in which the shares of New

York and the Rest of the US increased, but it has vigorously recovered since 2001, reaching about 63 percent in 2004 (its highest level during the period examined). The share of all other producing states reached its highest level of 28 percent in 1999, but has declined to 22.5 percent by 2004. Since 2001, California has strengthened its position as the top producing state in terms of its share of jobs.

Chart 6



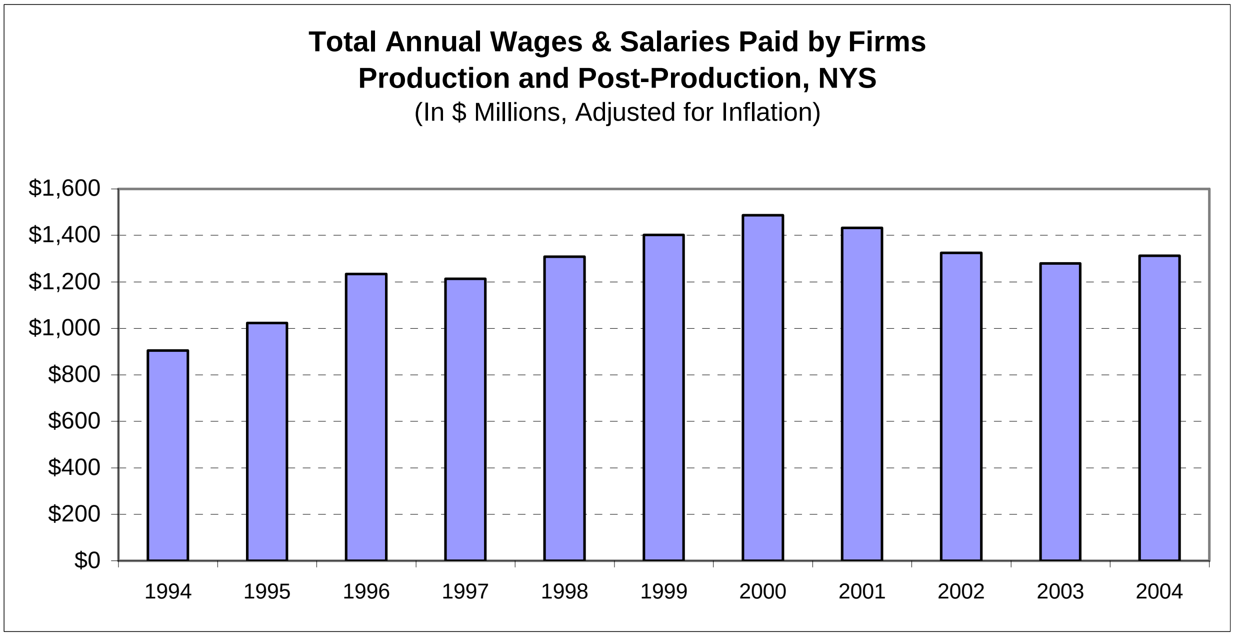
Source: Calculations based on data from U.S. BLS, Quarterly Census of Employment and Wages. NAICS codes 51211 and 51219.

Total Wages and Salaries as a Measure of Employment

To provide a more accurate picture of employment trends in New York State using government data, it is necessary to examine trends in total payroll. Because employment in the industry is project-based, not continuous, the employment figures (number of jobs) presented above can provide only an approximate indication of employment patterns. They do not show, for example, the duration of periods of unemployment between projects, the intensity of work (working hours) among the employed, or changes in work distribution between a core and peripheral workforce. The total wages and salaries series would reveal information about the intensity of work, because it reflects the number of hours worked (as opposed to number of jobs, which could be part-time or full-time). Thus, total payroll in firms is used in this section as an alternative measure of employment and possibly even a better indicator of the level of activity in the industry.

Total annual wages and salaries paid by firms in film, TV and commercial production and post-production in NYS **(Chart 7)** show a trend similar to that of the number of jobs series presented above **(Chart 6)**, except for 2004 when the number of jobs continues to decline (-2.2% with respect to 2003) while total annual payroll shows an increase (+2.6%). This divergence may indicate that employees are holding fewer jobs, but working more hours.

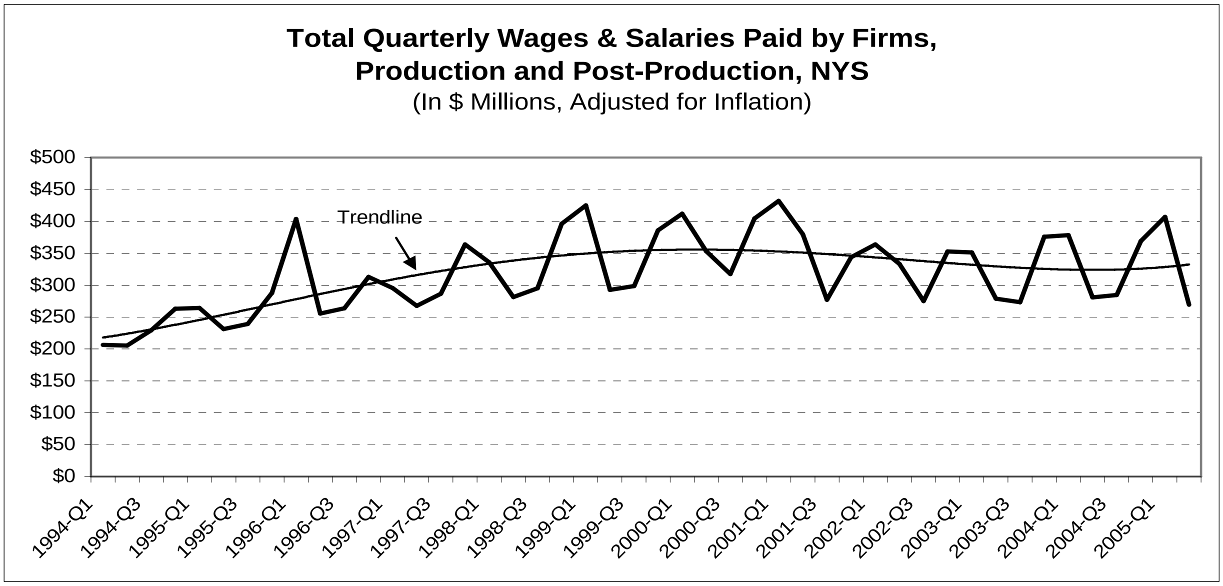
Chart 7



Source: Calculations based on data from U.S. BLS, Quarterly Census of Employment and Wages. NAICS codes 51211 and 51219.

The chart below **(Chart 8)** shows total wages and salaries paid by quarter for the period of study, and includes the first two quarters of 2005. It shows a continuing upward trend in total wages and salaries paid by firms.

Chart 8



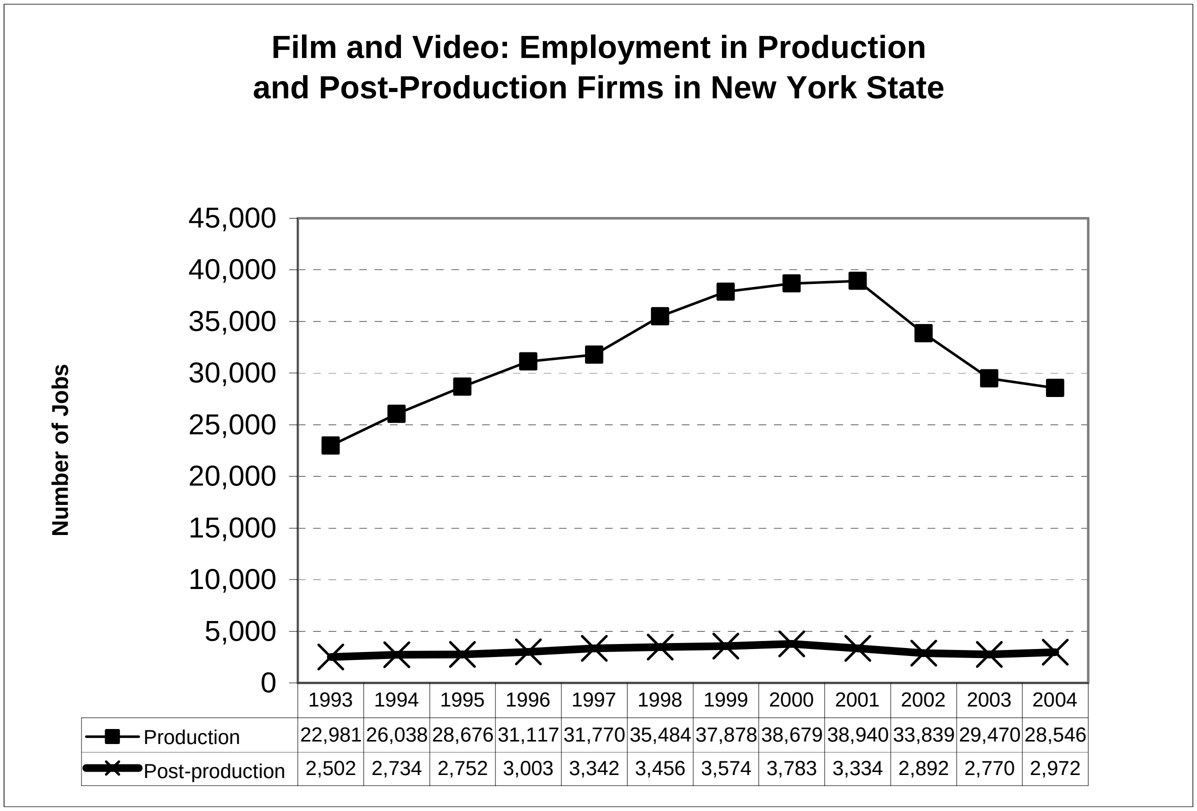
Source: Calculations based on data from U.S. BLS, Quarterly Census of Employment and Wages. NAICS codes 51211 and 51219.

Production and Post-Production Jobs in New York Firms

When examined separately, the number of jobs in production and post-production firms in New York State show distinct trends. **(See Chart 9 below)** Between 1993 and 2004, production employment shows significant changes while post-production remained relatively stable. Post-production remained at about ten percent of the industry's total employment in New York for the entire period.[1]

[1] In apparent contradiction to these post-production employment figures, interviews conducted as part of this study suggest that editing is increasing with intense use of editors in cable television, particularly reality type programs.

Chart 9



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Production	22,981	26,038	28,676	31,117	31,770	35,484	37,878	38,679	38,940	33,839	29,470	28,546
Post-production	2,502	2,734	2,752	3,003	3,342	3,456	3,574	3,783	3,334	2,892	2,770	2,972

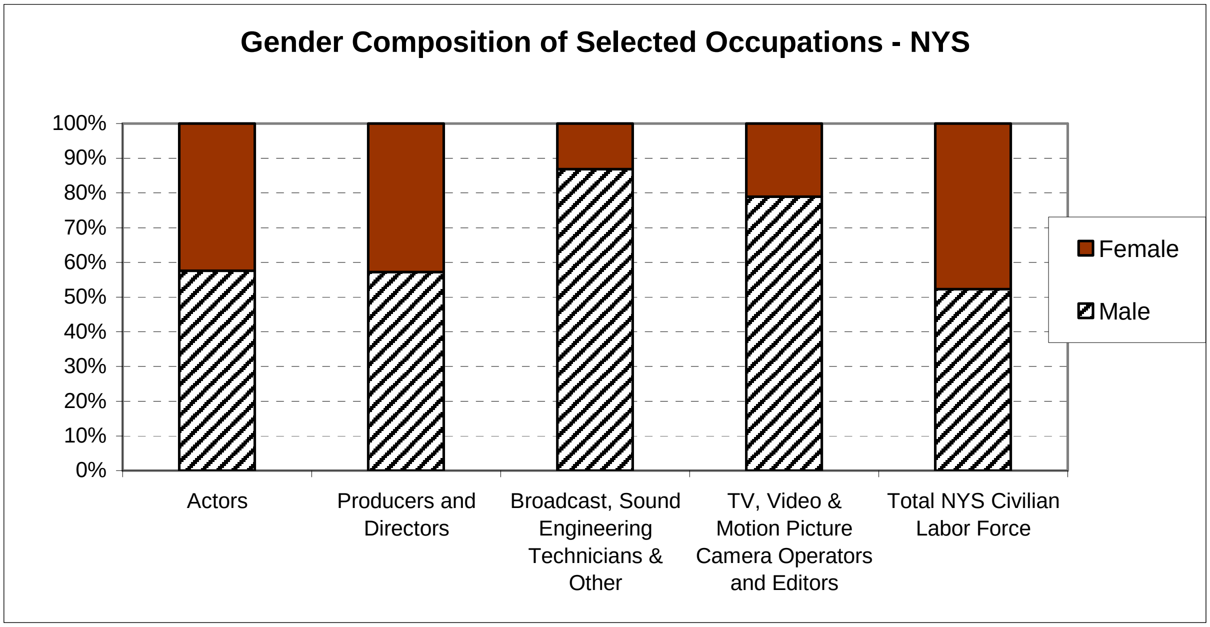
Source: U.S. BLS, Quarterly Census of Employment and Wages. NAICS codes 51211 and 51219.

Demographic Characteristics

This section includes data on gender, racial and ethnic composition of the labor force in selected occupations in the arts and entertainment industry in New York State. These occupations constitute the majority of the employees in film, television and commercial production and post-production in the state.

Data from the Census Bureau show that the percent of women in the selected occupations is below the 48 percent level for the total labor force in New York State. In the case of the selected below-the-line occupations, their labor force is predominantly male. **(Chart 10 below)**

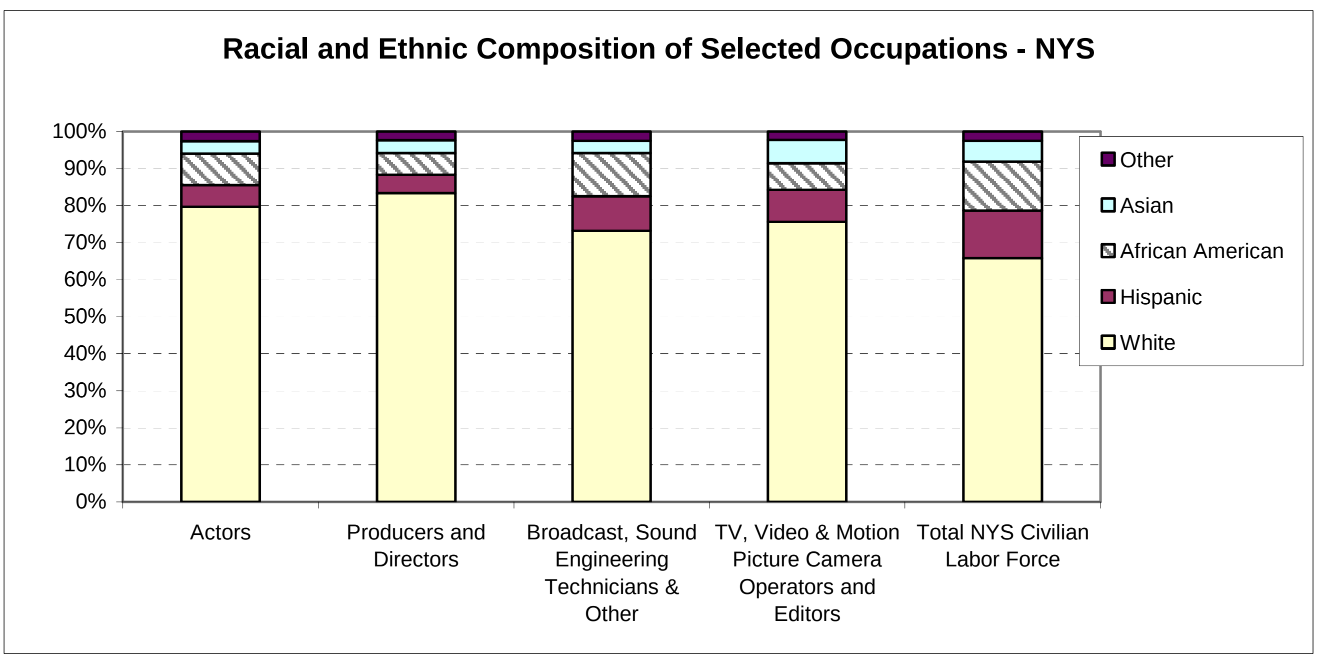
Chart 10



Source: EEOC Special Tabulation of Census 2000 Data.

In terms of their racial and ethnic composition, the selected occupations' labor force is predominantly white. **(Chart 11)** The proportion of non-white minorities for all these occupations is below the 34 percent that non-whites represent as a proportion of the total civilian labor force in New York State.

Chart 11



Source: EEOC Special Tabulation of Census 2000 Data.

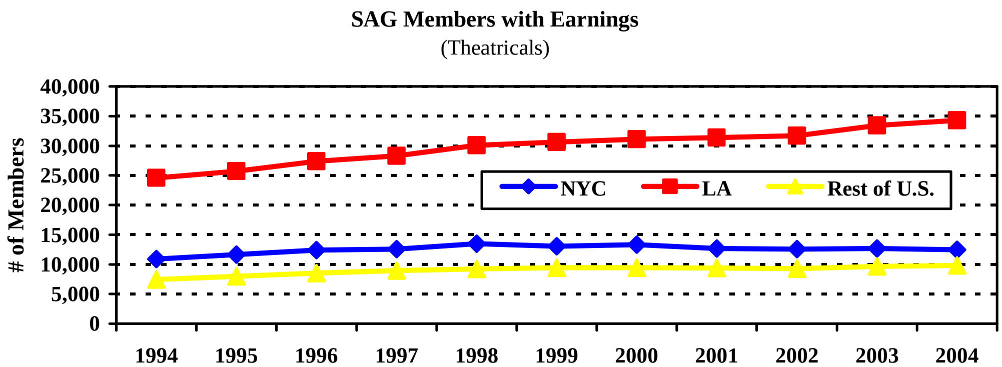
EMPLOYMENT AND WAGES BY OCCUPATION

Screen Actors Guild (SAG) [2]

SAG Actors in Film

The number of SAG members with earnings, has been increasing throughout the United States over the past 10 years. In fact, according to **Chart 12**, SAG members with earnings from theatricals (feature films) in New York City has increased 14.7 percent during the last 10 years, compared to a 39.7 percent increase in Los Angeles, and 31.8 percent increase in the rest of the U.S. One result of these changes is that the share of total members with earnings in L.A. increased during the period while New York's share declined. Currently, Los Angeles has twice the number of members with earnings from feature film work as New York.

Chart 12

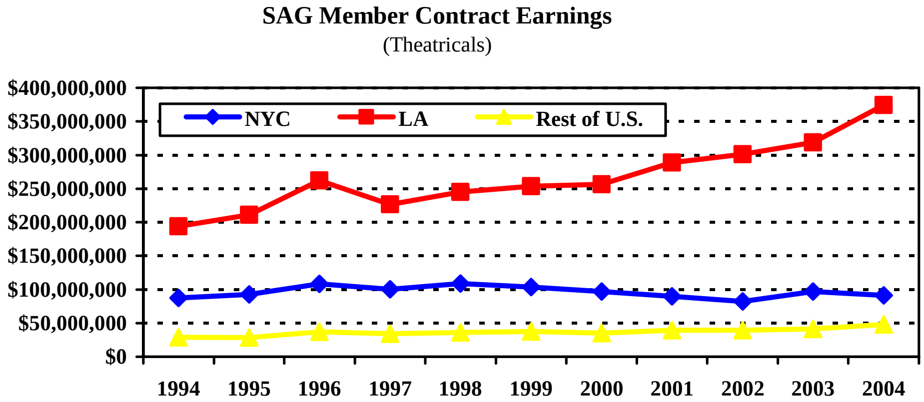


Source: SAG - New York

With regard to compensation in feature film, the differential is equally dramatic. **Chart 13 below** shows New York City members' earnings increased from 1994 to 1996, dipped in 1997, and then rebounded to a high of $109 million in 1998. From 1998 to 2002, earnings decreased by 24 percent to a low of $82 million. Overall, SAG member earnings from theatricals in New York City increased only 4 percent in the ten years between 1994 and 2004, while earnings in Los Angeles increased by 93 percent. Total earnings increased by 66 percent, from a base of $28,951,304, in the rest of the U.S.

[2] For our analysis of employment and earnings trends among SAG members, we relied upon records provided by the union. These records are comprehensive in that they represent all actual work and earnings by SAG members done under contract. In addition, the data made available by SAG allow for comparisons between New York and Los Angeles. It is important to note that the employment of actors is contingent, project-based work. Therefore, the number of members with employment should not be correlated with full-time employment.

Chart 13

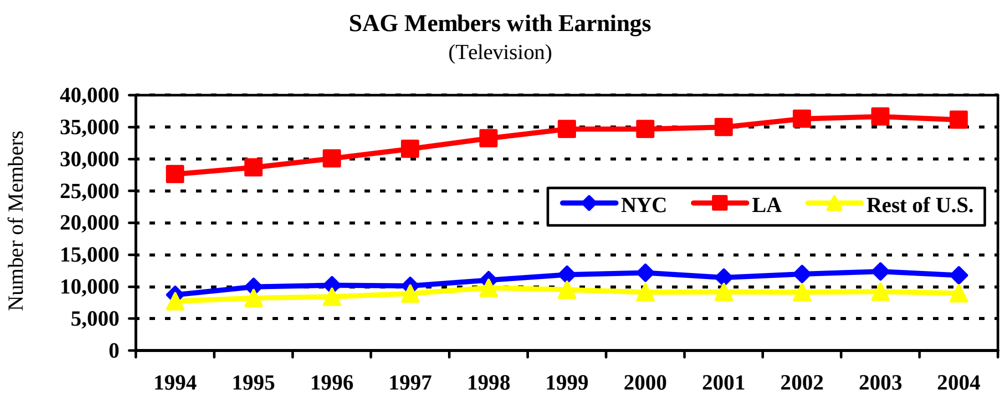


Source: SAG - New York

SAG Actors in TV

Chart 14 indicates that New York members with earnings from television increased by 35.4 percent from 1994 to 2004. The number of Los Angeles members with earnings in TV increased 30.9 percent, and the numbers of members with earnings from television increased 16 percent in the rest of the U.S. The number of Los Angeles members with earnings from television has been almost three times the number of New York members from 1994 to 2004. While the number of members with earnings from television in New York has not returned to the high of 12,164 in 2000, in 2004 roughly the same number of members reported earnings as in 1999.

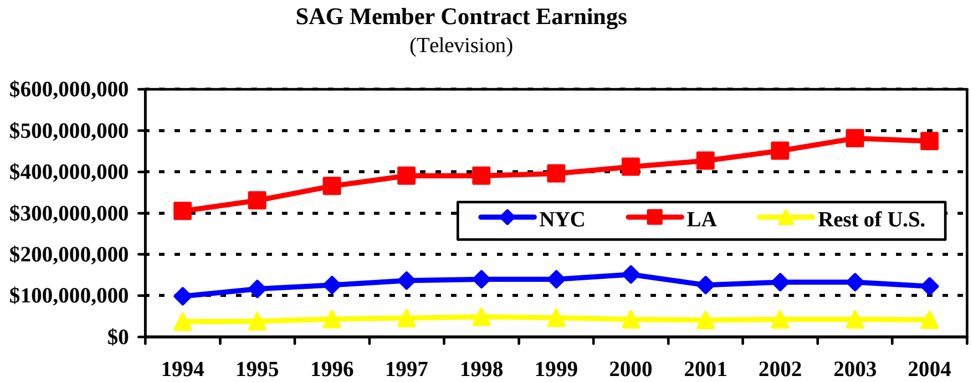
Chart 14



Source: SAG - New York

While the number of SAG members with earnings in TV increased in New York City by 35 percent between 1994 and 2004, earnings only increased 25 percent. **(Chart 15 below)** In Los Angeles, however, earnings from television increased 55.6 percent. Over the past 10 years, Los Angeles has increased its share of total earnings among SAG members. New York City SAG members' earnings from television have decreased over 18.9 percent from 2000 to 2004. By 2004, earnings by SAG members in L.A. were almost four times New York City SAG member earnings.

