An Analysis of the Runaway Production Phenomena on the Film and Television Production Industries in the United States and California

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Abstract

The purpose of this research is to understand the problem of Runaway Production and how it is affecting the economy of California and the United States as a whole. Runaway production can be categorized into three different types: artistic, natural and artificial. However, this study focuses on artificial runaway production specifically, which is when films are shot abroad because of artificial incentives created by governments to lure the productions. California has always been the home to film and television productions, however, in the last few years California has lost most of its productions to specific states offering outrageously high tax credits. The first goal of the study is to identify the main competitive state film incentives that are causing the runaways from California and to evaluate if the incentives are beneficial or detrimental to those states.

There have also been recent talks about the European Commission revising their incentives at the end of 2012. With further competition possibly around the corner for an already severely suffering California, this dissertation will look into the extent to which the industry, state governments, and public are aware of this problem. Interviews were chosen and conducted in order to get inside opinions and personal experiences on the affect runaway productions have had on professionals in the film and television industry. Based on theories within the literature review and results from the interviews this study analyzes and suggests different solutions for California and the United States to either control or put an end to aggressive state incentives in order to save Hollywood and protect the United States' leading position within the industry internationally.

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Introduction

"Runaway production" has various definitions within the film and television industry. Dr. Martha Jones of the California Research Bureau successfully describes it as films that were conceptually developed in the United States, but were filmed in a different country. More recently runaway production is viewed in either a federal or state level. From a federal level, the runaway production goes abroad. From a state level, the production leaves to film in other states (Jones 2002). Adrian McDonald, Director of Research at FilmLA, categorizes runaway production into 3 different types: artistic, natural and artificial. Artistic runaways are productions that are filmed in a location due to script or setting requirements that creatively services the story. For example, a film based in London will shoot in London. Natural runaway is when films are shot abroad to take advantage of the natural economy for decreasing production costs. Artificial runaways take place when films are shot abroad because of artificial incentives created by governments lure the productions away (McDonald 2011).

Background:

Runaway Production first came into existence in the 1950s when producers were going to Europe, Japan, Cuba, and other states as natural runaways while soundstages in Hollywood were empty. Films shot abroad faced problems such as language barriers, cultural differences, inexperienced crews, and inadequate facilities, yet producers were continuing to go abroad to cut production costs significantly (McDonald 2011). In 1952, the Hollywood Film Council of the American Federation of Labor launched a campaign to end the practice of runaway production. Artistic runaway production aside, they mainly tried to prevent the regularity of Hollywood producers going abroad to cut costs on production and try to help build up employment again after a significant decrease (McDonald 2011). This angered producers who disagreed with overpaying in Hollywood when there were cheaper locations and labor. However over time the production naturally moved back to California and Hollywood continued to thrive as the film and television capital until 1997.

In 1997, Canada released its first set of subsidies and tax credits. This was the beginning of Hollywood losing its position as the industry capital as almost immediately the incentives were successful and production left the United States to film in Canada. Along with cheaper wages and taxes, the exchange rate between USD and CDN was also significantly strong resulting in the United States experiencing the effects instantly (Yale 2010). This lasted until 2002 when Louisiana and New Mexico used Canada's incentive concept and released their first tax incentives in attempt to bring production to their states (McDonald 2011). Producers immediately took advantage of the new incentives within the United States and by 2005 both states were on the top ten "production states" benefitting tremendously from the incentives according to the 2007 Motion Picture Association of America report on economic impact of the motion picture and TV industry in the United States (McDonald 2011 p. 123). From just 2002 to 2010 production spending in Louisiana increased 19,000% from $3.5 million to $674 million per year (Film Works). At first there was relief that production was coming back into the United States but as the popularity of incentives grew between states, it became the start of the subsidy war between states. By 2010, a total of forty-three states offered film incentives causing each state to become more and more aggressive with their offered incentives (McDonald 2011). California felt the lack of production immediately as it went from filming 79% of all new one-hour network dramas in 2005 to only two of twenty-three or 8% of all new shows in 2012 (Film Works). According to Entertainment Partners, from 2004-2011 California lost $3 billion in film crew wages to states and nations offering stronger incentives (Film Works). In 2009, on-location shooting days for feature films dropped near 65% in Los Angeles resulting in the lowest year on record (Film Works).

In order to explain how competitive these tax incentives are between states, here is an example of the few most competitive incentives currently available:

Louisiana

Louisiana currently offers two types of incentives. The Investor Tax Credit is a transferable credit equal to 30% for all Louisiana based production with a budget over $300,000 (FBT Film & Entertainment and Louisiana Entertainment). There is no annual cap and these incentives can be used to offset production costs or make projects more financially viable to be filmed in Louisiana (FBT Film & Entertainment). With out-of-state production companies not required to pay income tax, they are able to sell the credits back to the state for 85% face value or broker them on the open market for cash (FBT Film & Entertainment and Louisiana Entertainment). The second incentive is an extra 5% credit on the total payroll of Louisiana residents employed for the production (FBT Film & Entertainment).

Georgia

Georgia currently offers a tax credit of 20% for productions with budgets over $500,000 in production and post-production. Georgia also offers an extra 10% credit if the finished project includes a promotional logo provided by the state (Georgia). Like Louisiana, out-of-state productions have little or no tax liability, therefore, they are able to transfer or sell their credits for cash (Georgia).

California

With state incentives such as Louisiana and Georgia, it is hard for states such as California and New York to keep productions from leaving. California's incentive is slightly different, it is based on a lottery per year. In order to qualify for the program, a "qualified motion picture" must have a total of 75% production days or production budget in California. In order to be eligible for the 20% tax credit, a "qualified motion picture" must be a feature film with a production budget from $1 million to $75 million, a movie of the week or miniseries with a minimum production budget of $500,000, or a new television series licensed for original distribution on basic cable with a minimum budget of $1 million (Film). In order to be eligible for the 25% credit, a "qualified motion picture" must be a television series that filmed all its previous seasons outside of California or an independent film with a total production budget between $1 million and $10 million (Film). As good as the California tax incentive is, the problem is that it has a cap of $100 million per year and "sells out" almost immediately. If there were no cap, more production would come back to California, but since California is being more economically responsible with their incentive, they are losing a large amount of productions to other states.

Europe

With tax incentives being the new fashion within the film industry, the European Commission (EC) announced earlier this year that their current laws on subsidies for the film and television productions were due to expire at the end of 2012 and they were to be reviewed and possibly updated (Mundell 2012). The European Commission's main goal with revised incentives is to attract the high profile movies that Hollywood is famous for producing to Europe (McDonald 2011). Unlike the United States, the EC's proposal aims to prevent countries using subsidies to compete for film production. They propose to create a common incentive between countries and place a cap on film budgets to avoid being chosen mainly for state aid. Their goal is to aid the state and location with the business film production brings but not to lose funds by offering large amounts of taxes in order to keep the production from going back abroad (Mundell 2012). If these proposals are approved, the United States will find the competition pool growing larger and their position as leader within the industry could become unstable in the future.

Research Objective

The objective of this dissertation is to understand the problem of runaway production and how it is affecting the economy of California and the United States as a whole. It is to analyze how and if the state and federal governments are managing the problem and reviewing possible solutions to help the United States control runaway production within the country and prevent it from going aboard. It will analyze a few competitive state film incentives and discuss whether incentives are successful or causing financial setbacks. It will also look into the amount of public knowledge and literature available on runaway production.

Reason for Choosing Topic

The most important aspect of picking my topic for my dissertation was that I wanted to write about something I felt passionate about as well as something that would be beneficial to me in the future. When I first discovered the problem of runaway production, I was completely shocked. I had no idea California was suffering so severely due to other states and nations competing for productions. I have always thought of Hollywood as the center of the film and television industry such as Milan is the center of the fashion industry. I knew immediately that I had to research this topic in-depth to understand how the phenomena came about and look for possible solutions to help solve this problem in the future.

Limits on the Scope of the Research

The main limit of the research discovered while researching is the lack of public knowledge of runaway production. Due to the fact that it was a problem once in the 1950's and then disappeared naturally over time leaves professionals in the industry that are benefitting from tax incentives believing that history will repeat itself and Hollywood is just going through a phase. This is causing the phenomena to be overlooked as a slight hiccup instead of a serious epidemic. This oversight causes runaway production to be mostly unknown to public and more importantly the taxpayers. This absence of knowledge is resulting in absence of literature written on the subject. Most of the literature was written when Canada created the first tax incentive in 1997 reviving runaway production from the grave. Since then, runaway production has evolved to almost all fifty states within the United States and there has been little literature written regarding the effect of the subsidy war between states. Lastly, as runaway production and state incentives are current topics constantly changing, the author has had to make sure to maintain a constant level of news to avoid missing any recent political changes that could affect the outcome of the dissertation.

Chapter Breakdown

- **Literature Review**

The literature review in this thesis analyzes different theories academics have written regarding runaway production.

- **Research Methodology**

The research methodology section discusses the Phenomenological approach selected to conduct the research and the strategies used to gather data. It also discusses the ethics, limitations, validity, reliability and generalizations of the research.

- **Findings and Discussion**

The Findings and Discussions section is divided into two sections per topic:

1. **The Findings section** reviews the responses to the interviews in extensive detail.

2. **The Discussions section** analyzes the different views and opinions on runaway production and the current problems with state film tax incentives. It suggests possible solutions to overcome the subsidy war between states and potential solutions to help California in the future. It also analyzes the awareness of runaway production.

- **Conclusion**

The Conclusion section briefly discusses the interpretations in the "Discussion" sections of the Findings and Discussions chapter and the research questions and objectives. It also contains a Reflection section that reviews a few limitations that the author would have changed if it had been known at the beginning.

- **Recommendations**

The Recommendations section discusses a few difficulties the author faced and suggestions to avoid them in future studies.

- **Bibliography**

The Bibliography contains every source used in this dissertation.

- **Appendices**

The appendices section of the dissertation contains all complete interviews conducted in this dissertation.

Literature Review

Introduction

In Adrian McDonald's publication on Runaway Production, he describes the problem from California's point of view. In the 1950s when production was leaving California to go to Europe, this was because production was naturally cheaper in the international economies than it was in Hollywood. Because the productions eventually went back to California over time, professionals, such as Richard Donner, believe that history repeats itself and the lack of productions in California is just a phase. McDonald theorizes that incentives put purposely in place by governments did not exist in the 1950s and therefore the difference between then and now is that runaway production has become modern and filming locations are being chosen by incentive options instead of natural economies (McDonald 2011). McDonald understand why the directors and producers are taking advantage of the incentives in order to get funding for films, but it is also important that these professionals realize that while doing that they are building the industry away from its center. McDonald also states that one of the biggest flaws in the film and television industry is that critics are under the false impression that filmmakers do not allow incentives to affect their decisions on filming locations yet this is completely false. With the high incentives available today, they have become the main factor that is considered when deciding filming locations (McDonald 2011). He theorizes that one of the reasons for this is the lack of literature written on the topic of runaway production today:

> "Virtually no literature criticizes the current incentive schemes as problematic or potentially devastating economic policy" (McDonald 2011 p.115).

He concludes that a potential explanation is that nobody in the academic community believes there is a "'runaway production problem'" (Janet Wasko 2003 cited by McDonald 2011 p. 116). McDonald states that with few works discussing the risks governments take in attempting to foster incentives, the topic remains an important topic unknown to many (McDonald 2011).

On September 4 2007, there was a petition filed with the United States Trade Representative (UTSR) by the Film and Television Action Committee (FTAC) arguing that:

> "Subsidies offered by Canada to lure production ad filming of U.S.-produced television shows and motion picture industries were 'inconsistent with Canada's obligations under the [World Trade Organization] Agreement on Subsidies and Countervailing Measures'" (McDonald 2011 p.122).

Unfortunately the petition was rejected based on the fact that the arguments were not effective enough in addressing Canadian subsidies. McDonald stated that it was extremely unfortunate that the petition was rejected yet believes the complaint was not prepared well enough to be considered. McDonald's main theory in fighting incentives is to create a federal incentive, yet with other states currently competing against each other, McDonald identifies the importance of California having a competitive incentive to in order to keep up with the competition (McDonald 2011). Therefore, he concludes that that the only other option to currently fight incentives is to "fight subsidy with subsidy" (McDonald 2011 p.123).

The Repercussions of Subsidy War

One of the main arguments of Adrian McDonald's publication is that over forty states are competing in the incentives war by offering higher incentives than they can afford and not acknowledging the affect on their state. For example, McDonald refers to Robert Tannenwald's study on the economic impact reports, which states that eight out of ten reports showed incentives were a negative drain on revenue. He also identified two reports that claimed incentives were positive, but proved to be bias towards the film industry as the Motion Picture Association of America (MPAA) financed them. Lawmakers are using reports from the MPAA to justify their losses in order to keep the incentives program within their states. However, according to McDonald:

> "As of January 2011, forty-four states including all of the major players in the film incentive arms race, faced with massive budget shortfalls that totaled a staggering $125 billion" (McDonald 2011 p. 137).

With deficits as high as these, McDonald quotes Tannenwald's notes stating that lawmakers are forced to cut public services or increase taxes to break even. According to Tannenwald within McDonalds article:

> "State spending on film incentives in 2010 alone could have 'paid for the salaries of 23,500 middle school teachers, 26,600 firefighters, and 22,800 police patrol officers'" (Tannenwald 2010 cited by McDonald 2011 p. 137).

McDonald argues that the fact states are taking away these permanent jobs from state residents in order to pay non-resident producers to film temporarily is unfair and unjust to their residents. McDonald proves his argument by stating that producers are not even spending the full film budget within states they are receiving tax credits from and are actually using the state's funds to complete production out of state. For example:

> "Film producers subsidized by the state in Calendar year 2008 spent 62% of their budgets outside of Arizona. A study of Michigan's film tax subsidies by Michigan State University concluded that in fiscal year 2008, film producers spent 47.5% of their budgets out of state" (McDonald 2011 p. 137).

When producers are receiving large amounts of cash returns from states they are barely spending full budgets in, McDonald wonders how lawmakers have been able to justify the incentives within their states for so long when residents themselves need solid paying jobs. McDonald concludes that state residents are not fighting hard enough to stop incentives after states like Michigan pay producers $39.96 million dollars for a movie that employed 251 people and only half were residents resulting in Michigan tax payers having to pay $300,000 for each job created (McDonald 2011). To his astonishment, McDonald indicates the only outcry he could identify was from film backers arguing how important incentives are in their industry. The MPAA, especially, submitted multiple reports stating that incentives "'do wonders' for troubled states and are 'revenue positive'" (McDonald 2011 p. 142). McDonald draws the conclusion that these reports are so strongly emphasized that it leaves lawmakers and the public eye thinking these incentives help their states.

Rethinking the "Success" of Incentives

With film incentives currently as competitive as they are, Canada has ironically been the first to admit defeat temporarily:

> "'Within North America our success has been successfully copied. Even though the provincial government raised the Ontario tax credit in 2005 to try and fend off the competition, the competition simply raised its credits higher. The race to the higher tax credit is another we can't win'" (McDonald 2011 p. 179).

McDonald theorizes that when the playing field is level, the United States will always win against international production (McDonald 2011). Canada was originally affected when Louisiana and New Mexico added their own incentives to their tax credit plans but only by a little. Canada was deeply affected as the incentives became more and more competitive and once Louisiana and Michigan updated to their most recent generous incentives, Canada decided to back down from the competition temporarily (McDonald 2011). Both Canada and McDonald have concluded that once the states are forced to realize the current incentives are unsustainable and Hollywood will not be recreated, they will have no choice but to end their high rate incentives. This will give Canada and other countries the advantage to begin competing again against a "weakened Hollywood, hollowed out from corrosive competition within the United States" (McDonald 2011 p174). With that in mind, Canada will place their position in the incentives race on the backburner until states start to withdraw from the subsidy war.

This realization has come faster than expected as a few individuals have recognized that the incentives are not helping the state as much as they are publicized to be and therefore, have attempted to reduce the percentage of the offered incentives. Susana Martinez, Governor of New Mexico, and Jim Doyle, former Governor of Wisconsin, tried reducing their state's incentives and were unsuccessful due to lack of support from the rest of their governments. Governor Martinez attempted to reduce the percentage from 25% to 15%, which is what it was originally, estimating that she would save the state $25 million a year to use to prevent cuts in public schools, Department of Corrections and Medicaid (McDonald 2011). According to McDonald:

> "Concerning the Corrections Department, Martinez would likely use $5 million of the $25 million saved from the film incentive to prevent closing some prisons and/or releasing some prisoners early" (McDonald 2011 p. 144).

However the filmmakers in New Mexico were unhappy with the decrease in the incentive program and supportive lawmakers were able to force a compromise that placed a cap of $45 million (three times more than it paid out per year when the incentive was at 15%)

given out in tax credits per year (McDonald 2011). The former Governor of Wisconsin Jim Doyle lowered the incentive to $500,000 of available funding for incentives after the Wisconsin Department of Commerce issued a report that discussed the problems with incentives and how it was not benefitting the state or the residents but the nonresidents coming into the state temporarily. In 2010 however, the newly elected Governor Scott Walker expressed intent to revive the incentives stating that his predecessor did not consider the significance of the incentives enough (McDonald 2011). McDonald indicated that the signs and numbers are available for state governments to see the negative impact their state is experiencing with these incentives but is unable to identify if they are in-denial or attempting to cover it up to keep the programs active. McDonald concludes that with these incentives still valid and publicly supported by state governments, it continues to create confusion on how the public perceives film incentives (McDonald 2011).

Much to everyone's surprise, in July 2012, Louisiana's (who's incentive is at 30%) senators acknowledged the negative affect film incentives have been causing their economy. According to Michelle Millhollon's article *Panel to Review Tax Incentives* in *The Advocate* published on July 6st 2012, Louisiana has announced a plan review of their current film incentives with "'possible' elimination" (McDonald 2012 and Millhollon 2012). McDonald theorizes that elimination of the incentive is most likely out of the question as Louisiana has already invested millions of dollars in their incentive program that financially it would not make sense to eliminate it completely without attempting to revise it first (McDonald 2012). While facing massive budget shortfalls, Louisiana is looking into their tax credits that are "'diverting more than $4 billion that could be used to fund hospitals, colleges and other state services'" (McDonald 2012). As Louisiana reviews their current tax credits, both left and right lawmakers agree the need to review the film incentive section in particular because it is proving to be the most expensive and the least cost effective (McDonald 2012). Michelle Millhollon describes Louisiana's economic analysis completed by BaxStarr Consulting Group as a significant loss:

> "An economic analysis by BaxStarr Consulting Group showed that motion picture production generated $27 million in state tax revenue in 2010 while certifying $196.8 million in tax credits. Mathematically, that is roughly $1 of state tax income for every $7 in credits" (Millhollon 2012).

With numbers like these, the Louisiana's State Senators have realized that producers are only filming within the state for the free money and not for the creative or natural qualities that Louisiana possesses. McDonald theorizes that this will cause hesitation with adjusting or eliminating their incentive as they acknowledge that they will lose the majority of their film productions due to the fact that without incentives Louisiana is not and will never be Hollywood (McDonald 2011).

