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PUBLIC POLICY RESEARCH INC.

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Center Praises Film Office for Attracting Movie Business But Questions Use of Multiplier in Revenue Tallies

The N.C. Film Office has attracted scores of movies to the state in its 13-year history, giving small towns a shot in the arm and helping build a burgeoning movie industry in the state, says the N.C. Center for Public Policy Research in a report released today. The report, however, criticizes the agency for using a multiplier* that inflates estimates of dollars contributed to the state's economy by filmmaking and for failing to disclose this practice.

"The N.C. Film Office has done a splendid job with three state employees and a budget that hit almost a half-million dollars just this fiscal year," says Mike McLaughlin, editor of <u>North Carolina Insight,</u> the Center's quarterly journal. "They bring in millions of dollars in filmmaking revenue to North Carolina each year. But the office has taken some creative license in reporting how many dollars the movie business actually contributes to the state's economy."

Since its inception in 1980, the Film Office has tripled dollars spent by out-of-state production companies in estimating the economic impact of filmmaking. These amounts are added to any spending by in-state firms, with the total reported as the dollar value of film activity for the year. But in news releases issued from 1988-92, the Film Office failed to dislose this practice, leaving the impression that the figure represented an estimate of actual spending.

"This is a smudge on an otherwise exemplary record," says McLaughlin. "The Center recommends that the Film Office stop pumping up its estimate of film activity and focus on what it does so well -- bringing movies to North Carolina. They don't need to use statistical steroids like multipliers."

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*Multipliers are tools widely used by economists to gauge the ripple effect in spending of new dollars injected into an economy.

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North Carolina's credits include such hits as "Sleeping with the Enemy," "Bull Durham," "Dirty Dancing," "The Color Purple," "Days of Thunder," and the $46 million epic, "The Last of the Mohicans." Through Dec. 31, 1992, 190 movies had been filmed in whole or in part in the state, according to the Film Office.

North Carolina has become a popular place to shoot movies for a number of reasons, including low labor costs, a growing resident work force, state-of-the-art production facilities, a long shooting season, and scenic beauty. The job of the Film Office is to promote these assets to Hollywood decision makers. "If we've got photographs, we send them," says Bill Arnold, director of the Film Office. "If we don't, we go out and shoot them." The Film Office also sends information on such services as proximity to an airport, area hotel rooms, and catering.

If a filmmaker likes the photographs, he or she may visit or send someone to North Carolina to examine the location and determine whether it will work for a particular movie. At this stage, the three-person Film Office staff will go to great lengths to try to get the movie filmed somewhere in North Carolina. This means running interference and solving problems to make North Carolina locations work.

The Economic Impact of Filmmaking

The N.C. Film Office estimates that the movie business contributed more than $2.9 billion to the state's economy through Dec. 31, 1992. The 1992 General Assembly increased the Film Office budget from $267,000 to $476,000 for the 1992-93 fiscal year. Film Office estimates indicate dollars generated by film activity nearly doubled in 1992, increasing from $202.5 million in 1991 to $391 million in 1992. The release touting the increase in film activity, issued Feb. 3, 1993, did disclose use of the multiplier after a five-year lapse, and it also included an estimate of direct spending of $144 million.

"The estimated impact of film activity, except for a plunge in 1991, has been on a steadily upward track since the Film Office was started by Governor Hunt in 1980," says McLaughlin. "This is an enviable record. We still think reforms are needed regarding the use of a multiplier, but the fact that the Film Office disclosed its use this year and included an estimate of actual spending by out-of-state production companies is a step in the right direction."

Arnold says the multiplier the Film Office uses was developed for tourism by a Tennessee economist named Lewis C. Copeland who conducted studies for the N.C. Division of Travel and Tourism in 1977, 1978, and 1979. He says a 1980 Department of Commerce survey determined that most states used a multiplier of three, and so the N.C. Film Office also adopted this practice.

