

# Feasibility Study of the New Orleans Digital Media Center

**Prepared by: MIT and UNO Student Group**

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## **Executive Summary – Digital Media Center Finance Plan**

Digital media is any type of information in digital format, including computer-generated text, graphics, and animations, as well as photographs, animation, video, and sound. Digital media is beginning to dominate as the preferred form of media because of its ease of storage and documentation, particularly in the recent decades where computerization of data has grown.

Louisiana has made great strides to become competitive in the digital media industry, largely through the creation of tax incentives for film, music, and information technology. Before Hurricane Katrina, the entertainment industry was identified by the Mayor's Office of Economic Development as a promising cluster with a relatively high multiplier and the potential to create a significant number of new jobs and tax revenues. In 2004, the State of Louisiana ranked third in the nation for film and television production revenue, falling behind only California and New York. Louisiana, New Orleans in particular, has a long history with music and a strong music culture, both of which have been responsible for thousands of jobs in the city. While generous tax packages lure out-of-state studios, producers, and other digital media related work in New Orleans, these companies often cite a lack of in-state production facilities and skilled workers as the main drawbacks to working in Louisiana. In order to remain competitive with other states in the digital media industry, Louisiana must offer more than tax incentives, building a skilled labor force and production facilities to retain production expenditures in the state. New Orleans should strive to accomplish these goals at the city level particularly by promoting the development of a strong, locally-driven industry. Unfortunately, Hurricane Katrina was a major setback on the digital media industry in New Orleans, with several cancelled infrastructure projects, feature film projects, and independent films. Musicians and industry personnel were displaced. Skilled workers in the IT industry have found jobs elsewhere. Training for skilled workers has been disrupted due to budget cuts in higher education.

Mayor Nagin's Bring New Orleans Back Commission outlined a plan for recovery of the film, music, and technology industries in New Orleans in the wake of Hurricane Katrina, calling on the creation of an attractive business environment and the encouragement of private investment. It calls for the development of the digital media industry as a major source of new jobs and opportunities for local business, including the construction of a digital media campus that would house a fiber optic connection, full animation capacity, and software and project development pipelines, and would be financed by private investment using New Market Tax Credits. In addition, this facility should provide production facilities for entertainment industries, education and professional training, and business incubation. To meet the needs outlined in the Bring New Orleans Back plan, the Mayor's Office of Economic Development has proposed the construction of a 60,000 square foot, \$25 million digital media center.

In order to maximize the impact of the digital media center on the local economy, the city should avoid duplicating services that are already in sufficient supply. Instead, the proposed digital media center should provide services that are undersupplied or unavailable in existing markets. This report recommends that partnerships with local colleges and universities lead to the construction of a digital media center that provides: education and professional training, 20,000 to 30,000 square feet of production facilities including office space for use by students, incubator clients, and local filmmakers, and 30,000 to 40,000 square feet of business incubator space for

fledgling, local digital media businesses. As a business incubator, the digital media center would facilitate connections to funding and partnerships, provide on-site classes and seminars to enhance the business owner's working knowledge of business basics, and supply computer servers and a robust technology infrastructure.

Unfortunately, digital media incubators face key financing gaps typically involving capital shortages in early-stage financing for construction and equipment purchase, ongoing operational sustainability, and enabling start-ups to be competitive. In addition, owners of fledgling companies usually have to pledge a higher return rate to their investors or lenders to persuade them to assume the higher perceived risk associated with a new project. Several lessons can be learned from existing digital media incubators: there has been no use of large private debt and equity sources except those induced by tax-incentives and that large independent foundations are not as active in supporting the construction of digital media incubators (though they may provide support for other aspects of digital media projects). The three main sources of start-up financing for digital media incubators include bonds, individual or family foundation donations, and federal EDA grants. Four models of initial or expansion financing for digital incubators include gifts and grants from wealthy philanthropists, public/private funding, public funds, and a combination of debt and public funds.

Potential funding sources for these models include private equity, partnerships, debt, and grants. A combination of these four sources is recommended to finance the city's proposed digital media center. Specifically, this report recommends the donation of city land for the digital media center and the use of approximately \$6 million in equity funding facilitated by state tax incentives and New Market Tax Credits, \$1.5 million from EDA Programs, \$1.95 million from partnerships, and \$2 million in CDBG funding.