Chart 15

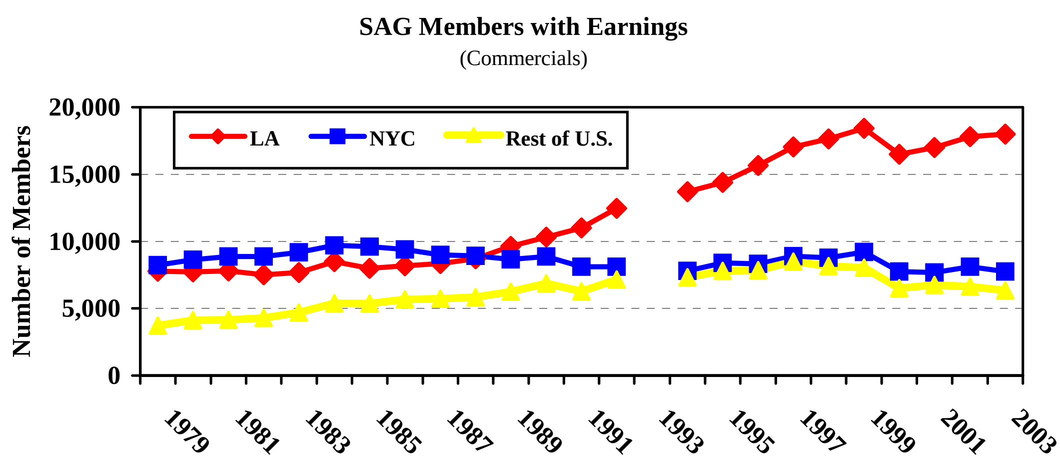


Source: SAG - New York

SAG Actors in Commercials

The number of SAG members with earnings from commercials in Los Angeles increased by over 135 percent between 1983 and 2003.* On the other hand, the number of New York City members with earnings from commercials has declined by 16 percent over the same time period. The number of members with earnings in New York City decreased significantly in 2000, and only recovered to the 1994 level by 2003. SAG members with earnings from commercials also decreased in the rest of the U.S. from 1997 to 2003. **(Chart 16)**

Chart 16

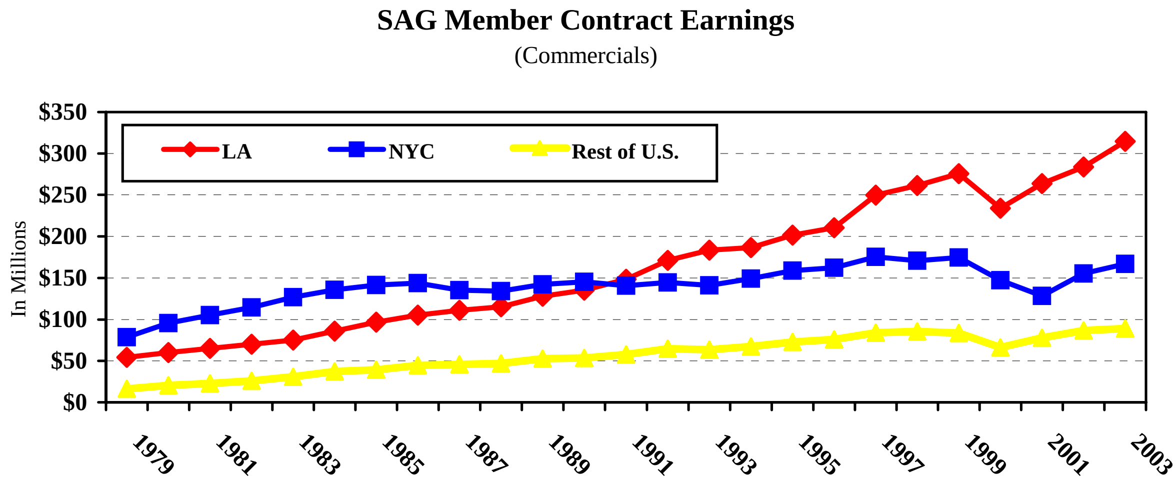


Source: SAG - New York

SAG member contract earnings from commercials in the U.S. have increased over the past 20 years by 73 percent to more than $570 million. Member earnings in Los Angeles surpassed member earnings in New York City in 1991, and by 2003, Los Angeles member earnings equaled $314.5 million, almost double New York City member earnings of $166.8 million. **(Chart 17 below)**

* Information was not available for total members with earnings from commercials in 1993.

Chart 17

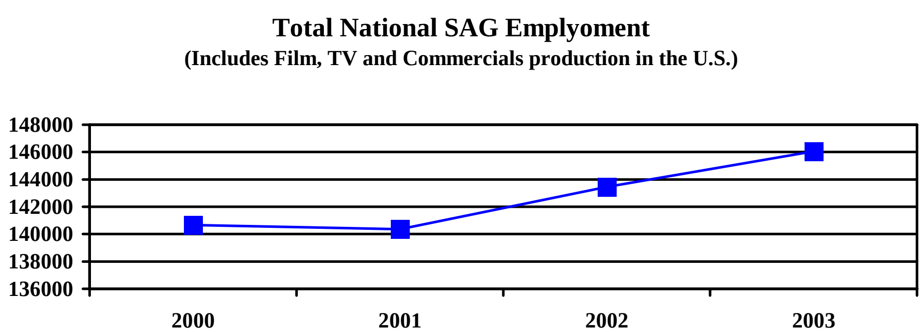


Source: SAG - New York*

SAG member earnings decreased in Los Angeles, New York City, and the rest of the U.S. in 2000, in part because of the SAG-AFTRA commercial strike. SAG member earnings in New York decreased by 26 percent from 1999 to 2001. Member earnings in New York rebounded in 2002 and 2003 by 30 percent to $166.8 million, just over the 1996 level. Los Angeles member earnings decreased by 15 percent in 2000 and then increased an average of 10 percent per year from 2001 to 2003. **(Chart 17 above)**

When the number of members with employment across all sectors of production (film, TV commercials) is combined, SAG-represented actors have experienced significant employment growth from 2000 to 2003. Employment fell slightly from 2000 to 2001; however, it grew quickly in the next two years. From 2001 to 2003, employment grew by about three percent per year. **(Chart 18)**

Chart 18

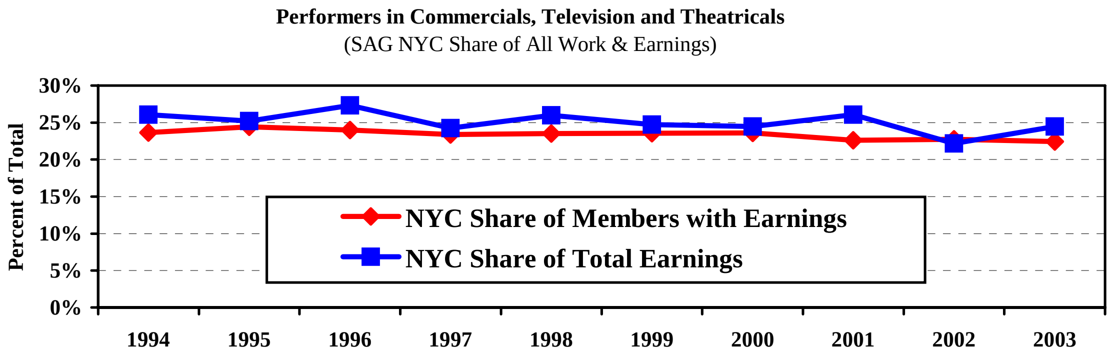


Source: SAG - New York

* Note: The uptick in SAG member earnings in 1991 is in large part due to the union's merger with the Screen Actors Guild.

Finally, when looking at work in commercials, television and feature films, New York's share of work and earnings for SAG members remained fairly stable over the ten-year period under review. In the aggregate, work and earnings for New York SAG members constituted approximately one-quarter of the total for the union over this period. **(Chart 19)**

Chart 19



Source: SAG - New York

American Federation of Television and Radio Artists (AFTRA) [3]

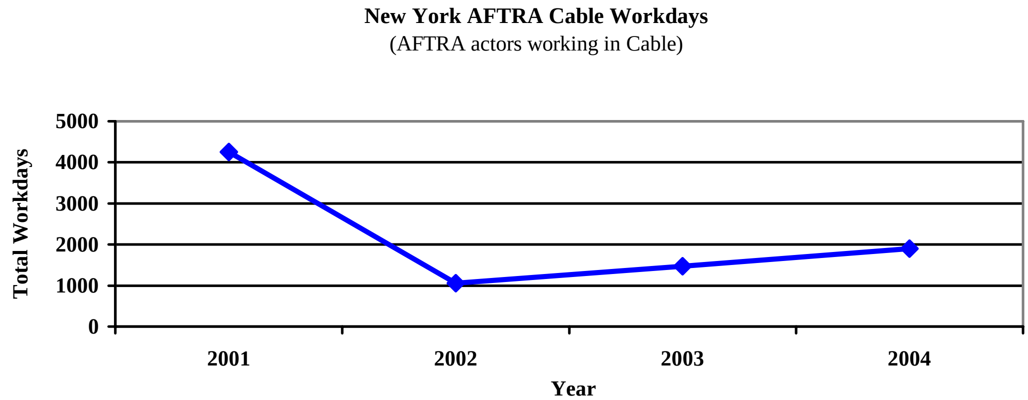
While both SAG and AFTRA represent actors, they have established work jurisdictions, which were mutually agreed upon by AFTRA and SAG. SAG's jurisdiction covers productions shot on film, whereas AFTRA's jurisdiction covers productions shot on tape. Those jurisdictional lines mean that there is very little employment of AFTRA members in feature film production and commercial production. Interviews have confirmed this. AFTRA commercial work is primarily concentrated in voice-overs.

AFTRA Actors in Cable

In cable production, after a precipitous drop from 2001 to 2002, total workdays have been increasing for a number of reasons including a steady increase in the New York production of cable television shows. **(Chart 20 below)** Interviews with AFTRA representatives seem to indicate that one explanation for such a large drop in employment from 2001 to 2002 is the discontinuation of *100 Centre Street*, which ended in 2001. In addition, AFTRA representatives indicate another source of the drop could be the fact that Universal assumed administration of payroll of the show *Rescue Me* after EP had done it in previous years.

[3] The source of reliable data for AFTRA-represented actors comes from Entertainment Partners (EP). While this data is but a sample of all of the work done by AFTRA members in New York it does give us some indication of the trends in employment for these actors. The data covers cable, TV, commercials and film, but the figures for commercials and films are so small, they do not readily lend themselves to analysis. Only the data for cable and television are large enough to allow us to depict employment trends for AFTRA members with some degree of confidence.

Chart 20

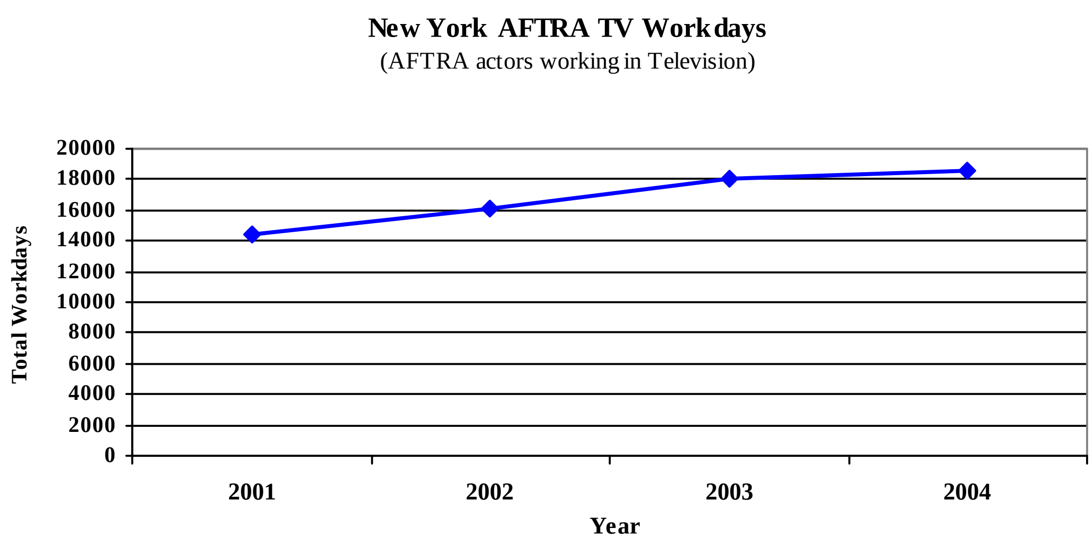


Source: Entertainment Partners

AFTRA Actors in TV

In television production, payroll records indicate consistent growth in total workdays for AFTRA members. From 2001 to 2004, total workdays on TV shows for AFTRA members grew by approximately 33 percent. **(Chart 21)**

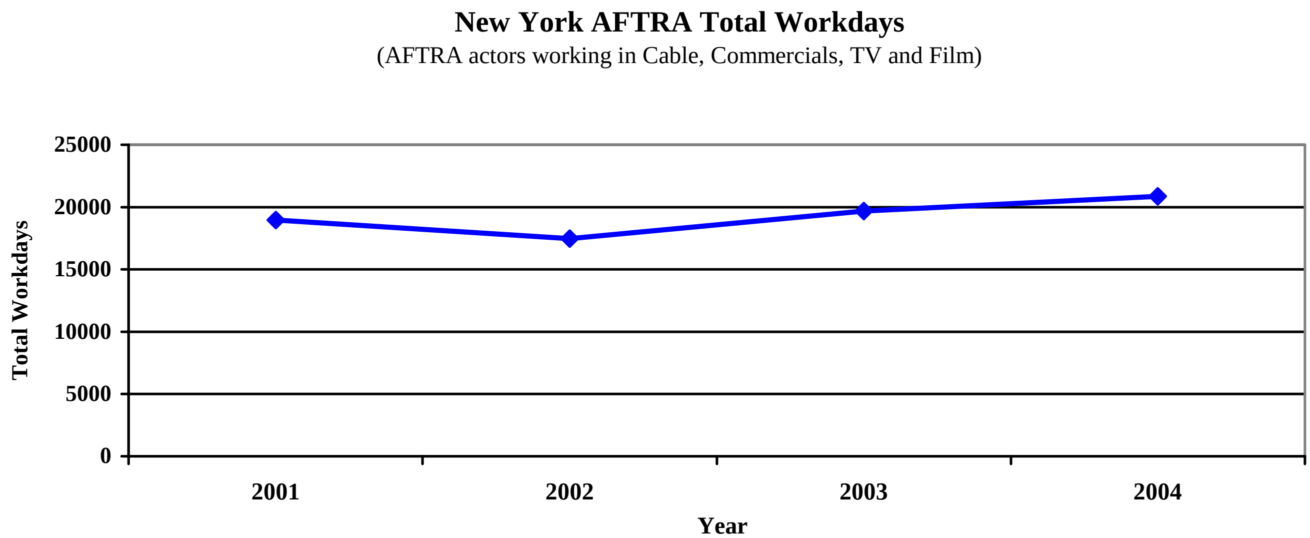
Chart 21



Source: Entertainment Partners

According to EP data, from 2001 to 2004, film and commercials constituted less than two percent of all workdays for AFTRA members. Again, while this may be a function of the sample attained, it is most likely due to the fact that AFTRA members do not perform a significant amount of film and commercial work (aside from voice-overs). **(Chart 22 below)**

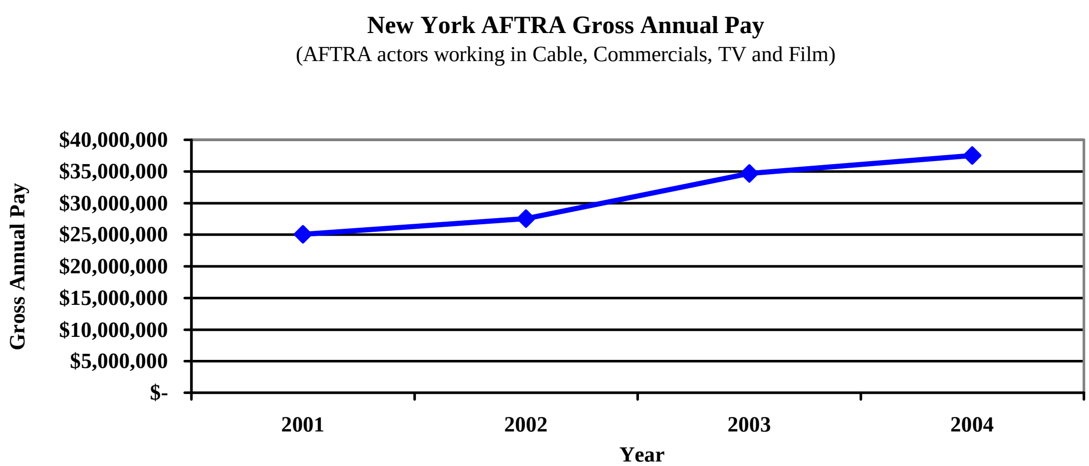
Chart 22



Source: Entertainment Partners

As workdays have grown in two of AFTRA's primary jurisdictions, gross aggregate annual pay has also grown. For the period under review, gross annual pay grew by 10 percent the first year, 21 percent the second year, and 8 percent the third year. **(Chart 23)**

Chart 23

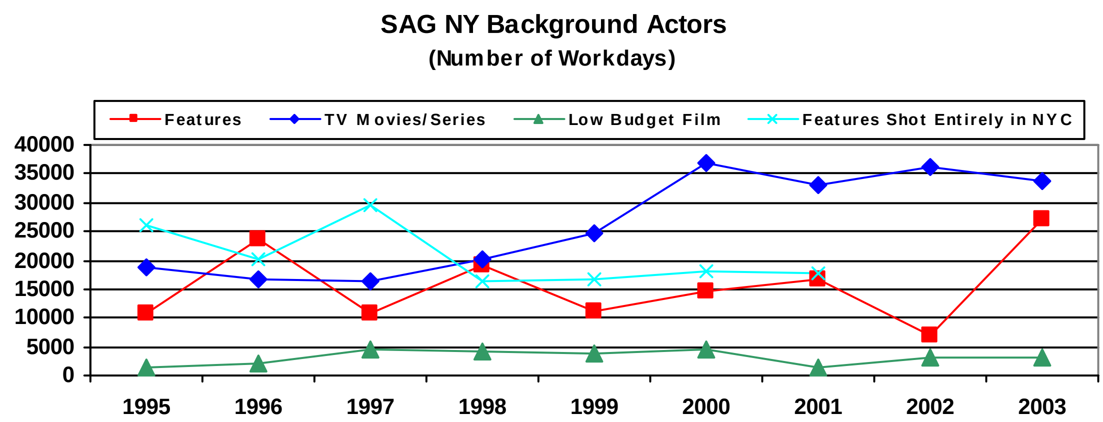


Source: Entertainment Partners

Background Actors ("SAG Extras")

For this study, we also examined employment trends among background actors in feature films, TV movies/series, low-budget films and films shot entirely on location in New York. Actors covered by this data are represented by SAG.[4] For every segment with the exception of feature films shot entirely on location in New York, actors enjoyed an increase in work opportunities between 1995 and 2003. Despite wild fluctuations, work for extras in feature films more than doubled during this period. Work for background actors in TV movies/series increased by over 80 percent, and work for SAG background actors in low budget features increased twofold over the period studied. Data on features shot entirely on location in New York show that work for SAG background actors has decreased by approximately 32 percent. **(Chart 24)**

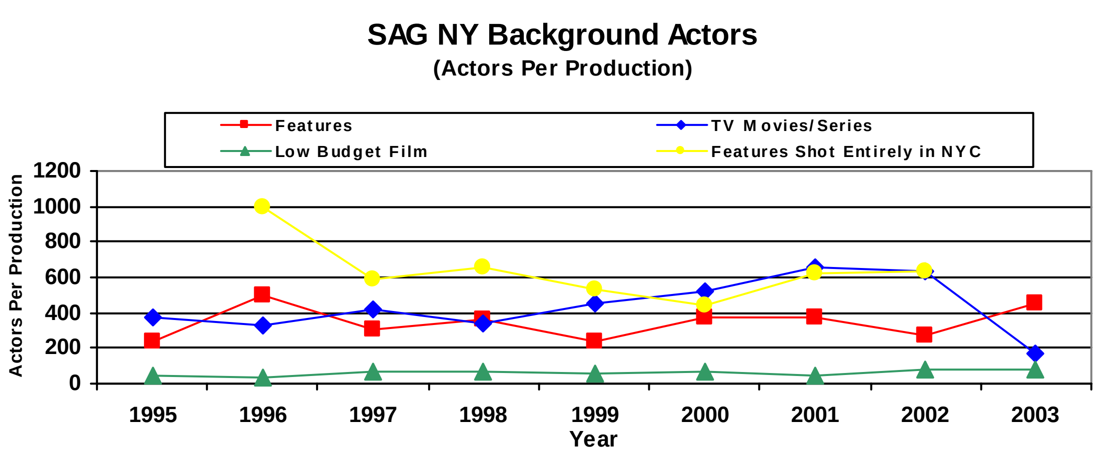
Chart 24



Source: SAG - New York

We also calculated the number of actors per production for the four segments of production (features, TV movies/series, low budget and features shot entirely on location in New York). Between 1995 and 2003, the number of background actors per production in feature film and low budget film production increased. For feature films, the increase was just over 46 percent. At the same time, the number of background actors per production in TV movies/series decreased over the period studied. In TV movies/series and in features shot entirely on location, there were significant declines. **(Chart 25)**

Chart 25



Source: SAG - New York

[4] Data for these actors was provided by SAG

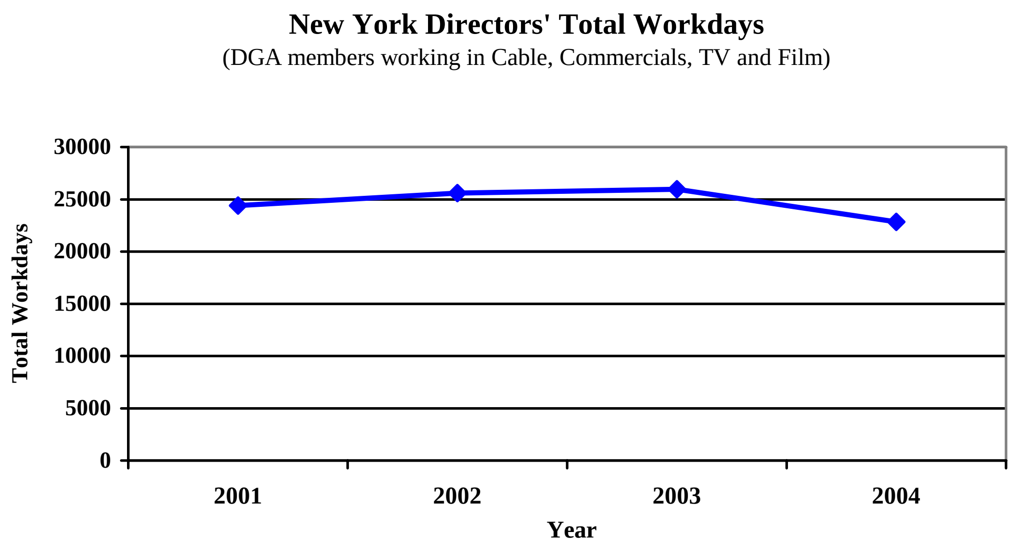
Directors Guild of America (DGA) [5]

The Directors Guild of America (DGA) is a national union representing directors, associate and assistant directors, stage managers, and unit production managers in film, broadcast and commercials.

DGA (Overall)

When examining total workdays, it appears that work for New York DGA members increased by over 6 percent from 2001 to 2003, but then fell by 12 percent in 2004. In fact, the decrease in 2004 put total workdays below the 2001 level for an overall decrease of 6.4 percent. Records indicate that the sector where work increased dramatically was in television. Representatives of the DGA say that the rise in workdays in 2001 was a result of broadcast networks stockpiling shows in anticipation of work disruptions that year. **(Chart 26)**

Chart 26



Source: Entertainment Partners

The DGA has provided data that compares work opportunities between the first three quarters of 2004 and 2005. The data shows a 6 percent increase in the number of projects employing DGA members; a 26 percent increase in the number of DGA members hired to work on projects; a 56 percent increase in total employment days in feature films; and a 44 percent increase in the number of employment days in television. Only work days in commercial production showed a decrease (an 8 percent decline) from 2004 to 2005. Without similar data on the number of

[5] The primary source of reliable data regarding the employment of unionized directors comes from Entertainment Partners (EP). The data on directors culled for this report represent but a very small sample of all work done by all professionals who are represented by the Directors Guild of America in cable, television, commercials and feature film. Workday figures include work done by DGA members in New York, regardless of where they are based. The figures do not include income from work done outside of New York.

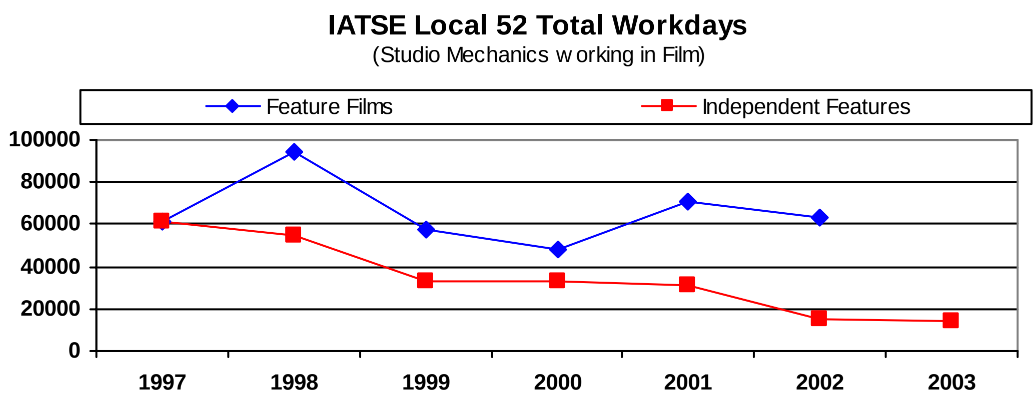
projects employing DGA members for at least the period between 2001 and 2004, we are unable to relate these figures to longer-term trends.