From 1988-1992, however, the Film Office failed to disclose use of the multiplier in annual news releases touting film activity in the state. A news release on 1991 film activity, for example, claims "$202.5 million total estimated expenditures from all production...." The release never mentions that actual dollar spending totaled only about a third that much. A release covering film activity for 1990 announces in its lead paragraph that "52 major movie and TV projects and millions of dollars in commercial production pumped an estimated all-time record high $426 million directly into the state's economy in 1990." Again, there is no mention of the multiplier.

Not only did the Film Office fail to mention the multiplier during a five-year period, but the multiplier it uses may be too high. The U.S. Department of Commerce has developed multipliers for industries nationwide. For filmmaking in North Carolina, the Bureau's multiplier is 1.662. For California, the multiplier is 2.580, and for New York, it is 2.354. Both states have far more developed infrastructures for making movies than does North Carolina. New York City used a multiplier of 2.3 when its Film Office attempted to gauge the impact of filmmaking in 1990.

Recommendations

The Center believes accuracy would be best served if the N.C. Film Office would stop using a multiplier but acknowledges this is unlikely. Thus, the Center offers two recommendations to arrive at better estimates of the economic impact of the state's film activity:

(1) The Film Office should continue to include its estimate of real spending in any news release highlighting motion picture production in North Carolina, and clearly indicate and explain its use of a multiplier.

(2) The Film Office should use the multiplier of 1.662 developed by the Bureau of Economic Analysis in the U.S. Department of Commerce for the film industry in N.C. or commission its own study of the economic impact of movies shot on location in different regions of the state and base its multiplier on actual experience.

Other Issues in State Policy on Filmmaking

In addition to offering praise for the Film Office for its efforts in recruiting films and criticism of its use of a multiplier, the Center for Public Policy Research identified two other issues for state policymakers: (1) whether to try to develop an indigenous film industry; and (2) the low wages paid to film crews.

Increasingly, there are dreams of an indigenous film industry for North Carolina -- one in which movies are conceived, financed, and produced entirely in the state, and the profits from distribution are returned here. A piece of the dream for an indigenous industry is the School of Filmmaking at the N.C. School of the Arts in Winston-Salem. The school recently signed veteran filmmaker Sam Grogg as its first dean and will begin accepting students in 1993. Grogg is a critically acclaimed producer whose credits include "Trip to Bountiful" and "Kiss of the Spider Woman." Part of the film school's charge is to have students work on actual productions.

Wages are another key issue. Bryan Unger, a union organizer with the International Alliance of Theatrical and Stage Employees in New York, says movie producers pay less and provide fewer benefits in North Carolina, in part because the state is promoted to the trade as a right-to-work state. "If you allow employers to come in and treat North Carolinians like second-class citizens, they will do exactly that," says Unger.

But Kent Swaim, executive director of Carolco Studios Inc. in Wilmington, disagrees sharply with Unger's portrayal of the North Carolina movie industry. "Just maybe the union crew rates in New York might be part of the reason fewer movies are being filmed in New York," says Swaim. "Wilmington locals working in the movie industry are earning excellent wages for our local area."

A Shot in the Arm for Small Towns

It isn't just cities that have benefited from location shoots. Rural North Carolina towns like Plumtree and Pensacola in the west, Lilesville and Marshville in the Piedmont, and Chadbourne and Burgaw in the east all have had Hollywood come calling in recent years.

These film shoots have generated a great deal of excitement and pumped large sums of money into local economies. The 1990 filming of "Billy Bathgate" with Dustin Hoffman in Hamlet generated an estimated $3 million in local spending. Officials in Burke County, where "The Last of the Mohicans" was shot, estimate the production company spent $2.5 million in the area.

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit corporation created to study public policy issues facing North Carolina and evaluate state government programs. The Center receives general operating support from the Z. Smith Reynolds and Mary Reynolds Babcock Foundations, 108 corporate contributors, and about 800 individual and organizational members.