Recognizing that there are differing visions of the future of the digital media industry in New Orleans, this report argues that a more holistic vision beyond the construction of an additional physical center should be undertaken to ensure a thriving industry capable of sustaining a larger number of local firms. To this aim, two additional recommendations are made: that the city encourage a collaborative visioning effort through the creation of an organization that brings together local businesses, non-profits, and government players with interest in the digital media industry, and the consideration of "cultural" aspects that can further support the growth of the industry. The idea of using different economic, social, and cultural elements to support a new media industry is demonstrated using Vancouver as a case study.

In the event that funding obstacles prove insurmountable, this report offers an alternative proposal to the construction of a digital media center. This alternative plan is a two-pronged approach, including a "business incubator without walls" for the local digital media industry and a comprehensive training initiative building on the recommendations in the Bring New Orleans Back plan. Idea Village serves as the model for the business incubator without walls, which would provide business services, entrepreneurial and digital media networks, digital media education, access to infrastructure, and a loan fund. Training initiatives have already been started on the state level; this report recommends that the city encourage workforce development by providing job skills and work opportunities to high school students and graduates, address the needs of the existing workforce through continuing education by encouraging local community

and technical colleges to provide training and certificate programs in skills specific to the digital media industry, and continue other initiatives to better connect the workforce to the needs of industry.

Hurricane Katrina severely disrupted the growth of the entertainment industry in New Orleans and stunted the state's plans to be a hub for digital media. The city's plan to construct a digital media center would fulfill several economic development goals, including small business support and job creation. However, the construction of a digital media center will face financing obstacles which can be overcome by combining equity, debt, grants, and partnerships. Both the digital media center and its proposed alternatives will support post-Katrina economic development goals helping to restore New Orleans as a strong competitor in the entertainment and digital media industries.

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## I. Overview of the Digital Media Industry

Louisiana has made great strides to be competitive in the digital media industry, largely through the creation of tax incentives for film, music, and information technology. The entertainment industry was identified by the Mayor's Office of Economic Development as a promising cluster with a relatively high multiplier and the potential to create a significant number of new jobs and tax revenues. This industry, drawing on New Orleans' unique culture, also enjoys a symbiotic relationship with tourism, which is the largest source of revenue for the city.

In 2004, the State of Louisiana ranked third in the nation for film and television production revenue, falling behind only California and New York. Louisiana hosted over 40 major film and television productions with total expenditures exceeding \$550 million, over 80% of which occurred in the New Orleans area. More than \$67 million in payroll was expended on Louisiana residents. Over 1,000 new jobs were created in the state with approximately 600 being permanent, well-paying jobs. The film industry has grown so rapidly in Louisiana over the past few years that many are calling the state, "Hollywood South."

Studios and producers, lured by a generous tax incentive package, enjoy working in the state. However, these studios often cite the main drawbacks to working in Louisiana as a lack of in state production facilities and a lack of skilled workers. While production studios benefit from the state's film tax credits, those benefits may be lost in travel expenses incurred from bringing crews into the state. Leaders in the industry in Louisiana, though, have indicated that current facilities are not working at capacity and that Hollywood producers would like to see a larger workforce in Louisiana in order to bring labor costs down.

Tax incentives for the digital media industry are listed in the Appendix. The tax incentive package for film in Louisiana production has recently been altered. As of January 1st, the State of Louisiana will provide incentives solely for in-state production expenditures. Louisiana offers very competitive tax incentives, but other states are looking to benefit from such strategies. The Illinois State Senate recently passed legislation that would increase tax incentives in that state and also extend benefits to January, 2009. Other states with competitive tax incentive packages include New Mexico, Massachusetts, and Florida. Canada does approximately \$5 billion in movie production annually. Most studios and producers, though, would rather film in the U.S. when incentives are evenly matched.

Louisiana, and New Orleans in particular as the birthplace of Jazz, has a long history with music and strong music culture responsible for thousands of jobs. Festivals contribute to the economy of the city while adding invaluable character and atmosphere. Film scoring, for example, is an industry within digital media with great potential. New Orleans is home to a wealth of musical talent in film scoring who generally must leave the state to earn a living. Budgets for major motion picture scores, usually done in Los Angeles and London, can soar into the hundreds of thousands of dollars. Scores for midsize projects, in the tens of thousands of dollars, are usually recorded in Seattle and Salt Lake City. Standard pay for musicians is \$60.00 per hour, and pay is higher for section leaders and conductors. Tax incentives also exist for in-state music investment.