A Federal Incentive

Adrian McDonald first started writing about a runaway production being a national concern in 2005 when Canada was mostly a threat due to its proximity and favorable exchange rate (McDonald 2011). As time went on however, states began competing against each other for production, which pleased the federal government, as productions were not leaving the United States. Now that the European Commission has launched a review of their film incentives in order to invite major high-end productions to Europe, McDonalds argues that a national incentive is more important now than ever (McDonald 2011). McDonald's main theory on runaway production throughout all his literature is to "fight subsidy with subsidy" (McDonald 2011 p. 123). He explains that the United States already has home advantage within the film and television industry, but a national incentive would allow the United States to gain back a competitive position in the global market. He argues that gaining back a competitive position by attempting to prevent runaway production from going outside it's borders is currently next to impossible as the United States is so preoccupied with causing it within it's borders (McDonald 2011). McDonald's theory emphasizes that the United States has to stop fighting within and start fighting back:

> "The 'United States' is anything but when it comes to preserving one of the last great American industries we have left. A national problem demands a national solution. Rather than acting in the national interest, states with film incentives designed to cause runaway production are acting only in self-interest" (McDonald 2011 p. 176).

Adrian McDonald quotes Schuyler M. Moore's, another author in favor of a national incentive, proposed basic national incentive as an example of how the United States federal government could attempt to create a federal incentive:

> "'Its time for all the states to band together, stop the self-defeating madness and request the federal government to convert Section 181 into a useful 10% tax credit-instead of a deduction-for U.S. production costs. And it must be assignable in order to provide actual financing for production, which is really what is needed. As part of implementing this tax credit, the federal government should use its power under the Commerce Clause to preempt all state laws (and don't let Puerto Rico sneak away) that give tax credits for production. That way, the states would be saved from their self-inflicted immolation, and they could go back to competing for production based on services, infrastructure, and locations -- just like in the good ol' days.'" (Schuyler M. Moore 2009 cited by McDonald 2011 p. 176).

According to McDonald's theory, the federal incentive can be structured as simple as the current California incentive mainly as the United States does not need to meet other competition due to its current superiority in the industry. He indicates that the United States' studios account for almost 60% of the international box office and with such a mature industry infrastructure, there is no need to increase competition. He also states, most importantly, that the national incentive is a fraction of the price and will save state governments millions while achieving the same goal of keeping runaway production within the United States (McDonald 2011). McDonald concludes that in terms of the United States and the film and television industry: "on a level playing field, the U.S. not only competes, it dominates the planet" (McDonald 2011 p. 177).

Adrian McDonald acknowledges that with his theory of a national incentive being implemented and leveling the playing field, many states will be reluctant to lose their position in the industry. Film backers will argue that with a national incentive they would be losing jobs and that would negatively affect their economy. What McDonald argues is that these incentive states never created new jobs, they just transferred them from a now severely suffering California and New York (McDonald 2011). Lawmakers from states with strong incentives are unwilling to give them up because they feel they have grown significantly within the industry and do not want to lose the business. What they choose to ignore is as they have "grown," California has been decaying due to their incentives. When studies are being made on California's film and television industry, it has shown that the film sector is severely hurting but the television sector is doing significantly well. McDonald identifies the reason for this is because most incentives that are offered by different states do not include reality TV. Therefore, this leaves Hollywood as the center of reality TV and all it's filming (McDonald 2011). The problem with reality TV is that the production costs are lower and crews are paid significantly less than in the private sector. In other words, when looking at these studies, it shows California's television production as successfully high, but because of what is actually being filmed in California, the wages are much lower and it doesn't require a large crew like other shows such as one-hour dramas would. This creates an illusion, which affects California by being misunderstood as successful (McDonald 2011). McDonald concludes that this leaves California without the private productions such as films and television series that have larger budgets, require larger amounts of crew on set and for longer durations, offer benefits, and pay significantly more (McDonald 2011).

Adrian McDonald also theorizes that it is not only jobs that needs protecting, it is the industry as a whole (McDonald 2011). Stephan Katz supports Adrian McDonald's theory with his own theory of comparing the problem of runaway production with globalization. Katz indicates that as producers and studios seek lowers costs around the world to complete their productions, it will continue to weaken the industry within the United States until it no longer holds competitive advantage (Katz 2006). Katz identifies that producers naturally prefer filming in the United States and would only be lured away due to generous incentives abroad, which is why he concludes a federal incentive is necessary for the United States to compete at an international level (Katz 2006). Both Adrian McDonald and Stephan Katz theorize that the industry could be taken from the United States if not protected well enough. Katz states that when Canada began offering their federal incentive, their advertisement was "'these are the jobs your children want'" (Katz 2006 p. 75) and therefore recommends that the United States needs to view runaway production as a problem to avoid losing control of the industry in the future. Katz and McDonald both question that if jobs continue to leave Hollywood and/or the United States, at what point will it stop before it is too late (Katz 2006 and McDonald 2011)?

California

The heart of Adrian McDonald's main theory is that a national incentive will save California. With the established industry and strong talent base within Hollywood, McDonald believes that productions would naturally shift back to where the main "headquarters" is. He argues that it is extremely important to save Hollywood as it is the center of the industry and possesses global supremacy of the entertainment industry (McDonald 2011). McDonald expresses that California's tourism and hospitality industries would not survive without being the center of the entertainment industry and the ability to attract tourists to visit industry based landmarks such as The Hollywood Sign and The Hollywood Walk of Fame (McDonald 2011). McDonald also indicated that a national incentive would give Hollywood the ammunition it needs to maintain dominance among competitors. McDonald points out that as it is already an established industry, for every dollar it spends, it would require competitors to spend thousands more, giving it complete control (McDonald 2011). McDonald concludes that lawmakers are unaware of the power California obtains and instead of looking to increase incentives, they should be looking to protect and strengthen Hollywood to eliminate as much competition as possible (McDonald 2011).

California Needing Strategy

Older research indicates that that California will always remain a major film and television center due to its comparative advantages in workforce size and production infrastructure (Jones 2002). Martha Jones quotes researcher Michael Clough theorizing that because California is home to so many of the industry's leading actors, directors and producers, that it will remain strong but could use a better strategy to strengthen its position within the industry (Jones 2002). Clough identifies that in his suggested strategy California needs to: capitalize on diversity, establish global partnerships, build a bridge to the bay area, establish stronger ties to educational institutions and obtain regional leadership (Jones 2002). Clough concludes that globalization of the entertainment industry is inevitable but if California strengthens its position within the industry, no foreign competition will be able to affect it (Jones 2002). Michael Clough's theory proves that this problem with California being unprotected and unstable has existed for over a decade but still has not been properly executed resulting in California's current lack of production.

The Need to Fight to Protect the Industry

The Department of Commerce has the same theory as Stephan Katz and Adrian McDonald of protecting the United States position within the industry yet from a different approach. In their report *The Migration of U.S. Film and Television Production*, they state that the United States needs to protect its film and television industry while foreign countries lack the talent and infrastructure to compete. Once foreign nations build their infrastructure, it will be hard for the United States to keep productions within the borders due to the same infrastructure and possibly cheaper costs abroad (Department of Commerce 2001). The report argues that as incentives take producers away from Hollywood, but the talent, infrastructure and technology will grow wherever the productions are causing Hollywood to lose its control as main hub more and more as time goes on (Department of Commerce 2001). The report identifies many causes to runaway production including globalization, wages, incentives, technology, and rising costs therefore it suggests a more national approach to protecting the industry as a whole (Department of Commerce 2001). Because this report was written in 2001 before the subsidy war between states for productions began, the analysis is slightly outdated, but it proves that the issue has remained the same over the years only it has escalated into a bigger problem. The report's main theory is that state governments have been requesting a National United States film commission and it agrees that one is necessary to help protect the industry as the United States is currently the only country without one. According to the report, a national film commission could prove to be beneficial by means of addressing the business of the industry by coordinating:

> "With the state and film commissions on how to attract film production through streamlining bureaucratic processes, simplifying access to government-owned property for filming, and standardizing licensing and permitting procedures. It could help resolve problems relating to film production and employment data and assist with uniform data collection. Finally, the commission could publish periodic economic analyses of the industry" (Department of Commerce 2001 p. 98).

The report concludes it's theory that there is a growing problem of runaway production and it needs to be addressed with further studies and a possible solution in order to protect the film and television industry within the United States (Department of Commerce 2001).

Conclusion

The main objective throughout all the literature written on runaway production is to protect the industry from leaving the United States. As foreign competition attempts to lure productions, most academics believe that it is important for the United States to have specific structures in place in order to protect its global supremacy over the industry. Adrian McDonald, Stephan Katz, and Schuyler M. Moore strongly believe a national incentive will protect the United States from any incentives offered by foreign nations. Although Katz writes more from a national perspective, and McDonald writes from a "save California" perspective, both theories result in the same outcome. Most importantly, a national incentive will restore the creativity runaways in filming allowing producers to pick places based on how it will benefit the film and not the budget (McDonald 2011). While Michael Clough believes that Hollywood will remain Hollywood, he also presents the important topic of structuring the industry capital more to strengthen its position within the industry and secure it from competition. Lastly the Department of Commerce argues that there are multiple ways to protect the United States from runaway production on a national level, yet these studies and ideas need to be put into action in order to protect the industry before other nations become a threat.

Research Questions:

The following are the principal research questions that have been selected based on the concepts and theories in the Literature Review that will be addressed in this dissertation.

- To what extent is the problem of runaway production known within the industry, state governments, and public? Have there been any attempts to address the problem of runaway production?
- To what extent do film incentives control the decision making process of productions and their filming locations?

- Are the film incentives really beneficial to specific competitive states offering high returns on film production?

- What are some ways the United States can overcome the subsidy warfare between states for production in order to save itself from losing it's leading position in the film and television industry against competing countries?

- Can Hollywood be saved and if so what measures can be put into place to save it?

Methodology

Introduction

There are many different views and opinions on research methodology. While considering what form of methodology to use in this dissertation, the author considered two popular approaches:

The first approach considered was Positivism, the philosophical point of view of a natural scientist. This approach allows the researcher to observe social reality and results in solid generalizable data similar to data collected by physical and natural scientists (Remenyi 1998 p. 32 cited by Saunders et al. 2007 p. 103). Positivists usually use existing theories to generate hypotheses. The main focus of Positivism is that researchers are able to remain independent and objective to all research conducted resulting in strong generalizable and valid data. Most of the research collected in this approach is statistical which positivists/researchers collect using quantitative methods (Saunders et al. 2007). The quantitative method has an objective and unbiased approach to research and employs mathematical models, theories and/or hypotheses pertaining to phenomena (Anderson and Taylor 2009). With the focus on numerical results, the researcher is protected from human influence while conducting their research (Saunders et al. 2007). The following methods are commonly used when conducting quantitative research: questionnaires, interviews, observation, secondary data and experiments. In quantitative methodology, the data analysis identifies statistical relationships, which allows for generalizable findings.

The second approach considered for this dissertation was Interpretivism. The interpretivism approach conducts research among people in order to understand and interpret human behavior. The approach believes that it is important to get involved with the participants in the research, emphasize and experience what they experience in order to understand and interpret the research in question (Saunders et al. 2007). On the generalizability scale, interpretivism is not as strong as positivism because it involves 'feelings' however, interpretivists argue that generalizability is unnecessary because as time moves on, humans, theories and results evolve leaving research in the past possibly inaccurate in the future (Saunders et al 2007). Interpretivism is commonly known to use the Qualitative method when conducting research. According to Rebecca Keele (2011 p. 44) “qualitative research is a systematic, subjective approach used to describe life experiences and give them meaning.” This usually results in researchers using humans as primary data-gathering instruments as a form of research mainly because it results in words and pictures instead of numeric data (Christenson and Johnson 2008 and Keele 2011). This method enables the researcher to generate new hypotheses and grounded theory from data collected during fieldwork in order to correctly observe individuals in the relaxed environment of their everyday lives (Christensen and Johnson 2008). Christenson and Johnson (2008) state the qualitative methods as: in-depth interviews, participant observation, field notes and open-ended questions. These methods result in particularistic findings and a narrative report with contextual description and direct quotations from research participants.

This thesis is written in a form of an exploratory study.

> “Exploratory research is conducted into a research problem or issue when there are very few or no earlier studies to which we can refer for information about the issue or problem. The aim of this type of study is to look for patterns, ideas or hypotheses, rather than testing or confirming a hypothesis. In exploratory research, the focus is on gaining insights and familiarity with the subject area for more rigorous investigation at a later stage” (Collis and Hussey 2003 p.5).

This dissertation will use the literature review and the primary research data collected to analyze the findings and form a hypothesis.

Research Approach

This dissertation will use the Interpretivism approach and qualitative method to conduct its research. Based on the topic of runaway production, the author felt that the numbers (state debt totals, amounts of tax credit returns on movies) were available but the lack of public response was not. Therefore, the qualitative approach was selected in order to interview professionals within the industry to learn about their personal experiences within runaway production in order to determine the research questions and objectives of the dissertation.

Research Strategy

Two research strategies have been selected to answer the research questions of the thesis:

1. Interviews
2. Secondary Data

Interviews

According to the phenomenological approach, direct contact with participants is the most important aspect of the research. Structured interviews have been selected to collect qualitative data in order to understand the experiences and opinions of individuals within the film and television industry. They are defined as open-ended questions for when the researcher has a specific agenda and wishes to know specific information relating to their research. With the researcher beginning the interview with predetermined questions, it allows him or her to obtain the exact information needed towards the research and avoids the possibility of the conversation going off topic (Woods 2006).

The questions in interview are structured based on the research questions and objectives of this dissertation. They are also customized to the individual and position that individual has within the industry in order to obtain more personal information on their experience. The researcher has based the questions not only to obtain objectives but also allow the individual to add any additional information they feel they would like to share toward the topic and interview.

The following chart is the advantages and disadvantages of qualitative interviews (Christensen and Johnson 2008):

Advantages	Disadvantages
High response rates are obtainable	Expensive
Can be used with probability samples	Reactive affects
Telephone and email interviews provide quick turnaround	Lack of anonymity of participants
Provides in-depth information	Investigator effects may occur
Allows the researcher to probe follow up questions	Data analysis can be time consuming

Allows the researcher to measure attitude and interest of participant	

All individuals selected for these interviews will be professionals located in Los Angeles from the film and television industry. They have been chosen based on their positions and knowledge of runaway production.

Secondary Data:

Secondary data is specific data that was originally used for a different purpose but can be used in contrast to the primary data researchers collect while researching (Christensen and Johnson 2008). The most common forms of secondary data used are: documents, physical data and archived research data. There are two main types of documents used in research: personal documents and official documents (Christensen and Johnson 2008). Personal documents include documents written for private purposes such as diaries, creative writing exercises, graffiti, letters, and family photos (Christensen and Johnson 2008 and Woods 2006). Official documents are written for public or private organizations such as journals, newspapers, files and statistics, annual reports, and official letters (Christensen and Johnson 2008 and Woods 2006). Physical data is any material created or left by humans that might provide information about a phenomenon (Christensen and Johnson 2008). Lastly, archived research data is research data collected by other researchers during other projects that are often saved in digital form so that others may use the data at another time (Christensen and Johnson 2008).

The only form of secondary data that will be used in this thesis are documents.

The following chart is the advantages and disadvantages of documents within the secondary data method (Christensen and Johnson 2008):

Advantages	Disadvantages
Grounded in local setting	Can possibly be incomplete
Can provide insight into what participants think and do	The possibility of being represented from only one perspective
Provides useful background and historical data	Access to specific content may be limited

Unobtrusive	May not provide insight into people's personal thoughts

In this thesis the secondary data will be used to analyze what has already been published on the topic of runaway production to provide the author with up to date information on the changes currently taking place within the topic. It will also help the author conclude the discussions section in order to answer the research questions successfully.

Data Collection: Interviews

As the literature review discusses the opinions and theories of academics, reports, and the government, the purpose of the interviews is to retain first-hand knowledge, insight, experience and opinion on the effects of runaway production.

In qualitative research, the most common type of sampling is purposive sampling. Purposive sampling is when "the researcher specifies the characteristics of the population of interest and then locates individuals who match those characteristics" (Christensen and Johnson 2008). Within this method, extreme sampling will be used to allow the author to be specific when choosing participants. Extreme sampling is when "you select cases that represent the extremes on some dimension" (Christensen and Johnson 2008) In this thesis, individuals were chosen for interviews based on their positions within the film and television industry.

The author of this thesis planned to perform 4 interviews with individuals from different departments within the industry. The sample size was chosen due to the availability of these specific individuals during the research time period. The reason for the individuals being from different departments is to gain diversified insights and opinions to runaway productions based on how it has affected them individually. Each participant has worked on particular productions and has experienced runaway production in a different form, therefore, the outcome of the interviews is supposed to be extremely effective.

The following individuals completed interviews:

- Adrian McDonald (Author and Director of Research at FilmLA)
- Kevin Connor (Director)
- Kim Winther (Assistant Director and Producer)
- Rod Lurie (Director, Producer, and Writer)

All interviews were structured and open-ended to allow the researcher to probe when necessary for specific answers. The interviews were selected to be open-ended in order to encourage the participants to answer in detail and share their opinions as much as possible.

There are two sets of interview questions each relevant to the participant's profession. Adrian McDonald's interview was completed over the telephone and consisted of eight questions. McDonald's questions were based on his recent publication and allowed the author to ask specific questions in order to interpret his perspective of runaway production more in-depth. Adrian McDonald is the Director of Research at FilmLA and blogs about runaway production as a hobby, therefore, his knowledge and insight to the topic is crucial for this dissertation.

Kevin Connor's interview was conducted via email and consisted of nine questions. Kevin Connor is a director and has mostly filmed internationally therefore his insight into foreign incentives is very important when analyzing the potential competition the European Union could create. Among locations Kevin Connor has filmed in: Hungary, Morocco, Utah, China, California and Thailand.

Kim Winther's interview was conducted via email and consisted of nine to eleven questions based on his answers. Kim Winther is an assistant director and producer and has recently only filmed outside California. The author has known Kim Winther's family for almost eight years and within that time Kim Winther has always been on location outside of California filming therefore, the author thought he would be a perfect candidate to share insight and experiences with runaway production. Among locations Kim Winther has filmed in: Louisiana, California, Kentucky, New York, Michigan and Canada.

Rod Lurie's interview consisted of 11 questions and was conducted in person. Rod Lurie is a director, producer and writer in Los Angeles. The most recent film he directed, *Straw Dogs*, was mostly filmed in Louisiana, therefore, the author thought he would have some useful opinions on state incentives. Rod Lurie has also filmed in places such as Virginia, Louisiana, Massachusetts, and Canada.

Data Analysis: Interviews

To begin with, throughout the whole process of the dissertation, the author was constantly recording memos (recording notes on what is collected through research and data) specific information collected in order to help understand the topic and help fuel the compare and contrast in the analysis (Christensen and Johnson 2008).

Once the interviews were completed, they were transcribed and read through immediately (Christensen and Johnson 2008). The interviews were then segmented (Christensen and Johnson 2008) into categories pertaining to the research questions and objectives:

1. The Awareness of Runaway Production
2. California and Ways To Save It
3. On A Federal Level
4. The Effect of Incentives: Beneficial or Detrimental?

Once the segments were identified, the author used inductive coding (codes developed by directly examining the data) to keep track of specific ideas and opinions that would be necessary when conducting the discussions section of the dissertation (Christensen and Johnson 2008).

All interviews were segmented and coded, the author considered reoccurring ideas, opinions, and patterns between the responses.