In addition to to publishing North Carolina Insight magazine, the Center has conducted studies on how the university of North Carolina system identifies and rewards excellent teaching, disparities in funding between rich and poor school districts in North Carolina, ways to increase voter participation, and state regulation of nursing homes. It also publishes a citizen's guide to the legislature, rankings of the effectiveness of all 170 legislators, and rankings of the most influential lobbyists.

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Copies of the issue of Insight magazine containing the Center's research on filmmaking in North Carolina can be obtained from the Center for $6.36 plus $1.50 for postage and handling. To order, call (919) 832-2839, or write the N.C. Center, P.O., Box 430, Raleigh, N.C. 27602.

For more information, call Insight Editor Mike McLaughlin at the Center at (919) 832-2839

Table 1. Feature Films Produced in North Carolina Since 1980 and Revenue from All Productions

Year	Features Produced	Revenue from All Productions* (In millions)
1980	11	$ 87
1981	4	65
1982	6	86
1983	8	102
1984	12	115
1985	18	200
1986	22	266.5
1987	22	384.1
1988	19	297
1989	14	314.3
1990	17	426
1991	18	202.5
1992	19	391
Totals	**190**	**$ 2.9 Billion**

*Actual spending on filmmaking in North Carolina by out-of-state production companies is multiplied by three to arrive at revenue estimates.

Source: North Carolina Film Office
430 North Salisbury Street
Raleigh, N.C. 27611
Phone: (919) 733-9900

Table 2. 1991 Film Activity in Selected States*

State	Revenue from Film Production	Number of Films**	1991-92 State Funding	1991 Film Office Staff
California	$ 8.2 billion	219	$830,000	10
New York City***	2.7 billion	124	600,000	10
Florida	290 million	42	500,000	4
Massachusetts	209 million	8	400,000	6
North Carolina***	202.5 million	18	267,000	3
Illinois	80 million	17	400,000	8
Georgia	80 million	27	396,000	7
Nevada	76.9 million	18	476,000	3
New York (outside New York City)	48 million	28	327,000	5
Utah	37.2 million	17	500,000	5.5

* As reported by state film commissions. There is no common system for tallying film production dollars so revenue estimates should not be used to compare or rank states.

** Includes feature films and TV movies. Entries for some states may include other film and video activities.

*** Includes a multiplier to determine economic impact. Actual production revenues in North Carolina in 1991 were $63.6 million. New York City figure is for 1990 and includes a multiplier of 2.3. Actual revenues were not available. The N.C. General Assembly increased state funding for the Film Office to $476,000 for the 1992-93 fiscal year.

Table by Sharon Overton

Table 3. Top 10 Grossing Movies Filmed in North Carolina, and Academy Awards or Nominations

Rank	Movie	Box Office Receipts	Academy Awards or Nominations
1	Teenage Mutant Ninja Turtles*	$132,934,855	none
2	The Hunt for Red October	120,221,149	sound effects editing
3	Sleeping with the Enemy	96,956,060	none
4	The Color Purple	94,028,572	three nominations
5	Days of Thunder	81,297,608	none
6	Teenage Mutant Ninja Turtles II	78,656,813	none
7	The Last of the Mohicans**	70,557,651	N.A.
8	Dirty Dancing	62,915,776	best song
9	Bull Durham	50,276,467	none
10	Weekend at Bernie's	29,433,521	none

Source: Table researched by Katherine Snow for *The Business Journal*, Charlotte, N.C., July 24, 1991, p. 66. "The Last of the Mohicans" was released in 1992 and added to update the table. Figures were updated for "Teenage Mutant Ninja Turtles II," which was still showing when *The Business Journal* published its research.

* "Teenage Mutant Ninja Turtles," its sequel, "Teenage Mutant Ninja Turtles II" and "Dirty Dancing" represent the three most successful independently produced pictures of all time, according to Entertainment Data, Inc., and *The Hollywood Reporter*.

**Through Dec. 24, 1992. *Source:* Entertainment Data, Inc.