Pre-Katrina, business, university and government leaders worked together to pass state legislation that would attract the high-growth digital media industry to Louisiana. Through this legislation, the state positioned itself to become a hub for emerging technology in the fields of video games, educational software, and simulations with a variety of uses from medical to homeland security. The IT industry had directly employed approximately 8,000 people in New Orleans prior to Hurricane Katrina and had a gross impact of approximately \$1.2 billion annually.

In order to remain competitive with other states in the digital media industry, the state of Louisiana must offer more than tax incentives. Recognizing this, the state is focused on building a skilled labor force and production facilities to retain production expenditures in state.

### Post-Katrina Recovery of the Industry in New Orleans

Hurricane Katrina has had an enormous impact on the film and television industry in New Orleans. Substantial infrastructure projects were cancelled, as were several feature film productions and a host of smaller independent films. A few of these projects were put on hold, but many relocated elsewhere. The local businesses that support incoming production were also greatly impacted by Hurricane Katrina. Local vendors and suppliers were destroyed and key industry personnel were displaced. Many have followed productions to other parts of the state as well as to other parts of the country. Musicians and industry personnel have been displaced, without the ability to support themselves financially in New Orleans. Skilled workers in the IT industry have found jobs elsewhere while the training for skilled workers has been disrupted due to budget cuts in higher education.

### Government Initiatives to Rebuild the Entertainment Industry

#### ***Bring New Orleans Back Redevelopment Action Plan***

Mayor Nagin's Bring New Orleans Back Commission has outlined a plan for recovery of the film, music and technology industries in New Orleans in the wake of Hurricane Katrina, involving the creation of an attractive business environment and the encouragement of private investment rather than federal funding for digital media. This would be accomplished through existing state legislation and a refocusing of federal legislation to entice various components of the industry to return to New Orleans. For example, in order to enhance existing Louisiana film and television incentives, two existing federal programs would be employed. These include a modification of IRS Section 181 and the New Market Tax Credits.

The BNOB plan does not just focus on recovery; it calls for the development of the digital media industry as a major source of new jobs and new opportunities for local business. Specifically, it proposes a digital media campus to house video game companies using the

Louisiana Digital Media Act tax credits. It would include: a fiber optic connection to the Internet backbone, fully built animation capacity, software and project development pipelines, and the work space to accommodate 250 to 500 people. The plan also calls for the development of a unified, standardized academic program among the five major universities in New Orleans to educate the workforce required to sustain the industry. The plan requests \$100 million of the CDBG dollars already allocated by the federal government to the state to be put toward rebuilding infrastructure and supporting university initiatives. No direct federal funding other than what is already available through GO Zone legislation is required.

***Louisiana Economic Development Council Plan, Vision 2020***

Louisiana's long-term master plan for economic development, Vision 2020, advocates a "cluster strategy" for developing the state's economy and ensuring its future competitiveness. The cluster strategy focuses on developing linkages between competing and complementary companies, suppliers, and associated institutions and developing critical industry infrastructure in order to recruit out-of-state companies and support the development of local companies. The plan identifies nine high-priority industry clusters including entertainment and information technology. Through partnerships that combine the information technology and entertainment industries, the state government intends to put Louisiana at the forefront of the development of creative and highly lucrative digital media content.

## II. Recommended Program for the Proposed Digital Media Center

In accordance with the recommendations of the Bring New Orleans Back committee and the Louisiana Economic Development Council, the city of New Orleans is considering the construction of a \$25 million, 60,000 square foot digital media center. It is expected that the center will facilitate the growth of the entertainment industry in the state and, in the process, create new jobs and new opportunities for local businesses.

Digital media centers typically support the development of digital media related industries by providing the following:

- ***Production Facilities for Entertainment Industries***

Providing state-of-the-art facilities and support services for the production of digital media can increase the production of motion pictures, television shows, computer games and web content within a region. An increase in the activity of these industries can in turn create secondary benefits for additional industries, such as real estate, hospitality/tourism and transportation.