Data Collection: Secondary Research

The data collected in order to develop the literature review will be the data used in the analysis. The data collected in this thesis are: books, publications, articles, reports and blogs. All data used in the Literature Review as well as a video from *The New York*

Times, is used in the analysis and relevant to the research questions and objectives of this dissertation.

Reliability, Validity and Generalizability

In order to obtain trustworthy results, the author has taken specific steps to ensure the reliability and the validity of the research.

To begin with the author has interviewed and analyzed the data as objectively as possible. The author has also included as many direct quotes as possible from the interviews to aid with any speculation that might be questioned from the reader. The author also used multiple sources of data and theories in order to understand the phenomena of runaway production to the best possible knowledge and avoid bias opinions. The author also pilot tested the questions on individuals outside of the participants in order to make sure questions were structured correctly and were easy to understand. Lastly, the author used "peer review" to make sure the interpretations from the interviews were not bias towards any particular direction of information received from interviewees (Christensen and Johnson 2008).

Although qualitative data is hard to generalize, this thesis is a simple and uncomplicated research project that looks into current literature and professional opinions based within the industry. The ability to replicate this study and most likely find similar results is high within this thesis. It may not result in numerical accuracy, yet the topic of runaway production has affected enough individuals within the industry that if replicated (i.e. interviewing individuals from California within the industry), opinions and responses should result in similar findings to this thesis.

Ethics

While conducting the research in this thesis, the author used the Economic and Social Research Council's key principles of ethical research. The six key principles include: research transparency, participants informed of the research and methods beforehand, respect of confidentiality, participants participating voluntarily, no harm to any participants, and the independence of the research (Economic and Social Research Council 2010).

In order to implement these principles, the author contacted the participants with full detailed emails discussing the research topic, questions, and objectives. All individuals that participated in the interviews knew about the topic and background before entering the interview.

Once the interviews commenced, the participants were asked if they would prefer to remain anonymous or if their names could be released for the research. In this case, all individuals gave consent to have their identities used. All individuals were told ahead of time to withdraw from any questions that they did not want to answer.

Research Limitations

This dissertation contained a lot of limitation throughout the research. Ideally, the author would have liked one individual from each department within the industry (i.e. an actor, a producer, a director etc.). Four interviews were completed, unfortunately mostly directors and producers completed the interviews with no actors or below the line industry workers. Therefore, the author was unable to receive a wide variety of opinions as it was mostly within the specific job title of directors and producers.

Another limitation within the dissertation was the lack of recent literature on the topic of runaway production. Most of the literature was written before individual states began offering their own incentives, resulting in difficulty when attempting to understand the current views on runaway production. The few reports released regarding state incentives are industry funded and therefore can be known for being biased towards the industry by releasing inaccurate or manipulated information.

The last limitation is the approach chosen. The qualitative approach results in textual data instead of numerical data, which can be harder to prove.

Interview Questions

Interview with Adrian McDonald:

For the full interview please see Appendix A, page. 74

Interview with Kevin Connor:

For the full interview please see Appendix B, page. 89

Interview with Kim Winther:

For the full interview please see Appendix C, page. 92

Interview with Rod Lurie:

For the full interview please see Appendix D, page. 95

Findings and Discussion

The following section discusses the findings of all four interviews, analyzes the different responses and interprets the information in order to suggest possible solutions to runaway production.

The California Tax Incentive

Findings:

When all interviewees were asked what their opinion on the current California tax incentive is and if it was competitive enough, their responses showed they all agree it is not competitive enough. Adrian McDonald feels that the current California incentive is the best incentive offered between all the states, however, he feels it is not competitive enough due to the cap. However, he does state that before the cap is maxed out, the infrastructure in California itself is competitive enough to bring productions home:

> "Where it is surprisingly competitive, because sometimes you will hear people say 'oh it isn't enough they need to match Louisiana' and they are referring to the rate, so the rate in Louisiana is 30-35% if you can get some local labor, but California is only 20% for the majors, its 25% for the independents but most of the people who get it are the majors. So its 20% and only the below the line costs, so if you do the math on that, the whole budget because the above line costs are excluded, it brings down the rate of the credit so the whole budget is more like 15% to Georgia's 30% the team will just move back. They have turned down twice the money in Georgia to come back here because they were one of the lucky few to get it through this convoluted lottery scheme. *We Bought A Zoo*, the Matt Damon movie, that shot in Thousand Oaks, that got about $7 million and they turned down like $15 million against Georgia so if you can qualify to get the incentive, despite having roughly half the value, its been more than enough to keep productions here" (Adrian McDonald).

Kim Winther, on the other hand, shares a different opinion on the incentive. He states that California has helped jump-start independent films with a generous 25% incentive, but is not competitive enough for major motion pictures. He adds that because New York, London New Orleans and Canada all have better incentives, he has been away from home for the last four years unable to convince studios to shoot in California. Kevin Connor and Rod Lurie agree that the incentive is not competitive enough and as it comes with so many limitations, it is just easier to film elsewhere. Kevin Connor believes it could be too late for Hollywood to recover but Rod Lurie argues that California will always have television series:

> "In some cases you have no choice but to shoot in Los Angeles like a television series although several are shot outside the state. It is simply easier to shoot here in California because actors will not leave their families and if you have to shoot 26 episodes or something you're not going to be able to get them to leave. You cannot underestimate how important that is. Actors begin to have more power as the show goes on as people begin watching the shows for the actors" (Rod Lurie).

Kim Winther, Kevin Connor, and Rod Lurie all conclude that the California tax incentive is not competitive enough to attract any of their productions.

Adrian McDonald adds that studio executives have been contacting Sacramento requesting an uncapped 12% credit in order to keep productions in California. According to his knowledge, it isn't the rate that executives are looking for; it is a reduction so that more productions have the ability to film within the state.

McDonald does however share a few concerns with the way the incentive is currently structured. His first concern is that California is not specifically targeting films that normally wouldn't film there or attract production that left back to come back. They have recently been giving the incentives to films and television shows that would film in California regardless of the credit:

> "So *Saturday Night Live* gets it, *30 Rock* gets it, those are the two big ones that I use but stuff that was never going to leave or is in threat of leaving is getting it and that's a total handout. You know, come on, *Saturday Night Live*? Give me a break, that's like California giving it to the *KTLA Evening News* they're just stupid. So California needs to target the stuff that would "not film here anyway" and that's the big struggle with California. I mean I can tell you, *Drive* for example, the Ryan Gosling movie, the director is on record for that saying "we would have shot that in California anyway" but it got the credit you know? So there is going to be those that would have filmed here the thing is you don't want to give it away and that's the problem for California" (Adrian McDonald).

The second concern Adrian McDonald discusses with the California incentive is the fact that the cap shrinks each year that television series are granted the credit. As an example McDonald uses *Body of Proof*, which is a television series that won the incentive the first year and relocated from Rhode Island. This means since that *Body of*

Proof received the incentive the first year, they are grandfathered into the program and will benefit from it every year that they stay on air and film in California:

> "Which means so let's say, and I don't know how much they got, but let's say they got $5 million the first year, the next year they are automatically going to get it again so instead of $100 million to hand out to productions, there's really only $95 million… So that is having a snowball effect and I think we are down to about $80 million now that is really the only available amount of money for new stuff and $20 million is sort of grandfathered in, *Teen Wolf… Body of Proof*, there's a handful, about half a dozen or so that will get it every year… I don't think that is a required; I mean after 2 or 3 seasons, it's going to be impossible to relocate a big show… Once your three or four seasons in, especially if it's an ensemble cast, they aren't going to want to pick up and leave" (Adrian McDonald).

Adrian feels that these shows should really only be grandfathered in for the first three seasons so that the shows grow and become large and successful enough that they will continue filming without the incentive and California may invite new productions into the scheme to start growing. He shares that the problem with adjusting particular details like this within the incentive is that Sacramento is slow to respond:

> "I think it's the best program, it's just not adequately funded and to keep it up to speed and to keep it from targeting stuff to keep it from going away, well stuff that leaves fluctuates, that can change each year so when they implemented the law back in 2009, one of the things that wasn't leaving was network dramas like ABC, NBC, Fox, those are specifically excluded from applying. Now we have seen a complete exodus of those so if you want to target the program, you kind of have to rewrite the law every session to go and re-adjust the targeting sites as it were, and again that's just not realistic with the way Sacramento works. It would be nice if they could give the CSC that kind of latitude but they haven't" (Adrian McDonald).

Discussion:

The most important aspect of the California incentive so far is that it has been successful. As tons of productions applied for credits to be able to film in California, it "sold out" almost immediately. However, Adrian McDonald has pointed out a few important points that should be addressed in order for California to benefit completely from the full potential of their incentive. The industry has become an "every man for himself" approach by studios and producers wanting the cheapest route for making productions no matter who it affects and individual states burying themselves in debt by rivaling against each other in order to attract the most production. Therefore, it is vital for

California to organize their incentive in order to return as much production back as possible.

Targeting the Right Productions

With the incentive scheme proven to be successful, the most important section to concentrate on now is the productions chosen to benefit from the credit. It is vital for the success of the incentive that California begin to review applications for credits more carefully and select productions that would usually not film in California. Giving incentives away to productions such as *Drive* limits the amount of credits available to other productions that go to other states with higher incentives. That being said, it will also double the amount of productions within the state if productions such as *Drive* film there regardless while incentives invite new productions that would otherwise have filmed somewhere else. As Kim Winther stated, studios usually choose the filming location before producers have a say, therefore with the incentive studios might spend a little more and pick California over a higher state incentive in order to keep it closer to home and possibly use their own facilities. The more productions California can squeeze from these incentives, the longer it will survive.

The fact that California picked some productions that were not a threat of leaving the state could possibly be the reason why Kim Winther, Kevin Connor and Rod Lurie feel that the incentive is not competitive enough. As Kim Winther is a producer who has not had a production in California in four years and Rod Lurie has never filmed a movie in California, if California is giving their available credits to nonthreatening productions and professionals such as Winther and Lurie are unable to receive the credits for their more threatening productions then it is understandable why the incentive is viewed as uncompetitive. If this is the case, it is extremely important that California re-evaluates whom they reward their incentives to in order to attract more threatening productions that would usually not financially consider California.

Reviewing the Grandfather Clause

The next section of the incentive that needs to be reviewed is the “grandfather” clause. Adrian McDonald has a strong point when stating that television shows should be granted this clause for three or four years maximum until they have grown and then should be given to a new show. Assuming the older show has been successful, it should be able to afford to maintain filming in California without the credit, while the credit goes to a new show that otherwise would not have the opportunity to film within the state. McDonald is right when arguing that some older shows could relocate to other incentive friendly states, but also argues that once a show with an ensemble has grown a certain amount, it makes it extremely hard to relocate. This could work in California's favor with the goal that the industry grows within the state by attempting to keep old shows while adding new shows. If the limit of time added on the grandfather clause proved to be unsuccessful, Sacramento could always remove the "limit" section, yet it wouldn't hurt the state to at least try it as it could potentially double the amount of productions currently filming in California.

Another explanation for Kim Winther and Kevin Connor viewing California as uncompetitive could be that the cap of $100 million is not enough. Rod Lurie states that the incentive is not remotely competitive enough and should offer half a billion per year instead. What Winther, Connor and Lurie could be referring to is that California goes through the available tax credits between films and television shows almost immediately each year and once the state has hit the cap, no more productions have the ability to apply for incentives. As Kim Winther, Kevin Connor and Rod Lurie all state if there is no incentive, there is no production, therefore, this limits the amount of productions that come back to California because, once the incentives have been used, California goes back to struggling for productions and studios see it as a noncompetitive state. Adjusting the grandfather clause on television shows would help give California a more competitive position as it would have the opportunity to invite new shows as old ones mature out of the incentive.

Maintaining Incentive Trends

Aside from attracting the right productions, a very important aspect of California competing for production is to maintain updates on other incentives offered. The incentive game has become so popular with states jumping in and out of the incentive market that it has become a "fashion" within the film and television industry. Every woman knows that when it comes to fashion, the only way to be fashionable is to keep up with the current trends. In California's case, it is crucial for Sacramento to maintain updates on the incentive trends so that California continues to benefit in every possible section that their limited incentive offers. Adrian McDonald uses a good example with the network dramas having started off as nonthreatening and have now departed California because of the lack of incentives offered. As California is really struggling to survive with such low amounts of production, it is crucial for Sacramento to review topics like this each session to keep as much as it can from leaving. It would require Sacramento to become more involved with the incentive program on a regular basis or possibly position a specific office to research and maintain incentive trends within the industry and report back with suggestions and adjustments for Sacramento to consider and possibly approve. Sacramento must begin to start viewing producers and studios as consumers, the offered incentive as the product and themselves as the producers. As competing producers release updated products, Sacramento must update theirs in order to keep their product trending. In this case, Sacramento only has to sell their product for half of what their competitors sell theirs for because Sacramento created the original product. However, Sacramento also has to keep updated with the latest trends and improvements in order to remain competitive in the market. With Sacramento maintaining the incentives, California would be completely up to date and modern with the ability to attract and target as much production as possible within its cap.

Possible Future Incentives

As for California's future, an uncapped lower percentage of credit could prove to be very successful. With studio executives begging Sacramento to consider a 12% credit, it shines a new light into the insight of the industry studios. First of all it shows that studios are more interested in accepting a credit less than half of what some other states are offering just to be able to maintain production in California on a more regular basis. Their main argument is that they would rather have the ability to produce more movies in California at a lower rate than fewer movies with a higher rate that cap almost immediately. If Sacramento seriously considered implementing a lower uncapped rate, it could immediately create heavy competition against other states as more productions would come back to utilize the infrastructure, talent and home studio lots. As more productions would be able to participate, it would immediately bring back more businesses and economic output in the state.

As Kim Winther mentioned in his interview that studios are financially reducing, the fact that they are requesting a lower rate is very surprising. However, they do own large lots and facilities that could result in budgets being lower when not having to travel across the country and rent stages and equipment in other states.

A lower uncapped rate in California could be the start of the fall of aggressive state incentives. As states like Louisiana, New Mexico and Michigan acknowledge that their incentives are not benefitting their state as much as they would like, if California were to lower their rate, it would give other states the ability to lower their rates considerably but leave them slightly higher than California in attempt to continue to lure productions. It would most likely cause Canada to start offering incentives again, but if all incentives were lowered to a more affordable rate and as producers prefer to film within the United States, it would bring back production to California, add the ability for producers and directors to pick locations based on creativity, and help states like Louisiana and New Mexico recover from the financial loss their high rates caused.

As optimistic as this incentive sounds, Sacramento could argue that it would not be fiscally beneficial to uncap the incentive. The argument would be that the reason California just extended its tax incentive was because the financial reports proved that the $100 million cap broke even with the economic output the state received. Therefore, to offer an uncapped 12% rate when, as Adrian McDonald calculated it after above the line costs, the rate of return is really 15%, then to offer an uncapped rate of 12% could hypothetically cause the state to go into debt. However, based on the studios wanting to film in California more, and California so severely suffering, a lower uncapped rate should really be considered in the future for the industry as competitive states are beginning to realize they cannot maintain these aggressive incentives for much longer and productions will be looking to relocate. This being said, more productions in California could create more economic output and start to rebuild the economy within the state very quickly while possibly continuing to break even or add revenue with the incentives offered.

Conclusion:

This section discusses the research question regarding saving California by analyzing the weak sections of the current California tax incentives and offers solutions could benefit and save California. It also discusses the benefits of an uncapped low rate incentive for California and how it could potentially change the incentive market and revive Hollywood as the center of productions. This section also answers the research question of the United States overcoming the subsidy war between states by theorizing that with a low uncapped rate in California, other states will have the opportunity to lower their rates as well but still remain competitive in order to attempt to lure productions while becoming more fiscally responsible and keeping productions in the United States as producers prefer not to leave.

Productions Controlled by Incentives

Findings:

When interviewees were asked if filming locations were based on incentives, all agreed that producers and studios will only select locations if the incentives are beneficial to the project. Kim Winther was very matter-of-fact about how the incentives are controlling filming decisions:

> "Runaway productions are all about producing your movie wherever it is cheaper...Studios will pick projects that can fit into an incentive state. If you're lucky, Natural and Artistic can be achieved at the same location" (Kim Winther).

Both Rod Lurie and Kevin Connor agree with Kim Winther. Rod Lurie states that his productions follow the incentives and as a result he has never filmed a movie in California:

> "I have never filmed a movie with California and almost every time I filmed outside of California its incentive based…We have to go where we can afford it. Take a look at my movie *Resurrecting the Champ,* it's a movie with Samuel Jackson and Josh Harnett. It about a reporter that meets a bum on the street and it turns out that the bum was once a great boxer of some kind and he writes a report about it and it changes everybody's lives. It is a true story and it was set in Los Angeles. In 2006, we couldn't, not for love and not for money could we shoot this in Los Angeles, it was too expensive and our budget wouldn't allow it. We looked at our cast and we knew how much we had to make the movie for and we couldn't do it in Los Angeles. So now we start to see where else we can go to shoot it and what could mask Los Angeles" (Rod Lurie).

Kevin Connor discusses a film in a similar situation that he is planning to shoot in North Carolina:

> "Presently, I am planning a film in North Carolina where ordinarily I would shoot the exteriors there and the interiors here in Los Angeles" (Kevin Connor).

Both Kevin Connor and Rod Lurie discuss that even if they wanted to film in Los Angeles instead of going straight to the better incentives, they have been unable to as it is too expensive. This leaves the incentives resulting controlling where the productions end up filming and story lines being changed because the creativity of the production cannot be fulfilled.

Adrian McDonald goes into further detail about how the studios and producers decide on the productions. Adrian believes that the fact incentives are being chosen over creative purposes is definitely overlooked by the government. As money is the most important topic when discussing productions, McDonald gives an example of just how drastic the incentives affect the filming locations:

> "If the script calls for you shooting in the desert and no desert state has an incentive then the producer will say "rewrite it for snow and we will go to Pennsylvania in the winter" um, so the creative needs have definitely gotten shoved aside. I mean I am hard pressed to come up with any movies every year that the incentive was the not the reason that it went where it went. I think they go incentive first, and then creativity second so obviously, if they have a script that calls for the tropics, they will look for an incentive in the tropics first like that's where the creative comes in. But if there are no tropics available then they will be like "let's go creative" or we will go somewhere else. My boss Paul always like to talk about a surfing film that was rewritten to be a snowboarding show, we get those things all the time" (Adrian McDonald).

Brent McDonald and Louise Story from *The New York Times* did a story on the film incentives in New York in December 2012. In the video Adrian McDonald, who happened to be interviewed there as well, states that since incentives are the sole predominant factor for choosing locations, it's basically become a competition for who's giving away more free money (McDonald 2012 cited by McDonald and Story 2012). In the video Katherine Oliver, New York City Commissioner of Media and Entertainment, states that companies complete side-by-side analyses of different state incentives and follow the better deal (Oliver 2012 cited by Story 2012). Michael Benaroya, investor and producer, stated:

> "I would never make a movie where I didn't get an incentive and I don't ever intend it… I'd like for it to be true that the incentive is good for New York too and that everyone is benefitting, that's a nice to hope for but at the end of the day, if there is an incentive, its good for me" (Benaroya 2012 cited by McDonald and Story 2012).