IATSE Local 52 Studio Mechanics [6]

Studio Mechanics in Film

In feature films, there have been wide fluctuations in studio mechanic workdays from 1997 to 2002. Workdays for studio mechanics peaked in 1998 at over 94,000, and reached a low point in 2000 with over 48,000 days worked. Overall, workdays in 2002 are nearly identical to workdays in 1997. In independent feature films, there has been a steady and precipitous drop in workdays. Workdays for studio mechanics dropped from over 60,000 days in 1997 to just under 14,000 days in 2003, representing a decrease of more than 75 percent. **(Chart 27)**

Chart 27

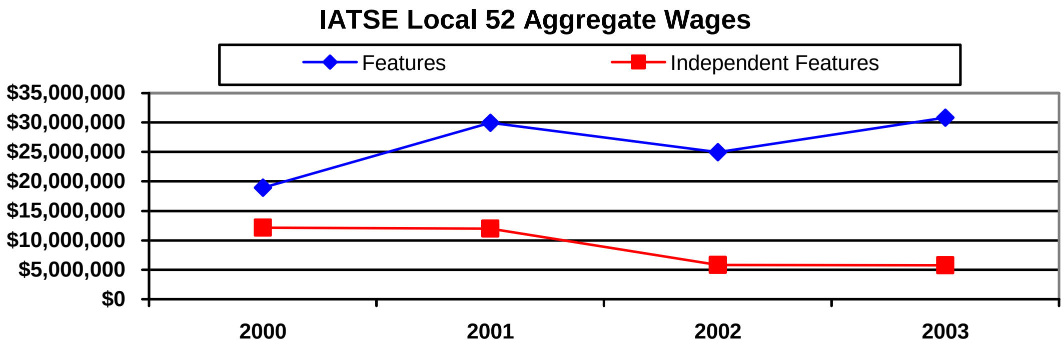


Source: IATSE Local 52

For studio mechanics in film, the trend in aggregate wages has varied depending on the type of film production. In feature film, wages grew by 38 percent between 2000 and 2004. In independent features, aggregate wages fell by 52 percent. **(Chart 28)**

[6] The primary source of information used to determine wage and employment trends among members of IATSE Local 52 is the union's Pension and Health plan. The data obtained include total workdays, total work hours and aggregate earnings. The sectors of production covered by the data include: TV; feature, independent and low-budget film; and commercials.

Chart 28

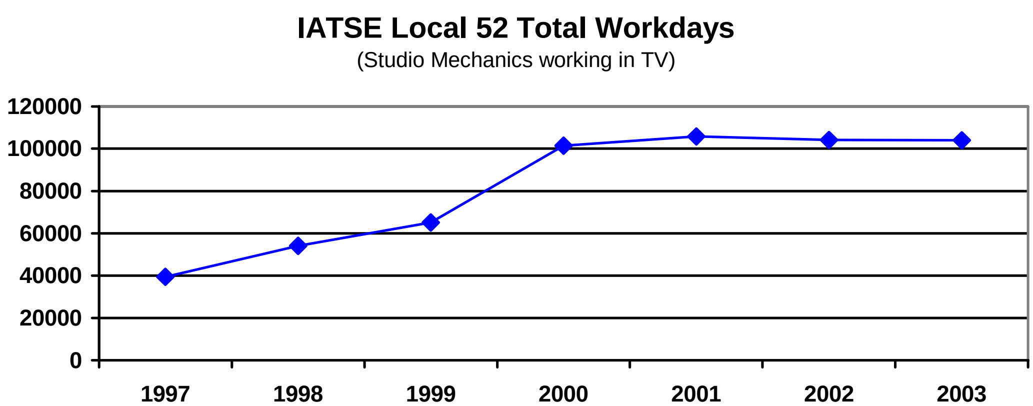


Source: IATSE Local 52

Studio Mechanics in TV

In television, there has been significant growth in the number of workdays for studio mechanics. The largest annual increase occurred between 1999 and 2000 when workdays jumped by almost 36 percent. Over the entire period studied (1997-2003) workdays for studio mechanics in TV have increased by over 260 percent. **(Chart 29)**

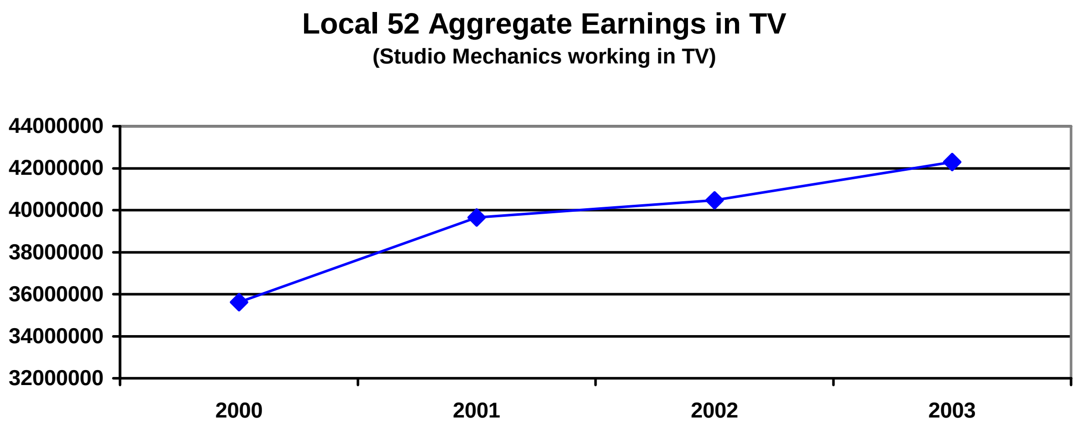
Chart 29



Source: IATSE Local 52

In television, studio mechanics have experienced significant growth in earnings. The largest gain between 2000 and 2001 constituted a 10 percent increase in aggregate wages. Over the entire period under review (2000-2004), aggregate earnings for studio mechanics increased by nearly 16 percent. **(Chart 30 below)**

Chart 30

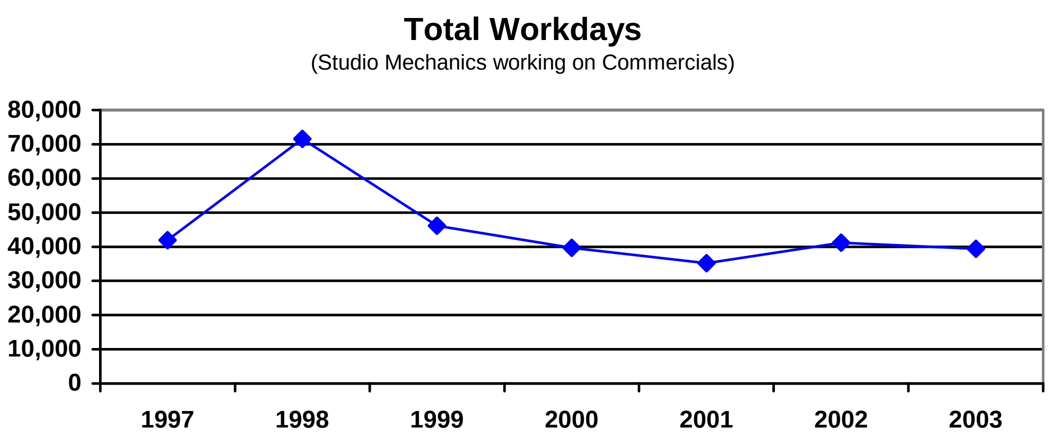


Source: IATSE Local 52

Studio Mechanics in Commercials

In commercial production, from 1997 to 2003, total workdays dipped slightly; over this period they decreased by 6 percent. The peak year for studio mechanics in commercial production was 1998 when they worked over 71,000 days, and the low point was 2001 when they worked just over 35,000 days. **(Chart 31)**

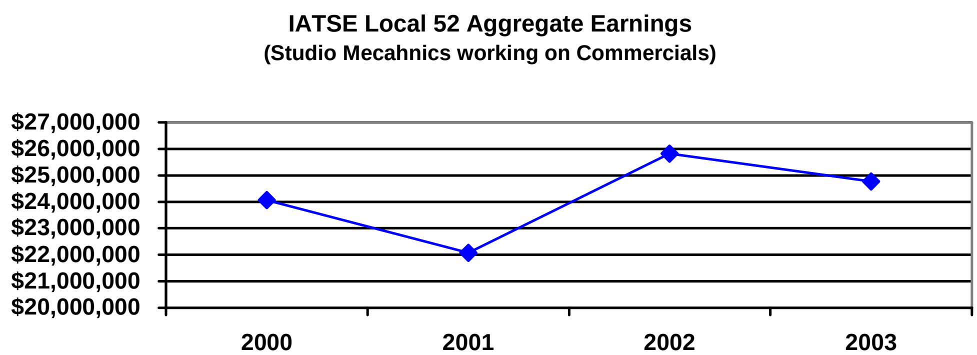
Chart 31



Source: IATSE Local 52

For studio mechanics working on commercials, aggregate earnings are consistent with total workdays. In those years where total workdays are down (2002-2003), aggregate earnings are also down. In years when workdays are up (2001-2002), aggregate earnings are also up. In both cases, the changes in wages and aggregate earnings are in almost identical proportions. **(Chart 32 below)**

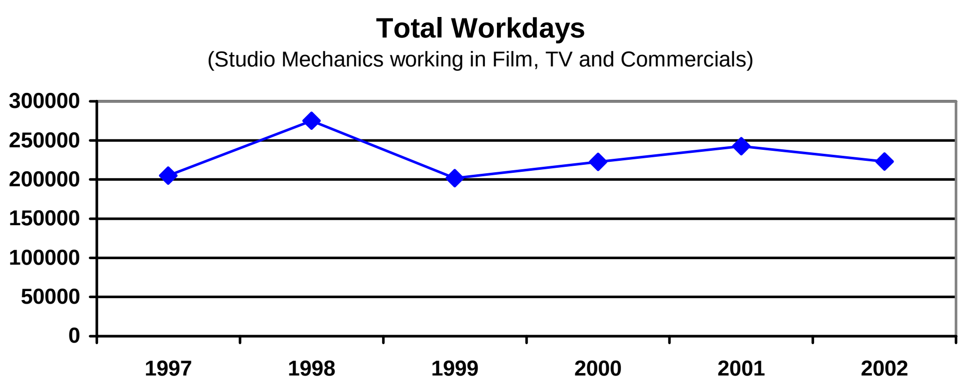
Chart 32



Source: IATSE Local 52

When looking at the figures on workdays for studio mechanics in all sectors of production, the drop in workdays and earnings in commercials is the lone sector for which studio mechanics show decreases. The growth in workdays in film and TV more than offset the decrease in commercial work. Thus, studio mechanics show net positive employment and wage growth from 2000 to 2003. **(Chart 33 below)**

Chart 33



Finally, IATSE Local 52 provided supplemental data that allow for a direct comparison of aggregate work hours for the first nine months of 2004 versus 2005. This data reveal that the aggregate number of hours worked by studio mechanics increased by 6.8 percent, year to year.

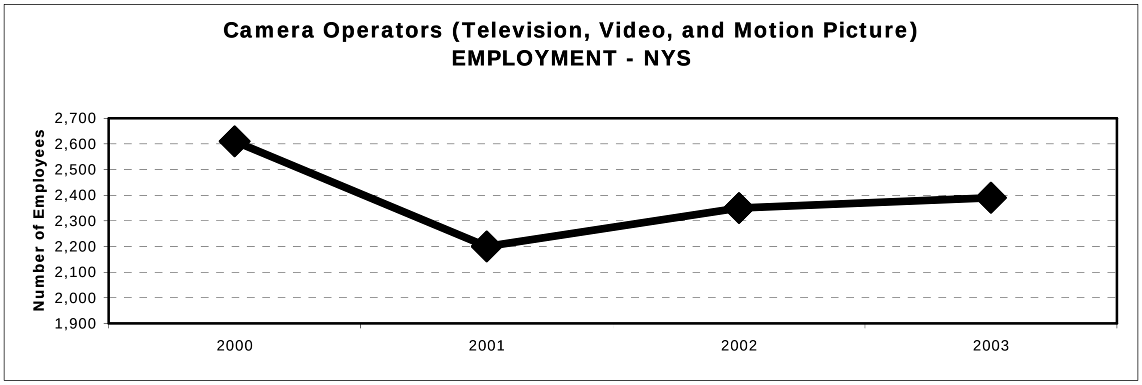
IATSE Local 600 Camera Operators

The source of government data for this occupation is the Occupational Employment Statistics survey of the Bureau of Labor Statistics (BLS).[7] According to this source, employment of

[7] This BLS program runs a semi-annual survey of employers (establishments) to produce estimates of employment and wages for 800 occupations, excluding the self-employed. This source does not provide cross-industry occupational data at the state level. Therefore, it is not possible to separate the camera operators that work in film, video and television production from those that work in television broadcasting in New York State. However, the employment data may still be useful to identify trends in film and video production, assuming that camera operators'

camera operators in New York State, measured in terms of number of employees as reported by establishments, has been increasing moderately since 2001. These figures are consistent with the payroll data obtained from EP, which shows an upward trend in workdays of camera operators since 2001, but remaining significantly below the 2000 level. **(Chart 34)**

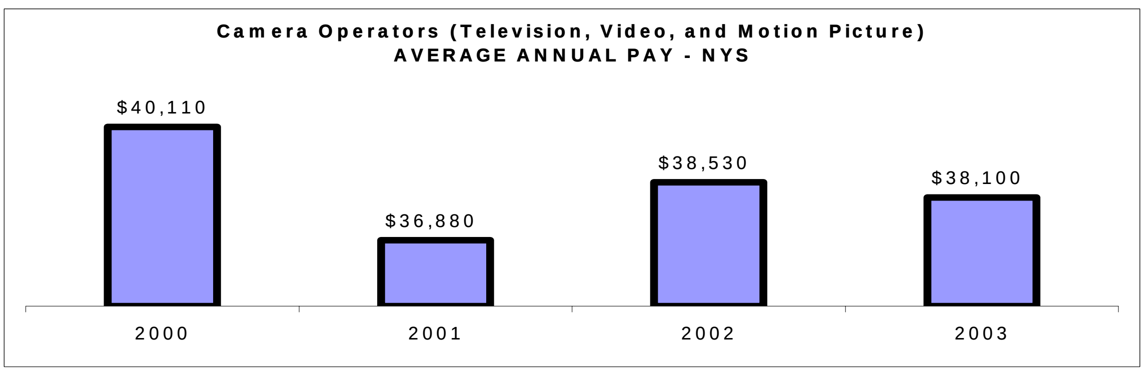
Chart 34



Source: BLS, Occupational Employment Statistics

The BLS occupational data for camera operators reveal a pay trend that is similar to the employment trend. Average annual wages experienced a sharp decline in 2001 and slowly recovered since 2002. **(Chart 35)**

Chart 35



Source: BLS, Occupational Employment Statistics

According to figures obtained from the IATSE Motion Picture Industry Pension & Health Plan, total work hours have fallen for members of members of IATSE Local 600. For the period under review, the biggest drop occurred between 2000 and 2001 when hours dropped by 35 percent. From 2001 to 2004 hours worked remained relatively stable, and actually increased nearly 13 percent in 2004. **(Chart 36 below)**

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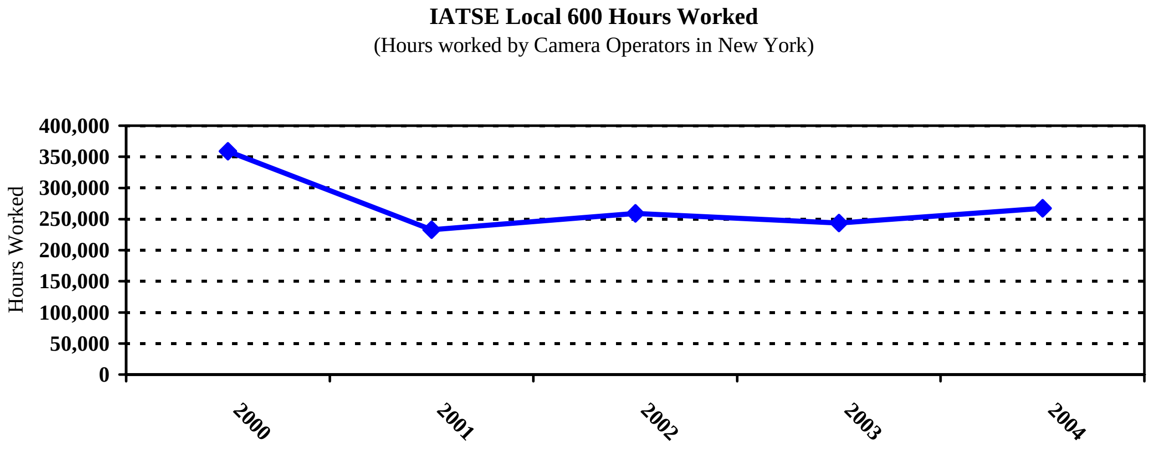
employment in TV broadcasting tends to be more stable (year-around as opposed to project-by-project), although it may be subject to downsizing due to network consolidation and technological change.

Chart 36

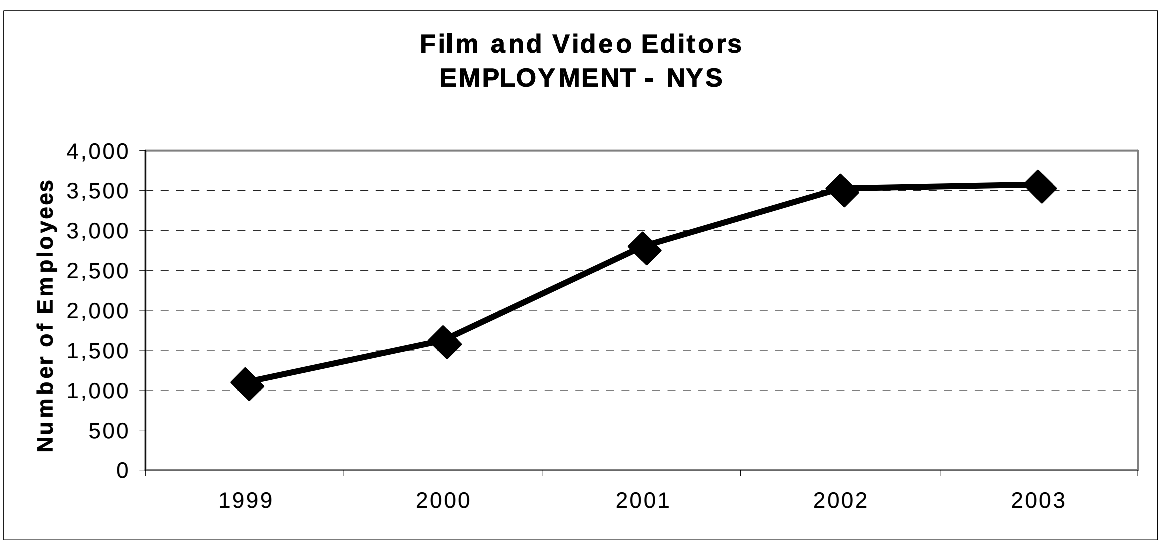


Source: IATSE Local 600

IATSE Local 700 Film and Video Editors

According to the BLS, editors' employment increased by 224 percent between 1999 and 2003.[8] This is one of the few below-the-line occupations that experienced employment increases since 2000. **(Chart 37)** According to industry representatives, this may be explained by the fact that their work is in post-production, which is not necessarily tied to changes in local production. The trend for this occupation's average annual pay **(Chart 38 on next page)**, however, does not show comparable gains.

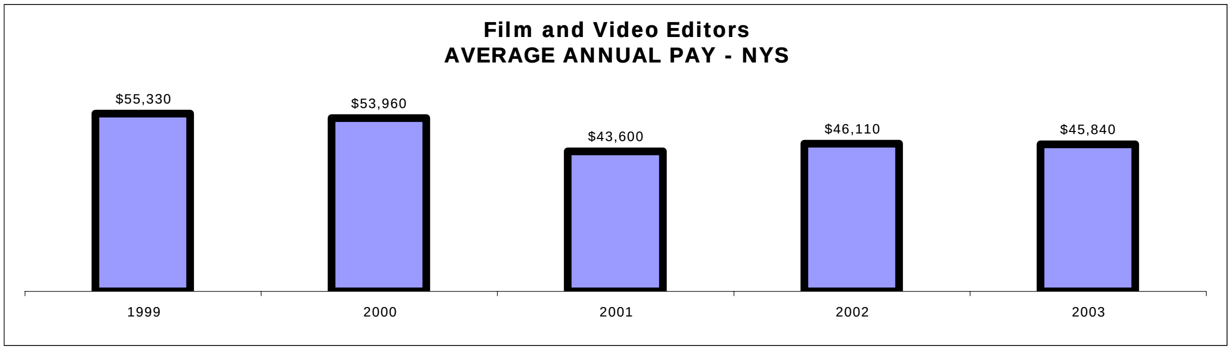
Chart 37



Source: BLS, Occupational Employment Statistics

[8] The BLS occupational data for this occupation includes estimates of employment and wages of individuals who edit motion picture soundtracks, film, and video. The self-employed are not included.

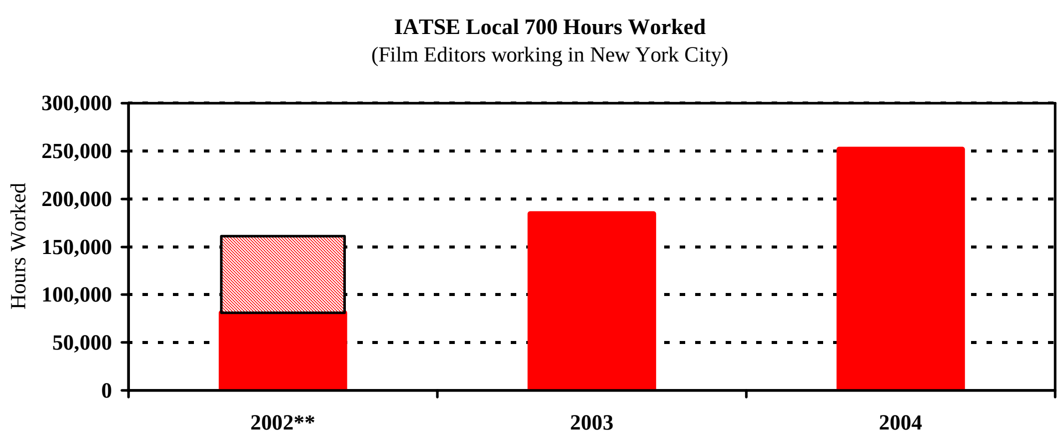
Chart 38



Source: BLS, Occupational Employment Statistics

The primary source of data on employment of unionized film editors was the IATSE Motion Picture Industry Pension & Health Plan.[9] When examining data provided by IATSE Local 700, between 2002 and 2004, total work hours increased dramatically. Between 2002 and 2003 work hours more than doubled. Between 2003 and 2004, hours worked increased by 25 percent. In total, between 2002 and 2004, work hours for film editors in New York increased by a factor of three between 2002 and 2004. **(Chart 39 below)**

Chart 39



Source: IATSE Local 700. [10]

[9] Data from EP was limited. Two factors that may explain this limitation include: 1) Many editors, particularly in commercials, are employees of non-union editing houses; 2) interviews have revealed that there are very few unionized editors in cable; and 3) TV shows and Films that are shot in NYC may not be edited here, but rather in Los Angeles.

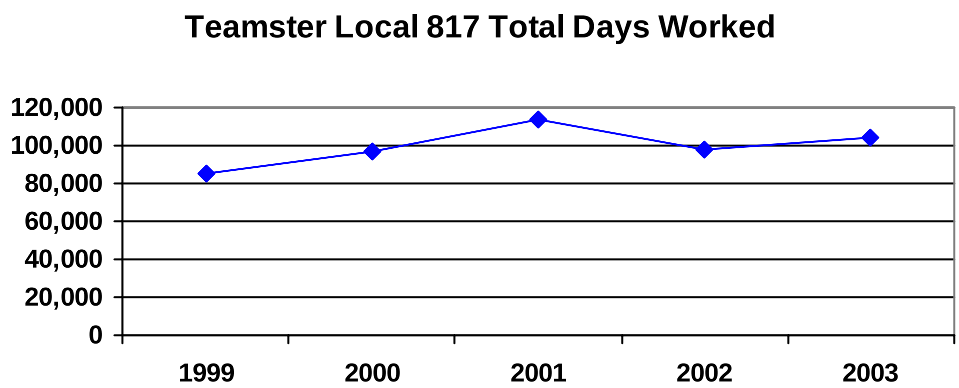
[10] The data provided for 2002** only covered half the year. The striped box on top of the solid represents an estimate of the number of work hours that would have been captured in data from the other half of the year.

Teamsters (IBT) Local 817 Drivers

The data regarding employment and wages for Teamster drivers was provided by the IBT. The data included total work days as well as aggregate wages for the period 1999 to 2003. From this data we were able to perform calculations for the average daily rate.