- ***Education and Professional Training***

Training a workforce with skills in digital media production can help to attract the production of film, television, computer game and internet content to a region while improving the capacity of the local economy to capture the economic benefits created by these activities.

- ***Business Incubation***

Offering space and services for fledgling digital media companies will promote the creation of indigenous digital media industries. These home-grown industries will be instrumental in enhancing the region's reputation as a prime location for digital media production.

If the proposed digital media center is to maximize its impact on the local economy, it should avoid duplicating services that are already available in sufficient supply and focus on providing services that are undersupplied or unavailable in existing markets. Current and future supply and demand for digital media production, training and business incubation facilities must be taken into consideration when determining the type and extent of facilities the center will offer. After careful consideration of the relevant markets we prepared the following recommendations:

1. Provide 20,000 to 30,000 square feet of production facilities for use by students, incubator clients and local filmmakers, but do not target facilities and services toward large-scale film production companies.

2. Rather than training students directly, form partnerships with local colleges and universities. Such partnerships will provide students access to production facilities, give incubator clients access to training, seed capital and university-based entrepreneurial culture, and create the opportunity for technology transfer.
3. Provide 30,000 to 40,000 square feet of well-equipped office space for incubator clients in conjunction with business development services.

The following three sections provide an analysis of existing market conditions in support of these recommendations.

### The Market for Digital Media Production Facilities

When examining the market for digital media production facilities, it is important to distinguish between facilities for film production and facilities for digital media production. Production space for digital media may or may not suit all the needs of film production. A digital media center could provide high capacity servers, fiber optic cables, equipment for capturing, editing and screening high definition video, facilities for recording, mixing and mastering high definition audio, and equipment for 3D animation, character design and compositing - all of which a film production may not use - while providing studio space that is too small for the production needs of most feature films. Likewise, studio space for film production may or may not have the facilities and equipment needed to record, create and manipulate images and sound digitally, though it can be expected that large film production complexes will contain facilities for digital media production.

The Robert E. Nims Center for Entertainment Arts, Amusements and Multimedia Industries in New Orleans is such a complex. In addition to 79,000 square feet of studio space, the Nims center offers a robust IT infrastructure, HD video and audio equipment, facilities for HD sound production and facilities for digital editing and 3D animation. Thus, while New Orleans does not currently have a full-fledged digital media center, a wide range of digital media production facilities are available. Roger Benisheck, director of the Nims Center, says that the center purchased its HD and digital editing equipment because no other facilities were offering these services in New Orleans but since 2002 there has been an adequate supply of film production related digital media production facilities in the city.

The supply of digital media facilities for commercial film production is likely to increase in coming years given current plans to build two large-scale film production facilities in and around New Orleans. Louisiana Entertainment Associates has announced plans for a \$250 million movie-making complex in Tangipahoa Parish, about 50 miles northwest of New Orleans. The complex, named Louisiana Cinema City Studios, would include studios, production offices, a film laboratory, shops, restaurants, condominiums, and a golf course. Two other companies, Film Factory LLC and LIFT (Louisiana Institute of Film Technology) LLC, have proposed to collaborate on a 320,000-square-foot film studio and vocational school on a nine-block-long site near the Treme neighborhood in New Orleans. The project, valued at over \$100 million, would include several soundstages, post-production facilities, a back lot and outdoor sets, as well as offices, a school, student stages and a three-story garage.

These facilities are expected to be full service entertainment production complexes supplying all of the digital media services required for film and television production and post production.

Demand for digital media production facilities is more difficult to predict. Film production activity in the region is expected to increase in the future given the growth in film production activity before Hurricane Katrina, concerted efforts on the part of city and state governments to attract film production and the recent announcements of large private investments in production facilities. However, the expected increase in demand for film production facilities on the whole will not necessarily translate into demand for facilities for digital media production. This is because digital media is mostly used in editing and other postproduction activities and, according to Dr. Benisheck, out of state production companies typically prefer to hire companies in their home states for these services. This preference is a product of the strong relationships that have developed over many years between film production companies and postproduction companies near their headquarters in Los Angeles and New York. Moreover, the development of high bandwidth communications technology has reduced filmmakers' reliance on postproduction facilities near their shooting locations. They can send audio and video to be enhanced and edited in Los Angeles and receive it back the very same day.