Adrian McDonald does give credit to a few directors and producers that have fought to keep productions in California. Michael Bay lowered his costs by 30% in order to get the studio to agree to film *Transformers* in California. John Favreau added a clause in his contract that stated unless there was a creative reason; he would only film in California. There are a few individuals that still fight to use the "best" in California; unfortunately it is currently not enough.

Adrian McDonald also adds that he doesn't understand why states don't emphasize creativity on a state level. He discusses how lawmakers have debates about it and always point to movies such as *Steel Magnolias* in Louisiana and *Garden of Good and Evil* in Georgia, but that was before incentives when productions went there because it was about the state. He expresses that places like Louisiana build themselves up on their promotional material as if it were any town to lure productions because they think it is necessary to be competitive. He then argues that by doing this, states are losing the marketing and tourism benefits of filming there:

> "Audiences believe what they are seeing on screen is where the movie tells them is taking place, so if you saw *50/50* the one that was filmed with Seth Rogan about cancer. That was based in Seattle and you believed it was in Seattle even though it filmed in Vancouver, so why lawmakers aren't cueing in on the creativity side of it is beyond me. I mean literally they probably don't care about the creative side but they should at least care about where the film is set just so you can get those tourist benefits, the marketing benefits and then you kind of shift over to the whole film tourism side of things" (Adrian McDonald).

McDonald theorizes that lawmakers mostly look at the economic activity and if the state is showing a large amount of productions then it is considered successful. What he argues is that they could be much smarter and reap the benefits of having these filming locations there and use that to boost the tourism which would also add revenue to that state and help attempt to break even on the expenditure of the incentives. Lastly, he argues that states should require more movies to be based there to advertise the state more. He uses the example of the movie *Battle: Los Angeles*. He states that it could have been called "Battle: Louisiana" because after the first twenty minutes the city was destroyed resulting in it being irrelevant where the film was based. Therefore, if states are spending large amounts of money giving studios credits, they could at least try to benefit themselves at the same time.

Rod Lurie does discuss the difficulties when filming in a location that isn't based in that specific location:

> "…The notion that you can't shoot in the location that your movie is set is sometimes daunting to the creative side and I discovered myself in that boat as well… Sometimes there have been attempts to Americanize European cities and it just doesn't, in my opinion, doesn't work… That's where things get a little hairy because you really cant fool a European city with an American city although it has been tried a few times and failed a few times… Usually the reason for doing it has to do with the director. Stanley Kubrick turned London into New York for *Eyes Wide Shut* and the interiors were fine but the exteriors were just weird, it doesn't look like New York City at all" (Rod Lurie).

He then continues to discuss how incentives, as good as they are, do come with their drawbacks:

> "So you get these incentives but they come with their drawbacks. Which is that we need to get a certain amount of points in order to qualify for the incentives. We don't just film in Europe but we have to also use European in key positions including acting positions… For the female lead which was not just an American actress, an American character like an American FBI officer. You couldn't give them an accent, you can't explain why this particular person is Russian or German or French but they insisted that that actor be German and so we had to maybe deal with the possibility of hiring a German actress and we simply couldn't find one that sounded purely American and a good actress and thought we may have to dub them later on" (Rod Lurie).

Lurie then adds that even though incentives come with their drawbacks, states and nations will go the extra mile to invite producers to film there:

> "Canada gives you incentives, the province of Alberta gives you incentives and then Calgary gives you incentives and you can knock off as much as 40% of your budget. Plus the film commissions up there try to get you offices and locations for free. They really go the extra distance just to get you there and then we are hiring their crews" (Rod Lurie).

Discussion:

Analysis of Incentive Control

Regarding the research question asking to what extent the problem of runaway production is known, the responses above from the interviews and secondary data depict a clear outlook as to how the industry views the problem.

Kim Winther discusses that the problem of runaway production is known but because the studios benefit from the incentives, they continue to take advantage of them. Adrian McDonald believes that governments underestimate the choice for incentives over creativity when deciding filming locations. Kevin Connor thinks that runaway production is a tragedy but continues to use incentives because they help with financing when planning a production. Rod Lurie's productions are based on where the best incentives are. Michael Benaroya's statements regarding the New York incentives shares two perspectives. The first being that as it is all about money, regardless of runaway production, producers like Benaroya will always follow the incentive. The second interpretation of Michael Benaroya's statement is that he has not looked into the affects on states that offer incentives. Therefore, he is benefitting from something that he has not researched resulting in him being unaware of the ramifications the state and state residents experience by offering competitive incentives.

With statements like these, it can be concluded that one angle of answering the research question is that the problem of runaway production is known within the industry, as it is the industry that is causing it and benefitting from it. Adrian McDonald however, acknowledges a few directors and producers that feel so strongly towards runaway production that they have found ways to film in California or have chosen to not film at all. This answers the research question from the opposite point of view that professionals within the industry disagree with runaway production and have purposely kept work in California to fight it.

Rod Lurie gives a few negative aspects of incentives that prove to be challenging when filming in different locations. He discusses the difficulty when filming in a location when the story line is based somewhere else and the importance to making sure it looks identical to the audience. When discussing *Resurrecting the Champ*, which was originally based in Los Angeles, he states that no matter how much they tried to film in Los

Angeles, it wasn't financially possible so they were forced to change the location and the city the story was based in. Circumstances like these are reasons why productions are leaving California so quickly. Other states and nations are offering free offices and locations in order to attract productions and California is left with empty lots and unemployed industry workers.

Are States Utilizing the Benefits of Film Production?

McDonald's argument that states spending large amounts of money on tax credits for productions to use their state, should either consistently advertise filming locations as tourism attractions or demand that films be set in their state more frequently is a very valid point. States such as Louisiana and Georgia are spending huge amounts of taxpayer money on these productions and Louisiana, especially, are not making anywhere near the same kind of returns. What is surprising is that when states like Louisiana agreed to increase their incentive rate to 30%, why they didn't have a specific business strategy in place to attempt to collect as much revenue as possible while productions were on location. For example, if Louisiana is currently giving a 30% credit for above-the-line (mainly celebrities) salaries (see Section Louisiana's Incentive Not What It Claims To Be?) then why not get their money's worth and advertise the movie and the celebrity starring in it to try to attract some tourism. That being said, what is the point of these states offering such high tax incentives if they are not taking full advantage of what they bring? A tourism industry would really benefit a state with a high rate incentive, as it would bring more visitors to the filming locations while producing higher economic output due to consumer spending. If implemented, states would see a huge difference in state revenue, as the public loves to visit tourist attractions with the hope of a possible celebrity spottings. Therefore, if marketed correctly, it could receive a huge turnout, which could add funds to help cover the production's tax credit payout.

Conclusion:

Based on the research question of the awareness of runaway production, it seems incentives are causing productions to move to other locations but the fact that it has become detrimental to California is not acknowledged as a problem. Studios, directors and producers all use incentives to get their productions financed but not many of them are aware of the repercussions incentives have been causing. Those that are aware either continue producing and taking advantage of the incentives or boycott specific incentive friendly states. Regardless, this section confirms the research question that incentives are the sole reason for productions being approved and completed or "going back on the shelf."

The fact that these states are not using external industries such as tourism and marketing to attempt to collect more revenue from film productions answers the research question that the incentives are not completely beneficial to these high rate states. Therefore, they are paying large amounts of taxpayer money to productions and not utilizing the full advantages these incentives can bring.

Incentives Not What They Claims To Be?

Findings:

When asked about Louisiana announcing they were planning to review their current tax incentives after releasing a report that stated how much money the current incentive was costing them, Adrian McDonald admitted full surprise and stated it was "big news" that they had released that information. McDonald discussed that the economic reports released for Louisiana had been industry funded and were biased to the film industry by releasing a variation of numbers and points that made the state sound like it was making revenue. Therefore, when Louisiana's representatives took the report and reviewed the actual tax calculations, once they did their own math, they realized that Louisiana was receiving back $1 for every $7 credited to film productions. McDonald stated that the most important fact was that the numbers were released based on the report commissioned by the film industry therefore they could not accuse a biased anti-film group for releasing "outrageous" numbers. This has government officials now reconsidering the incentives, yet McDonald is unsure what route they will take when revising them, if any at all:

> "I think the most likely thing in Louisiana that they are going to do, if anything, I mean it is possible that the lobbying and the pressure to keep the program in place might be so great that nothing happens, it might just stay as is. If they do, I think the most likely thing to happen is a cap, at some level; I mean $100 million would be on the low end. I would guess between $100-200 million a year considering

> that last year they paid out like $226 million… So you can imagine someone proposing a $100 million cap. People would freak out, they would be like "but that's only half." So I would guess between $100-200 million. The other thing they might do in conjunction with that or the alternative would be to lower the rate… I don't know if they would fight harder to keep the rate in place, the current rate, or against the cap. I would guess the cap first and then the rate; maybe lower it down to 25%? Because they have Georgia right next door and Georgia is close to surpassing them in production spend and Georgia is at 30%. So maybe getting rid of the local, you know the additional 5%, which would be a token; I mean it doesn't cost them much" (Adrian McDonald).

McDonald also offered a few suggestions that would help Louisiana control their incentive and costs on productions. Currently in Louisiana the law is set up that they reimburse more credit on salaries to out of state residents than to their own state residents. McDonald uses Tom Cruise as an example:

> "Tom Cruise… is my favorite example, if he were a Louisiana resident, they would only reimburse 30% credit on his first $1 million of his salary or whatever they are paying him. But because he is from California, there is no cap so if he's making $10 million they will pay 30% for that and should be the reverse, like ideally if you want to relocate the industry you want to relocate talent like that and so give the benefit to the in-state person not the out-of-state person" (McDonald).

McDonald believes it is a simple law to adjust and would benefit Louisiana if more individuals moved there in order to utilize the offers. It would also grow the industry more permanently for Louisiana, which is what they are trying so hard to accomplish with these incentives.

Adrian McDonald also discusses another "loophole" Louisiana has that is being taken advantage of by the industry. McDonald has discovered a large amount of outsourcing from Louisiana to California, or other places, during productions. The first example McDonald used was about props for *Abraham Lincoln Vampire Hunter*:

> "I wrote another post about a lady that was sending props down there for *Abraham Lincoln Vampire Hunter*. She couldn't just lease it out to the production company because she was an out-of-state and Louisiana now requires it to be an in-state expenditure but its so easy to get around so she just sends it down and they give it to a crew member and then they are like "okay the crew member is renting it from California, upcharge $10" and then boom, all of a sudden it is a in-state expenditure. So if she sends a $300 prop down there and it now costs $310 it all qualifies to the incentive but only $10 of that benefit is staying in Louisiana, the rest is coming back to California" (Adrian McDonald).

McDonald's theory is that Louisiana would have no way of knowing if things are being sent back and forth from California on their dime unless they heavily audited the post offices. McDonald then goes on to name other movies that have been importing from California such as *G.I. Joe* and *Ted. G.I. Joe* imported their catering company from California, which leads McDonald to believe that if the catering company was imported then most likely the guns and picture cars in the movie were imported as well. McDonald believes *Ted* also imported from California as he stated that he went to a props store in Los Angeles recently and there was the teddy bear, Ted, on the floor that had been made by the gentleman in the shop for the movie. McDonald then theorized that if one were to look at the audited records of costs occurred in Massachusetts, where the film was shot, then the making of Ted, the teddy bear, would probably show up as a cost in Massachusetts and not California. He then added that some states don't release that level of information so there is no way of knowing, and the studios are probably very happy about that.

With high rate incentive states possibly paying for odd expenses here and there from California, McDonald wonders to what level of costs does it extend to. He used the example of VFX work done on *Oblivion*, which was shot in Louisiana last year:

> "…Lets say they did $50 million worth of VFX work on *Oblivion*. If only $10 million of that was done in Louisiana and the rest was farmed out to Vancouver, Venice, wherever, and then they just build it all like it is coming from Louisiana, like I don't know why, I don't think Louisiana would even have reason to think "oh we should look at that" they wouldn't know. It's the film that is audited, not the individual vendors" (Adrian McDonald).

McDonald states that he thinks this outsourcing situation is going on at a much bigger level than anyone realizes. McDonald theorizes that productions want to work with California film industry workers because they are the best at what they do and they are so desperate for work that they are happy to send items back and forth to productions while they claim on other state's incentive expenditure.

Regardless of the report released earlier this year by Louisiana regarding the negative effect if their incentive on the state, Kim Winther and Rod Lurie responded with a completely different opinion on Louisiana. According to Winther, a lot of his friends are moving to places like Louisiana and Georgia as the economies are benefitting and lots of jobs are being created. He even stated that the hotels and restaurants are reaping the benefits of what these incentives have brought to the state. Rod Lurie says the same thing:

> "Right but I don't know if they are actually losing money because the money we spend gets recycled so many times. Then within the states, cities give their own incentives on top of it. For example, Shreveport gives an incentive on top of the incentive to the point where now Shreveport has become a major filming capital in the United States. In fact, a gigantic film studio exists in Shreveport. When I was shooting *Straw Dogs* there, *Battle: Los Angeles* was also shooting there. So those are two big movies, I mean combined we are bring about $100 million into Louisiana and that is a lot of money. Plus we are spending money in the restaurants and we are bringing hundreds of people and we are employing all their people… It didn't matter how much money they gave us, they got much much more back than they expected. Basically, lets say that I paid an extra $100 a day on *Straw Dogs* and Louisiana was paying $30 of those dollars and Shreveport was paying $5 of those dollars, so they spent $35 of those dollars to get those people employed but those $65 remaining dollars never would have existed had we not come into town and those people went and spent that money. When we are there we are using the local caterers and restaurants so there is an incentive for the local governments to want us to come" (Rod Lurie).

As well as Rod Lurie, both Kim Winther and Kevin Connor state that they use local below-the-line workers on location. Winther states it is mostly because incentives do not usually include LA based crews' salaries and allowance in their incentives. Rod Lurie agrees that the crews are good but wouldn't say that it is the same as an LA based crew. He does add that when on location they do hire below-the-line locals to avoid the costs of housing for crews when traveling. Kevin Connor states that he hires local below-the-line workers because they are equally talented:

> "A main advantage to working in Los Angeles is the pool of talented actors, which is lacking in other places. However, producers organize their schedules so tightly now that bringing in an actor for a role is reduced to the minimum days required. The poor actor works on the day he arrives and departs the minute he has finished on set. Also there is a growing pool of actors who remain in the various states (especially Louisiana) where work is becoming more consistent for them and their families. More and more I find that using local talent and craftsmen gives me the same outcome as an LA based crew – no question… The technicians and craftsmen in these southern states are first class and can compete with any from Hollywood. The same goes for most foreign locations" (Kevin Connor).

Kevin Connor, Kim Winther and Rod Lurie all agree that since all the heads of the production such as: Director of Photography, Assistant Director, Production Manager, VFX Supervisor are all from Los Angeles, that you mostly get the same outcome as if you were to film in Los Angeles in terms of crew. This means that in states like Louisiana, producers are receiving an extra 5% credit for using residents on set and it is helping Louisiana build an industry.

Discussion:

Suggestions For Louisiana's Incentive:

When referring to the research question if incentives benefit the states, Adrian McDonald uses Louisiana as the prime example of how they not beneficial. Based on the responses above, Louisiana has been overly generous with their credits and it appears the time has come to start cutting down on the superfluous spending. Therefore, both of Adrian McDonald's suggestions that Louisiana cap their incentive and reverse their tax credit from non-residents to residents seem to be a good start in cutting back and controlling government spending. Firstly, it would be safer financially for Louisiana to put a cap on their offered incentives in order to control how much state money is being spent on film productions per year while attempting to remain competitive against Georgia. In the recent release regarding Louisiana revising their incentives, they stated they were forced to consider budget cutting in areas like public services in order to keep up with the offered incentives. Adding a cap for the year would allow Louisiana to organize an annual state budget in order to allocate the appropriate funds necessary to different sectors within the state more efficiently. There will of course be a backlash of film backers and lawmakers that will not want to change the current incentive. However, with ratios as steep as 7:1, more state politicians need to admit that it is a battle they cannot win. At the end of the day, if producers and studios have no interest in Louisiana other than for their money, then why go broke over it? Luckily one of the senators mentioned in the Literature Review admitted that productions do not choose to film in Louisiana because they like the state, they film there only for the money. Paying a few million dollars to have Tom Cruise, Quentin Tarantino or Ryan Reynolds filming in state is not worth the cost if it is not reaping the benefits. It is more important to invest the state funds into the public educational system and public services to increase more education and safety within the state.

Secondly, if Louisiana chooses to continue reimbursing for above-the-line costs, then they should revise to what extent and how much they are willing to cover in the credit. The example McDonald uses of Tom Cruise is a prime example of Louisiana paying large amounts of taxpayer's money to an out-of-state resident that will not be spending money in the state once the production is over. As Kevin Connor confirms, actors are on such tight schedules that they leave the minute the filming days are done; therefore, they do not continue spending in state. Louisiana argues that so much of the money credited for these productions are benefitting the state economy but there is no way that paying an out-of-state resident a 30% credit on their salary is beneficial to the state as once the money is received, it is gone back to it's home state, in this case California. Therefore reversing the 30% credit to residents would attract more individuals to the state. As Kim Winther and Kevin Connor both states, more individual are moving there in order to continue working more consistently that a credit to residents would benefit Louisiana more than to out of state residents. As both Adrian McDonald and Kim Winther state in another question, productions will find ways to qualify for tax credits, therefore, Louisiana could benefit from switching the credit as it may attract more individuals from the industry as residents.

More Unnecessary Spending?

As well as the overspending discussed above, it seems like Louisiana is blindly paying for anything these productions claim that they need as long as it is "in-state." As California is so severely struggling from lack of productions, it seems the industry workers have adopted the "every man for himself" approach and are getting their own form of revenge by helping productions on location outsource goods needed from California. Louisiana desperately needs to concentrate their incentives and add specific enforced regulations in particular sections in order to benefit the state as much as possible. If Adrian McDonald is correct and there is a large underground outsourcing circle of goods from California on other state incentive budgets, then the more Louisiana blindly pays for them without auditing, the more it stunts its own industry growing. If productions are receiving items from California, then they are not purchasing or renting them in Louisiana. Therefore certain business are not developing and Louisiana is paying large tax credits they cannot afford, which in this case is helping maintain California's market instead of their own. Therefore, they need to expand the level of auditing they perform on production spending so that they are aware of what and where is being spent and if it qualifies. This will also level the playing field a bit between states as producers and studios will have to consider the new regulations put into place when deciding on filming locations as they might not like the new lack of total freedom with Louisiana's tax credits. However, this current out of control incentive needs to be revised in order to benefit both the state of Louisiana and the film and television industry, it can no longer remain one sided.

Louisiana Doing Well?

From Kim Winther and Rod Lurie's perspective it could be that at the public eye level the economies in these states look like they are benefitting quite well from the amount of production that has been brought over from California. However, when one analyzes the numbers from a state level, it isn't enough to cover the large amounts of tax credit originally given to the productions. Therefore, one way or another, the local economies in Louisiana are going to experience the repercussions of the film incentives when the state government either reduces or caps the current incentive resulting in a drop in film production or a reduction in jobs and budgets in areas such as the public services departments.