IBT 817 members experienced a significant increase in days worked. For the period under review, work days peaked in 2001 at 113,200. From 1999 to 2003 total work days increased by almost 19 percent. **(Chart 40)**

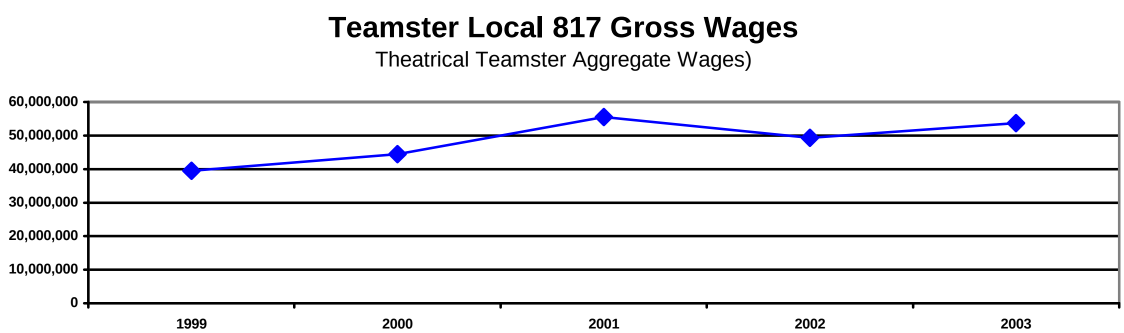
Chart 40



Source: Teamsters Local 817

Aggregate wages increased significantly from 1999 to 2003. Gross wages peaked in 2001 at $55.5 million. From 1999 to 2003, aggregate wages increased by 26 percent. Over the period under review, aggregate wages grew more quickly than total workdays. **(Chart 41)**

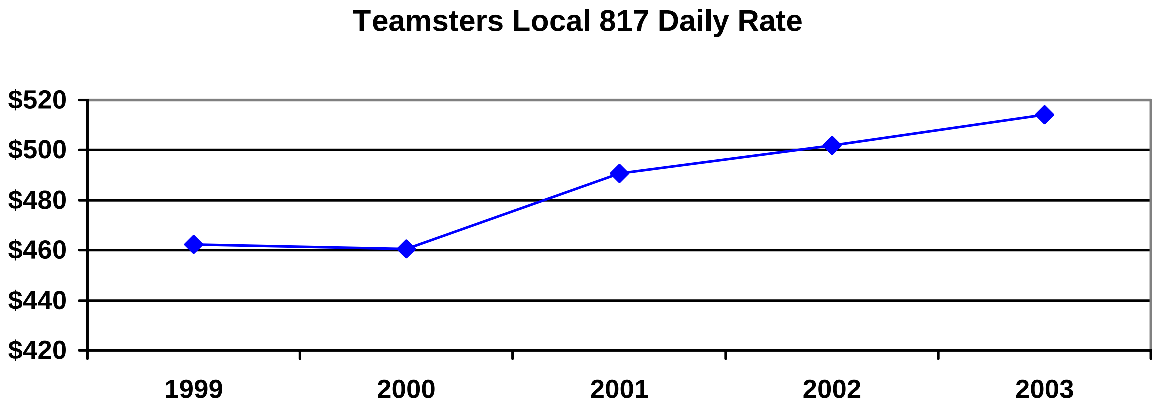
Chart 41



Source: Teamsters Local 817

As a result, the average daily rate for Teamster drivers **(Chart 42 below)** increased significantly from $462.23 to $514.05.

Chart 42



Source: Teamsters Local 817

Summary

Overall employment in New York film and video industry firms, which stands at 31,518, is about the same as it was ten years ago, but there are wide variations in employment and earnings by occupation. For actors, the number of SAG members with earnings increased but total earnings remained the same, resulting in more actors sharing a shrinking pool of money (when adjusted for changes in the cost of living). For AFTRA member's gross aggregate annual pay and workdays have grown in television and cable production. Over the same period, there was an increase in work opportunities for background actors (extras), which may have partially offset income losses for actors who sometimes cross lines between principal and background roles. Directors had a drop in workdays in the period 2001-2004, but showed an increase in gross pay.

For below-the-line crews, the employment record of recent years has also been mixed. Camera operators registered an overall decline from 2000 to 2004, while between 1997 and 2003, studio mechanics saw a decline in film, stagnant employment in commercials, and a rise in television. For these occupations overall, the level of employment currently remains below earlier years. On the other hand, Teamster drivers and film editors in post production showed a gain in employment.

There was also a difference in trends by production segment. In feature films, employment and wages remained at about the same level for actors over the period 1994-2004, and for studio mechanics from 1997-2001. However, both registered an increase in television. In commercials, actors' earnings showed little change in recent years, while hours of work dropped for studio mechanics. Over the past ten years, Los Angeles SAG members increased their total earnings from feature films 93 percent while New York members registered a 4 percent gain. This disparity also grew in television, where L.A. members had a 63 percent gain and New York had a 19 percent loss. In commercials, New York SAG's share of total earnings dropped from 50 percent to 30 percent.

LOCATION PATTERNS AND REGIONAL COMPETITION FOR FILM, TELEVISION AND COMMERCIAL PRODUCTION

In this section we look at changing patterns of location for media production and at a key alternative center for production.

Comparative Location Trends

The number of film productions in New York grew modestly compared with the growth in total U.S. films produced.

Chart 43

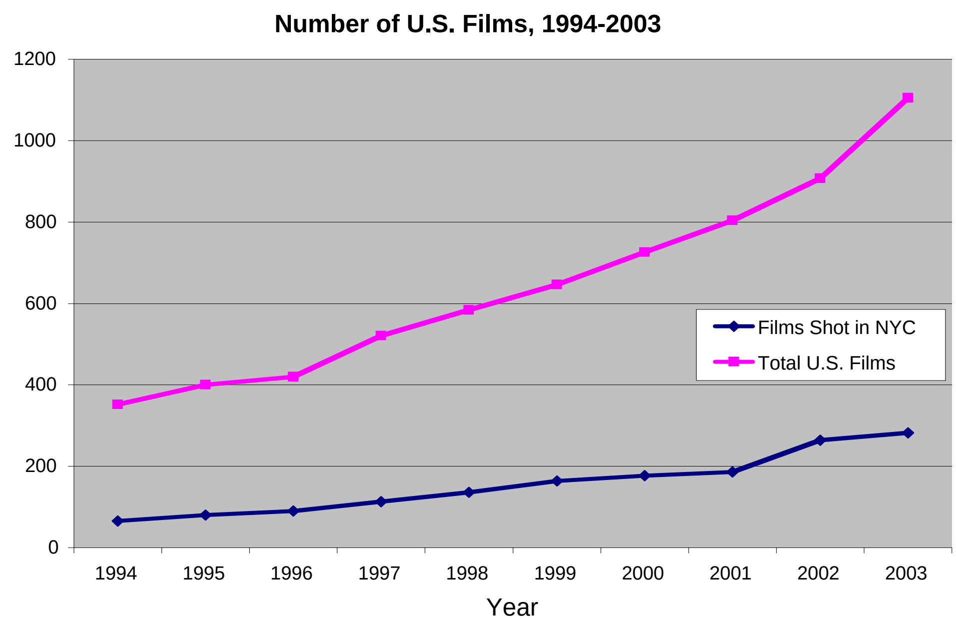
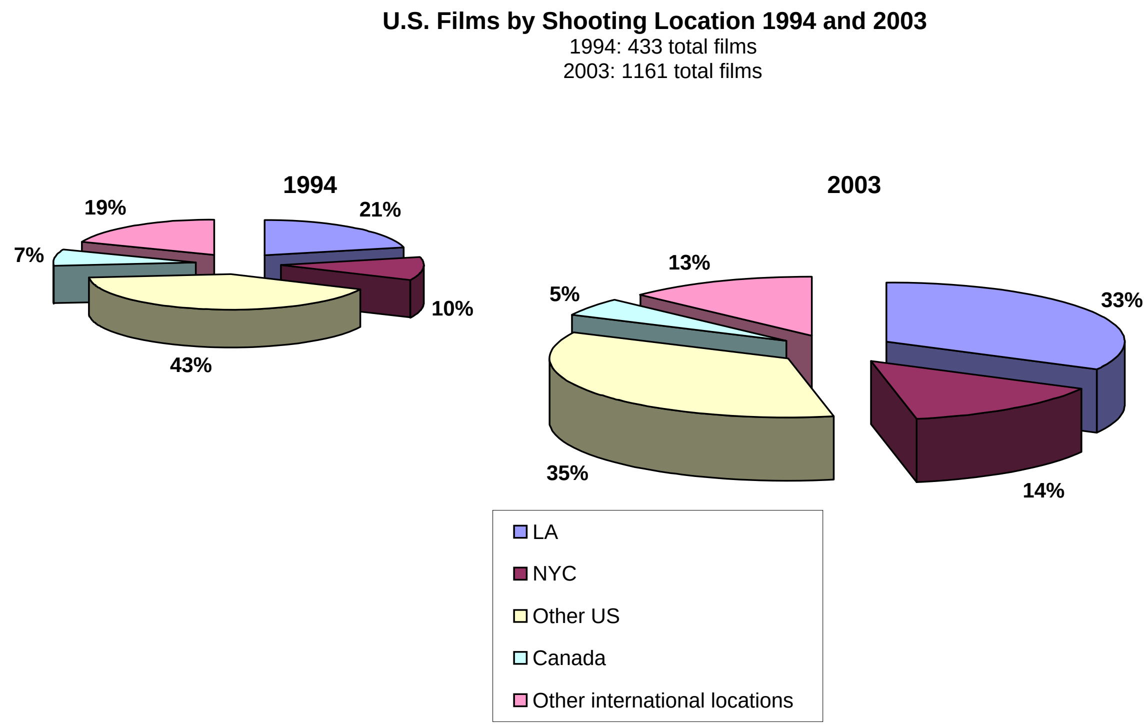


Chart 43 is drawn from data on total feature films released by US distributors from the Internet Movie Data Base (IMDB). Total U.S. films include those shot in international locations (Canada, UK, Australia and other locations), which have been an increasing portion of the total. In 2004, according to the Los Angeles County Economic Development Commission, 45 percent of all major studio films were shot (at least partially) outside the United States; this attests to the importance of co-production as a vehicle for financing as well as cost advantages in other sites. On the other hand, according to the LACEDC, the portion independent films in 2004 shot in the United States and outside of California (again, at least partially) was 48 percent.[11]
This data aggregates film projects large and small, whether or not they utilize unionized labor, and whether or not they require the permits reflected in data on location shooting days.

[11] Freeman, G., J. Kyser, N. Sidhu, G Huang, and M. Montoya. August 2005. What is the Cost of Run-Away Production. Report to the California Film Commission by the Los Angeles County Economic Development Commission, p. 15.

New York increased its share of the film location shooting pie …

Chart 44



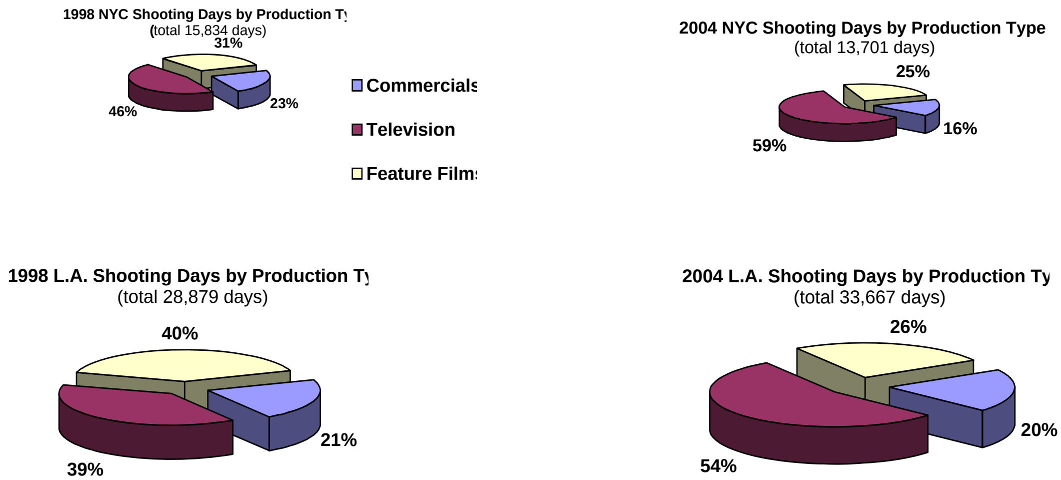
Source: IMDB

It must be kept in mind that film location decisions fluctuate wildly from one year to the next so data comparing two years must be considered a partial picture. Along with other evidence, though, it appears that New York has maintained its position as the second largest film location center in the US, recovering after the drop in 2001-2002. What is notable is that New York appears less affected by the shift of production to Canadian provinces and other international locations while alternative U.S. production sites experienced a more significant loss. **(Chart 44)**

… but L.A. has commandeered the lion's share of the increase in total production.

Chart 45 NYC and L.A. Annual % of Location Shooting Days by Production Type

Source: L.A.: EIDC data on L.A. County location shooting days, June 2005; NYC: Data on permits issued for on-location shooting by the NYC Mayor's Office of Film, Theatre and Broadcasting.



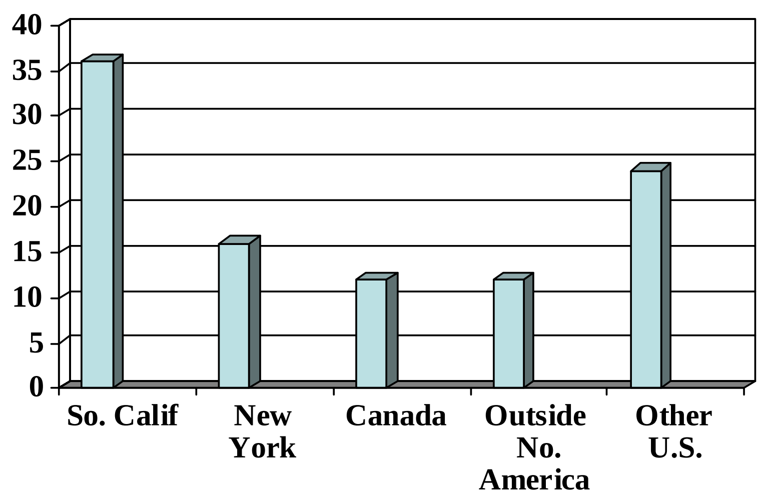
This data on shooting days from Los Angeles and New York compares activity in both cities at a high point (1998) and at a recovery point (2004). **(Chart 45)** Shooting days are a poor estimate of production activity because of the increased use of digital production and sound stages, but they do allow us to make some comparisons between the two major centers.

Shooting days for Features are down, TV is up, and Commercials continue to move out of New York to L.A. and elsewhere. **(See Chart 46)**

Chart 46

Commercial Shoot Days 2002-03 - % by Location

Source: AICP

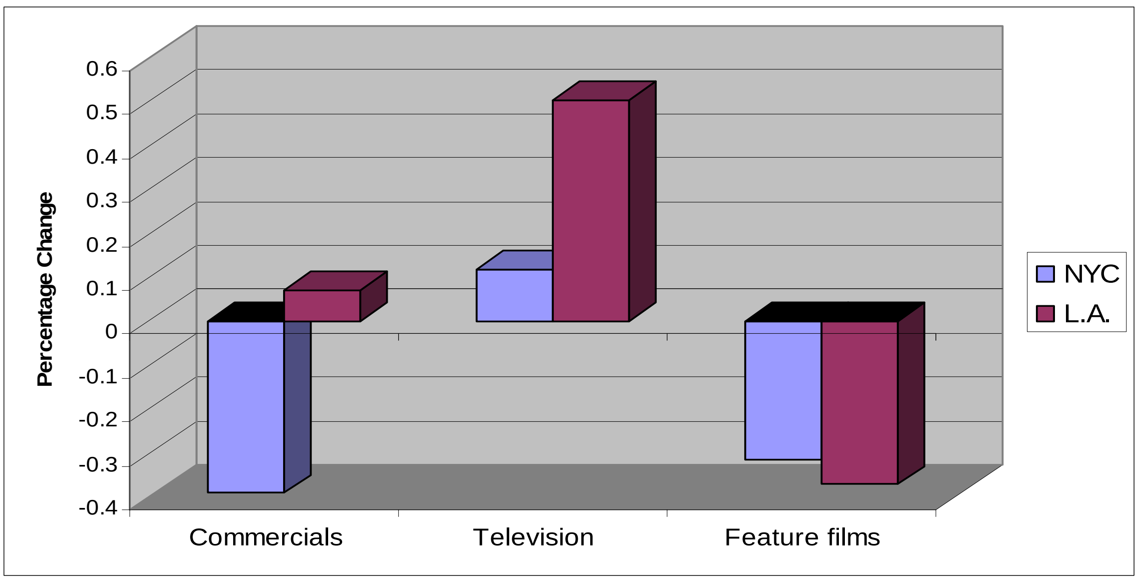


A number of explanations have been given for the loss of commercial production in New York:

- Production companies moving to L.A. since 1985.
- Lower costs for studio short shoots and music production in L.A.
- Decline in scripted ads using actors and more demand for music inputs.
- Use of a wider range of international locations.
- Buyouts of residuals for non-US actors in international locations

Chart 47

NYC and L.A. Location Shooting Days
Percent Change by Production Type 1998 to 2004



Source: L.A.: EIDC data on L.A. County location shooting days, June 2005; NYC: Data on permits issued for on-location shooting by the NYC Mayor's Office of Film, Theatre and Broadcasting.

Television has taken up much of the slack for declines in commercial shooting in NYC and feature film shooting generally.

Chart 47 is dramatic but easily misinterpreted: it depicts *percent change*, and is based on data on shooting days in the two principal US centers which, as we have noted, leaves out all sound stage and computer-generated production activity.

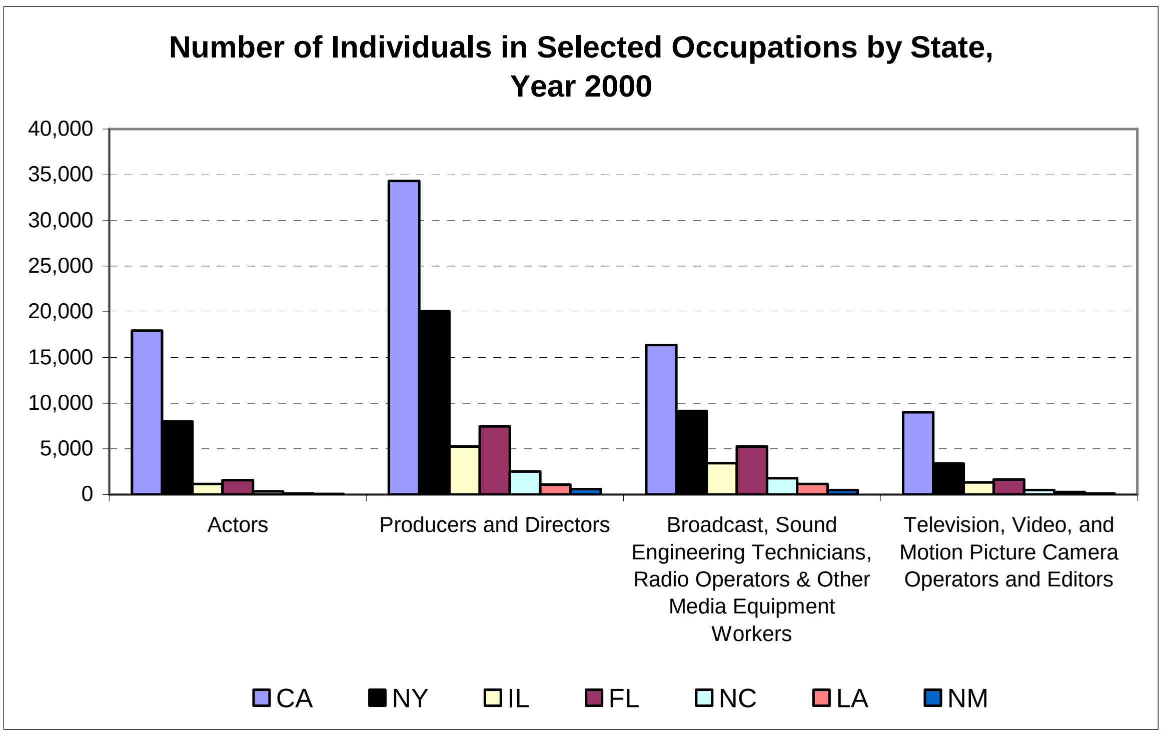
L.A. has significantly benefited from the twenty-year-long movement of commercial production to the region, although even in L.A. production gains are slim because of the international orientation of commercial production.

Television is increasingly important to both cities. While losing feature film production to international locations, L.A. generally is up because of the expansion of television production.

The Labor Pool: New York Compared with Other U.S. Locations

This sub-section compares the size of New York's labor pool (labor supply) with that of other producing states. **Chart 48** shows Census 2000 data on the number of individuals classified under key Film/TV/Com production occupations by their state of residency. In all occupations and occupational groups examined, New York is second only to California in terms of the number of State residents who can work in this industry. The number of actors, directors and producers as well as individuals who work in key below-the-line occupations is overwhelmingly higher in California and New York compared to other producing states.

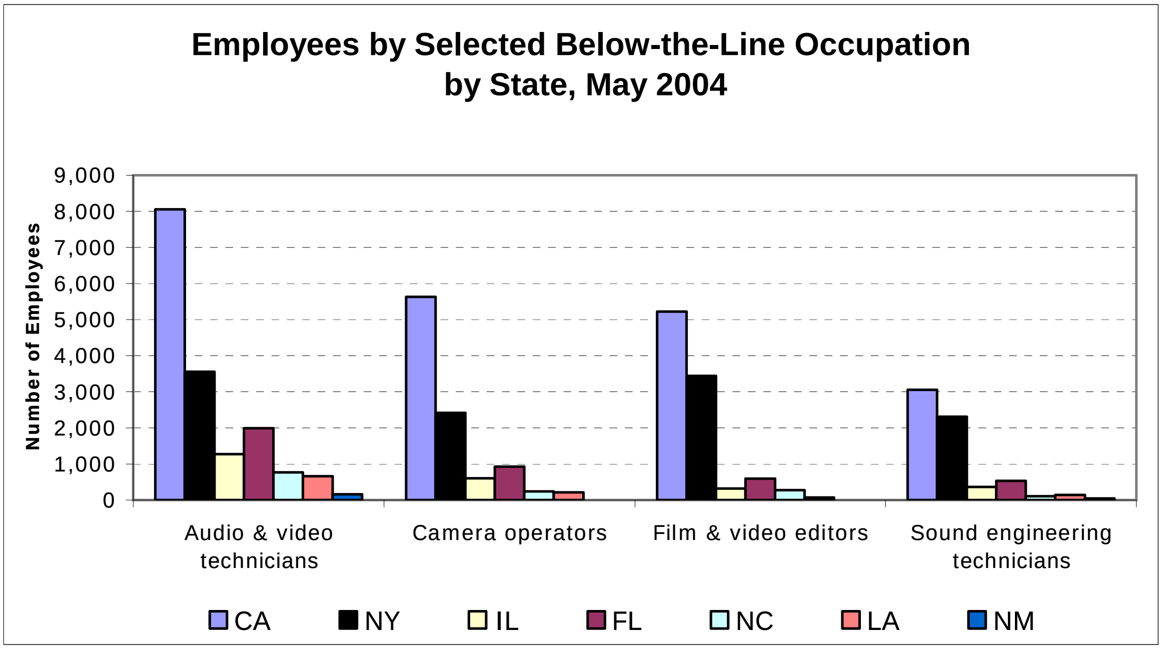
Chart 48



Source: U.S. Bureau of the Census, Census 2000.

In terms of the number of employees working in key below-the-line occupations, most recent statistics show considerably higher employment for California and New York than for other producing states. **(Chart 49 below)** In fact, about 20 percent of the employment of Sound engineering technicians in the U.S. takes place in New York, and 26 percent in California. Twenty one percent of all film and video editors in the country work in New York and 33 percent in California.

Chart 49



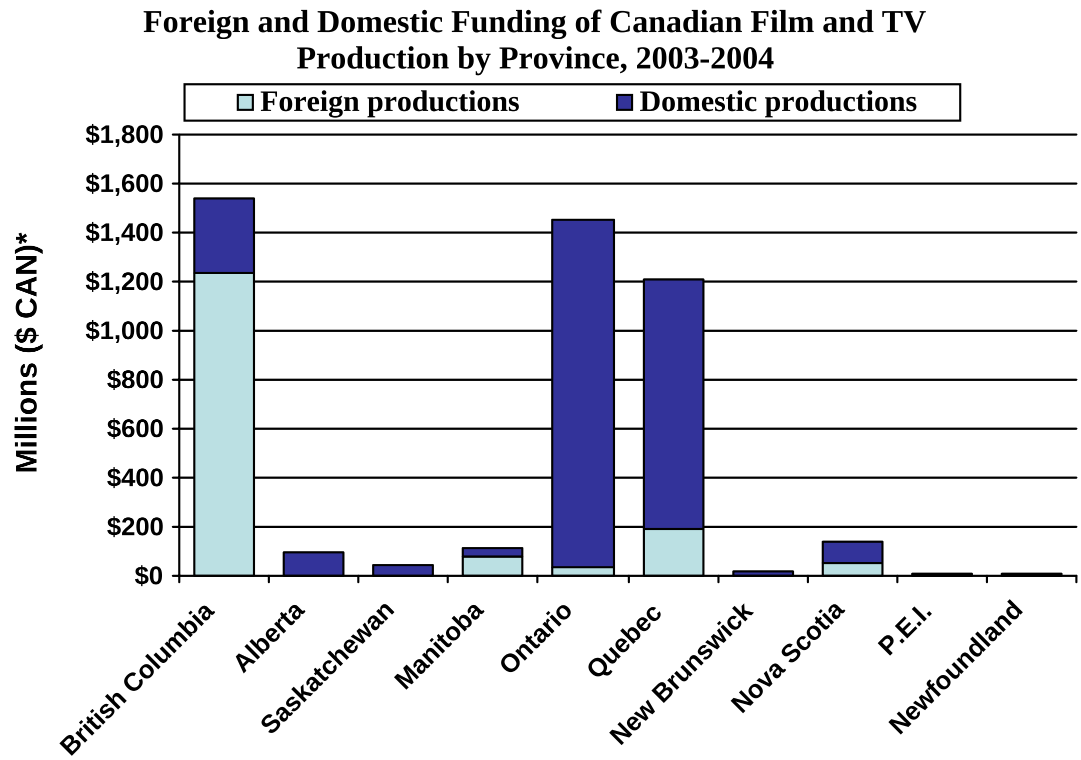
Source: Bureau of Labor Statistics, Occupational Employment Statistics.