Given the facilities for digital media production currently existing in and planned for New Orleans, as well as the uncertain demand for such facilities, we recommend against providing facilities and services targeted at out-of-state film production companies. To do so would replicate services that already exist in adequate supply and divert resources away from other activities, such as providing facilities and services for training and business incubation, that are undersupplied and in great demand. Furthermore, we believe that since the studio space in the proposed center will be small compared to the amount of studio space available in other film production facilities, the center would be at a competitive disadvantage compared to these facilities in attracting business from film production companies. Nevertheless, the digital media center will be well suited to meet the demand for digital media production facilities from students, incubator clients, small production companies and independent filmmakers, so a moderate amount of film production facilities should be provided.

## The Market for Training in Digital Media

Next, consider the market for education and training in digital media related skills. On the supply side there are a number of colleges, universities and other institutions in the city that offer training in entertainment related digital media. The film school at the University of New Orleans has a very good reputation and offers both graduate and undergraduate degrees in film production. Students are drawn to this school for its relatively low tuition and the opportunity to get a hands-on education producing their own films (students in the “top 5” film schools generally work on other people’s films). UNO is also the home of the Nims center, which UNO faculty and students use extensively. Delgado Community College and South Louisiana Community College (SLCC) also offer training in digital media technologies. In 2002 SLCC introduced its Digital Media Initiative to train students in the use of professional-quality high definition digital cameras and production equipment so that they could take advantage of the jobs created as a result of the tax incentives offered for film and video production. As mentioned above, the \$100 million film production facility planned by Film Factory and LIFT will include a vocational school. Developer Malcolm Petal, chief executive officer of Film Factory and LIFT, said the complex could train as many as 750 people a year for jobs in movie production.

Demand for training in digital media is more difficult to ascertain than supply. Film production companies have indicated that the paucity of labor with skills appropriate to film production is the most significant factor limiting film production activity in Louisiana. The state has responded by emphasizing training in its plans to attract greater film production to the state. However, as we mentioned in our discussion of the market for digital media production facilities, an increase in film production activity by out-of-state production companies will not necessarily result in a significant increase in the demand for a local workforce trained in the use of digital media technologies. It is likely that production companies will seek professional digital media services from businesses located near their headquarters rather than businesses located in New Orleans. While it is true that an increase in film production activity in New Orleans will increase the demand for local labor, this demand will probably be for unskilled positions, such as caterers and drivers, or skilled production-related position, such as loaders, grips and gaffers, but not positions related to post production that require an expertise in digital media.

Given the presence in New Orleans of several universities and colleges that provide training in the use and development of digital media technologies, and given the uncertainty of the demand for a workforce with this training, we recommend against the direct provision of training at the proposed digital media center. Instead, we recommend that the center form partnerships with local colleges and universities in order to augment the training these schools offer their students while expanding the services the center can provide to its incubator clients. Under such a partnership the center would provide students and faculty access to a broader range of digital media production facilities than is available in their own institutions. In turn, the university partner would provide incubator clients with access to a variety of resources including technical expertise, mentoring, and an entrepreneurial culture.

Such linkages would promote technology transfer and commercialization activities and provide the digital media center with a renewable source of new incubator clients.

### The Market for Digital Media Business Incubation

Currently New Orleans has no incubation facilities for start up digital media companies. According to Dr. Benisheck, the Nims Center hosted small start-up businesses in its office space at one time, but evicted them because they were not profitable. The demand for a digital media incubator is small at the moment, but could become great in the future given the resources that the state and local governments are putting into digital media training and the planned expansion in the supply of digital media related training facilities. Many students at these new training facilities will want to start their own digital media businesses, and they will be looking for spaces and services to help them do so. A digital media incubator would help foster a grass-roots film and digital media industry that would simultaneously create local demand for digital media services while increasing the region's capacity to attract large-scale film productions by out-of-state firms. The result could be a beneficial cycle in which the expansion of local industries attracts production activity from outside the state, which in turn develops a workforce experienced in film production that allows local industries to expand further and improves the region's overall film production capacity. Given the undersupply of incubation facilities in the region, the significant potential demand for such facilities and the considerable benefits they could bring to the local entertainment industry, we recommend that a digital media business incubator form the centerpiece of the proposed digital media center.