Until then, the only problem with Louisiana building an industry for below-the-line workers, is that if or when California begins to pick up again, lawmakers will argue that their residents are losing jobs when actually, the jobs were never created, they were just transferred from California. Kim Winther confirms this point when stating that his friends have all moved to these high rate incentive states in order to continue working. Therefore, below-the-line workers living in California that cannot afford to relocate are losing their jobs to Louisiana residents that are being hired on location.

Conclusion:

Individuals such as Kim Winther and Rod Lurie believe they are benefitting the state economies with their productions however this is not the case. Michigan and New

Mexico acknowledged their incentives were unsuccessful and placed caps in order to avoid spending more than they could afford. Louisiana has now announced the need to revise their incentives, as productions are not recycling enough money into the Louisiana economy. This section on Louisiana is the perfect example to answer the heart of this research thesis that incentives have not been benefitting the state as much as the industry believes they do. Regardless of the locals being hired, there is so much out of state spending on these productions that states such as Louisiana are paying for and not auditing, that they are not receiving enough of the funds back to be successful. It also answers the research question that state governments are aware of the problem of runaway production as they acknowledge that when they adjust their incentive scheme they will most likely lose the productions they originally lured from California.

On A Federal Level

Findings:

Due to multiple academics and journalists recommending that the United States have a national film commission, the interviewer asked Adrian McDonald what his opinion on creating one would be. McDonald felt that in terms of everyday approvals in filming locations it would be impractical, but in terms of recording and tracking the industry, it could really benefit the United States. Adrian states that Canada is the most successful in recording and reporting their film industry as a whole and the United States only has it recorded individually by states. To record it as an industry financially as a whole would give the United States a better idea of their position within the industry worldwide and allow them to control it more closely. Rod Lurie disagreed by stating he did not feel it would be successful:

> "I don't know how that would work or if that could really work. The state by state basis I think is more effective because the only thing a federal commission will do will be to prevent productions from leaving the United States like taking it away from Canada and these rare occasions like the movie I am doing right now, called *Black Butterfly* by the way, the one I am going to shoot in Europe… The only thing it can protect is the Europeans and the Canadians trying to incentive us out of the United States" (Rod Lurie).

Adrian McDonald adds that in his world, a federal incentive would go hand in hand and help end the incentive warfare. McDonald stated that more people have begun talking about a national incentive as the race for the best incentive offer has become out of control. He argues that California has proven that incentives do not have to be super high to keep productions within the United States borders, but it is extremely important to keep them from going abroad. He states that it is more important to keep the jobs domestic, than to fight between states:

> "If [studios and producers] can stay in California and turn down twice the money in Georgia, it just kind of rejects the whole notion of Canada if it was say a 15% national credit. I mean we should at least try it in my opinion the problem is the state politics would get in the way but people are talking about it" (Adrian McDonald).

When asked if Adrian McDonald thought the United States would ever consider implementing a national incentive he stated that arguably they had set up a "national incentive" in the past called Section 181, which they allowed to expire two years ago. McDonald stated that even though it was put in place to stent runaway production, it wasn't a modern film credit so it wouldn't have been able to compete internationally. He then states that if the United States were to implement a national incentive it would abolish the state incentives, which of course, competitive states would be opposed to, as they would then only be used for creative reasons while all the main production would naturally go back to California and New York. He then states that from the political situation in Washington D.C. it would become the same rhetoric as it is now complaining about specific incentives rewarded but from a national level instead of a state level. McDonald argues that he would like to see somebody try it anyway as most importantly it is designed to keep jobs in America:

> "If a specific tax credit will keep specific jobs domestic then they need a specific tax code. Again, I don't know what problem Detroit faces with automobiles but if they can design a tax scheme to keep those jobs than do that too. This isn't about favoring one or the other it is about getting creative… Its just the fact that every problem has its own solution and I think a federal solution is a way to deal with this one" (Adrian McDonald).

Kevin Connor agreed that the United States should initially work on the home market, as producers will go wherever they can make their productions for the cheap price and therefore the United States should do what they can to avoid losing productions.

Contrary to what Adrian McDonald believes, when Kim Winther and Rod Lurie were asked what their opinions of a national incentive was, they both stated that they felt the United States should stick to individual state incentives. Rod Lurie states that competition is a good thing and it is the ultimate form of capitalism. Winther agrees stating that competition was a good thing yet he also agrees that if the United States did implement a national incentive, that productions would naturally go back to California and New York. Kevin Connor disagreed stating that he feels it is too late for California to be restored. All three interviewees agreed that if they had the choice they would rather film in California because the stages, VFX, and crew are the best in the world.

Discussion:

Looking at these responses, it shows that producers like the competition from the incentives because they benefit from it the most, yet ideally they prefer filming in California. One would interpret Kim Winther's response as hypocritical because if they would prefer filming in California more, then one would assume they would support a national incentive in order to have the choice to film wherever they creatively choose. The fact that Winther responded with support for keeping individual incentives proves difficult when trying to save California. However, when looking at an international level, it seems the individual state incentives are so aggressive that Winther may believe that productions will continue to use the incentives within the United States instead of other nations. Kevin Connor ironically states that he believes it is too late for California but if he had the choice to film in California he would. Therefore, he and many other directors and producers would come back to California as they prefer to stay close to home and all the infrastructure.

A Federal Film Commission

In the literature review, authors such as Stephan Katz, Adrian McDonald, and the Department of Commerce publication all stated that the United States was the only country without a national film commission and recommended that they implement one to help control runaway production. As Adrian McDonald recommends in his interview, a film commission office that records the industry at a federal and state level would really benefit the United States. This is an important point as a federal commission could monitor and maintain individual state competition and possibly even intervene when necessary. It would also monitor national competition between nations and preserve the United States' leading position within the industry. McDonald recommends that it be modeled like Canada's commission; therefore, it would record sections within the industry such as national employment numbers, spending counts, and project counts from a federal level, which the United States has never done before. As a director and producer, one would understand why Rod Lurie would be against a federal film commission but what he theorizes it would do, is exactly what the United States needs to implement to avoid losing productions to Europe and Canada.

A Federal Incentive

Regarding Adrian McDonald's opinion of a national incentive, it could really benefit the United States. Stephan Katz quoting Canada's motto on the jobs being for their children really puts the future into perspective. Realistically, if the European Union creates a competitive incentive, then the United States is going to find it difficult to keep productions from going abroad. Of course, given the dominance of the industry, it will not lose all production, yet any project that leaves the United States' borders also takes United States' jobs. Therefore, the United States cannot be aggressively competing for production within its borders to then expand it to within and without its borders and remain successful. When looking at Stephan Katz's theory in the Literature Review that globalization is just how today's society evolves, and in terms of the entertainment industry, he questions how long the United States would allow globalization to take over before realizing it is to late. This is a prime example of why a national incentive would benefit the whole country. It would prevent the loss of American jobs being transferring and growing an industry abroad. It is important to prevent this before it even begins so that an industry does not form causing the United States to become more competitive to lure productions back and then be accused of affecting foreign economies by "taking their jobs industry away."

The most beneficial aspect of a federal incentive is that with the choice to film anywhere, producers will naturally to go back to California where the entire infrastructure is. Therefore, a national incentive would actually revive the California and "Hollywood" position as center of productions. By strengthening Hollywood back to its original position, the United States will also secure its position as global leader of the industry. As Hollywood is the prized possession of the entertainment industry, in order to compete foreign nations would have to spend thousands in areas that would only cost Hollywood hundreds. Therefore, not only would a federal incentive get rid of all individual competing incentives, it would restore Hollywood's strength as center of the film and television industry and because of that, it would secure the United States position as world-leader of the industry.

Regardless of state politics that would try their best to abolish any attempts to create a federal incentive, if the United States implemented an uncapped 12-15% credit, then producers would naturally choose to stay and film in the United States. As the United States contains the industry center, like California, it does not need to create an aggressive incentive because it contains the industry infrastructure. Some states will suffer from lack of production once the playing field is level with California, however, now that some of them have established mini industries within their states, a national incentive would give producers the freedom to choose locations based on their resources and therefore, it could result in more productions done for creative reasons than one would assume. It would also give those states with mini industries the advantage as they now have experienced industry workers and are familiar with hosting filming locations.

As McDonald points out, if studios are willing to walk away from millions of dollars offered by Georgia to film in California when given the opportunity, then studios and producers would not want to leave the United States with the ability to pick any state of their choice first.

Conclusion:

To conclude, adding a federal film commission would at least help monitor the United States position within in industry internationally. It would also monitor the individual states at a domestic level potentially getting involved if aggressive states get out of control. A national incentive would solve two of the main research questions in this dissertation: it would save Hollywood as production would naturally head back to the center of the industry and it would strengthen the United States' position within the industry that there would be no ability for foreign nations to successfully compete.

If Neglected, Will California Survive?

Findings:

In Adrian McDonald's publication *Down the Rabbit Hole: The Madness of State Film Incentives as a "Solution" to Runaway Production*, he quotes producer Richard Donner stating that history repeats itself and Hollywood will always have its ups and downs when it comes to runaway production. When asked if he agreed with Donner's opinion, Adrian McDonald gave a really positive and optimistic view towards Hollywood's future:

> "I do think it will come back here. Forget the national incentive idea and the state incentive are not on the "on the march" mode anymore so to speak, they are on "a holding their ground" mode frankly. Louisiana is reviewing theirs, Saskatchewan eliminated theirs, I know it's a minor province but it's a Canadian province, New Mexico capped, Michigan capped, so you're seeing everything is receding… The problem is as state incentives recede, if there is no national film incentive to off-set that loss its not going to go back to New York or California because they have those caps in place assuming they keep those incentives, they are already maxed out so they will not be able to lure them and your looking at a situation where it will go back and become a Canadian problem again for the US" (Adrian McDonald).

McDonald describes the current position of the incentives as in "depends" mode where the states are trying to adjust their incentives to be competitive and financially responsible while the European Union is revising their incentives and Australia beginning to increase as well.

McDonald also points out that the major studios haven't built any studios in any other cities, they have just put their name on some such as "Paramount on Location." Instead, Paramount, Universal and Disney are all expanding in California:

> "I think they kind of know these are a house of cards, these incentives, and I think they are as surprised as anybody like "can you believe how long we have gotten these suckers to give us free money?" but they know in the long term to build the infrastructure in California despite all it's problems, all the regulations still make sense to those three and that's three of the big six. Raleigh Studios will just convert their studios into data centers which if you look at the parent corporations; they already have the subsidiaries so that's definitely what they'll do. Places like Star Waggon that opened up in other states, they will just shut down, they have always maintained a California presence. So I think long term is

> positive for California the problem is that doesn't make the group working locally feel any better because their problem is immediate jobs" (Adrian McDonald).

McDonald acknowledges that not only is it a problem for individuals that need jobs in the immediate future, but in the long term it is damaging to the economy as well. He uses the following example:

> "…If before runaway production there were 300 prop houses and that means if you were a producer or prop master you had 300 people competing for your business. Now if there are only 100 it is going to cost you more to get your prop printed. So like that advantage is sadly kind of eroding and that's why I think from a national perspective that's bad" (Adrian McDonald).

McDonald believes it is a mistake for these studios to be thinking of their own bottom lines from an economic collective mentality point of view, yet he is cautiously optimistic that the long-term future is positive for California.

Contrary to Adrian McDonald, Kevin Connor states that he feels it is too late to rectify the desertion from California. He adds that with the standard of experience and enthusiasm in other states, productions will not head back to California.

Discussion:

A Potential Savior

Adrian McDonald successfully describes the current position of offering competitive incentives between states and nations as in "depends" mode. Because all the states are currently re-evaluating their positions in the incentives race, this is the perfect time for California to step in and take control of the weakened incentive scheme. As discussed in the Discussion section of The California Tax Incentive, if California were to announce an uncapped lower rate, production would flood California and allow states such as Louisiana to lower their incentive rates as a result. For example, if California implemented a 10%-12% incentive and was successful in luring productions back, then other states such as Louisiana and Georgia could offer incentives at a higher rate of 15%-18% and still be more competitive. The most important aspect of California releasing an uncapped incentive in a market that is in "depends" mode, is that it has the ability to shape the incentives race in the future.

A Conference For Control

Another possible solution to help control the subsidy race would be for competitive state's governors to have a meeting, or conference to discuss the current situation regarding the incentives race. As a lot of states are suffering from offering rates they couldn't afford, it could be suggested that all governors come to an agreement to temporarily put a maximum percentage allowed on incentives offered. For example, if the governors in the "conference" agreed to put the maximum offered incentive at 20% then states could then re-evaluate their incentives and release new lowered rates that are more affordable for their state. This immediately puts a stop to the competition getting out of control and allows states to compete responsibly. It would also lower the average rate significantly if 20% were the max allowed to be offered, states could find themselves happily offering 12%-16% and still receiving production. As it would be a temporary agreement, it could be held for a certain amount of time, such as one year to five years, to help states financially organize their incentive programs and give the nation a chance to evaluate and implement a more fiscally responsible approach when offering incentives to avoid losing control again in the future.

An Investment

Another solution would be if states began "investing" in films instead of giving tax breaks. For example, if they invested in 10% of a film's budget, when the film is released, they would then receive that investment back once the film makes money. It would be taking a risk as its not certain if the film will be successful or not, but it would allow the government to possibly receive the investment back, which is the opposite to what it is doing now with incentives. In order to attract producers, they could agree to an investment with no interest so they would just make their initial investment back instead of receiving slightly more once the film began making money. It would require productions be done in that particular state, but it would be more secure when receiving back the initial funding the government gave.

A Secret Comeback?

Looking at Adrian McDonald's response to California possibly strengthening its position in the future, he states that he believes it is a mistake for these studios to be thinking of their own bottom lines from an economic collective mentality point of view. This response can be interpreted from two different angles. The first interpretation being that from a runaway production angle, it is a mistake for studios to be causing it by following the most aggressive incentive available to benefit from. The second interpretation is that if these studios have been speaking to Sacramento about a low uncapped rate and are expanding in California, then they could be aware of something that may be unknown to the public. No studio that is tight on finances and relies on cash backs from other competitive states would expand their facilities in a state that is suffering from lack of production unless it would benefit them. That interpretation alone should give hope for California's future in the entertainment industry.

Conclusion:

This section discusses California's future if incentives continue to control productions. It also offers possible solutions to end the incentive war. It answers the research question that incentives are not beneficial to the states as it discusses how the incentive war is at a "depends" mode because so many states have been forced to re-evaluate their tax credits from spending so much money and receiving barely any revenue in return. It then answers the research questions of possible solutions to ending the incentive war as it discusses how California has the ability to possibly shape the incentive scheme in the future but would have to take initiative.

The Awareness of Runaway Production

Findings:

Adrian McDonald has a written multiple publications and maintains a blog on runaway production, when asked if he found it difficult to find literature on the topic he stated there was a total lack of literature. He also stated that his new role at FilmLA will specifically be to put out their own profile report about the US film industry. He adds that there is no clearinghouse, just a large amount of desperate information that needs to be sorted. He discusses his first publication about how he could barely find any information regarding runaway production and how Canada seemed to be taking all the production due to incentives and preferable exchange rates. He then added that during the research of his second publication, although it was hard to come to the conclusion, he realized it was the incentives that were causing the main problem. He states that now there is a lot more information than before but the problem is that it is unknown:

> "Now for every one existed then there are probably five. So, yeah it has been a problem and then now that the data exists, it's unknown. Alaskan film office is tracking reports and nobody outside Alaska kind of cares about that, so even though its out there it still lives in its own little hobbit hole so to speak for whatever state you are talking about" (Adrian McDonald).

Adrian adds that Canada tracks reports on project counts, spending counts, and employment on a federal level and that the United States should really begin doing the same. If the United States were to complete reports at a federal level, it would release more information on the topic of runaway production as well as allow the United States to monitor the industry more in-depth.

Adrian McDonald then stated another problem with the current information on runaway production was that a lot of the reports on the topic published are paid for by the industry. The problem with reports funded by the industry is that they are usually biased toward the industry:

> "Its like I hate reading those its like sometimes they put out totally sterling reputable figures but after the MPAA kind of tarnished anything they put out here if its an industry funder, I am very skeptical. Its funny, when the LAEDC, The Los Angeles Economic Development Corp, they released a study they did on the California tax credit, it was very favorable, they said it was basically breaking even. At my role at Film Works, I was like "this is great, I want to promote this," but then I found out that the MPAA paid for it and I just don't trust it because I have personally gone through and blasted some of their reports out of the water, I mean they are just freaking lying some of them. So…I was able to send it to David Zin in Michigan… So I emailed them and told them I wanted to say nice things about this report and was I safe to do it, I had the vet it and I thought if they can't knock it then I can't knock it. But they said no it is fine…" (Adrian McDonald)

Adrian McDonald, Kevin Connor, and Kim Winther agree that runaway production needs more attention and is unknown to the public outside the industry. Kim Winther states that the topic of runaway production does need more attention as Los Angeles is the center of the entertainment industry and the United States cannot afford to lose it. Kevin Connor agrees there is a lack of awareness but adds that he feels it would not make much difference, as the public is not concerned about Hollywood's runaway production. McDonald even stated that he is pleasantly surprised to meet someone in Los Angeles that knows what runaway production is. He adds that there is a bigger awareness in LA than anywhere else, which goes to show how unknown it is to the rest of the country. McDonald believes that even news reports about how incentives have brought work to specific states usually go unnoticed because people are usually busy and with 200 cable channels and the Internet, it just remains noise. He adds that it even took a major marketing effort in Los Angeles with Film Works and that was negligible.

When asked if taxpayers were aware of how much their states were paying productions with their taxes Adrian McDonald confirmed that most of them have no idea. McDonald states that when he realized that these companies that use these incentives don't pay tax in the states they are receiving tax credits from, it was clear that it became all about receiving free money:

> "When Warner Brothers made *Green Lantern* in Louisiana, that's not Warner Brothers the corporate entity that's filming it there, its Green Lantern LLC. They create these little limited liability and on paper they spend their whole existence spending money to make the movie or the show... On paper they don't make anything that can be taxed, there are no corporate profits; its all loss and that is the very reason tax credits are refundable or transferable. I think the whole thing that shifted my rhetoric was if people understood that this isn't about giving them a tax break, it is about giving them free money. It's a public outlay like trash pickup or road construction or prison building or whatever. It is as much as a public cost as that, it's not a reduction in tax… I go into articles and I love going and having debates with people in comments and when you point it out and people realize it they are like "holy crap are you kidding me?" the support just goes right out the window, they don't want any part of that. So I have boiled it down to that, it has nothing to do with tax, it is just free money. You know I think that explains why there is the talking point of "oh 60% of something is better than nothing" because in those supporter's minds they are getting 60% of taxes instead of the 100% because there is a 40% credit in Michigan and I am like "no no no you never got 100% of taxes and you are not getting 60% your just paying out 40% of their budget that's all that you are doing" but explaining that is difficult and then getting them to believe you is another thing" (Adrian McDonald).

Discussion:

When researched today, the topic of runaway production is almost as hard to find as it was for Adrian McDonald while writing his first publication years ago. McDonald is correct when stating that the information may exist but it is either biased or very difficult to find. This results in the public remaining unaware of runaway production and the affects of the film incentives to states offering them and competing against them. The fact that Adrian McDonald is pleasantly surprised to meet a Los Angeles resident that knows about the issue of runaway production emphasizes that the issue needs to be announced at a more national level. If Film Works released an extensive campaign regarding runaway production in Los Angeles and it is still remains unknown proves that this now needs to be a national topic as it involves the majority of the US states. One could argue that some of the public is aware of what runaway production is and possibly what is causing it. What remains unknown to the public and mainly taxpayers of these specific states is the fact that while California suffers from lack of productions, states that artificially lure productions away have been offering large amounts of taxpayer dollars to film productions, which proved to be unsuccessful.