The labor pool may be a factor of the geographical concentration of employment for key occupations, as individuals tend to live or concentrate in locations where there are more opportunities for employment in their particular occupations. Therefore, actual occupational employment could be used as a proxy for the labor pool when data for the latter are not available. Overall, the concentration of actual employment and the size of its labor supply in key occupations may present a comparative advantage for New York in relation to other producing states, with the exception of California.

Alternative Film/TV/Com Production Complexes: A Look at Canada

Although Los Angeles has garnered the lion's share of production, especially since 2000, other production complexes remain viable alternatives and have been attracting a significant volume of production. As Canada has been widely decried for triggering a spate of inter-regional and international elbowing for production dollars (and because Canada actually documents and evaluates its industry), we thought it informative to examine the Canadian situation.

Chart 50



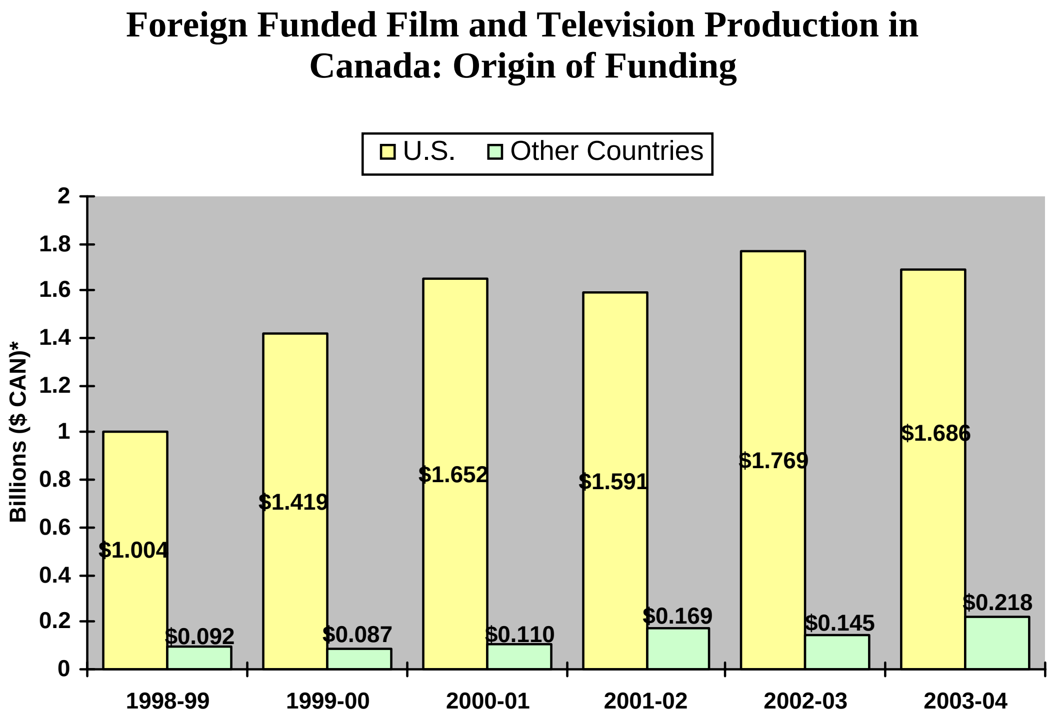
* In constant 2003 dollars
Source: "Profile 2005: An Economic Report on the Canadian Film and Television Production Industry"

The production environment in Canada is complex. **(See Chart 50)** For example, some of the major US studios have long-term leases on film and television studios in British Columbia so as to facilitate production in a lower cost and more flexible work environment. British Columbia has been described as a colony of the Los Angeles industry, "Hollywood North".

The other provinces in Canada are much more dependent on Canadian domestic production (Ontario) or European international co-productions (Quebec). Ontario, in particular, has an active independent producer community that lobbies for support for domestic production over "service" production to US firms. Canadian provinces are very competitive, and below-the-line unions and real estate interests have actively supported subsidies in order to attract foreign "service" production. Above-the-line producers, directors, and actors in Canada are more interested in policies to promote domestic production.

Although Canadian subsidies are available for service production to all non-Canadian producers, the US firms dominate the market. **(See Chart 51 below)** Canadian statistics (which do not break out subsidies by the nationality of the recipients) are in the main describing subsidies to US firms, because US firms compose over 90% of the subsidy recipients.

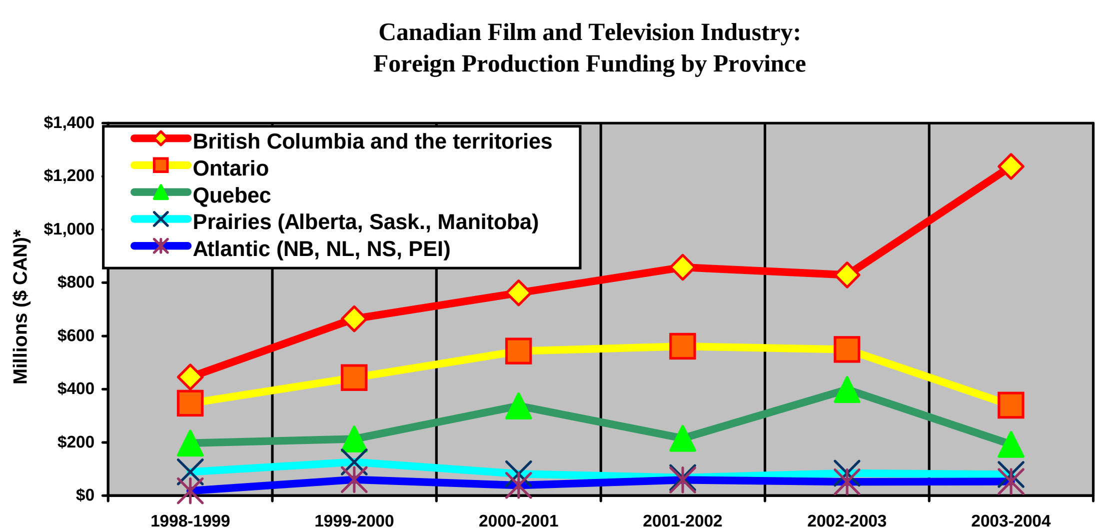
Chart 51



* In constant 2003 dollars
Source: "Profile 2005: An Economic Report on the Canadian Film and Television Production Industry"

While the majority of Canadian provinces have suffered production declines recently, British Columbia has continued to increase its share of production in conjunction with its close ties to the Major Studios. **(Chart 52)**

Chart 52

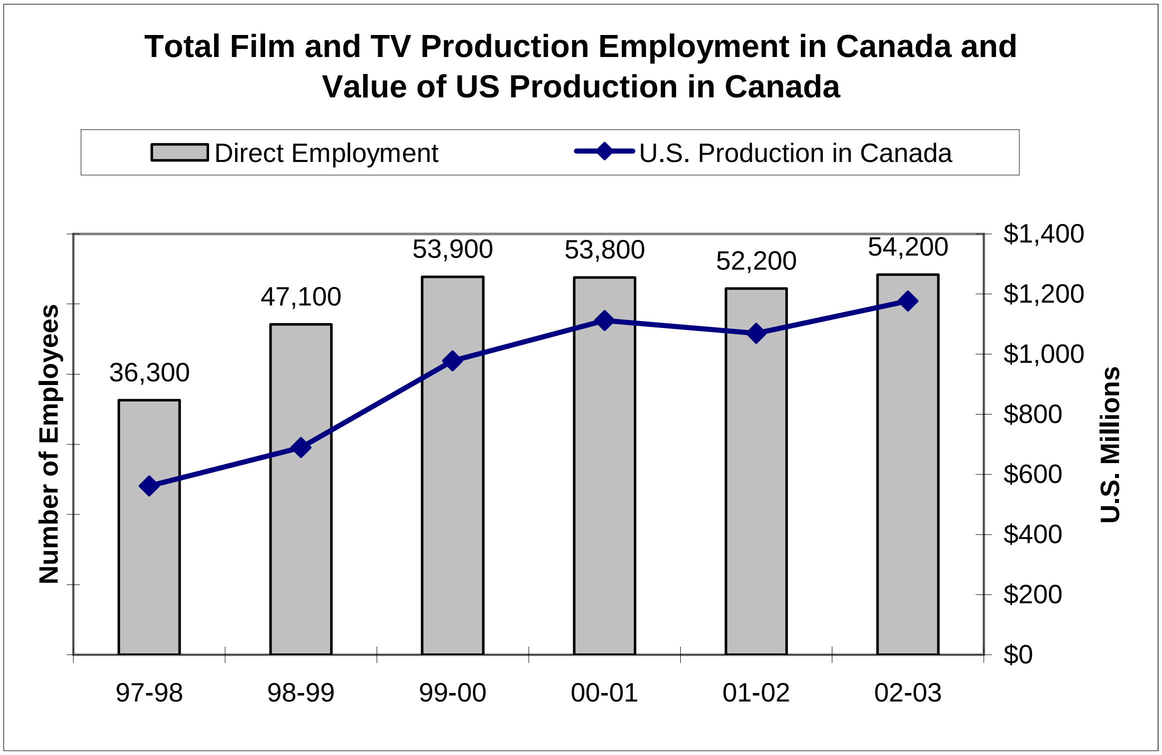


* In constant 2003 dollars
Source: Heritage Canada, "Study of the Decline of Foreign Location Production in Canada"

Employment Patterns in Canada

Changes in total direct employment in film and television content production in Canada correlate with changes in the value of U.S. production in Canada. The graph below **(Chart 53)** shows that the greatest increases in Canadian employment occurred between 1997 and 2000, when the value of U.S. production also experienced its largest increases. As the growth of U.S. production value moderated since 2000-01, direct employment in Canada slowed as well. These numbers indicate that US production in Canada is an important driver of employment in that country's film and TV production industry, particularly in British Columbia.

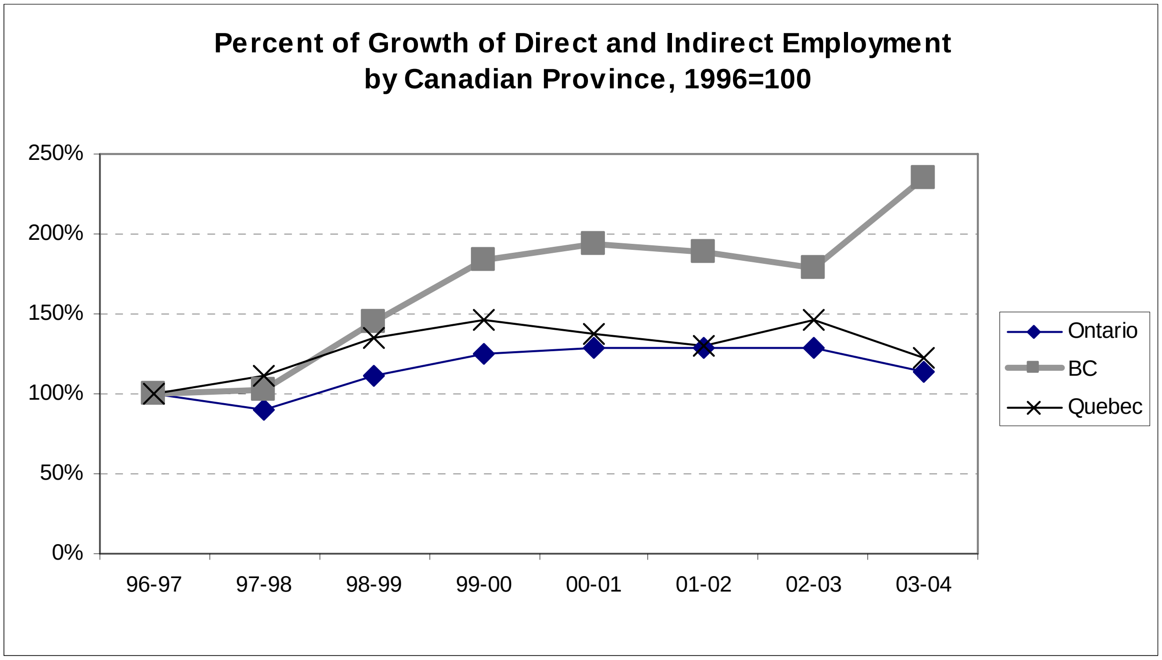
Chart 53



Source: Canadian Film and TV Production Association; and data collected by the Canada Audio-visual Certification Office (CAVCO) and published in Neil Craig Associates, "International Film and Television Production in Canada," October 2004.

Among the main Canadian producer regions, British Columbia has been the most dynamic since 1996, as measured by its rate of employment growth. **(Chart 54 below)** While British Columbia's growth accelerated since 1998-99, growth in Toronto and Quebec slowed.

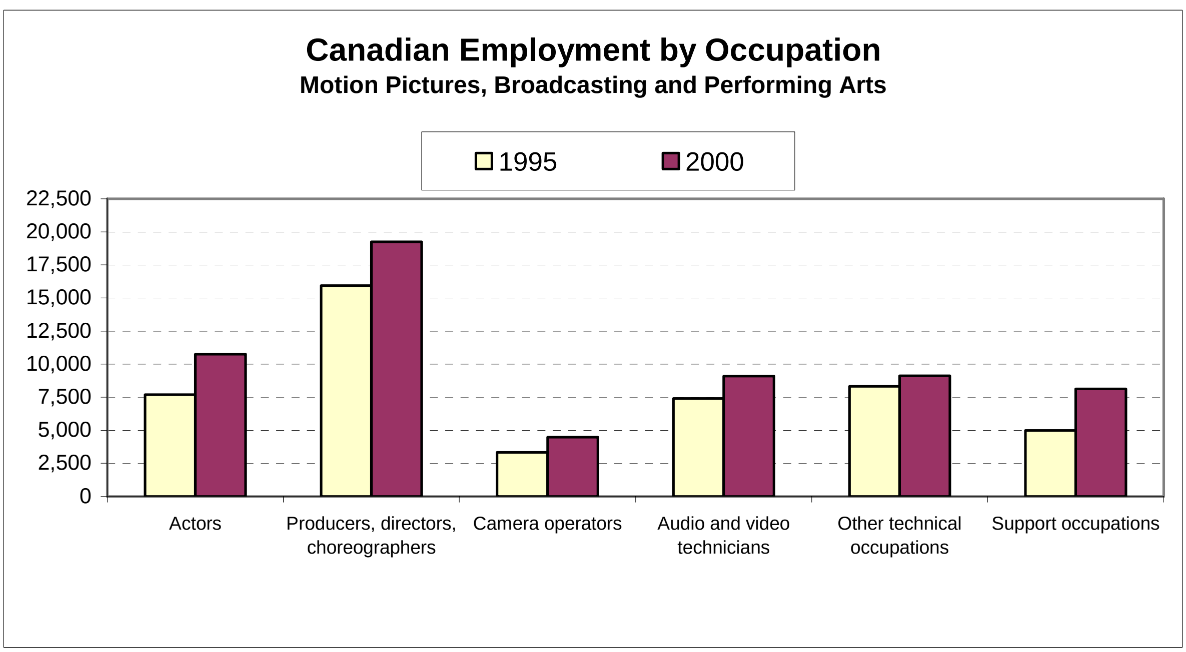
Chart 54



Source: Calculations based on data from Canadian Film and TV Production Association.

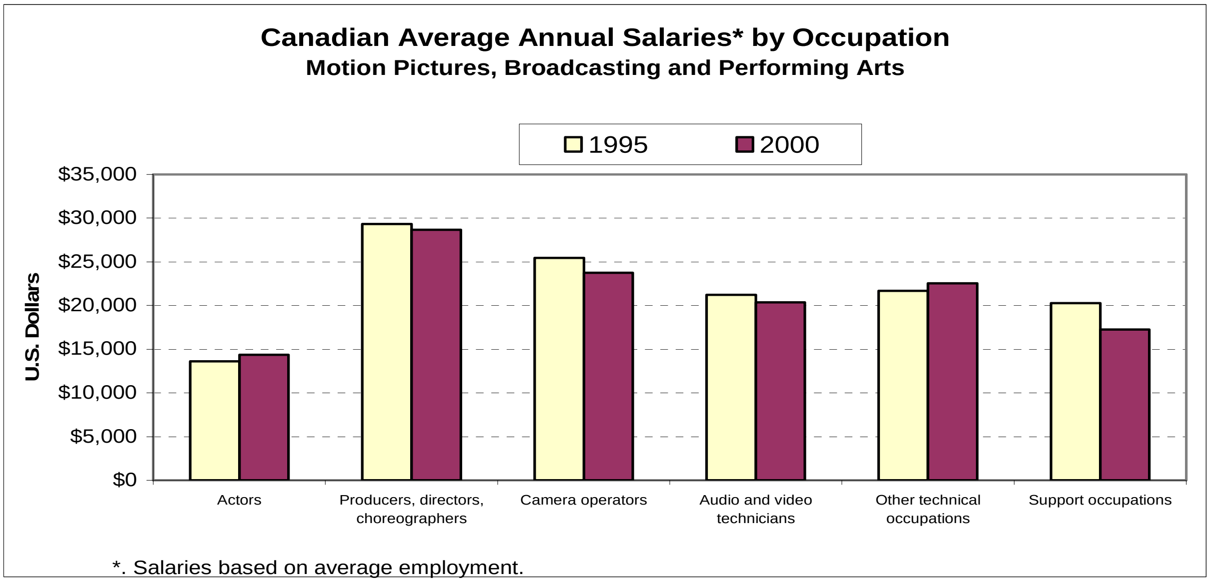
In terms of occupational employment trends, all occupations employed in the Canadian Motion Pictures, Broadcasting and Performing Arts increased in employment from 1995 to 2000 (the last year for which occupational data are available). **(Chart 55)** Salaries for these occupations, however, remained stagnant for the same period. **(Chart 56 on next page)**

Chart 55



Source: Statistics Canada, Census Data.

Chart 56



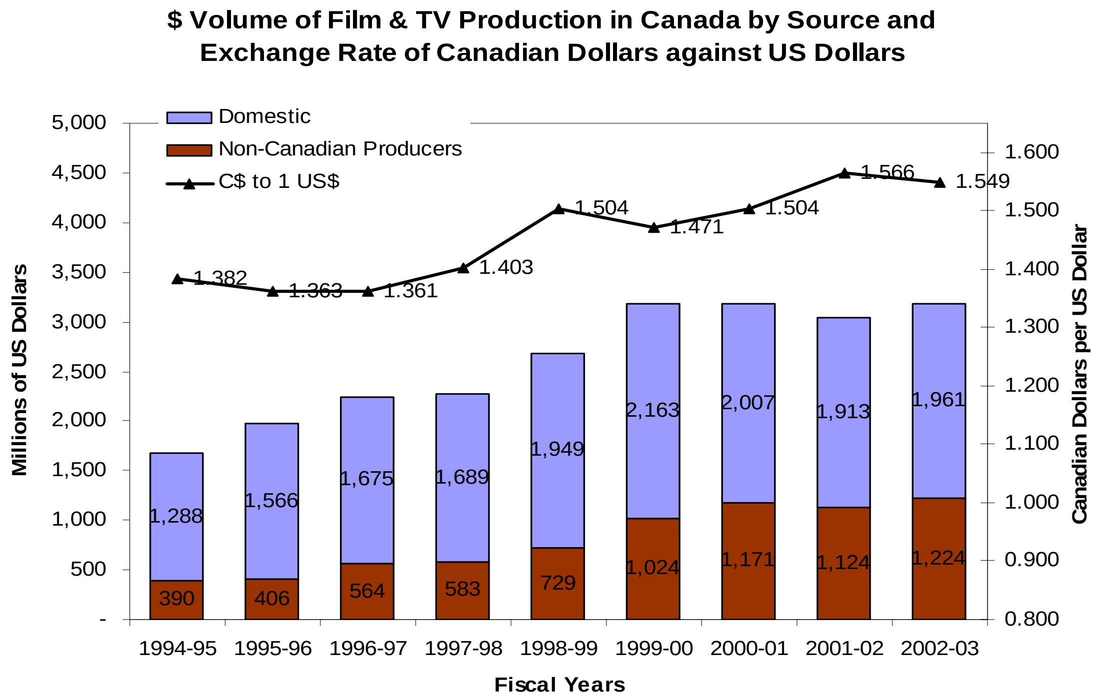
Source: Statistics Canada, Census Data.

Why is Production in Canada Flagging? Some widely-held explanations:

- Increasing value of the Canadian dollar.
- New competitors for the same product segments.
- Suspension of transferable tax shelter credits used by foreign producers.
- Canadian tax subsidies are no longer unique, and have been equaled or surpassed by some US states offering more up-front money via transferable tax credits or equity financing.
- Lack of depth in production crews and actors when productions multiply.
- **"**Location fatigue**"**.

Production trends in Canada have tended to follow the exchange rate (Chart 57) …

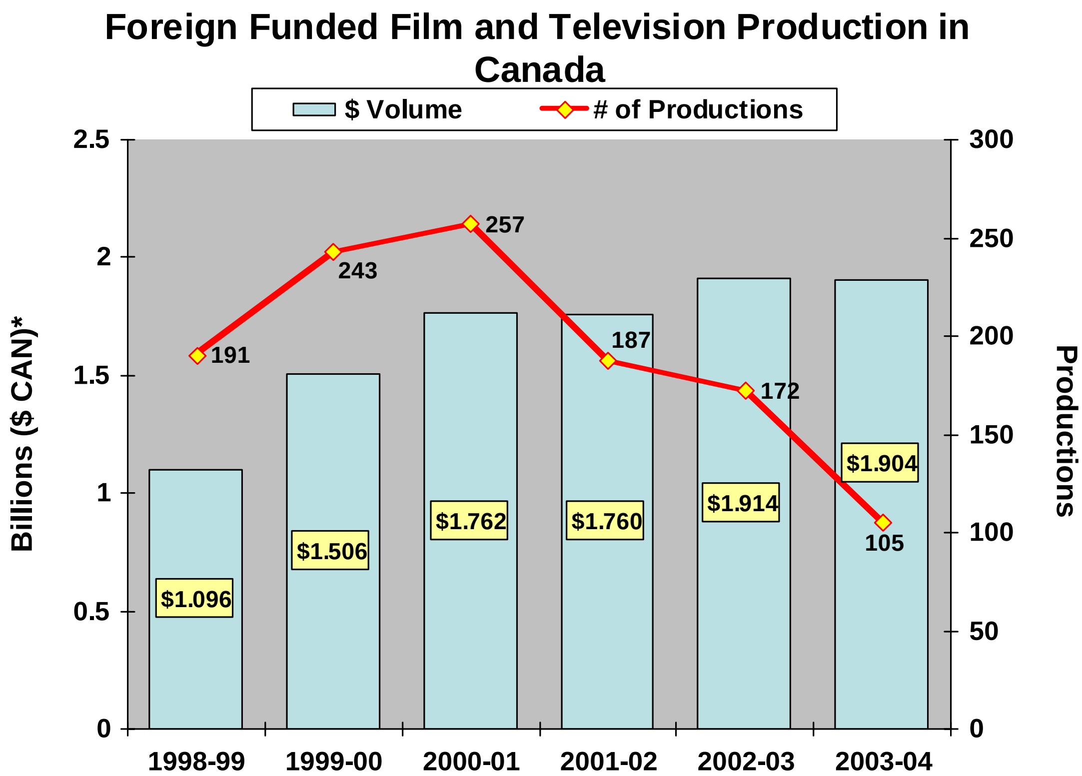
Chart 57



… until recently. (Chart 58 below)

Production activity in Canada has dropped recently with the decline in the value of the US dollar against the Loonie ($ CAN). In Ontario, for example, from the 1999 high, production dropped 30% in 2003 and another 20% in 2004.