### Overview of Digital Media Center Facilities and Services

According to the National Business Incubator Association (NBIA), business incubators typically have 30,000 - 40,000 square feet of office space. Since the proposed digital media center will be 60,000 square feet, this would leave 20,000 – 30,000 square feet for studio and educational space. This section describes the types of facilities and services that should be made available for each of these uses.

#### ***Production Facilities***

- Fully equipped production studios would be used extensively by incubator tenants and would provide rental options to local digital-media related businesses. The studios should be designed for video and audio production and post-production for education, entertainment, and business. They might include the following equipment:

- Multiple HD digital cameras
- Flexible lighting grids
- Motion Capture System (MCS) with Blue/Green cyclorama studio
- Studio control room with digital video and audio recording capabilities including
  - Digital video switcher with video effects
  - Multi-channel digital audio recording capabilities
- Control room large enough for several crew members and clients

- Storage room adjacent to stage for prop storage
- Links to robust server network for easy transfer and storage of digital recordings
- In addition to the production studios, separate editing rooms should be made available for non-linear editing, audio production, digital effect creation, DVD or game authoring, or any other computer-workstation application.

***Educational Facilities and Services:***

- Classroom space should be available for on-site instruction by community college and university faculty
- Employee training and student intern programs could be made available for incubator clients

***Incubator Facilities and Services:***

- Secure offices available to entrepreneurial businesses in a variety of sizes and configurations.
- Lease rates should include a full complement of business development support services
- Support programs that assist incubator clients by:
  - Facilitating connections to funding, partnership opportunities, networking opportunities, business expertise and University resources.
  - Providing access to legal consultation and patent specialists
  - Creating a sense of community through physical settings, intellectual stimulation and working in close proximity to like-minded individuals.
- On-site classes & seminars to enhance the business owner's working knowledge of business basics beyond simply knowing the product
- Computer servers & robust technology infrastructure
- A state-of-the-art networking environment with high-bandwidth fiber optic cabling, wireless Ethernet, and abundant connectivity points within the workspace.
- Front desk and mail services
- Conference and private meeting rooms
- Competitive rent

- Photocopying and faxing equipment

#### Requirements of Admission to the Digital Media Incubator

In order to maximize its impact on local digital media industries, the digital media center should seek out and cultivate the most promising startup companies. To accomplish this the center must set up an admissions process during which entrepreneurs have the opportunity to present their business ideas and gain feedback on how best to move forward with the development of their business or the completion of their business plan. During this process potential clients will be evaluated on the basis of the following criteria:

1. A realistic business and marketing plan reflecting the potential to grow the business and become a leading player in their market segment.
2. Reasonable credit history and adequate financial resources to remain in business for at least six months.
3. A strong entrepreneurial management team with experience in the industry and at least one full-time person working in the business.
4. A match between the needs of the incubator client and the resources available within the incubator program and the community.
5. Not in direct competition with other incubator clients.
6. No legal claims or lawsuits pending against the business.
7. The potential for multiple job creation at wages higher than the county average.
8. Plans to locate in surrounding area and stay for at least three years.

#### Expectations for Incubator Clients Once Admitted

- Grow their business, achieving agreed-upon benchmarks, using appropriate services, and participating in the incubator support programs.
- Pay their rent
- Provide regular status reports

### III. Financing and Sustainability Plan

Digital media incubators face key financing gaps that can present challenges in putting together a complete financing package that allows the center to operate with sustainability. These gaps typically involve capital shortages for three activities specific to digital media incubators:

- early-stage financing for construction and equipment purchase;
- ongoing operational sustainability; and
- enabling fledgling start-ups to beat their competitors to market.

In addition to these challenges, typical financing for new start-ups may be more difficult to obtain from private equity sources than financing for an ongoing project. Owners or developers of new start-ups almost invariably have to pledge a higher rate of return to their investors or lenders to persuade them to assume the higher perceived risk associated with a new project. Extra underwriting costs also can add significantly to the costs of loan processing and review procedures. In some instances, lenders may require developers to have an additional 2 or 3 interest points on a loan rate or require developers to provide specific percentage of equity in the project to make sure that the developer has sufficient capital at risk in the new venture.