Taxpayers have the right to know through honest reports completed by the government what their taxes are going towards. Governments have been using industry-biased reports to manipulate the incentive schemes by showing that they are producing revenue, however, as it is taxpayer dollars being used to credit productions, they have a right to know the truth. Just as Adrian McDonald states above, the minute people find out the truth about the credit, the support goes out the window. Therefore, it is currently just a matter of spreading the word and getting people to understand. This is where a federal film commission would be useful, as it would conduct reports based on numbers unbiased to the industry or state. The sooner unsuccessful schemes are noticed and addressed, the safer the taxpayers and states are from losses.

Conclusion:

Adrian McDonald, Kevin Connor and Kim Winther agree that the public is completely unaware of the problems and effects of runaway production. As there is so little discussed on the topic there is also a large amount of information that is unnoticed or unrecorded. If large campaigns are not able to spread the awareness then it shows the problem is on a more national level and needs to be addressed as a country.

Conclusion

The journey through researching runaway production was a difficult yet fascinating experience. The fact that different states compete with each other for productions, as well as the United States competing with other nations for films presented the challenge of solving a "problem within a problem." However, researching the extent of which runaway production was known between the public, state governments, and industry was generally straightforward. The industry is aware of the current runaway production issues the individuals within the industry are either causing it or being affected by it. State governments are also aware of the topic, as they have been competing since the first state incentive was offered in 2002 to cause runaway production in their states but while losing significant amounts of taxpayer money. The lack of public knowledge or attempts to address the problem is disappointing. Individuals unrelated to the film industry have no idea this problem exists and based on the fact that a lot of their taxes are being used to fuel the problem while bringing next to nothing back to their state is an issue that should be public knowledge. The attempts to address runaway production have been unsuccessful, as a few producers and directors have fought to prevent the problem but unfortunately not enough to make an adequate difference.

Throughout the research process, it was no surprise how many states began offering incentives, increasing rates and then one by one forced to place a cap on their available funds. What started, as a race to the top has very quickly become a race to the bottom. The most ironic discovery in this thesis is that one of the reasons these incentives proved to be unsuccessful is because of the lack of simple business strategy. If states had closely audited what their credits were paying for and attempted to promote film tourism visits, they might not have been so unsuccessful. California is one of the only states benefitting from their incentive as it has a lower rate and cap based on what California can afford, as the incentive itself breaks even with revenue and therefore not causing any monetary state losses. California, which is suffering the most due to these other states' greed, has proven to be the most strategic and therefore successful with their incentive. In fact, it is so successful that professionals in the industry are complaining that the cap is not enough because it "sells out" almost immediately.

While researching for different methods to save Hollywood, it quickly became clear that there were few that California would find easy to implement. Between convincing Sacramento for a low uncapped rate or all fifty states for a national incentive, there are always going to be political disagreements. Ideally, California should temporarily sample try an uncapped low rate incentive to see the number of productions it brings back while analyzing the revenue amounts. With California being the center of the industry's infrastructure, it will benefit much faster than other states and possibly continue to break even in revenue.

The last topic the dissertation analysis provides are ways the United States could overcome the subsidy warfare between states in order to focus on maintaining global dominance in the industry against possible new competitors. While researching, it was surprising how many solutions there were addressing the subsidy war between states. The first and simplest solution if implemented that would not immediately threaten any states and their incentives would be to create a federal film commission. This would at least allow the industry in the United States to be monitored as a whole. The next possible solution would be a national incentive, which would allow the United States to focus on fighting runaway production internationally while saving California, whereas most productions would naturally head back to the center of the industry. Based on the current positions and opinions on tax incentives, a national incentive may have the best potential outcome, however and unfortunately, it is not something that will be implemented in the near future. It is most likely an end result in the future but will take much longer to acknowledge the current incentive scheme as unsuccessful. Therefore, the option of California readjusting their incentive to an uncapped low rate would not eliminate other incentives, but rather help control the level of rates as it decreases the standard rate while allowing other states to lower theirs to a more financially smart rate.

The final possibility discussed is the idea of a "governors conference," where governors would come together to discuss and decide on temporary percentage caps between states in order to control the competition and prevent future financial damage.

Reflections

All of the research completed proved relevant to the research objectives and questions, which was very beneficial while completing the analysis section. I would have also liked to have the opportunity of interviewing someone that supports runaway production and tax film incentives in order to really analyze in detail both sides of the phenomena.

If I could restart this project knowing what I know now, my approach would have been different. First of all, I would have asked for more help from my school, as there was little preparation provided to ease students into completing their dissertation. I started the dissertation on my own with little understanding, learning of what a dissertation consisted of along the way. Once completing my literature review, I would have then completed the methodology section in order to focus the rest of my time conducting and analyzing the interviews, as the heart of this dissertation is in the Findings and Discussions section.

Recommendations

For any researcher who plans to conduct interviews, it is crucial for the interview questions to be consistent with each interviewee accordingly, allowing the results to be comparable. When booking interviews, allow at least a week minimum after each appointment to analyze and discuss the interviewee responses. The process of re-reading interviewee feedback several times provides the researcher various interpretations and thus multiple perspectives for a thorough discussion.

It is vital for researchers to understand that completing interviews with professionals in the industry provides first-hand experience and insight as to exactly how specific issues are perceived and resolved. In some cases, it presents insider facts about the topic that one would not usually find in literature, news articles, or online. However, as this particular film industry requires it's respective individuals to be on nearby premises, one should be sure to have a flexible schedule and much time for completing interviews because of potential interviewees' busy agenda. As there is little literature on the topic of aggressive film incentives causing runaway production, and how the incentives are affecting the specific states offering them, interviews are the main window of opportunity for information. Therefore, an interviewer should make sure their questions are clear, concise, and ask for only accurate and needed information.

For students who are uncertain with what a dissertation is, my recommendation is to make sure to have a detailed description of what is expected from each required element before anything is written. Attempting to first write the section and figure out what it is along the way without prior understanding may not end well. What a student may think he/she know of a dissertation is, and what it truly is could very well be different, so investigating for the proper essentials for a dissertation is strongly suggested for a thorough paper. Just like anything in life, nothing beats planning ahead.

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Appendices

Appendix A

Interview with Adrian McDonald

1. **What is your opinion on California's current tax incentive? Do you feel it is competitive enough?**

Adrian: Umm.. I like it; I think it is the best. Of all the states in the US, I think overall it is definitely the best one right now. Is it competitive? Well, yes and no.. It's not competitive enough in the sense that there is not enough money allocated to it. Right now the cap is 100 million a year whereas Louisiana, Georgia, and Massachusetts, those three states are all uncapped. So hypothetically everything could go there and get the incentive, it would bankrupt the state very quickly but they could all go there and get the incentive and California caps it out and that is a big problem because most productions still take place here, televisions and commercials and it just all cant qualify, it would be astronomical costs if they didn't have a cap on it. New York's cap is at $420 million and they are our closest competitor, they are second, I read today that they are at in terms of a share of industry employment so people working in the industry under the BLS codes, they are at 20% and California's right under basically 40%, so it just goes to show you how distant even New York is and they have $420 million. Where it is surprisingly competitive, because sometimes you will hear people say 'oh it isn't enough they need to match Louisiana' and they are referring to the rate, so the rate in Louisiana is 30-35% if you can get some local labor, but California is only 20% for the majors, its 25% for the independents but most of the people who get it are the majors. So its 20% and only the below the line costs, so if you do the math on that, the whole budget because the above line costs are excluded, it brings down the rate of the credit so the whole budget is more like 15% to Georgia's 30% the team will just move back. They have turned down twice the money in Georgia to come back here because they were one of the lucky few to get it through this convoluted lottery scheme. *We Bought A Zoo*, the Matt Damon movie, that shot in Thousand Oaks, that got about $7 million and they turned down like $15 million against Georgia so if you can qualify to get the incentive, despite having roughly half the value, its been more than enough to keep productions here, in fact we hear a lot of the studio executives say apparently they go up to Sacramento to do this, apparently they would be happy with a 12% credit, they aren't asking for more in the sense that the rate should be more, they are just asking for a reduction. What they do ask for more on is obviously the cap; they want more productions to be able to get it so this is a big problem with California. Um.. New York is well structured in the sense that like California it only applies to below-the-line costs, you know they aren't going to reimburse you for Tom Cruise's salary right? Its higher, the effective rate is 30% so its higher but its not going to cost them as much as Georgia's or Louisiana's because again it is limited to below-the-line costs. The problem with New York's is that they give it to anybody. If you spend 75% of your budget or, I don't know if its and or, it definitely has to be 75% of the budget or 75% of the days, its one of the two. I mean California has the same thing, as long as you meet that, you can get the credit so the problem with that is that its not really targeted to, like California, to retain or attract stuff that already left. So *Saturday Night Live* gets it, *30 Rock gets it*, those are the two big ones that I use but stuff that was never going to leave or is in threat of leaving is getting it and that's a total handout. You know, come on, *Saturday Night Live*? Give me a break, that's like California giving it to the *KTLA* evening news, they're just stupid. So California needs to target the stuff that would "not film here anyway" and that's the big struggle with California. I mean I can tell you, *Drive* for example, the Ryan Gosling movie, the director is on record for that saying "we would have shot that in California anyway" but it got the credit you know? So there is going to be those that would have filmed here the thing is you don't want to give it away and that's the problem for California. I mean it's a good thing to do, your being smart, but it is very challenging. The other big problem with California that makes it less competitive is not only is there this $100 million cap but it effectively shrinks each year when these television series get it. I think *Body of Proof* got it the first year, so because they got it the first year they relocated from Rhode Island, so because they got it the first year they are grandfathered in, they will get it every single year that they stay on the air and shoot in California.

Interviewer: Oh I see.

Adrian: Which means so lets, and I don't know how much they got, but lets say they got $5 million the first year, the next year they are automatically going to get it again so instead of $100 million to hand out to productions, there's really only $95 million.

Interviewer: Right.

Adrian: So that is having a snowball effect and I think we are down to about $80 million now that is really the only available amount of money for new stuff and $20 million is sort of grandfathered in, *Teen Wolf* will be on that list, *Body of Proof*, there's a handful, about half a dozen or so that will get it every year.

Interviewer: Interesting, I didn't realize that actually.

Adrian: I don't think that is a required; I mean after 2 or 3 seasons, it's going to be impossible to relocate a big show.

Interviewer: Yeah

Adrian: Moving forward, once your three or four seasons in, especially if it's an ensemble cast, they aren't going to want to pick up and leave.

Interviewer: No, of course not.

Adrian: There were a few, *Ugly Betty* did it but they were in their second year. *The X-Files* was able to relocate from Toronto to LA at the urging of David Duchovny but that wasn't an ensemble cast, that was him and I forget the girl in it. So they could probably improve it by saying your grandfathered in for the first three seasons, but the thing is California is that we are just happy that it is in place here, getting these type of improvements in is just kind of a pipe dream, Sacramento has been slow to respond.

Interviewer: I see. Okay perfect.

Adrian: But you know, so it's sort of a convoluted answer. I think it's the best program, its just not adequately funded and to keep it up to speed and to keep it from targeting stuff to keep it from going away, well stuff that leaves fluctuates, that can change each year so when they implemented the law back in 2009, one of the things that wasn't leaving was network dramas like ABC, NBC, Fox, those are specifically excluded from applying. Now we have seen a complete exodus of those so if you want to target the program, you kind of have to rewrite the law every session to go and readjust the targeting sites as it were, and again that's just not realistic with the way Sacramento works. It would be nice if they could give the CSC that kind of latitude but they haven't.

Interviewer: Right okay, that is great, thank you.

2. Do you find that the fact that producers are choosing filming locations based on incentives instead of creativity is overlooked within the rest of the industry and state governments?

Adrian: Um, yes it is definitely overlooked in the state government side of things. Its frustrating to go into this, creativity has never been the producer's side, I mean they have always been money guys saving costs and executing has always been their thrust, but when the playing field is level, and not all that long ago it was in the United States before 2003, if a director had a creative need it just wouldn't really cost that much more to go and satisfy it, now it is just not that case. If the script calls for you shooting in the desert and no desert state has an incentive then the producer will say "rewrite it for snow and we will go to Pennsylvania in the winter" um, so the creative needs have definitely gotten shoved aside. I mean I am hard pressed to come up with any movies every year that the incentive was the not the reason that it went where it went. I think they go incentive first, and then creativity second so obviously, if they have a script that calls for the tropics, they will look for an incentive in the tropics first like that's where the creative comes in. But if there are no tropics available then they will be like "lets go creative" or we will go somewhere else. My boss Paul always like to talk about a surfing film that was rewritten to be a snowboarding show, we get those things all the time.
From the state level I don't know why they don't put more emphasis on the creativity. Most of the films they point to if you look at any state that is having a debate about these things or their lawmakers want to implement them, is that they point to these old movies in Georgia or Louisiana like *Steel Magnolias* or *Midnight in the Garden of Good and Evil* in Georgia, stuff that had gone there and was about their state, that was in a world without incentives. Now they are luring them and if you look at the promotional material they print up, I mean, Louisiana builds itself up as if it were any town, and they all to do that. They think it is necessary to be competitive. But what they lose from that is all the alleged benefits they are going to get from selling themselves to the world. Audiences

believe what they are seeing on screen is where the movie tells them is taking place, so if you saw *50/50* the one that was filmed with Seth Rogan about cancer. That was based in Seattle and you believed it was in Seattle even though it filmed in Vancouver, so why lawmakers aren't cueing in on the creativity side of it is beyond me. I mean literally they probably don't care about the creative side but they should at least care about where the film is set just so you can get those tourist benefits, the marketing benefits and then you kind of shift over to the whole film tourism side of things. I don't know, in their defense I think some lawmakers in some of these places just care about the films, commercials or shows just for the job alone you know they could care less about the content. In their mind it is economic activity and its jobs and in a downturn that's all they care about, they could care less what its about. So that could play into it to, I just don't know. But it would be such an easy thing to say "look if your going to film here just set it here" if you can. If it is impossible like *Piranha 3D*, the original shot in Arizona and the sequel shot in North Carolina, you obviously cant make it because its in the same lake. That would be impossible to be like "no it must be in North Carolina" but if they could, there is no reason, I don't know like *Battle: Los Angeles*, that could have been like Battle: Louisiana. Does it matter? I mean hell, after the first 20 minutes of the movie it was so destroyed anyway it was irrelevant where it was taking place.

Interviewer: True, I think people appreciate it more if the film is set in the city it films in because people like to look at the background and get an idea of it you know?

Adrian: I do, I mean I love movies and I think they are better when creativity is the forefront. Like Benjamin Button, the Brad Pitt movie, its one of my top five favorite movies and was an F. Scott Fitzgerald short story set in Baltimore. To their credit they went to Baltimore and they scouted it and they couldn't make it work, um and then they were like "lets go to Louisiana, they will pay for 1/3 of our movie but they set it, it is set in New Orleans is throughout the whole movie basically and its wonderful. That said, I used to go to New Orleans quite a bit and I went down there and I was staying in the Garden District, I'll be damned if I could find the house he lived in. It was like "your not even promoting the film tourism" like I want to find the film location and I was unable to do so.

Interviewer: Wow. I cant believe that, I mean they are so interested in getting the productions to go to their state I am surprise they haven't tried to create a little tourist attraction more.

Adrian: Yeah I mean you would think the tourist office would work a little more closer in conjunction with the film office but at least in Louisiana that hasn't happened. I think in New Mexico is working to address it, I think they are trying to get like, I don't know what your doing to do like have a *Breaking Bad* tour and go see where Jessie sold crack, I don't know how they would do that but at least they are trying, they are thinking about it.

Interviewer: Well that sounds promising, I guess the dessert where, um, didn't they film a bit of *Transformers* in New Mexico?

Adrian: They did. I think even the second one filmed, it stood in for Qatar, whatever desert air force base they were allegedly at. I mean that worked, there's not many places that can accommodate that, like a generic air force base in the desert. I mean *Transformers*, Michael Bay is another good guy, I like to give him some credit, he tries to keep it domestic or California, if you look at the *Transformers* films, the first one was filmed in Los Angeles, it wasn't set here, in fact if you watch the movie closely they refer to it as "Coast City" or something, it's a fictional city name for Los Angeles. But then in the sequels they go on location, they go to
New York and to Pennsylvania and a few other paces, they actually went to Egypt just to film on the Pyramids. It just kind of sucks that a Michael Bay film is the one you have to look to for that kind of creativity.

Interviewer: Right, yeah I actually watched it a few weeks ago and towards the end of the first one it did look like it was filmed in downtown Los Angeles.

Adrian: It was yeah. I think they had to change it up because they were at the Hoover Dam and then within minutes they had driven to a city and its like "well what city would that be?" so it couldn't be LA so they just called it whatever, "Mission City" maybe, it's a generic city name but its totally Los Angeles.

Interviewer: Yeah I read that in your publication about how he lowered his costs in order to be able to film in California, which I thought was awesome.

Adrian: yeah, I mean he's a producer so he's probably making about $10 million um so I'm sure he got his lawyers to figure out a back end deal off of the Blu-ray or whatever but yeah he wanted to make it work, I wish more directors/producers did the same time. John Favreau was the same way, after he did *Elf*, which they sent him to Vancouver for and he was like "No I want to go to New York" because he's a New Yorker but after that experience he put it into his contract that unless there is a creative mean to leave the state, he gets to shoot everything in California. Hence, *Iron Man 1* and 2 were here and so now he's not directing *Iron Man 3* and so what happens? It went to North Carolina.

Interviewer: Of course. Wow.

Adrian: They got $20 million for that one so..

Interviewer: Jeez, Oh my god..

Adrian: I know right? And that's another perfect example, that's not going to be set in North Carolina. I have seen the trailer, they are back at Stark's house, Florida apparently and China I hear, not North Carolina. I don't know how you would base it, why would Tony Stark be in North Carolina? I don't know! Come up with a reason! They want their $20 million, that is what this is all about, its free money for the studio and I guarantee you if there is a requirement for $20 million, they would satisfy it. Its $20 million!

Interviewer: It's a lot of money.

Adrian: Yeah. I think I strained pretty far from your question did I answer it?

Interviewer: You did, we are good. Next one.

3. **Do you think Louisiana will act on adjusting their current incentives, and if so, what do you think they might consider adjusting them to?**

Adrian: You mean that Kennedy that is looking at all the tax credits over there?

Interviewer: Yeah.

Adrian: Yeah, I don't know what is going to come with this, when that was announced earlier this year, just the fact that they were like "you know what? We need to review this thing," just the fact that they had said that, to me, I was like "wow that is big news!" Even if nothing else happens, if that was it, it was one article and then it was done, just that alone was big news. But they are reviewing it, I have been following along, they have a little committee page, and I have been looking at the presentations, and they are very clever, I got to say that the critics there got clever, I mean I wouldn't have thought of it, they got clever with the way they used the data that was in these reports that had been paid for by the film office. They are the economic reports that have been published for Louisiana, there's about three of them now. Again industry funded so if anything they are going to be biased toward the film industry and usually what you hear from these reports is um, like Michigan was a good one so for every $1 spent, $6 in economic impact happens. Pick any state or province in Canada there's some variation of the point and they use that and it makes the state sound like its making money, like revenue for the state and it sounds good. So they got clever in Louisiana and looked at the actual tax return and then did their math, and, I am sure you have seen it, for every $1 they spend, or for every… Oh what was it..