Chart 58



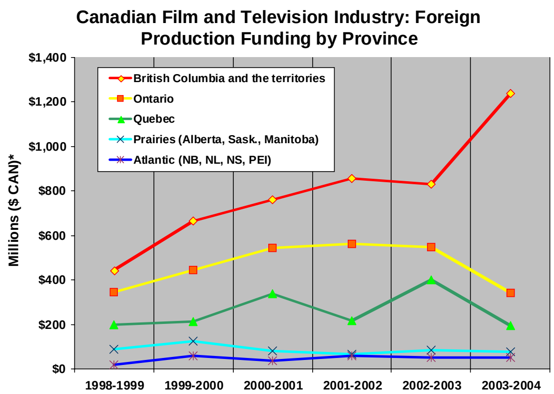
* In constant 2003 dollars
Sources: Heritage Canada, "Study of the Decline of Foreign Location Production in Canada"; "Profile 2005: An Economic Report on the Canadian Film and Television Production Industry"

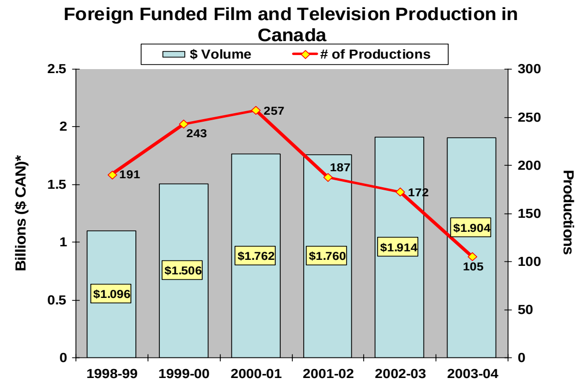
Why have the number of foreign-funded "service" productions in Canada dropped while dollar volume remains high? Two possible explanations:

- Because the project commitments were set in US dollars earlier, when the US dollar was stronger, but the payouts happened later, so in Canadian dollars they came in higher.

- Fewer, bigger projects. Subsidies only factor for mid-level budget productions ($10-50 million) and up, not smaller ones, so as subsidies become more important and the exchange rate less so in deciding whether to shoot in Canada, activity (the # of productions) drops while ($) volume stays up. This trend has favored larger producers and productions in British Columbia, where the Major Studios hold long-term leases, more than other provinces.

The Canadian production community has expressed concern about the decline in projects despite the stability of dollar volume. They contend they will be unable to sustain an industry – their labor force and infrastructure – without more projects. Again, this concern applies more to BC than to Ontario -- home to the majority of domestic production activity, particularly in television.





A Chronology of Canadian Subsidies

1997 (announced July 30, implemented in October) Canadian government creates the **federal Film or Video Production Services Tax Credit (PSTC)**: cash rebates ("refundable tax credits") calculated as a percentage of qualifying Canadian labor expenditures* on foreign-funded/controlled productions shot in Canada. The PSTC was then **11%, no cap.**
Source: Canada Revenue Agency; Canadian Heritage site.

1997/1999 (announced 11/97; passed 6/98; implemented 2/99) **Ontario Production Services Tax Credit (OPSTC) adds 11%, no cap** to the federal PSTC **…** plus a **3% Regional Credit for shooting outside metro Toronto.**
Source: Ontario Media Development Corporation.

1998 (May 31) **British Columbia's provincial PSTC** goes into effect, adding to the federal PSTC **11%, no cap** on both Production and Post, a **6% Regional Credit** on labor costs for shooting outside metro Vancouver; and a **15% Digital Animation and Visual Effects Credit**.
Source: British Columbia Film; Invest British Columbia site.

2003 (Feb 18) **National PSTC raised to 16%, no cap**.
Source: Canada Revenue Agency; Canadian Heritage site.

2004-2005 (announced December 21, 2004) **OPSTC raised to 18%, no cap, retroactive to October 31, 1997**, but the Regional Credit eliminated.
Source: Ontario Media Development Corporation

2005-2006 (1/1/05 – 3/31/06) **BC's PSTC basic rate raised to 18%, no cap**.
Source: British Columbia Film; Invest British Columbia site.

* The 12/21/04 issue of *VARIETY* alleges that "the labor portion of a production's budget…(is)… usually between 70% and 90% of overall cost".

Summary

As our evidence indicates, the value of the Canadian dollar lagged the U.S. dollar throughout the 1990s and potentially made the cost of producing in Canada relatively less expensive than in the United States with or without subsidies. These cost savings did not occur across all categories of production expenditures, however. Studio and equipment rental services have remained roughly equivalent across North America (British Columbia Ministry of Economic Development, 2005), rising and falling in Canada depending on the value of the U.S. dollar. Above-the- line labor costs, including the cost of directors and principal actors, are also not sensitive to exchange rate fluctuations. Only the cost of the "below-the-line" production crew is susceptible to cost savings because of the exchange rate.

The savings from wage cost differentials produced by the exchange rate has obviously been important in the outsourcing of production to Canada. Trends in outsourcing have generally tracked the exchange rate over the 1990s and into the 2000s (CFTPA, 2005). That it is not a sufficient explanation, however, is suggested by anomalies, particularly a 22% decrease in production from 1995 to 1996 and an increase of 12.5% from 1996 to 1997, all occurring under the same exchange rate (Droesch, 2002).

Because the cost savings could be achieved in only a portion of the total budget, the savings were most relevant in medium budget productions with high below-the-line costs for a unionized crew. Depending on the product mix during a particular year, that cost saving could be more or less attractive. In general, low budget productions are more likely to take place in the U.S., particularly Los Angeles and New York, because foreign subsidy programs are aimed at middle to high budget productions, and because small production companies don't have the accounting capacity to make subsidies "work" for them to reduce their costs.

Further, outsourcing of production to Canada does not emerge in conjunction with the subsidies. Hollywood production in Vancouver predates the introduction of subsidies (in 1997) by a decade, stretching back to the late 1980s and the establishment of Stephen J. Cannell productions (and what is now Lions Gate Studios) in Vancouver. Lions Gate is now located in both Vancouver and Los Angeles. Substantiating the weak link between outsourcing and subsidies, a recent econometric analysis of the impact of subsidies in British Columbia shows only a weak relationship between tax credits and production spending levels (British Columbia Ministry of Economic Development, 2005).

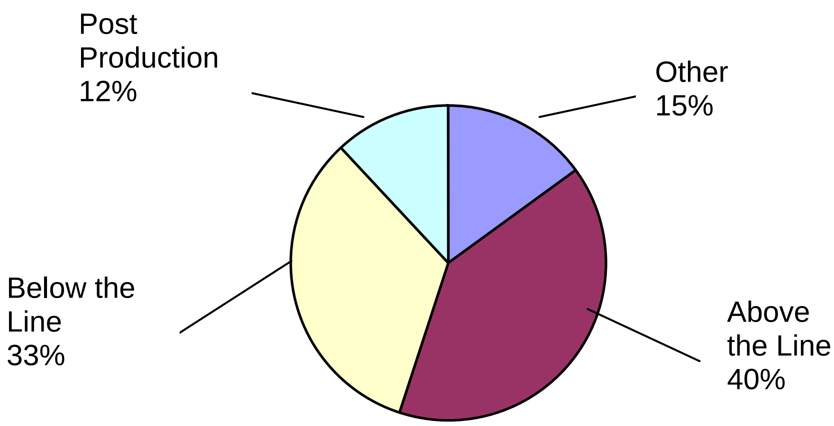
Most important, while the exchange rate and subsidies have been important in expanding production, they would be ineffectual were it not for Canada's skilled media workforce and the cost advantage provided by Canadian national health care. The presence of this workforce is the necessary condition underlying any U.S. investment in Canada, whether short-term or long-term.

LABOR COSTS AS A FACTOR IN LOCATION

Labor Cost Differences between New York and Other Locations

Production of films, TV and commercials is labor intensive. Above-the-line (talent) consumes 40% of a typical film budget **(Chart 59)** while below-the-line (crew) account for another 33%; post-production labor costs are 12%.*

Chart 59 **Typical Film Budget**



*Source: KMPG Peat Marwick, 1988, Economic Impact of the Film Industry in California

Producers frequently cite labor costs differences under union contract requirements in New York as compared with other locations. Among examples mentioned in interviews are fringe benefits for certain categories of crew, in minimum crew size for drivers, meal penalties for studio mechanics, SAG coverage for background actors, and differential treatment of residuals for actors.

Examination of current contract provisions[12] collectively-bargained by unions representing film, television and commercial production employees in New York, Los Angeles and other U.S. locations reveals the following similarities and differences:

- Minimum Scales **(See Spreadsheet 2 below)**

  Union contract rates are the same for above-the-line talent in all jurisdictions. For theatrical teamsters and some categories of crew, minimum scales are higher in NY, but for a few categories, e.g. sound mixers and boom operators, NY rates are lower.

[12] Source: 2005 contracts with major producers. Contracts with independents are negotiated with adjustments to budget size.

Spreadsheet 2

Wages in Feature Films		
	New York	California
IBT Local 817	Guaranteed 5 day wkly rates Driver $2607-2882/wk. Helper $2498	Hourly Rates Driver $22.16-31.76
IATSE Crew	Hourly Rates Lighting Gaffer $35.38 Key Grip $35.38 Sound Mixer $45.40 Prop Master $35.38 Camera Operators $63.65 Script Supervisor $43.81 Make Up Artist $40.94 Costume Supervisor $41.79	Hourly Rates $33.53 $33.53 $53.66 $33.53 $48.14 $28.35 $38.48 $30.97

In interpreting the significance of these contract differences it is important to keep in mind that for many occupations below-the-line, e.g. camera operators and editors, skilled crew members negotiate individual rates above the contract minimum. In addition, unions negotiate concessionary rates with low budget producers, which are not reflected in the standard contracts. Therefore, minimum scales are not synonymous with wages paid.

- Overtime Rates of Pay

Under the Teamsters Local 817 contract overtime rates are higher in NY as compared with other locations. For other occupations, overtime provisions are the same.

- Pension, Health and Welfare

Fringe benefit rates for unionized film workers are the same throughout the United States for above-the-line categories of work. Certain differentials exist below-the-line. The New York Teamster 817 contract calls for a larger percentage for fringe benefits as compared with the counterpart local in L.A. The recent merger of benefit funds covering Local 600, 700 and 52 members into the Hollywood plan eliminated benefit cost differentials for studios filming in New York, but independent film and commercial producers continue to pay a higher fringe rate in New York for these workers.

- Residuals for Above-the-line Talent

Guild contracts with respect to residuals are uniform throughout the United States.

- Minimum Crew Size

  The Teamster 817 contract requires a helper on every truck. In Los Angeles, the helper category work falls within the jurisdiction of IATSE. The result is a generally higher minimum crew size for production in New York City.

- Meal Penalties

  The meal penalty required by the NY Studio Mechanics 52 contract exceeds that for the same trades employed in LA. The cost implications of this differential are not clear since meal penalties are invoked only when production pressures require deviation from agreed on time schedules.

- Workforce Covered by Union Contract

  The number of extras (background actors) covered by union contract protection in feature films is higher in NY (85) as compared with LA (45). The significance of this differential varies with the number of extras employed which relates to the size of production and it applies only to the number of extras which fall into the range of 45 (minimum coverage for LA) and 85 (minimum coverage for New York)

  In Los Angeles, there are additional casting costs for employment of background actors that bring their fringe benefit costs totals above the New York level. In some budgets, the total cost of extras in L.A. exceeds that for New York.

Differences for Canadian productions are:

- Residuals

  In British Columbia producers are able to buy out residuals with up front payments- a practice which saves costs on long running products but adds to costs on short runs.

- Workforce Coverage

  The number of background actors (extras) covered by union contract protection in feature films is higher in New York as compared with Toronto and Vancouver (85-30).

Cost Significance

The extent to which contract differences influence location decisions relates to the percentage of total production cost represented by the segment of the work force covered by the contract**. (See Spreadsheet 3 below)** For example, in sample film budgets:

- Extras account for .2 to 1.9% of production costs.
- Transportation (which includes equipment as well as personnel) represents 3.7% of large budget films and up to 7.7% in small budget productions.
- Studio mechanics consume from 1.5 to 4.1% of budgets.

Spreadsheet 3

Labor Costs as a Percentage of Total Production Costs (Films Produced in New York)				
	Union Represented	Low Budget Film	High Budget Film	Not Related to Budget Size
Talent	Sag Extras			0.2%-1.9%
	SAG Cast	6.3%	44.3%*	
	DGA Directors			2.7%-8.4%
Crew	IATSE Local 700 Editors			1.4%-8.4%
	IATSE Local 600 Cinematography	4.1%	1.5%	
	IATSE Local 52			
	Set Construction	0.8%	3.2%	
	Lighting	3.5%	1.1%	
	Transportation (Local 817, IBT)	7.7%	3.7%	

Source: Sample Budgets

Sample Budget Comparison

We examined one example of sample budgets for comparable productions in New York and Los Angeles made available from the files of a major studio. This showed higher costs for wages and fringe benefits paid to teamsters, camera operators, set construction, and wardrobe in New York but lower costs for background actors, reflecting lower fringe costs. In these budgets, below-the-line costs were higher for the New York. Definitive evidence of cost differentials would, of course, require interlocational comparison of samples from a variety of employers with varying budget size.

Pay Levels: NY Compared with Other U.S. Locations

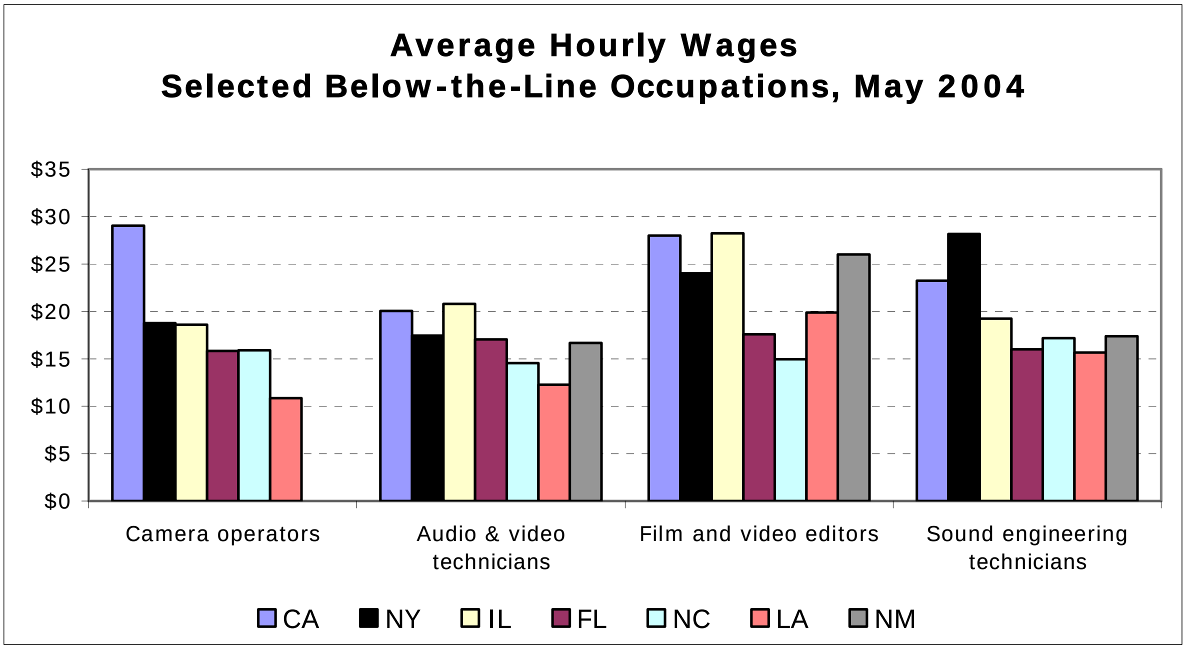
Pay levels of below-the-line occupations have been identified as a possible factor in location decisions because they present more variation across the country than actors' pay levels, which are determined by national union contracts.

According to data collected by a government survey of union and non-union establishments, average hourly wages of all occupations examined, except sound engineering technicians, were lower in New York than in California. These figures indicate that New York may have a comparative advantage in three of the four occupations examined with respect to California, and in two occupations with respect to Illinois.

* While the figure for actors seems to indicate that actors constitute an exceedingly high percentage of the total cost of 'high-budget' films, it should be noted that this figures include payments for major actors who are compensated at rates far beyond the SAG negotiated wage scale.

However, New York may have a comparative disadvantage in almost all occupations in relation to emerging producer states such as Florida, Louisiana, North Carolina and New Mexico. These states show lower wages for all occupations except for Film & Video Editors in New Mexico. **(Chart 60 below)**

Chart 60



Source: Bureau of Labor Statistics, Occupational Employment Statistics.

Union-Management Labor Relations in the New York Film, Television and Commercial Production Industry

- **History**

The entertainment industry is one of the mostly heavily unionized industries in the United States. Performers and skilled crafts employed in production of films, TV shows and commercials are represented by unions throughout the United States and Canada. New York based unions representing below-the-line occupations in Film/TV/Com production have a tradition of local autonomy. Organized for longer periods of time and functioning in the more heavily unionized environment of New York City, New York locals achieved contract protections with respect to compensation and work rules which exceeded their counterparts in Hollywood and other locations.

For five months in 1990-91, film producers (with few exceptions) boycotted New York in an effort to change overtime provisions in Local 644 (East Coast Camera Operators) and Local 52 (Studio Mechanics) contracts to conform with concessions made in California (a five day week at straight time rather than triple time on weekends). The boycott ended with a concessionary agreement in which the International Alliance of Theatrical and Stage Employees (IATSE) locals accepted the California work week and overtime provision in return for an increase in their pension and welfare payments. The film industry was virtually shut down during the period of the boycott, and production lagged for months afterward.

- **Standardization of Union Contracts**

Screen Actors Guild[13], Directors Guild and Writers Guild[14], representing above-the-line performers and creative talent in Film/TV/Com production are national unions with uniform contract provisions, which eliminate labor costs differences between locations in the United States. SAG's Global Rule One also requires that its members conform to these contract rules when employed outside the United States.

The IATSE, the largest below-the-line union in both the United States and Canada, has steadily adapted to the changes in these industries through aggressive organizing campaigns, merging key locals and creating national collective bargaining agreements. The first step in the transformation of the IATSE took place in 1990 when NABET Local 15, a rival union based in New York and vertically representing film and video crew (camera, grip, electric, prop, construction, video play back etc.) merged into the IATSE. Shortly thereafter Local 15's west coast counterpart, NABET Local 532 also merged into the IATSE ending years of dual unionism on both coasts.

However it was under the administration of the IATSE's current International President, Thomas C. Short, who was elected into office in 1995, that the union embarked on its most aggressive organizing campaigns. The union now has national collective bargaining agreements in many areas of production including, but not limited to cable television, low-budget film making and television commercial production. The IATSE International administers all national agreements creating uniformity nation-wide and eliminating internal union competition between IATSE locals. The merger of the three IATSE camera local in the United States (Local 644-NYC, Local 659-LA and Local 666-Chicago/Orlando) into Local 600 helped to create uniform work standards in this key craft. It also led to the merger of the Local 644 and Local 666 health and pension plans into the West Coast based Motion Picture Industry Plans. In 1999 the IATSE oversaw a similar merger of the Los Angeles, Chicago and New York based editorial locals to create Local 700. IATSE Local 700 also utilizes the Motion Picture Industry Plans for health and retirement insurance.

Local 52, the last of the New York based IATSE locals to administer its own plan, joined the Hollywood Plan early in 2005. This is significant in its implications for cost of producing in New York because the Hollywood Plan is richly endowed by residual payments under a post 60's agreement with the major producers. As a result of the merger, Hollywood studios producing in New York are no longer required to pay the equivalent of residuals when they

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[13] Rules with respect to background performers are different for New York and an exception to the general policy of standardization.

[14] While there are two unions, Writers Guild East and Writers Guild West, representing screen writers, their contract with the AMPTP is jointly negotiated with uniform terms and conditions for their members throughout the United States.

employ below-the-line crew members. This change brings major savings in labor costs for these producers.

- **Adaptation of Collective Bargaining Contracts to Producers Ability to Pay**

The national contracts for SAG, DG, and WG specify lower minimum scale rates for low budget productions. For the past fifteen years, concerned about retaining and attracting film jobs for their members, New York based unions representing below-the-line occupations have also negotiated concessionary contracts with low budget producers. An East Coast Council of IATSE locals, established to perform this function, developed guidelines for minimum scales and work rules based on producer budget size. In practice, "boutique" contracts are negotiated taking into account the needs of individual producers. New York based Theatrical Teamsters Local 817 also negotiates rates of pay and other contract terms to take into account budgetary constraints of producers in film and television production. Thus union contract terms for New York producers are showing increasing flexibility.

- **Training**

New York based unions representing below-the-line crews -- IA Locals 600, 52, and 700 -- contribute to industry productivity by providing training to enable their members to acquire the skills required for changing technology.

- **Political Action to support the Film Industry in New York**

New York unions cooperated with producers in the recent campaign that resulted in tax subsidies to attract film and television production to New York State and New York City.

Conclusion

One of the attractions of New York as a center for film, television and commercial production is its deep pool of talent and crew. Labor unions (or guilds) represent the vast majority of these workers both in New York and major alternative locations. Reflecting the higher cost of living in New York and long traditions of unionization, union contracts provide stronger protections in a few categories of below-the-line employment, which may add to labor costs. In recent years, unions have moved to narrow or eliminate these differentials through national standardization of contract provisions and negotiation of special arrangements for low budget productions.

GOVERNMENT INCENTIVES AS A FACTOR IN LOCATION

Overview

As a deregulated media has consolidated under a few corporations with many product lines and distribution channels at their disposal, their production arms (the major film studios and the broadcast and cable TV networks) have been moving from their traditional financing and distribution role to more of a *marketing* and distribution role, pushing onto producers more of the weight of responsibility for financing their projects, as well as imposing a more conventional corporate emphasis on cost control.

A similar dynamic of downward financial pressure has been reported in the world of commercial production: large corporate clients are pursuing more diverse and targeted marketing strategies, and empowering their procurement departments to control the cost of the TV commercials they do commission. By working through media buying firms spun off from the omnivorous transnational ad agency holding companies, they press the advertising agencies, who in turn press the commercial producers.[15]

These dynamics set the backdrop for the current trends in local, state, provincial and national subsidies to the production industry.

Local and state governments have long provided some level of incentives for production companies to shoot on location in their jurisdictions. Their rationale at first focused on business development in general, and tourism business in particular: they wanted to have scenes from their region appear in films and television shows, and to be identified in the credits, as an instrument of civic pride and a promotional device to attract visitors and conventions. Where film offices existed, they tended to be associated with the Convention and Tourism function of government.

The incentives themselves consisted of free government services — identifying appropriate shooting locations; community relations help; access to streets, public facilities, or public lands; permits; police protection; etc. — essentially in-kind aid. Most states and some cities offer a variety of these incentives.

The earliest tax breaks for productions added to these incentives the foregoing of state or local taxes that would otherwise be owed by producers, usually sales and use taxes on the rental of equipment or purchase of goods and services in that jurisdiction [CA, CT, LA, ME, MD, MA, MN, MS, NH, NJ, NY, NC, OK, OR, PA, SC, TX, UT, VT, VA, WA], or on hotel accommodations [CO, CT, HI, IA, KS, ME, MN, MT, NV, OH, SD, SC, TN, TX, UT, VT, VA, WA]. These tax breaks are usually an exemption, but sometimes a rebate [AZ, AK, KY, TN].

[15] Leonard, D., D. Burke. 2004. "Nightmare on Madison Avenue", *Fortune*, June 28, Vol. 149, Issue 13: p. 92, 9p, 7c.

Still, until the mid-1990s, tax-supported services and forgiveness of taxes owed were the only relationship between the tax powers of the state and production incentives. States and cities were less competing than they were marketing their differences – differences in the services they provided production companies or the unique appeal of the shooting locations they could offer filmmakers or program producers, scenes that they hoped would raise their cache in the minds of potential visitors.

The Canadians are widely credited (or blamed) for changing all this when, in 1997, the national government was persuaded that they could leverage the economic benefit from decades of government investment in their film and (especially) television production industry and its workforce, by attracting more "service" production for foreign (almost exclusively U.S.) producers through a Film or Video Production Services Tax Credit (PSTC). One by one, Canadian provincial governments adopted additional, similar provisions over the next two years, and the credit percentages at both the national and provincial level have been raised in a second round from 2004-2006. **(See page 52)**

These instruments and their stepchildren in the U.S. have less to do with taxes than providing cost reimbursements to producers via their tax filings. Canada concentrates on the second-biggest cost factor in production **(see page 54)**, below-the-line labor costs, and offers recovery of a percentage of the cost of Canadian (or in the case of provincial credits, in-province) labor. As these credits are fully "refundable", if a producer doesn't qualify on their initial tax filing for the full percentage, they can return in subsequent years and file for the balance. (Ontario even made its late-2004 increase in the OPSTC retroactive to the beginning of the federal program in October 1997, a questionable investment strategy if the goal is to lure *new* productions.)

To "keep up with Canada", U.S. states and an array of nations were persuaded to follow suit, and Georgia, Illinois, Louisiana, Maryland, Massachusetts, Mississippi, Montana, and South Carolina now have explicitly labor cost or wage oriented credit programs for producers. Tax credits [HI, MA, MS, MT RI] or refundable credits [HI, MT, NM, NY and NYC, NC] that permit producers to file for recovery of a percentage of other kinds of in-state production expenditures, or rebate programs that are outside of the tax filing process altogether [FL, MD, MS, OK, OR, SC, UT], followed.

As the nature of production incentives thus changed, so did the rationale for them. Discussion of the need to lure film, television, and commercial productions shifted from the old emphasis on business climate and tourism to a new emphasis on economic development and job creation, and increasingly, film offices are allied with the Economic Development departments of governments now.