Interviewer: $7 they spend is it? They get $1 back.

Adrian: For every $7 they spend they get $1 back.

Interviewer: Yes.

Adrian: In state revenue. And it just flipped them on its head, they were like "woow." That was awesome so that was enough to make sure they were going to look at this thing and again the fact they are getting that statistics from a report that was effectively paid for by the industry is just brilliant, its not from some biased anti film group which is that they would say if it were anybody else. But they are reviewing it, what are they going to do? I think the most likely thing in Louisiana that they are going to do, if anything, I mean it is possible that the lobbying and the pressure to keep the program in place might be so great that nothing happens, it might just stay as is. If they do, I think the most likely thing to happen is a cap, at some level; I mean $100 million would be on the low end. I would guess between $100-200 million a year considering that last year they paid out like $226 million.

Interviewer: right

Adrian: So you can imagine someone proposing a $100 million cap. People would freak out, they would be like "but that's only half." So I would guess between $100-200 million. The other thing they might do in conjunction with that or the alternative would be to lower the rate, but again, I am just going off previous examples, when that was suggested in New Mexico, they said "lets lower it down to 15%," which is what it started at, and leave it uncapped. The film industry absolutely freaked out about that that's ultimately why they ended up with the cap, which the film industry also freaked out about. So I don't know if they would fight harder to keep the rate in place, the current rate, or against the cap. I would guess the cap first and then the rate; maybe lower it down to 25%? Because they have Georgia right next door and Georgia is close to surpassing them in production spend and Georgia is at 30%. So maybe getting rid of the local, you know the additional 5%, which would be a token; I mean it doesn't cost them much. I don't know if you read my post about the Louisiana loophole? That's what I called it. The way the law is written, they will cover the salary of somebody, Tom Cruise is the one I used he is my favorite example, if he were a Louisiana resident, they would only reimburse 30% credit on his first $1 million of his salary or whatever they are paying him. But because he is from California, there is no cap so if he's making $10 million they will pay 30% for that and should be the reverse, like ideally if you want to relocate the industry you want to relocate talent like that and so give the benefit to the in-state person not the out-of-state person. Fix that, I mean that would be an easy one and frankly an easy sell to everyone. "Look do we want them to come here or not?" Lets make it juicier for the production companies so these guys are residing here, screw the out of state people.

Interviewer: Yeah. My supervisor actually went to California a couple weeks ago and spoke to one of his friends who was on this movie set and he said that his director was using the cash incentive to continue filming the rest of the production in California.

Adrian: Oh no kidding, that is awesome. Louisiana is my favorite one to look at, I mean Louisiana is one messed up state. Love them for it, but they were talking about the VFX work going on, because that qualifies, and um I don't think Louisiana knows if you have an office in I think its Baton Rouge with I don't know 40 people, and then they have offices Vancouver, NBC and Venice here in California, I think all over the world. So my question was, lets say do, what's a movie shot in Louisiana last year, *Oblivion*, lets say they did $50 million worth of VFX work on *Oblivion*. If only $10 million of that was done in Louisiana and the rest was farmed out to Vancouver, Venice, wherever, and then they just build it all like it is coming from Louisiana, like I don't know why, I don't think Louisiana would even have reason to think "oh we should look at that" they wouldn't know. It's the film that is audited, not the individual vendors.

Interviewer: Right

Adrian: I don't think they would have a way, as long as it wasn't just one person sitting in the UPS store that has a P.O. Box like as long as, if you have a place with like 50 people, I don't think they are going to know. Because that is what's happening, I wrote another post about a lady that was sending props down there for *Abraham Lincoln Vampire Hunter*. She couldn't just lease it out to the production company because she was an out-of-state and Louisiana now requires it to be an in-state expenditure but its so easy to get around so she just sends it down and they give it to a crew member and then they are like "okay the crew member is renting it from California, upcharge $10" and then boom, all of a sudden it is a in-state expenditure. So if she sends a $300 prop down there and it now costs $310 it all qualifies to the incentive but only $10 of that benefit is staying in Louisiana, the rest is coming back to California.

Interviewer: Wow.

Adrian: Yeah its great and we know that is going on we just don't know how big the level is.

Interviewer: Right of course.

Adrian: But when *G.I. Joe* shot down there, they even imported the catering company from California.

Interviewer: Your kidding.

Adrian: So its like if you guys can't find a caterer down there, there is no way the guns and most of the picture cars probably didn't come from Louisiana but it is so easy to make it look like it happened there.

Interviewer: Wow that's unbelievable I did not realize that

Adrian: I know its crazy. I mean they are good at what they do here in Hollywood and they have been getting around things**.**

Interviewer: Yeah well they are desperate I guess.

Adrian: Yeah, I mean they want to get the juice out of the program. I mean I think it is happening at a much bigger level than people realize, I went to a prop house right across from Universal Studios on the 101 and I was in there and I was like "oh lets taken some pictures" and he was like "that's fine you just cant take a picture of what is at your feet" and at the time I didn't know what it was there was this teddy bear sitting there, it turns out it was Ted, from the movie, the Mark Wahlberg movie, and he had build Ted or at least I think most of it was CD but they had rebuilt Ted for the movie or at least on some level there was at least one Ted. I suspect if you got ahold of the audited records from Massachusetts, it is probably listed as a cost that occurred in Massachusetts not California. But I don't know, some states just don't release that level of information and I am sure the studios are happy about that.

Interviewer: Yeah probably very relieved.

Adrian: So that was there with the Louisiana question. Nothing might happen, cap, maybe reduction on the rate, or fixing some of those loopholes. To be honest with you I am as curious as anybody else to see what happens. They have to do something, I mean the tax credit programs, its definitely on its own one of the biggest, I think its about 3% which is way bigger than any of the others. They could solve their shortfall problems by axing everything else but each of these tax programs is going to have their own constituency of people to lobby and I don't know, my guess is the oil drillers are going to have way more influential than the film people but I just don't now.

Interviewer: Right, of course not.

Adrian: Did you read the center for budget, I don't know what it was called, the Louisiana budget project it came out earlier this year but even they were like "look you cant just eliminate it, that would just be impractical which I thought was the strength of the report and they were like "Louisiana has spent a lot of money" and they were a first mover, it was them and New Mexico. I have to say, if I were an elected official, and they had already spent a billion dollars, I would be like "we have to find a way" we cant just abandon this thing, we would be throwing away a lot of money, and maybe we will do that eventually anyway but we have got to salvage something from this its just they have executed this so poorly allowing things to go to Shreveport, Baton Rouge and New Orleans like that is.. If they had looked at Toronto and what Toronto did back in 2007 they would have been like "that's stupid we need to concentrate it," they are just not executing, they are getting the activity because they are paying for it but they could do it smarter.

4. What is your opinion on a Federal Film Commission for the United States?

Adrian: I think it is shocking that we don't have one. If you want to call it a film commission, a film office, whatever name you want to put on it just so like on a federal level we would be tracking this. I was stunned back in law school when I found out. I was like "wow we don't know what's going on at all." The commerce report from 2001 so there where people within the commerce department that knew but it was not official and then I looked at what other people were doing and found out Canada tracks it and was like "what the hell?" This is a US industry so the fact that we are not tracking it blew me out of the water. So do we need a film commission? I mean it depends what role you are talking about, how would a film commissioner in DC help somebody execute a location shoot in Detroit? Like that just wouldn't be practical so I'm not sure like a day to day film commissioner in the tradition sense is needed but a national you know film office would be better to track stuff and keep tabs on the industry. That would be a better thing and ideally in my little world there would be a federal incentive and then they could administer that but that's a pipe dream but people are talking about it now. Its something they say now.

Interviewer: Really?

Adrian: Well you are hearing it more and more, I wasn't the original with the idea, I clung on to it, I forget where I first heard it, maybe Schuyler Moore, I think people just arrive that this conclusion nationally like "why are we all competing? This is stupid." We can do the same thing with one for a fraction you know? We don't have to "oh Georgia has racked up their rate now we have to rack up ours" we could just eliminate that whole nonsense all together. And again if you look at what California has proven, you don't need to be that high to get it to stay in the US. If they can stay in California and turn down twice the money in Georgia, it just kind of rejects the whole notion of Canada if it was say a 15% national credit. I mean we should at least try it in my opinion the problem is the state politics would get in the way but people are talking about it. Schuyler Moore wrote an article in the Huffington Post about it, Michael Moore has been talking this language for a long time, I even talk a quote from Jennifer Granholm in *The New York Times*, I was in *The New York Times* this past week on their video thing, the story of state home incentives. Its long, its really good, I recommend watching it. And they were doing an accompanying article about Michigan and they were doing a profile on the Pontiac Studios, and Louise Story is the name of the reporter on both of these, and in there, that's where they quote Granholm, and she was the one that pushed for the Michigan incentive she was pretty much credit for it and now even she is saying we should be competing at an international level. So to see her have a turn around, that's good. Maybe they read my law review article, I don't think so but the idea is getting out there which is good.

5. **With states putting themselves into such heavy debt and the EU proposing to create new incentives, do you think the government will ever consider a federal incentive?**

Adrian: Arguably they have in the past, if you look at the section 181 that was allowed to expire two years ago now. That had been in place since 2004 and it was too limited and the problem with that is that it was more like a tax cut on your expenses and you had to be like under $10 or $25 million it was like any other federal tax code section it was written awkwardly but the intent was to stent runaway production. The problem with it wasn't a modern film credit so it wouldn't be able to compete internationally to solve the problem. But will the US ever do it? You could argue that was an indicator that they would, the have in the past, sort of. Looking at the reality given what it is right now, um, lets forget the state situation, because they would be the first opponents. If like we did have a federal incentive it would also abolish the state film incentives.

Interviewer: Of course

Adrian: Louisiana would like "well shit we are going to lose everything, it is going to go to back to New York and California for the most part and then they would get stuff for creative reasons, like it should be. Then New Mexico would have the same problem and Pennsylvania, Massachusetts, Florida, the players, they would freak out so they would be opposed to it. But getting past that, just the political situation in DC, they would see it as kind of the same rhetoric you hear in the states: "it's a wasteful handout" "why are you rewarding them?" um, I don't know though, again, I would like to see somebody try it. It is designed to keep jobs in America, you this is one-size fits all approach just doesn't work. If a specific tax credit will keep specific jobs domestic then they need a specific tax code. Again, I don't know what problem Detroit faces with automobiles but if they can design a tax scheme to keep those jobs than do that too. This isn't about favoring one or the other, it is about getting creative like if you put fire out with water and you build a dam to keep the water from flooding. Its just the fact that every problem has its own solution and I think a federal solution is a way to deal with this one.

Interviewer: Mm, Yes definitely.

6. **While writing your publication, did you come across any difficulties due to the lack of literature regarding the tax incentives as problematic to the industry and state governments?**

Adrian: Um Yeah, I don't know if it is as problematic to the state governments as much as the industry and if there was it is certainly not now or I suppose it is from a different perspective because it is being distorted. There was a lack, and there still is, and this is what we are doing now at FilmLA and my new role, there is no like clearinghouse, there is just all this desperate information. Well actually no, when I started writing my first one, which was back in law school, I think I started in 2006 and I was writing it as a seminar paper fir this class on law and economics, which is I don't know have you read my first one *Through the Looking Glass*?

Interviewer: I haven't actually; I have only read the second one.

Adrian: Okay that's fine; it's older so your going for some current sources, I don't blame you.

Interviewer: Yeah

Adrian: But um, I stayed with the *Alice and Wonderland* theme obviously. When I started writing that there was a total lack of information and when I was writing that one my intent was "what is this thing called runaway production and why am I seeing so much crap from Toronto and Vancouver?"

Interviewer: Right

Adrian: And sort of what's causing this and at the time, there was still a total debate about this and it was between the exchanged rates, one of the preferred reasons, incentives was one of the preferred reasons, and labor rules. I kind of went through and debunked them and I was like "no it seems like these incentives.. I think its these incentives" and so by the second paper I was like "no, period, argument closed. It is incentives and nothing else and now it is clear." But that's kind of why I couldn't come to that conclusion when I wrote that first paper because there was a lack of data and information. There was the commerce report from 2001, there the Monitor report paid for by SAG, there were maybe 10, if that, major reports, the Craig report from Canada was one, a couple from California. Now for every one existed then there are probably five. So, yeah it has been a problem and then now that the data exists, it's unknown. Alaskan film office is tracking reports and nobody outside Alaska kind of cares about that, so even though its out there it still lives in its own little hobbit hole so to speak for whatever state you are talking about. The Canadians do it right; the way they do it is the way the US should do it. They know what's going on at the federal level and then those reports track by province, they have on project counts, spending counts, employment. They are the model, they know what's going on.

Interviewer: Yeah, it seems like through my research all I ever seem to find is information on Canada.

Adrian: Yeah we are hoping to change that. Our goal here in the next five years is to put out our own profile report and it will be about the US film industry. I have no doubt it will be hard but we will see what we can do. There is the BFI report that just came out about the British Film Institute that BFI paid for along with one of the studios there. Its like I hate reading those its like sometimes they put out totally sterling reputable figures but after the MPAA kind of tarnished anything they put out here if its an industry funder, I am very skeptical. Its funny, when the LAEDC, The Los Angeles Economic Development Corp, they released a study they did on the California tax credit, it was very favorable, they said it was basically breaking even. At my role at Film Works, I was like "this is great, I want to promote this," but then I found out that the MPAA paid for it and I just don't trust it because I have personally gone through and blasted some of their reports out of the water, I mean they are just freaking lying some of them. So before I was able to get onboard, I was able to send it to David Zin in Michigan he wrote Michigan's senate analysis for theirs, which is awesome. I am not an economist and so I have been like self-taught and in so I emailed them and told them I wanted to say nice things about this report and was I safe to do it, I had the vet it and I thought if they can't knock it then I can't knock it. But they said no it is fine, I mean it was more than that I have emails..

7. **In your publication *Down the Rabbit Hole*, you quoted Richard Donner's opinion on history repeating itself and that Hollywood will always have its ups and downs. Do you believe if the United States doesn't create a national incentive that Hollywood will eventually pick up production again?**

Adrian: I do think it will come back here. Forget the national incentive idea and the state incentive are not on the "on the march" mode anymore so to speak, they are on "a holding their ground" mode frankly. Louisiana is reviewing theirs, Saskatchewan eliminated theirs, I know it's a minor province but it's a Canadian province, New Mexico capped, Michigan capped, so you're seeing everything is receding. If everything went away overnight, California would be back on the map very very quickly. It would just come back here.. The problem is as state incentives recede, if there is no national film incentive to off-set that loss its not going to go back to New York or California because they have those caps in place assuming they keep those incentives, they are already maxed out so they will not be able to lure that and your looking at a situation where it will go back and become a Canadian problem again for the US. We are in a “depends” mode right now as the EU is looking at what they are going to do. But lets say that the EU continues to do what it’s done for the last five years, well then you would have stuff go back to Europe. Australia has been coming on; they have actually been one of the few that have increased. I don’t know, there is just so much infrastructure here in California, it would take a long time for it to erode to the point where you wont see stuff come back. You know and the other thing I like to point out to give people hope is if you look at any of the major studios, none of them have built a sound stage or any stages, you they put their names on some like “Paramount on location” but the corporate entities haven’t physically built any stages or back lots in any other city so Paramount, Universal and Disney are all expanding here, so I think that that gives you an idea that they are looking at California. I think they kind of know these are a house of cards, these incentives, and I think they as are surprised as anybody like “can you believe how long we have gotten these suckers to give us free money?” but they know in the long term to build the infrastructure in California despite all its problems, all the regulations still make sense to those three and that’s three of the big six. Raleigh Studios will just convert their studios into data centers which if you look at the parent corporations; they already have the subsidiaries so that’s definitely what they’ll do. Places like Star Waggon that opened up in other states, they will just shut down, they have always maintained a California presence. So I think long term is positive for California the problem is that doesn’t make the group working locally feel any better because their problem is immediate jobs. In long term it will sill be damaging because the economy is a scale, and if before runaway production there were 300 prop houses and that means if you were a producer or prop master you had 300 people competing for your business. Now if there are only 100 it is going to cost you more to get your prop printed. So like that advantage is sadly kind of eroding and that’s why I think from a national perspective that’s bad. And the studios are thinking about their own bottom line from like the economic collective mentality, which I think is a mistake. But yeah I am optimistic, I worked at a film studio in LA, they have six stages and occidental built one, it’s just not as robust as it was. There are too many “up in the airs right now” like “what is Europe going to do” and “what’s Louisiana going to do?” So I am cautiously optimistic.

8. **Do you think that runaway productions is well known enough in the public eye or does the importance of the topic need more attention in order to spread awareness?**

Adrian: From a national perspective, no not at all. From a California perspective more so but as you said you have friends here and they don’t know. I am pleasantly surprised if I talk to somebody and they know what runaway production is and that is people in LA. There’s a bigger awareness of it here and bigger is a relative term, um, I actually think as we have had these incentive programs pop up in other states like Michigan and Pennsylvania all of a sudden it has created a dialogue that is only in the press of all of a sudden your having this local being interviewed saying “oh my work has left and now this incentive has brought it back home to me to wherever Pittsburgh” so but there is just so much noise out there and you have got 200 cable channels and the internet and people are just busy. I don't know if they are paying attention to the dialogue. It took a major marketing effort here in LA with the Film Works thing and even that was negligible. It's sad; it's why I get into this.. I'm like "you people.. There's a problem" you know and the other thing that is a problem is there is the anti-Hollywood bias and you just have people that are haters you know.. Hating the limousines, the Michael Moore's, the George Clooney's and what kills me is that I don't think they are aware of the problem frankly I don't think they know what your talking about either. It's the board of directors in these corporations. There's a quote from Studio 60 on the Sunset Strip "you have to look pretty hard to find a liberal on the board of directors than on any of the corporations and studios, they are pretty conservative". To me this is just about this being one of the last great American industries, its scary how very few of those we have left. I struggle with it though, part of me is like "nah its an international industry" sometimes I see a great movie and I'm like "does it matter where it is filmed?" I struggle with it. Right now the approach I am taking is that we need to track it affectively. We should know where it is happening, when it is happening and why it is happening. Because we don't know that, at least not very well.

Interviewer: Yeah that's true.. The basis for my question was that when reading how much it costs taxpayers in states like Louisiana, I wonder if they even know how much their state is paying out for these productions to go and film there..

Adrian: No they don't, I mean this has been the biggest thing, I shifted all the rhetoric on my website, um especially in the past year. The problem was, and I was this way when I first started studying the issue, it didn't dawn on me like "wait a minute, they are not paying taxes, they don't owe taxes" its just the way it works. When Warner Brothers made *Green Lantern* in Louisiana, that's not Warner Brothers the corporate entity that's filming it there, its Green Lantern LLC. They create these little limited liability and on paper they spend their whole existence spending money to make the movie or the show or whatever it is. On paper they don't make anything that can be taxed, there are no corporate profits; its all loss and that is the very reason tax credits are refundable or transferable. I think the whole thing that shifted my rhetoric was if people understood that this isn't about giving them a tax break, it is about giving them free money. It's a public outlay like trash pickup or road construction or prison building or whatever. It is as much as a public cost as that, it's not a reduction in tax. Its one thing to bring Boeing in to build airplanes and not charge a corporate tax for ten years, that's just foregone revenue. This is not foregone revenue, you are handing them money either directly with a rebate or indirectly by allowing them to sell it to somebody that does pay taxes. And I think once people learn that, and I go into articles and I love going and having debates with people in comments and when you point it out and people realize it they are like "holy crap are you kidding me?"

the support just goes right out the window, they don’t want any part of that. So I have boiled it down to that, it has nothing to do with tax, it is just free money. You know I think that explains why there is the talking point of “oh 60% of something is better than nothing” because in those supporter’s minds they are getting 60% of taxes instead of the 100% because there is a 40% credit in Michigan and I am like “no no no you never got 100% of taxes and you are not getting 60% your just paying out 40% of their budget that’s all that you are doing” but explaining that is difficult and then getting them to believe you is another thing. It’s a too uphill battle.

Appendix B

Interview with Kevin Connor

1. **There are hundreds of ways to define Runaway Production so through researching I have divided it into three types: Natural, Artistic and Artificial. Natural is when a production is filmed in a particular location because the costs are naturally low within that economy. Artistic is when a production is filmed in a location to help the creativity of the story and artificial is when the production is filmed in a location because of incentives that are put into place by the government to lure the productions away from filming elsewhere. With these definitions in mind, what is your opinion on runaway production?**

In my opinion, runaway production is a tragedy for Hollywood and California. Hundreds of experienced craftsmen from all grades of the industry are either leaving the business altogether or moving to states where production and employment is plentiful. They will not be replaced unless the business returns to Hollywood. Anything … Natural, Artificial or Artistic - any foreign location, castles in England, bodega's in Spain, French chateau's, whatever is required – can be recreated here in Burbank, Culver city and Universal City. Hollywood has been doing it successfully for 100 years.

2. **As a director always traveling, how has runaway productions affected your life? Is it hard to be away from your home and family for long periods of time?**

As a director, I have been on many foreign locations – the majority of the productions have been in countries where the locale has been all-important – India, China and Japan for instance. However, in the last ten years or so the films have been made in countries (and US states) where the financial possibilities were criteria. Not only for tax breaks but a foreign exchange rate that enabled the film to be made for substantially less than in California.
I personally enjoy the travel, challenge and adventure aspect of being on locations and broadening my knowledge of other film industries throughout the world.
I don't find it hard at all since my family usually comes with me.

3. **If California had more competitive tax incentives, or no incentives existed, would you choose to mostly film in California (excluding Artistic runaway production)?**

As a producer/director I would certainly choose to shoot in California – mainly for the consistent weather conditions.

4. **What is your opinion on California's current tax incentive? Do you feel it is competitive enough?**

The current tax incentive is good but not competitive enough – also surrounded by much red tape – and in a way it maybe too late to rectify the desertion from California.

5. **As a director, do you feel the tax incentives in other states strongly affect you or your colleagues' decision-making process for production locations?**

Yes, they certainly do. Presently, I am planning a film in North Carolina where ordinarily I would shoot the exteriors there and the interiors here in Los Angeles. The technicians and craftsmen in these southern states are first class and can compete with any from Hollywood. The same goes for most foreign locations.

6. **If the United States created a national incentive to reduce competition between states, do you feel that production would naturally find its way back to California?**

Personally, no - I think it's too late. As said in the previous question – the standard of experience, enthusiasm and co-operation not only from the technicians but the local government organizations - is phenomenal. These states are so competitive and welcoming it is such a pleasure to work there.

7. **With Hollywood being the center of the Film and TV industry, most of the crews and actors live within Los Angeles or near by giving Los Angeles a huge talent pool within the industry. While filming outside California, do you find that Los Angeles based crews travel with the productions out of state or locals in the production city and state work on set? If locals are used more on set, you do feel the talent and experience gives you the same outcome as using a Los Angeles based crew?**

A main advantage to working in Los Angeles is the pool of talented actors, which is lacking in other places. However, producers organize their schedules so tightly now that bringing in an actor for a role is reduced to the minimum days required. The poor actor works on the day he arrives and departs the minute he has finished on set. Also there is a growing pool of actors who remain in the various states (especially Louisiana) where work is becoming more consistent for them and their families. More and more I find that using local talent and craftsmen gives me the same outcome as an LA based crew – no question.

Sometimes it is necessary to bring in HOD's – mainly because the director has a close and personal relationship with them. I.E. Production Designer, Director of Photography and Editor.

8. **With states competing against each other using tax incentives to lure productions and the European Union about to join the competition, do you feel that the United States should join together and create a national tax incentive to fight international competition or do you believe that states should continue to offer their own incentives as well as between countries?**

I think the US should put all their energies into the home market initially. <u>The bottom line is that producers will go wherever they can make their movies for the cheapest price.</u>

9. **Do you think that runaway productions is well known enough in the public eye or does the importance of the topic need more attention in order to spread awareness?**

Regrettably, I feel that the public are not concerned about Hollywood's runaway productions or that they are of much importance to them.
It would be mildly important to spread awareness but I really don't think it would ever make much difference.

The target has to be the producers and their bottom line –

Appendix C

Interview with Kim Winther

1. **There are hundreds of ways to define Runaway Production so through researching I have divided it into three types: Natural, Artistic and Artificial. Natural is when a production is filmed in a particular location because the costs are naturally low within that economy. Artistic is when a production is filmed in a location to help the creativity of the story and artificial is when the production is filmed in a location because of incentives that are put into place by the government to lure the productions away from filming elsewhere. With these definitions in mind, what is your opinion on runaway production?**

Kim Winther: Runaway productions are all about producing your movie wherever it is cheaper...Studios will pick projects that can fit into an incentive state. If you're lucky, Natural and Artistic can be achieved at the same location.

2. **Being a California resident, how has runaway productions affected you?**

Kim Winther: It has kept me away from home and family over the last 4 years. I have not been able to get studios to shoot movies here because NY, London, New Orleans, Canada have better incentives.

3. **What is your opinion on California's current tax incentive? Do you feel it is competitive enough?**

Kim Winther: The incentive has been very helpful to jump-start a lot of independent films. However it just isn't as competitive as other states. It needs to step up.

4. **If California had more competitive tax incentives, or no incentives existed, would you prefer to mostly film in California (excluding Artistic runaway production)?**

Kim Winther: Yes because stages, VFX and Crew are the best in the world. It's all here.

5. **Do you believe that strong tax incentive states such as Louisiana and Georgia are benefitting from productions while giving back large amounts of tax returns to producers and studios?**

Kim Winther: Yes, in fact a lot of friends of mine are moving to these two states and starting new lives. Their economies are benefitting, creating jobs and the hotels and restaurants are feeling the incentive as well. Regarding the studios, they do not have a lot of their own money, so they are reducing.

6. **Do you find the tax incentives in other states strongly affect you or your colleagues' decision-making process for production locations?**

Kim Winther: Yes, in most cases, the studio has already decided for you. You just have to make sure it can be done in that state and you are willing to work there for 4-5 months and be away from home.

Experience on Set:

7. **While filming outside California, do you find that Los Angeles based crews travel with the productions or do locals in the production city and state work on set?**

Kim Winther: Most cases we use local crews. Some states will allow you to bring in LA crew and still be qualified for incentives on their salary and living allowance.

If locals:

8. **If locals are used more on set, you do feel the talent and experience gives you the same outcome as using a Los Angeles based crew?**

Kim Winther: In most cases, you still bring in your Director of Photography, AD, and Production Designer and VFX Supervisor from LA...Most states have a solid crew base where you experience the same outcome.

9. **Earlier this year, the European Commission announced its plans to revise its current film incentives for 2013. With the possibility of new competitive incentives from the EU and the current incentives around the United States, do you feel we would benefit more from a national incentive or continue with individual state incentives?**

Kim Winther: I feel we should continue with individual state incentives. Competition is a good thing.

10. **If the United States created a national incentive to reduce competition between states, do you feel that production would naturally find its way back to California?**

Kim Winther: Yes it would. Maybe New York would maintain its production output as well.

Awareness:

11. Do you think that runaway production is well known enough in the public eye or does the importance of the topic need more attention in order to spread awareness?

Kim Winther: Topic needs more attention. LA is the center of the Entertainment world in both, movie and TV. Can you imagine if you took away gambling in Las Vegas...LA has the best facilities, crews in both production, and post.

Appendix D

Interview with Rod Lurie

1. **There are hundreds of ways to define Runaway Production so through researching I have divided it into three types: Natural, Artistic and Artificial. Natural is when a production is filmed in a particular location because the costs are naturally low within that economy. Artistic is when a production is filmed in a location to help the creativity of the story and artificial is when the production is filmed in a location because of incentives that are put into place by the government to lure the productions away from filming elsewhere. With these definitions in mind, what is your opinion on runaway production?**

Rod Lurie: I have never filmed a movie with California and almost every time I filmed outside of California its incentive based.

Interviewer: Right. I know that you did *Straw Dogs* in Louisiana last year right?

Rod Lurie: I shot *Straw Dogs* in Louisiana even though it was set in Mississippi and because the Louisiana incentives are so much stronger than the Mississippi incentives. Now to film makers, directors this is a godsend in a way because I had a movie set in the deep south and if we could have afforded to shoot in California, they would have definitely kept it in California because it would have been even less expensive and we would not have had to deal with recreating the south in California, which is just sort of a mess.

2. **What is your opinion on California's current tax incentive? Do you feel it is competitive enough?**

Rod Lurie: No it is not remotely competitive. It needs to be more like half a billion per year. I mean the biggest industry that we have is of entertainment and mostly film. In some cases you have no choice but to shoot in Los Angeles like a television series although several are shot outside the state. It is simply easier to shoot here because actors will not leave their families and if you have to shoot 26 episodes or something your not going to do that. You cannot underestimate how important that is. Actors begin to have more power as the show goes on as people begin watching the shows for the actors. But a lot of the cable shows shoot outside of California. I am about to do a television series, it's a western. You know we could shoot in Bakersfield area but we are not going too because it simply makes no sense. If I have to shot 10-15 episodes, actors will go away, they will go away for three months and shoot. So we are going to shoot in one of two places, we are going to shoot in Calgary or New Mexico. Now Calgary is where I shot a movie called *Resurrecting the Champ*, is another example. Canada gives you incentives, the province of Alberta gives you incentives and then Calgary gives you incentives and you can knock off as much as 40% of your budget. Plus the film commissions up there try to get you offices and locations for free. They really go the extra distance just to get you there and then we are hiring their crews. Calgary can go three crews deep in other words three movies can film there simultaneously and they can furnish your entire cast.

3. **If California had more competitive tax incentives, or no incentives existed, would you prefer to mostly film in California (excluding Artistic runaway production)?**

Rod Lurie: Well in case of the show, like I said sometimes it is a godsend for directors as it is an excuse to get out of town and shoot on the actual location. In case of my show, it is mostly set in the Texas desert so you want to get the rock formations and so on and you don't want to be locked in to California. Look, I shot in 2005 a series called *Commander-in-Chief* which was about the first female president and so we shot mostly in Los Angeles but we shot the entire pilot in Richmond, Virginia, which is the best place to duplicate internal and external Washington D.C. Virginia back then used to have a very good incentive and then the republicans got in and said ‘we don't want this anymore and we don't want to be handing out money’ and it is really short sided in my opinion because so much can come in. Then you get people like the movie *Lincoln,* with Steven Spielberg where money isn’t the issue and he will shoot wherever it is best to shoot.

Interviewer: So it is more creative then.

Rod Lurie: Well he has the ability and the money to be more creative right? Some of us simply don't have that luxury. We have to go where we can afford it. Take a look at my movie *Resurrecting the Champ,* it's a movie with Samuel Jackson and Josh Harnett. It about a reporter that meets a bum on the street and it turns out that the bum was once a great boxer of some kind and he writes a report about it and it changes everybody’s lives. It is a true story and it was set in Los Angeles. In 2006, we couldn't, not for love and not for money could we shoot this in Los Angeles, it was too expensive and our budget wouldn't allow it. We looked at our cast and we knew how much we had to make the movie for and we couldn't do it in Los Angeles. So now we start to see where else we can go to shoot it and what could mask Los Angeles. What ever decided was that we would rather set it in another city rather than replicate Los Angeles. At the time Michigan had a great incentive and we were looking to shoot in the winter and Morgan Freeman who was the lead at the time didn't want to be outdoors in Detroit at that time of year. So that then brought us up to Calgary and what I figured was that Calgary looks like Denver and I could set it at the *Denver Post* instead of *The Los Angeles Times* and at the time Calgary was offering jus the moon to us and then I figured that we would shoot three days of exteriors in Denver and they didn't have the greatest incentives but we would bring a skeleton crew down for three days and that would make sense. But the notion that you can’t shoot in the location that your movie is set is sometimes daunting to the creative side and I discovered myself in that boat as well.

4. **Do you believe that strong tax incentive states such as Louisiana and Georgia are benefitting from productions while giving back large amounts of tax returns to producers and studios?**

Rod Lurie: In the south, there are a couple styles of incentives; somewhere they simply give you money.

Interviewer: Yeah literally.

Rod Lurie: Literally give you money, you know it's a percentage of the budget and they will say 'okay here is 30% of whatever you spend in Louisiana' and sometimes that includes the fees of actors which sometimes can be enormous right?

Interviewer: Yeah I think Louisiana does include above-the-line costs doesn't it?

Rod Lurie: It does include above-the-line costs, however, Louisiana's film commission only has such a pool of money to give out so at some point people are out of luck.

Interviewer: Well they haven't capped it yet though. Them and Georgia are the only ones that haven't placed a cap on them but from what I read in July they are having to revise it because they are losing so much money off of the incentives.

Rod Lurie: Right but I don't know if they are actually losing money because the money we spend gets recycled so many times. Then within the states, cities give their own incentives on top of it. For example, Shreveport gives an incentive on top of the incentive to the point where now Shreveport has become a major filming capital in the United States. In fact, a gigantic film studio exists in Shreveport. When I was shooting *Straw Dogs* there, *Battle: Los Angeles* was also shooting there. So those are two big movies, I mean combined we are bring about $100 million into Louisiana and that is a lot of money. Plus we are spending money in the restaurants and we are bringing hundreds of people and we are employing all their people. I shot a movie called *Nothing but the Truth* in Tennessee and I shot in Memphis and in Memphis, the town itself will give you money for shooting in that town. In Connecticut, I shot a film that I produced called *After the Fall* and that is tax credits that you can sell. So it seems almost pointless to film in Los Angeles. I assure you that when I shot *Nothing but the Truth* in Memphis, *The Last Castle* in Nashville and when we shot in Shreveport, we improved those economies. It didn't matter how much money they gave us, they got much much more back than they expected. Basically, lets say that I paid an extra $100 a day on *Straw Dogs* and Louisiana was paying $30 of those dollars and Shreveport was paying $5 of those dollars, so they spent $35 of those dollars to get those people employed but those $65 remaining dollars never would have existed had we not come into town and those people went and spent that money. When we are there we are using the local caterers and restaurants so there is an incentive for the local governments to want us to come.

5. **Do you find the tax incentives in other states strongly affect you or your colleagues' decision-making process for production locations?**

Rod Lurie: Yes absolutely. We are going to shoot our current film in northern Italy as soon as we can and even though it is set in the United States. We were going to do it in Germany, they have good ones there but now we are making our film with an Italian company and they want to keep it in Italy with Italian incentives.

Interviewer: And so if it is based in the United States is it a New York base or somewhere else?

Rod Lurie: No, that's where things get a little hairy because you really cant fool a European city with an American city although it has been tried a few times and failed a few times. This one is set in the woods, it's a home in the middle of the woods so theoretically we can do that anywhere although I have to say when you go to Europe even the woods look like Europe it's a little different and I cant quite put my finger on it. So you get these incentives but they come with their drawbacks. Which is that we need to get a certain amount of points in order to qualify for the incentives. We don't just film in Europe but we have to also use European in key positions including acting positions. So when we were going to shoot this film in Germany, there are three leads. There are two male leads and those had to be American or British there was no monkey business there as they are the ones that are going to sell the movie. But for the female lead which was not just an American actress, an American character like an American FBI officer. You couldn't give them an accent, you can't explain why this particular person is Russian or German or French but they insisted that that actor be German and so we had to maybe deal with the possibility of hiring a German actress and we simply couldn't find one that sounded purely American and a good actress and thought we may have to dub them later on.

Interviewer: Oh wow.

Rod Lurie: So there are some drawbacks to the concept of incentives.

Interviewer: Isn't there a language barrier as well when you have European crews?

Rod Lurie: Well it's not just a language barrier but you know you assume that a lot of people speak English. The department heads that are communicating with their crew all need to speak English but it is best if everybody can communicate with the director and producer I suppose. The other thing is European work habits and work regulations are all so different to what Americans are used to so it definitely comes with its complications. Sometimes there have been attempts to Americanize European cities and it just doesn't, in my opinion, doesn't work. Usually the reason for doing it has to do with the director. Stanley Kubrick turned London into New York for *Eyes Wide Shut* and the interiors were fine but the exteriors were just weird, it doesn't look like New York City at all.

Interviewer: Right.

Rod Lurie: And then, what is the movie with Roman Polanski's film with Pierce Brosnan was supposed to be set in Nantucket and Nantucket hotels and it just looked very odd because he cant come to the United States because he is a wanted fugitive so they ended up shooting in France and the whole thing just looked odd. It is difficult to shoot outside the country.

Interviewer: So even with the exchange rate with the Euro filming in Italy works out to be cheaper than filming in the United States?

Rod Lurie: Yeah a lot. Again it is a combination of incentives, soft money that we are going to get meaning things that we are not going to have to pay for that we normally would. Plus their fees there are different, their unions are different, we usually have to pay much more to our people here than we have to for theirs.

6. **While filming outside California, do you find that LA based crews travel with the productions out of state or locals in the production city and state work on set? If locals are used more on set, you do feel the talent and experience gives you the same outcome as using an LA based crew?**

Rod Lurie: We use as many below-the-line workers as we can because you don't want to have to house them. But no, I am certainly not going to go that far but some of the top of the line crew is as good as a California crew. You will normally bring your Director of Photography.

7. **Earlier this year, the European Commission announced its plans to revise its current film incentives for 2013. With the possibility of new competitive incentives from the EU and the current incentives around the United States, do you feel we would benefit more from a national incentive or continue with individual state incentives?**

Rod Lurie: So it seems to me that it is better for the states to compete against one another. It is the ultimate form of capitalism where we compete with one another and give the best deals.

8. **What is your opinion on a Federal Film Commission for the United States?**

Rod Lurie: I don't know how that would work or if that could really work. The state by state basis I think is more effective because the only thing a federal commission will do will be to prevent productions from leaving the United States like taking it away from Canada and these rare occasions like the movie I am doing right now, called *Black Butterfly* by the way, the one I am going to shoot in Europe. I don't think a federal program would fly; I would be surprised if it did. I don't even know how it would work, like where would they have jurisdiction? The only thing it can protect is the Europeans and the Canadians trying to incentive us out of the United States.