All of these instruments provide for recovery of a portion of expenditures, but only after the fact, a characteristic that makes them useful mostly to producers who can afford to "carry the float", and who have the resources to file for them.

And, recovery of production costs still does not address the ever-increasing need of producers to secure financing for their projects in the first place.

To meet the need for up-front financing, New Mexico instituted a program of interest-free loans to producers of approved projects, in exchange for participation in the proceeds, and New Jersey and Vermont have begun offering loan guarantees. Starting with Louisiana, [followed by AZ, GA, IL, MA, MO, NJ, PA, and RI so far], other states have taken the route of making their investment tax credits or tax credits on production costs "transferable" (that is, resalable), whereby producers or their investors can secure eligibility for a tax credit of an authorized amount *in advance* of production, and immediately sell that credit to any party that needs it to reduce their tax liability in that state. In 2007, Louisiana will offer to buy back their own credits at a discount directly from the producers or investors.

Such measures depend upon the continued enthusiasm of taxpayers for underwriting the production of movies, TV shows and commercials, and increasingly such legislation contains a requirement that its efficacy be evaluated. These efforts seek to measure the net economic benefit, gauge the tax consequences versus opportunity costs, and shape the form and limits of incentive programs.[16]

As cities, states, provinces and nations vie to offer each new iteration of tax-supported backing for production, their differences – and the attention of each to marketing their unique assets and appeal – recede. Caught up in the spirit of competition, each trumpets their wins or bemoans their losses of the most prestigious projects – the high-profile feature films – which, as we have documented, are a decreasing proportion of available production projects.

Overall, there is the danger that incentives will become too much of a good thing. With so many players in the game, the more they spread out the available action in a few product segments, the less the chance that anyone will build a sustainable industry — unless they already have one, like Los Angeles, or Canada, or New York.

[16] Two such assessments are the *Film and Television Industry Review* prepared for the Ministry of Economic Development of the Province of British Columbia, Canada, by InterVISTAS Consulting, Inc. (October, 2005); and the *Review of the Large Budget Screen Production Grant (Phase I)* prepared for the Office of the Minister of Economic Development of New Zealand by Outcome Management Services (December, 2005), available through www.beehive.govt.nz.

Summary of Production Incentives

Sources: MPAA (10/22/04); Variety.com (4/10/05); Los Angeles County Economic Development Corporation for the California Film Commission (8/05); State film offices.

Spreadsheet 4

U.S. Production Incentives *(As of June 2005 unless updated)*

STATE	INCENTIVE	DESCRIPTION
UNITED STATES (FEDERAL)	INCOME TAX WRITE-OFF	• Same-year federal income tax write-off of production expenses for qualifying film and TV shows with budgets less than $15 million ($20 million if shot in qualifying poor areas) who spent at least 75% of their payroll for services rendered in the U.S.
ARIZONA	INCOME TAX CREDIT SALES AND USE TAX REBATE	• **20%** transferable income tax credit on in-state production expenditures on projects spending $3 million or more (10% when spending under $3 million). • **50%** sales and use tax rebate on purchase or lease of tangible property on productions spending $1 million or more. • To qualify, a production must hire a minimum number of AZ residents.
CALIFORNIA	SALES AND USE TAX EXEMPTIONS PRODUCTION TAX CREDITS? (PENDING)	• No sales or use tax on production or postproduction services. Industry specific services include writing, acting, directing, casting and storyboarding. • No sales and use tax on 45% of the charges for sets, including labor to design, construct and strike. • No sales tax on the full charge for the rental of personal property. • No state hotel tax on occupancy; local tax exemption for occupancies in excess of 30 days. • **5%** sales tax exemption on the purchase or lease of postproduction equipment by qualified persons. • Proposed 10% refundable tax credit for productions shot more than 75% in CA. • L.A. proposed reimbursement of 5% of BTL up to $12.5 million for productions shooting more than 75% in L.A.
FLORIDA	FILM INDUSTRY REBATE PROGRAM	• **15%** reimbursement of qualified Florida expenditures for productions over $850K. • Funded at $10 million per year.

GEORGIA	INCOME TAX CREDITS	Transferable income tax credits on: • **9%** of all costs to producers spending more than $500K annually in GA (maximum salary $500K); plus … • **3%** of wages paid to GA residents; • **3%** for production in distressed areas; • **2%** for TV productions that spend more than $20 million annually in GA.
HAWAII	PRODUCTION TAX CREDIT INVESTMENT TAX CREDIT ROOM TAX REFUND	• Up to **4%** refundable tax credit on in-state spend on qualifying productions. • **100%** non-refundable investment income tax credit up to $2 million annually to Hawaii taxpayers investing in qualified high tech businesses producing performing arts products. • **7.25%** credit against transient room tax
ILLINOIS	WAGE TAX CREDIT	• **25%** transferable income tax credit on first $25,000 of wages paid IL residents.
LOUISIANA	PRODUCTION/INVESTOR TAX CREDIT EMPLOYMENT/LABOR TAX CREDIT SALES & USE TAX EXCLUSION	• **25%** transferable credit of in-state spend on production (including pre & post) or infrastructure investments if over $300K. Drops to 20% in 2008, 15% in 2010. • **10%** additional transferable credit on payroll to Louisiana residents (excluding $1 million+ salaries). • Film office will begin credit buyback program in 2007. • **4%** sales and use tax exclusion is phasing out.
MARYLAND	WAGE REBATE SALES TAX EXEMPTION	• Wage rebate up to $12,500 per eligible employee for projects spending over $500K. Funded at $4 million per year. • 5% sales tax exemption.
MASSACHUSETTS	EMPLOYMENT TAX CREDIT PRODUCTION TAX CREDIT SALES TAX EXEMPTION	For productions with more than $250K in-state spend: • **20%** tax credit on aggregate payroll for residents (excluding $1 million+ salaries). • **25%** transferable tax credit on in-state production expenditures excluding payroll if more than half total production costs or production days are spent in MA. • **5%** Sales and Use tax exemption. • $7 million / production cap on all credits.
MISSISSIPPI	PRODUCTION TAX REBATE WAGE TAX CREDIT SALES TAX EXEMPTION / REDUCTION	• **10%** rebate if in-state spend exclusive of payroll. • **10%** non-transferable, non-refundable income tax credit on in-state payroll. • Sales tax exemption for production items, reduction for equipment.
MISSOURI	INCOME TAX CREDIT	• Transferable tax credit equaling up to 50% of in-state spend if over $300K. Maximum $1 million per project. • Funding capped at $1.5 million annually.

MONTANA	WAGE TAX CREDIT PRODUCTION TAX CREDIT	• **12%** refundable tax credit on up to $50,000 in wages paid to Montana residents. • **8%** credit on total in-state spending.
NEW JERSEY	PRODUCTION TAX CREDIT SALES TAX EXEMPTION LOAN GUARANTEES	• Transferable tax credit for up to 20% of qualifying expenses if 60% of total production expenses are in NJ. Funding capped at $10 million annually. • Sales tax rebate • Loan guarantees up to 30% of a project's financing, maximum $1.5 million.
NEW MEXICO	PRODUCTION TAX CREDIT INTEREST-FREE LOANS	• **15%** refundable tax credit for eligible production costs (additional **5%** credit for targeted TV series productions) with 80% of refund given in advance of spending. • Interest free loans up to $15 million. • Fee-free state properties. • Job training funds.
NEW YORK	SALES TAX EXEMPTION FILM PRODUCTION CREDITS FILM AND COMMERCIAL PRODUCTION CREDITS? (PENDING)	• Sales tax exemption • **10%** refundable tax credit on qualified in-state expenditures, currently capped at $125 million total (based on $25 million/year) for 2004-2008. • City of New York offers an additional **5%** refundable tax credit equal on NYC-qualified expenditures, currently capped at $50 total (based on $12.5 million/year) for 2005-2008. • NYS and NYC budget proposals hike the available state credits to $60 million/year and the City credits to $30 million/year for 2006 through 2011. The NYS proposal also adds $7 million/year in credits for commercials production companies, allotted to favor those based in metro NYC and those with a substantial and increasing in-state spend, for up to **32%** of qualified in-state costs on qualifying projects. Annual credits per company are capped, but 50% of any surplus is refundable in subsequent tax years.
NORTH CAROLINA	PRODUCTION TAX CREDIT SALES AND USE TAX CAP	• **15%** refundable tax credit for producers spending more than $250K in NC, on all qualifying in-state production costs including payroll subject to NC withholding. Credit maximum $7.5 million per project. • **1%** cap on sales and use taxes.
OKLAHOMA	REBATE PROGRAM SALES TAX EXEMPTION	• **15%** rebate of eligible in-state costs. Funded at $2 million per year. • Sales tax exemption on tangible property and services.

OREGON	SALES TAX EXEMPTION PRODUCTION INVESTMENT FUND LABOR COST REBATE? (PENDING)	• No sales tax on all in-state purchases. • **10%** rebate on in-state costs, capped at $250K per film or $30K per TV episode. • **6.2%** rebate on in-state wages pending.
PENNSYLVANIA	PRODUCTION TAX CREDIT SALES TAX EXEMPTION	• **20%** transferable tax credit on qualified Pennsylvania costs when a production spends 60% of production costs in-state. Program capped at $10 million annually. • Sales tax exemption. • Fee-free state properties.
RHODE ISLAND	EMPLOYMENT TAX CREDIT INVESTOR TAX CREDIT	• **25%** transferable tax credit on all in-state spending when that spend is over $300K. No cap. • **25%** non-transferable tax credit to RI investors in projects with a budget over $5 million; **15%** credit for investors in projects with budgets from $300K-$5 million.
SOUTH CAROLINA	SALES / HOTEL TAX EXEMPTION TAX REBATES	• **5%** sales tax exemption for purchases of in-state goods and services; **7%** on hotel rooms. • **15%** rebate of total aggregate payroll for employees who are subject to South Carolina withholding, if in-state spending is at least $1 million. • **15%** rebate program for qualifying supplier/vendor expenditures in-state or out. • Rebate program capped at $10 million annually; no per project cap. • Fee-free state properties.
UTAH	FILM INCENTIVE FUND HOTEL TAX REBATE SALES TAX EXEMPTION	• **10%** rebate on in-state spend; additional **2%** for Utah content; more for spending in rural Utah. • Program capped at $1 million. • Transient room tax rebate. • Sales and Use tax exemption
VERMONT	LOAN GUARANTEE PROGRAM SALES AND HOTEL TAX EXEMPTIONS	• Loan guarantees of up to $1.5 million per project through VETA. • Sales tax exemption and hotel tax cap

Pending State Incentive Initiatives

STATE	INCENTIVE	DESCRIPTION
MAINE	WAGE TAX CREDIT? (PENDING) PRODUCTION TAX CREDIT? (PENDING)	• 200% rebate of Maine income taxes withheld on payroll of an authorized production (excluding $1 million+ salaries), or about **10-12%** of payroll. • 100% state income tax credit for the production company.
TENNESSEE	TAX CREDIT? (PENDING)	• **25%** transferable tax credit is contemplated for 2007. TN only taxes unearned income.

Other State Offerings

STATE	INCENTIVE	DESCRIPTION
CONNECTICUT MAINE MINNESOTA* NEW HAMPSHIRE TEXAS VIRGINIA WASHINGTON	SALES AND USE TAX EXEMPTIONS	* For commercials
ARKANSAS KENTUCKY TENNESSEE	SALES AND USE TAX REBATES	
COLORADO CONNECTICUT IOWA KANSAS MAINE MINNESOTA MONTANA NEVADA OHIO SOUTH DAKOTA TENNESSEE TEXAS VIRGINIA WASHINGTON	HOTEL TAX EXEMPTIONS or CAP	
CONNECTICUT NEW HAMPSHIRE	PROPERTY TAX EXEMPTIONS	

Canadian Production Incentives *(As of May 2005)*

PROVINCE	INCENTIVE	DESCRIPTION
CANADA (FEDERAL)	CANADIAN PRODUCTION TAX CREDIT (Federal incentive is **in addition** to provincial incentives below)	• **16%** federal tax credit on Canadian labor expenditures. • No limitation on the amount of any Canadian refund.
BRITISH COLUMBIA	FILM INCENTIVE TAX CREDIT DIGITAL ANIMATION OR VISUAL EFFECTS TAX CREDITS	• **18%** tax credit on BC labor expenditures • **6%** additional tax credit on labor expenditures outside of Vancouver • **15%** digital animation or visual effects credit for BC labor costs
ONTARIO	FILM INCENTIVE TAX CREDIT DIGITAL ANIMATION TAX CREDIT	• **18%** refundable tax credit on Ontario labor expenditures, retroactive to 10/31/97. • **20%** Ontario computer animation credit.
MANITOBA	FILM INCENTIVE TAX CREDIT	• **45%** refundable tax credit on Manitoba labor expenditures • **5%** frequent film bonus additional tax credit for 3 or more projects
NOVA SCOTIA	FILM INCENTIVE TAX CREDIT	• **35%** tax credit on Nova Scotia labor expenditures • **5%** frequent film bonus, additional tax credit for 3 or more projects
QUEBEC	FILM INCENTIVE TAX CREDIT	• **20%** refundable tax credit on Quebec labor expenditures
SASKATCHEWAN	FILM INCENTIVE TAX CREDIT	• **17.5%** refundable tax credit of the total production cost • **22.5%** refundable tax credit if outside of the province's two major cities

A Sample of International Production Incentives *(As of May 2005)*

COUNTRY	INCENTIVE	DESCRIPTION
AUSTRALIA	REFUNDABLE TAX OFFSET	• **12.5%** rebate for qualifying Australian production expenditures on films and TV series that spend a minimum of A$15 million
FIJI	REFUNDABLE TAX OFFSET	• **15%** refundable tax offset for productions that spend a minimum of F$50,000
IRELAND	PRODUCTION TAX RELIEF	• **12%** of Irish production expenditures, capped at $2.9 million per project.
NEW ZEALAND	FILM GRANTS	• **12.5%** large budget film grant on films that spend a minimum of NZ$15 million
SOUTH AFRICA	SOUTH AFRICAN PRODUCTION EXPENDITURE	• **15%** of the gross amount spent in South Africa by foreign productions. At least 50% of the production must be shot in South Africa, with a minimum budget of $3,800,000.
UNITED KINGDOM	TAX DEDUCTION	• UK tax write-offs and "sale and leaseback" arrangements with a UK investor (that can return to a producer approximately **9-11%** of the negative cost of a film) have been altered recently to favor European Community filmmakers or production companies.

THE ECONOMIC IMPACT OF NEW YORK'S FILM, TELEVISION AND COMMERCIAL PRODUCTION INDUSTRY

What is the Industry's Economic Impact?

Defining economic impact

In economic accounting, the basic measure of a particular industry's contribution to the economy is its *value added*. Value added is arrived at by subtracting from an industry's sales or total receipts the value of the intermediate inputs purchased from other industries. Value added can also be seen as the sum of the payments to the various factors of production engaged in that industry -- its workers, land, equipment and facilities, and the coordinating and risk functions supplied by entrepreneurs. These payments to the factors of production constitute the various forms of income: labor compensation, rent, and business income (whether corporate profit or proprietor income). On a national level, after adjusting for net exports, the value added for all industries together sums to gross domestic product. On a state level, value added for all industries together sums to *gross state product*.

In addition to the *direct* measure of economic activity, value added, in an industry, regional economists and other analysts are interested in knowing what the impact of an industry is on the broader economy. In regional economics, there are two types of economic impact in addition to the direct impact, these are *indirect* and *induced* economic impacts. A given magnitude of spending on the final demand of a particular industry will generate *indirect* activity in supplier industries to the initial industry.

Induced impacts are created when the workers engaged in producing the direct and indirect effects spend their incomes on consumption goods and services such as food, housing, transportation, leisure activities and so on. The *total economic impact* includes all three forms: direct, indirect and induced.

Regional Input-Output Modeling

To estimate the economic impact of New York's film, television and commercial production industry, we first develop a baseline estimate of value added directly generated in the industry for 2003, the latest year for which the U.S. Commerce Department's Bureau of Economic Analysis has published revised Gross State Product data at an industry level.[17] **(See Table 1**, the tables in this section use industry titles corresponding to the government's industry classification system.**)** A regional input-output model is then used that provides indirect and induced impacts based on a given magnitude of direct spending, or final demand, in the industry studied. An input-output model is based on inter-industry linkages and reveals the industries supplying

[17] Preliminary 2004 gross state product data was released in early June 2006. However, given the significant revision in the 2002 and 2003 data announced at that time, and the fact that the preliminary 2004 estimate is subject to revision, 2003 was chosen as the base year for the economic impact.

intermediate goods and services and the value of the intermediate demand needed in the production of the final demand for the industry studied. The input-output model also generates the induced demand based on generalized patterns of consumer expenditures. Regional input-output models allow for the measurement of economic impact at a state or county level.

NAICS vs. SIC Specification of Motion Pictures

All government data on economic activity by industry -- whether employment, wages, receipts, or value added -- now follow the North American Industry Classification System (NAICS).[18] In 2000, the government officially began presenting its economic data using the NAICS classification, replacing the Standard Industrial Classification (SIC) that had been in place since the 1930s. The broad, 3-digit NAICS industry that includes the production and post-production activities that are our focus is: NAICS 512, Motion Picture and Sound Recording. However, this broad category includes related industries that are not within our immediate focus such as Distribution (NAICS 51212), Exhibition (NAICS 51213), and Sound Recording Industries (NAICS 5122).

Our focus includes:

Motion Picture and Video Production (NAICS 51211), defined in the NAICS system as: comprising establishments primarily engaged in producing, or producing and distributing motion pictures, videos, television programs, or television and video commercials

and

Postproduction Services and other Motion Picture and Video Industries (NAICS 51219), which comprises establishments primarily engaged in providing postproduction services and other services to the motion picture industry, including specialized motion picture or video postproduction services, such as editing, film/tape transfers, subtitling, credits, closed captioning, and computer-produced graphics, animation and special effects, as well as developing and processing motion picture film.

Various government data series were consulted in preparing this report. At times, data were not available specifically for the detailed motion picture production and postproduction industries and we had to approximate that using other data.

One of the organizing principles behind the NAICS classification is to categorize activities on a *process* basis rather than a *product* basis. Thus, some businesses that in the SIC classification were included in the motion picture industry, such as film equipment rental businesses, are included with equipment rental rather than motion picture production. In terms of economic impact, film equipment rental is measured as an indirect activity, just as would any purchased input used in the course of motion picture production.

[18] Executive Office of the President, Office of Management and Budget, North American Industry Classification System, United States, 1997. The NAICS system underwent minor revision in 2002 but there were no changes affecting the motion picture sector.

Common Methods Used to Measure Economic Impact in the Film, Television and Commercial Production Industry

A variety of methods have been used. An often-used technique is to compile production budgets and build up a total for direct production spending. Then multipliers are used to estimate indirect, induced and total economic impact. While this "bottom-up" methodology is often used because it is the only way to gauge the magnitude of production by segment – i.e., feature film, television serial, commercial, cable programming, etc. – it is problematic for two reasons. First, there are literally hundreds of projects each year and it is extremely difficult to be comprehensive in compiling project budgets. Second, the aggregate total of project budgets leaves out business income and therefore understates direct production activity.

Such methods often also employ economic impact multipliers in a less than rigorous fashion. Multipliers for film, television and commercial production vary by state and change over time so it is important that the source and geographic area of the particular multiplier being used be identified and appropriately justified.[19]

In the past, film offices have sometimes tried to estimate production magnitudes using location permit data. Crude averages were used to approximate average daily direct spending by type of film project. New York's film offices no longer employ such methods. The New York City film office currently only reports location permit shooting data.

Conceptual Challenges in Determining Economic Impact Given the Project Nature of Film, Television and Commercial Production, and Apparent Data Limitations

The project nature of film, television and commercial production presents problems to government data analysts in properly accounting for direct activity in the production industry. Project expenditures generally take three forms: payments to above-the-line talent; payments for the services of below-the-line workers, and payments to businesses providing intermediate goods or services used in film production. Intermediate suppliers may be either within the Film/TV/Com production or postproduction industry, or part of a non-Film/TV/Com industry such as the food service industry for catering or commercial equipment rental in the case of trailer, lighting or other equipment rentals.

Payments to below-the-line workers and to some above-the-line artists and producers are frequently handled through payroll services. For industry reporting purposes, such payments made through payroll services specializing in Film/TV/Com projects are classified by the state labor department as employment and wages paid in the motion picture production industry.

One of the supplier industries to the Film/TV/Com production industry is the Independent Artists, Writers and Performers industry (NAICS 7115). The formal definition of this industry encompasses many freelance actors, writers, producers and others constituting above-the-line talent. Also included are some categories of specialized below-the-line workers customarily

[19] A recent report prepared for the British Columbia Ministry of Economic Development includes a methodologically careful approach to estimating the economic impact of the film and television industry in British Columbia. See InterVISTAS, Film and Television Industry Review, Final Report, October 2005, pp. 12-24.

working on a freelance basis, for example, independent recording technicians, independent theatrical costume designers, and independent theatrical lighting technicians.

However, in comparing production budgets with data on industry supply relationships and data on business income within the Independent Artists industry, it appears that some payments to independent artists may not be appropriately counted as part of the intermediate service inputs used in Film/TV/Com production. Based on an examination of several film budgets of varying size and consultation with industry officials, it is reasonable to say that above-the-line talent accounts for about half of film production budgets. Yet, among the supplier industries providing intermediate goods and services to the motion picture industry, the Independent Artists, Writers and Performers industry accounts for only 5% of the inputs. Some payments to above-the-line talent undoubtedly show up as an intra-industry purchase, but even if the entire intra-industry input to motion picture production were added to Independent Artists, that would account for only 28% of total inputs. Apparently, a significant portion of payments to above-the-line talent is not showing up as inputs to New York film production.

This hypothesis is corroborated by data for the Independent Artists industry from the U.S. Census Bureau's Nonemployer Statistics. As the name suggests, these are businesses that have no paid employees. Most nonemployers in this industry are self-employed individuals operating small unincorporated businesses or treated as such by production companies. In the Film/TV/Com production industry, payments to such individuals are probably reported to the Internal Revenue Service on 1099, rather than W-2, forms. Some Independent Artists are paid wages that are reported on W-2 forms. According to State Labor Department data for 2003, total wages in the Independent Artist industry were $478 million. The Census Bureau reported that Nonemployer receipts for that industry for 2003 were $1.71 billion, over three-and-a-half times greater than total wages. While there are other industries that may be employing the services of Independent Artists in New York -- industries such as live theater, other performing arts, and book and periodical publishing -- few are as lucrative for Independent Artists as Film/TV/Com production. As discussed further below, we make an adjustment to augment our estimate of New York Film/TV/Com production to allow for this under-counting of payments to Independent Artists and Producers most likely involved in film, television and commercial production.

Modifications Needed to Customize the IMPLAN Input-Output Model

To rigorously estimate the economic magnitude and impact of Film/TV/Com production, we used the IMPLAN Regional Input-Output model as a foundation.[20] The latest inter-industry coefficients as estimated by IMPLAN for 2003 were utilized for New York State. This data set first became available in mid-December 2005. No model is perfect and we needed to make several adjustments to the IMPLAN model to provide a more accurate, customized modeling of New York's motion picture production industry. We adjusted the value added components (employee compensation, business income, and indirect taxes) for the IMPLAN sector most closely approximating Film/TV/Com production. We also modified the major input sectors to exclude those most closely related to motion picture distribution and exhibition. (**See Table 2)** A further modification aligned the IMPLAN value added components with the Gross State Product

[20] For a description of IMPLAN, see: http://www.implan.com.

data from the U.S. Commerce Department and the direct employment with employment from the Quarterly Census of Employment and Wages.

Specific Steps in Estimating a 2003 Baseline for the New York State Film, Television and Commercial Production Industry

Overview

Our approach to the task of estimating the industry's magnitude and economic impact was to first review all the available government data on the film, television and commercial production and postproduction industry for New York State, including: the Quarterly Census of Employment and Wages, Occupational Employment Survey, the Current Population Survey, Decennial Population Census, Economic Census, Gross State Product, the Bureau of Economic Analysis' Earnings by Industry data, and annual data on Nonemployer receipts. Our major analytical tool was the IMPLAN regional input-output model, updated for the latest technical coefficients data for New York for 2003. To approximate the production industry that was the focus of this study, where necessary, we used and cross-checked ratios of wages for the 6-digit motion picture production and postproduction industries to total wages for broader specifications of the industry. As discussed above, we also examined various film project budgets for expenditure patterns and modified the IMPLAN model's set of industries supplying intermediate goods and services to film and television production.

Based on our review of the available data, it appears that a significant amount of payments for above-the-line talent are not reflected in the figures for the motion picture production industry. To make a conservative adjustment for this, we assumed that one-third of the IMPLAN model's 2003 New York value added results for the Independent Artists, Writers and Performers industry were Film/TV/Com production related. Since it is not possible to reasonably break out NAICS 7115 from the broader NAICS 711 (Performing Arts, Spectator Sports and Related Industries) sector in the Gross State Product series, we were forced to rely on the IMPLAN model's sector 473, which does coincide with NAICS 7115. However, it is clear from this, that IMPLAN is basing its value added estimates solely on employee wages in this industry as indicated by the Quarterly Census of Employment and Wage data. In addition to including businesses employing workers, the GSP data include nonemployer receipts in estimating industry value added. Wage data for NAICS 7115 are only about 20% of the combined total of wages and non-employer receipts. We did not make a further adjustment to IMPLAN to correct for this probable under-statement of NAICS 7115 value added.

Our purpose in making an assumption about the value of Film/TV/Com production that is not captured in Motion Picture Industry category is to suggest that a portion of the value added from the Independent Artist industry should be added to the industry's production numbers. (In making this latter adjustment, we factored out the inputs from the Independent Artist category that we had previously counted as part of the Film/TV/Com production industry.)

Baseline New York State Film, Television and Commercial Production Economic Impact Results for 2003

Table 3 shows the economic impact results for 2003 for the New York State Film/TV/Com production industry. Table 3 combines motion picture production (NAICS 51211) and postproduction (NAICS 51219) with one-third of NAICS 7115 (our approximation of the under-reported above-the-line-talent working on Film/TV/Com industry products). The combined industry has direct employee compensation of $3.3 billion, proprietors' income of $580 million, other business income of $1.4 billion, and a total direct value added of $5.4 billion. This amount of value added stems from $10.1 billion in New York Film/TV/Com output.

Direct employment associated with these results is 36,372 for 2003. The QCEW employment total for film production and postproduction for 2003 was 32,256. The combined industry total includes 4,100 independent (self-employed) artists, writers and producers. Still, the industry employment total may be understated by about 5,000 since there are about that many nonemployer establishments in the film production portion of NAICS 5121. The receipts and compensation of these 5,000 are included in the results shown in Table 3. (Bear in mind that the adjustment made for independent artists is the low end of a range that could extend as high as 10,000.)

Using our modified IMPLAN model, we estimated the indirect and induced economic impacts and associated multipliers from this broadened specification of New York Film/TV/Com production. The indirect and induced economic impact results are also presented in Table 3. Indirect employment in industries supplying Film/TV/Com production totals approximately 31,200 and the induced employment effect generated by the consumption spending of the direct and indirect employment is nearly 47,000.

For 2003, Film/TV/Com production activities could be said to have supported a total of approximately 114,000 jobs in the New York State economy, with an associated total of $11.7 billion in value added, and $6.5 billion in total employee compensation in all sectors.

The IMPLAN model's Type I employment multiplier for the broadened specification of New York film, television and commercial production activity is 1.9, meaning that for every 100 direct jobs in Film/TV/Com production, an additional 90 indirect jobs are supported in industries supplying goods and services to Film/TV/Com production. Type I multipliers reflect the ratio of (direct plus indirect) divided by (direct). A Type II employment multiplier is the total of (direct, indirect and induced) employment divided by (direct) employment. Because Film/TV/Com production in New York State has extensive backward linkages into local supplier industries and because it is relatively well paying, it has a reasonably high 3.1 Type II employment multiplier according to our modification of the IMPLAN model. This is one of the highest such multipliers among all industries in New York. Every 100 jobs directly in the Film/TV/Com production industry are associated with, support or "create" 210 additional jobs. "Induced impact" jobs range across the entire economy, from retail stores, to health care, to housing and real estate.

Method to Approximate Annual Changes in Film, Television and Commercial Production Activity

As of this writing in mid-2006, the most current year for which a baseline estimate of New York film, television and commercial production could be developed is 2003. The IMPLAN 2003 data became available in mid-December 2005, and the revised 2003 GSP data were released in June 2006. (Preliminary 2004 GSP data were also released in June 2006 but are subject to revision.) The 2003 baseline estimate can be used as a basis for generating more current estimates for a moderate length of time, say two to four years. Inter-industry relationships normally do not change that quickly. However, this method should be periodically reviewed within that 2-4 year time span using the latest government data then available. In particular, if more refined estimates of the Independent Artists add-on are possible, the overall method should be adjusted accordingly. Given the substantial revisions in the business income component of the 2002 and 2003 GSP data for New York's Film/TV/Com production, future revisions in GSP data should be closely monitored.

In the meantime, the best way to update the baseline estimate is to apply a factor representing the change in total nominal wages paid in film production and to independent artists. Wages are by far the largest income or tax payment component within film production, representing three-fourths of employee compensation and nearly half of total industry value added.

Table 4 presents the nominal wage data needed to do this for 2003, 2004 and 2005, the latest available at this writing. For 2004, total wages in our modified specification of New York film production increased by 7.2%, and for 2005, total wages rose by 6.0%.[21] Thus, an approximation of the change in direct New York State Film/TV/Com production value added and employee compensation in 2004 would be a 7.2% increase over 2003, and 2005 would be a 6.0% increase over 2004. This would result in an estimated *direct* industry value added in New York State of $5.8 billion for 2004, and $6.2 billion for 2005. The estimates for *total* industry value added (including indirect and induced effects) would be $12.5 billion for 2004 and $13.3 billion for 2005. **(See Table 5.)**

[21] The preliminary 2004 GSP estimate for the motion picture and sound recording industry (NAICS 512) showed an increase of 5.6% over 2003. However, it is very likely that this will be revised upward as the GSP series is updated. The GSP series showed a very small (0.6%) increase in employee compensation, far less than the 7.2% QCEW figure which is the ultimate basis for compensation in the GSP accounts. In addition, gross operating surplus, which includes proprietors' and other business income, grew by 29.7% in 2003 and 10.5% in 2004.

Table 1: Gross State Product Series

NYS: NAICS 512
Motion Picture and Sound Recording Industries

($ millions, current)	**2001**	**2002**	**2003**
Gross State Product	$4,734	$6,815	$7,802
Employee Compensation	$3,616	$3,697	$3,785
Gross Operating Surplus	$1,003	$3,002	$3,893
Taxes on Production and Imports	$114	$115	$125

source: U.S. Bureau of Economic Analysis, Gross State Product series, June 2006 revision.
http://www.bea.gov/bea/regional/gsp/

NYS: NAICS 5121P (5121P = 51211 and 51219)
Motion Picture and Video Production and Postproduction

($ millions, current)	**2003**
Gross State Product	$5,125
Employee Compensation	$3,147
Gross Operating Surplus	$1,866
Taxes on Production and Imports	$112

source: Estimated by Fiscal Policy Institute, based on June 2006 GSP revision.

Table 2: Industry Inputs, Motion Picture and Video Production, New York State, 2003 Base Year

($ millions)

IMPLAN sector		Gross inputs
418	**Motion picture and video industries**	**1,039.7**
431	Real estate	773.6
473	Independent artists, writers, and performers	225.6
430	Commercial banks	208.5
474	Promoters of performing arts and sports and agents	163.3
390	Wholesale trade	143.9
422	Telecommunications	135.6
454	Employment services	128.0
419	Sound recording industries	118.8
437	Legal services	110.9
43	Maintenance and repair of nonresidential buildings	99.0
481	Food services and drinking places	95.0
438	Accounting and bookkeeping services	86.4
425	Nondepository credit intermediation and related activities	76.6
452	Office administrative services	73.6
391	Air transportation	58.3
485	Commercial machinery repair and maintenance	36.9
427	Insurance carriers	36.7
479	Hotels and motels, including casino hotels	31.8
443	Other computer related services, including facilities mgt.	29.0
424	Data processing services	28.9
394	Truck transportation	28.8
432	Automotive equipment rental and leasing	25.7
434	Machinery and equipment rental and leasing	24.9
436	Lessors of nonfinancial intangible assets	24.7
483	Automotive repair and maintenance, except car wash	24.4
	Subtotal, top 25 supplier industries	**2,789.0**
	Subtotal, all other industries	**674.4**
	Total inputs	**4,503.1**
	Total Value Added	**5,125.2**
	Total Motion Picture and Video Production Output	**9,628.3**

Source: Fiscal Policy Institute, derived from IMPLAN 2003 model and industry data.

Table 3: New York State Motion Picture Production Economic Impacts, 2003 Base Year*

2003 ($billions)	*type of economic impact*			
	Direct	**Indirect**	**Induced**	**Total**
Employee compensation	**$3.314**	**$1.432**	**$1.705**	**$6.451**
Proprietors' income	**$0.582**	**$0.299**	**$0.243**	**$1.124**
Other business income	**$1.398**	**$0.948**	**$1.129**	**$3.476**
Total value added**	**$5.413**	**$2.884**	**$3.426**	**$11.723**
Output	**$10.126**	**$4.687**	**$5.390**	**$20.203**
Employment	**36,372**	**31,226**	**46,698**	**114,296**

Direct impacts are within the motion picture production industry.

Indirect impacts occur in industries that supply goods and services to motion picture production.

Induced impacts are created when the workers and business owners engaged in producing the direct and indirect effects spend their incomes on consumption goods and services.

*Includes motion picture and video production (NAICS 51211) and post-production (NAICS 51219) and one-third of NAICS 7115, Independent writers, artists, & performers.

**Value added also includes indirect business taxes not shown separately.

Source: Estimated by Fiscal Policy Institute, based on U.S. Bureau of Economic Analysis Gross State Product series and IMPLAN input-output model, June 2006.

Table 4: Total Wages, Motion Picture Production and Independent Artists, Writers and Performers, New York State, 2003-2005

(Wages in $millions)

Motion Picture Production *

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total Wages
2003	$642.4	$511.5	$504.2	$694.1	$2,352.2
2004	$705.0	$530.8	$539.4	$704.2	$2,479.4
2005	$781.3	$528.7	$560.5	$779.6	$2,650.1

Independent Artists **

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total Wages
2003	$29.0	$23.3	$33.0	$74.1	$159.4
2004	$39.9	$31.4	$30.2	$111.2	$212.6
2005	$37.8	$26.7	$32.2	$107.7	$204.4

Combined Motion Picture Production and Related Above the Line Talent

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total Wages
2003	$671.4	$534.8	$537.2	$768.2	$2,511.6
2004	$744.9	$562.2	$569.6	$815.4	$2,692.0
2005	$819.1	$555.4	$592.7	$887.3	$2,854.5

% change from prior year	1st quarter	2nd quarter	3rd quarter	4th quarter	Total Wages
2004	10.9%	5.1%	6.0%	6.1%	**7.2%**
2005	10.0%	-1.2%	4.1%	8.8%	**6.0%**

* includes NAICS 512110, 512191, 512199

** NAICS 711510 One-third of total wages are used to approximate the portion associated with Motion Picture production.

Source: NYS DOL, Quarterly Census of Employment and Wages.

Table 5: New York State Motion Picture Production* Value Added and Output, Baseline 2003 and Projected 2004 and 2005

($billions)	2003 baseline	projected 2004	projected 2005
Direct Motion Picture Value added	**$5.4**	**$5.8**	**$6.2**
**Total Motion Picture Value added ** **	**$11.7**	**$12.5**	**$13.3**
Motion Picture Production Output	**$10.1**	**$10.9**	**$11.5**

Note: for 2003 baseline, see Table 3; 2004 projected based on 7.2% growth in total wages; 2005 projected based on 6.0% growth in total wages. See Table 4 for total wages, 2003-2005.

*Includes motion picture and video production (NAICS 51211) and post-production (NAICS 51219) and one-third of NAICS 7115, Independent writers, artists, & performers.

**Total value added here includes direct, indirect and induced impacts.

Source: Fiscal Policy Institute estimates and projections, based on U.S. Bureau of Economic Analysis Gross State Product series, IMPLAN input-output model, and NYS DOL Quarterly Census of Employment and Wages, June 2006.

RECOMMENDATIONS

A Program for Data Gathering to Allow Ongoing Analysis of the State of the Industry in New York

We recommend that the NYFTCI project negotiate with the New York State Governor's Office for Motion Picture and Television Development to generate at regular intervals aggregate data from applications to the tax incentive program on the following:

- Number of each type of project (pilot, series, feature, commercial)
- Days of soundstage use by project type
- Budget ranges by project type
- Number of people and workdays employed in each occupational category
- Top ten production and post-production activities in New York (what aspects of production supplied by NY-based firms constitute the greatest proportion of project budgets)
- Location of those controlling the projects submitted (New York, Los Angeles, Canada, UK, Europe etc.)

We recommend that additional funds be obtained from the State of New York for the Governor's Office for Motion Picture and Television Development to support this data gathering effort every year.

In addition to this data-gathering program, we recommend that the following data be gathered and analyzed yearly.

- Employment trends (from public data)
- Shooting days and permits for TV, Commercials, Cable programming and Feature Films.
- Independent Film Production trends (This could be a cooperative effort with the Independent Film Project.)

Better information on these dynamics at the regional level could tell us more about what these industries look like in an era when distribution markets and technologies are evolving very rapidly, and new occupational groups emerging.

This data-gathering effort for New York should parallel California's state-mandated analysis of the state of the entertainment media industries. The analysis would be particularly effective if it drew attention to New York's distinctive comparative advantage in these industries.

Commercials

The New York State Governor's Office for Motion Picture and Television Development and the New York City Mayor's Office of Film, Theatre and Broadcasting should work with production companies based in New York to devise a plan to increase commercial production jobs in New York. Evidence gathered in this study concerning the potential impact of subsidies on the location choices of commercial producers is inconclusive. What is needed is an assessment of how to better the bidding position of New York based firms in seeking commercial production projects wherever they are shot and edited, and to increase new kinds of employment in the contemporary commercial production industry, including digital design and voice over.

An assessment of the economic impact of commercial production in New York is only possible with the provision of more evidence.

Foster Emerging Industry Segments

NYFTCI or a related organization should begin to work with business groups representing production firms in new segments of the industry, such as the East Coast Digital Consortium. An effort to assess New York's comparative advantage should include analysis of developments in Cable television, the video games industry, and digital design, exploring how New York can carve out a high valued-added position in these growing industry segments. It should also explore how, in the emerging media environment, New York can better build upon synergies with existing strengths in software development, the graphic and visual arts, and advertising etc.

Support New York's Comparative Advantage

New York's success as a center of film, television and commercial production is more than ever dependent on its maintaining its creative edge. Los Angeles is clearly retaining or increasing its hold on the lion's share of production in all three arenas based on its position as the center for the industry's corporate headquarters, and the growing competition among regions, states, provinces and nations to offer tax-funded subsidies to lure productions to their domain occurs with the support of Los Angeles based concerns. New York's comparative advantage lies in its corner on creative side, including highly skilled writers, actors, directors, independent producers, and deep crew base.

The New York industry and the State of New York should support policies that encourage competition in media product distribution, because that is likely to favor New York's production community. Policies such as those to increase the capacity and skills of New York's independent production community should also be developed or expanded. The recent initiative by the Mayor's office to support a training program for production assistants represents a step in this direction. Ideally, future initiatives in training should be carried out cooperatively with the industry unions in New York, some of which are already engaged in training efforts.

Increase Gender and Racial Diversity

The industry should develop programs to increase the gender and racial diversity of its workforce. This is particularly needed in some key below-the-line occupations.

QUESTIONS FOR FURTHER STUDY

1. What is the economic impact of independent film productions on the New York economy? What is the economic impact of small budget productions in general?

2. What is the impact of digital technology on what is produced and how it is produced? What is the impact of digital technology on the location of production?

3. How is the rise of cable television production affecting labor demand and employment in New York's media industries?

4. Are there barriers to entry that are preventing New York's producers from distributing their products?

5. How are new technologies, especially digital equipment and digital design, affecting production and post production? What are the specific factors which influence decisions on the location of post production? Is this a possible growth area for New York?

6. What are the key factors that influence location decisions in the production of commercials? How can New York enhance its attraction to commercial producers?

7. What percentage of film and media workers is currently covered by union contracts? How has this changed over the past ten years? What are the implications for the cost structure of film production in New York as compared with other locations?

8. What will be the long term (5 to 10 year) impact of New York State and City tax incentives? Which industry segments will benefit most? Least? Why?

9. How many workers, above-the-line and below-the-line, are employed full time and how many part time? What is the average length of employment? How many employees are able to make a living working in the film, TV and commercial production industries? What is the size of the core and the peripheral workforce? How do patterns of employment and income differ in the various segments of the industry (film, TV, cable, etc.)?

Appendix A:

STUDY METHODS

This study uses a wide range of data sources and methods in order to draw a picture of New York's position in the media entertainment industries and commercial production through the 1990s and into the early 2000s. Analysis of entertainment industry production and employment patterns is particularly difficult because of the project-oriented nature of work in the industry, the high proportion of independent contractors in the workforce, the tendency of producers to see every product as a one-off event, and the absence of reliable industry-generated sources of information on production and employment. Unlike many U.S. industries, media entertainment cannot be easily understood by looking at publicly available statistics. They capture only a semblance of employment patterns that fluctuate week to week and that are typically, very volatile. What this strongly suggests is the need for longer term analyses of industry patterns, the use of multiple sources of data, including proprietary data provided by the industry, and the application of industry knowledge to interpret what might appear to be contradictory trends and tendencies. We have used all of these in attempting to create a picture of the industry.

The analysis and information included in this study is based on:

1) Analysis of publicly available data on firm employment, occupations, wages, business income, and economic activity, and a wide range of government-commissioned reports.
2) Analysis of private, proprietary data, including information provided by individual unions and by Entertainment Partners
3) Interviews with a wide range of people with knowledge of the industry. We have conducted approximately seventy-five interviews with public officials, industry executives and people employed in many different positions in the industry.

Production Trends and Location Patterns

Feature Film is the only industry among film[22], television and commercials on which there is any reliable data on production and location trends. Data on television production and commercials is spotty and there is no consistent reporting from which to derive trend information. The only information on trends in location for television and commercials derives from location shooting days, which do not account for studio shooting or digital production work. Consequently they are only a rough approximation of production trends. The result is that is that we can make reasonable estimates of trends in feature film production and location. In the other categories, we have to rely on limited data, interviews and anecdotal information.

While a great deal of data that would be useful in analyzing the U.S. industry are not kept, not collated in usable form, inconsistently kept, or kept secret, Canada does track and analyze its industry. To analyze production in Canada, we utilized statistics and studies produced or

[22] For our purposes, the terms "film" and "motion picture" are interchangeable. "Film" may be in more common use, but in the age of digital media, "motion picture" is perhaps more accurate.

commissioned by the Canadian Film and TV Production Association, l'Association des Producteurs de Films et de Television du Quebec, the Department of Canadian Heritage and other branches of the national government, provincial film bureaus, consultant reports, and academic publications as cited in the text, plus interviews.

General Employment Trends

The source for the data on general employment and wage trends was the Quarterly Census of Employment and Wages (QCEW) Program of the Bureau of Labor Statistics (BLS). This program collects employment and wage data from employers covered by state's Unemployment Insurance (UI) law. The data include all covered employees, both private and public, except federal employees in New York State. Both full-time and part-time workers are included, and <u>the self-employed are excluded</u>. The employment figures represent number of jobs. Consequently, "if a person holds two jobs, he or she will be counted twice."

The data are provided for all industry sectors as defined under the North American Industrial Classification System (NAICS). The NAICS industry sectors selected for the general employment trends section of this report were 512110 Motion Picture and Video Production, 512191 Teleproduction and Other Postproduction Services, and 512199 Other Motion Picture and Video Industries.

Demographic Composition of the Workforce

The source for the demographic data presented in the report was a special tabulation of Census data prepared for the Equal Employment Opportunity Commission. It covers employees in the Motion Picture and Sound Recording industry sector (NAICS 512).

Occupational Data

It must be noted that some of the data contained in this study represent only a sample of a larger universe of data. Those samples are not scientific, but are based primarily on the availability of data. As a result, there may be instances where there are large changes in either employment or wages from year to year. While this may be due to actual observed changes, it is also possible that these changes are due to the nature of our sample. In addition, the sample size may be quite small relative to the actual universe of data, particularly in the case of payroll data. Thus we have exercised caution regarding the conclusions that we have drawn.

With regard to information on employment and wages, data was obtained from three primary sources: 1) Occupational Employment Survey of the Bureau of Labor Statistics; 2) payroll data; and 3) union pension and health fund data. All three sources of data were not available for every profession examined in this study, and there was some disparity in the amount of data that was available for each specific profession. Still, this combination of sources allowed us to depict, in general terms, some basic employment and wage trends.

Employment and wage data was obtained from the following unions: The Screen Actors Guild, The International Association of Theatrical Stage Employees, The International Brotherhood of

Teamsters and The Directors Guild of America. Not all unions provided equal amounts of data and levels of detail were not consistent, but based on our analysis the data obtained from unions allowed us to draw the most solid conclusions. The reason for this is that the union-provided records represent actual work and wages for members of those labor organizations, which is used to determine pension contributions and health insurance eligibility. None of the data presented measures the non-union workforce.

Entertainment Partners (EP) supplied data taken from payroll records. EP is one of several companies that process payroll for film, TV commercial and cable producers. As a result, charts based on data taken from EP represent a non-scientific sample. EP is acknowledged as the largest of the major payroll companies, and this is why they were chosen as the payroll data source for this study. Other payroll services that were considered data sources include Cast & Crew, Axiom and Talent Partners and Media Services. Each company has different areas of emphasis and changing client rosters, so in order to have a more comprehensive and accurate analysis, it would be necessary to involve all major payroll companies in future studies.

Labor Relations and Costs Analysis

The analysis of labor relations practices drew on insights from interviews with knowledgeable union, employers and government officials, as well as examination of collective bargaining contracts, and sample budgets.

Government Incentive Factors

The overview and summary of government incentives is a synthesis of information gleaned from interviews, trade publications, the reports and publications we utilized in analyzing production and location trends, the websites of state film offices, and lists published by the Motion Picture Association of America, the California Film Commission, and *Variety*.

Economic Impact Analysis

The Economic Impact section in the body of the report includes extensive information on the data sources and methods utilized. It should be noted that, in contrast to other sections of this report, the Economic Impact section included wages and business receipts generated by Independent Artists and self-employed workers engaged in the production of film, television and commercial products. The U.S. Commerce Department's Nonemployer series was one of the data sources used in this regard. The Economic Impact section utilized the U.S. Commerce Department's Gross State Product (GSP) series as a basis for estimating the total economic magnitude of motion picture and related production activity. The GSP data include estimates of the business income associated with such production. This section also utilized data gathered from several New York film budgets to more fully inform the analysis of industries supplying goods and services to film, television and commercial production.

Appendix B:

MAJOR UNIONS REPRESENTING FILM, TELEVISION AND COMMERCIAL PRODUCTION INDUSTRY EMPLOYEES IN NEW YORK AND COOPERATING IN THIS STUDY

Screen Actors Guild (SAG) is a national union of 120,000 members with 25,000 in the Metropolitan New York area, representing actors — including background actors — in film, broadcast, and commercials. Its headquarters is located in Los Angeles. The New York office Director is J.J. Simmons (1515 Broadway, 44th fl., NYC, NY 10036 212-944-1030).

Directors Guild of America (DGA) is a national union headquartered in California representing directors, associate and assistant directors, stage managers, and unit production managers in film, broadcast and commercials. The New York office is headed by Russell Hollander, Eastern Regional Director (110 W. 57th Street, NYC, NY 10019 212-581-0370).

American Federation of Television and Radio Artists (AFTRA) represents actors in taped broadcasts and voiceovers in commercials. Its New York Local is headed by Roberta Reardon (260 Madison Avenue, New York, NY 10016 212-532- 0800).

International Alliance of Theatrical Stage Employees, (IATSE) is the international union representing below-the-line skilled crafts and technicians employed in film, broadcast and commercials throughout the United States and Canada. Its headquarters is located in New York City. Its General President is Tom Short (1430 Broadway, 20th fl., New York, NY 10036 212-730-1770). IATSE includes:

Cinematographers, Local 600 is a national union of 6000 members (700 in New York) representing cinematographers and camera operators in the films, broadcast and commercials, with headquarters in Los Angeles. The NY office of Local 600 is headed by Chaim Gross (80 8th Ave, 14th floor, New York, NY 10018 212-647-7317)

Studio Mechanics, Local 52 is a local union representing 3200 members (including retirees), of whom 1,800 are currently employed in the following crafts: electrician, grip, property (special effects, set decoration), shop craft (carpenters who erect and teardown sets), medics, sound, and video playback. Members of Local 52 are employed in films, broadcast and commercials in the New York Metropolitan area. The President of Local 52 is John Ford (326 West 48th Street, NYC, NY 10036 212-399-0980).

Motion Picture Editors Guild, Local 700 is a national union of 6,735 members that represents picture, sound and music editors, mixers, recording and transfer engineers, machine room operators, and dialogue editors employed in post production work for films and broadcast (commercial editors belong to another organization). The New York office of Local 700, with a membership of 735 in the Metropolitan area, is headed by Paul Moore, Eastern Regional Director (145 Hudson Street, Suite 201, New York, NY10013 212-869-5540).

International Brotherhood of Teamsters, Local 817 represents 550 drivers and helpers employed in theatrical work in the five states surrounding Metropolitan New York area. Approximately 18% are employed in live theater, with the remainder in film, broadcast and commercials. Its counterpart locals in other U.S. locations have separate collective bargaining contracts and pension and welfare plans. Tom O'Donnell, Jr. is Secretary-Treasurer. The New York office is located at 1 Hollow Lane, Lake Success, New York, NY 11042 516-365-3470).

Other unions with members employed in the New York Film Industry:

Writers Guild of America, East

Scenic Artists, Local 829, IATSE

Script Supervisors and Production Local 161, IATSE

Make up Artists and Hair Local 798, IATSE

American Federation of Musicians, Local 802

Appendix C:

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