#### Addressing Start-up Financing Concerns

As the analysis below will show, successful financing for digital media incubators shows that creative and proactive cities, colleges, and universities can partner with states, federal agencies, private individuals and family foundations to seed the establishment or expansion of a digital media incubator. Because of the great diversity in digital media ownership, no single “best” approach for financing will suit every project.

However, there are a few lessons we can draw on from existing digital media incubators. First, there has been no use of large private debt and equity sources except those induced by tax-incentives. Jill Dominguez, President of the WRJ Group Inc, which developed the Santa Ana digital media incubator suggests that a digital media incubator should not be financed by conventional debt and private equity sources. According to Dominguez, most incubators do not generate enough cash flow to either service a critical level of debt or provide returns for private equity financing

Second, research suggests that large independent foundations are not as active in supporting the construction of digital media incubators, although they might provide support for other aspects of a digital media project. The Children’s Digital Media Center (CDMC) project, for example, which brings together a five-university research consortium, is funded by a five-year \$2.45 million grant from the National Science Foundation with additional funding from the Stuart Foundation, the Henry J Kaiser Family Foundation, the Markle Foundation and the Smith Richardson Foundation.

Third, there have been three main sources of start-up financing for digital media incubators. These include bonds, individual or family foundation donations and Federal EDA grants. The Nims Center at the University of New Orleans and the Larry and Katrina Dodge School of Film and Media Arts at Chapman University in California were financed largely by individual and family foundations as well as EDA grants. An important point to note is that, where EDA grants have been used, the grant amount has never exceeded \$1.6 million. The Santa Ana DMC used predominantly debt financing.

### Financing Models for Existing Digital Media Incubators

Four models of initial or expansion financing for digital incubators have been analyzed: gifts and grants from wealthy philanthropists; public/private funding; public funds; and debt and public funds. These distinctions have been made only to facilitate the analysis of the various financing models. In practice, the lines between these various funding models may not be clearly delineated as they appear here. By suggesting that a digital medial incubator was capitalized from a debt source, for example, does not mean that other funding sources were necessarily disallowed. It merely means that bulk of the funding came from that specific source.

#### *Gifts and Grants from Wealthy Philanthropist*

A number of digital media center projects such as the Johns Hopkins Media Center and the Roberts E. NIMS Center at the University of New Orleans have benefited from very generous lead-gift funding from wealthy philanthropists. Johns Hopkins, for example, credits the generous support of Mrs. Kerrin Fenster and her son Edward Fenster for funding the center.

Similarly, in February 2004, Larry and Kristina Dodge gave Chapman University in California a \$20 million gift for its School of Film and Television. Chapman subsequently renamed the Film and Television School the Lawrence and Kristina Dodge College of Motion Picture and Media Arts. This gift of \$20 million followed a \$5 million gift Chapman received in January 2004 from businesswoman and philanthropist Marion Knott of Orange Country. The physical facility was named Marion Knott Studios and now houses the Dodge College.

#### *Public and Private Funds*

Some digital media incubators/centers have combined both public and private funds to start or expand a center. In 1999, the University of New Orleans received a Nims Family Foundation donation of \$1.2 million for an endowed chair, which was matched by a Board of Regents contribution of \$800,000 to set up the Robert E. Nims Digital Media Center. The Nims Center also received a \$1 million construction infrastructure grant from the U.S. Department of Commerce, Economic Development Administration.

#### *Public Funds*

The South Louisiana Community College (SLCC), Digital Media Initiative is an example of a publicly funded financing model. Start-up financing came from the federally funded Temporary Assistance for Needy Families (TANF) program, totaling more than \$1 million. The TANF grant was justified on the premise that it would be used to train Louisiana residents for film production jobs.

### *Debt and Public Funds*

The Santa Ana College Digital Media Center is the quintessential example of the fourth model that combines debt sources and public funds in one package. This project was partially funded by a \$1.6 million grant from the U.S. Department of Commerce's Economic Development Administration. The project's total budget was anticipated to be \$13.6 million and included \$12 million raised from debt financing from the Measure E local bond initiative.

## Potential Funding Sources

### *Private Equity*

The supply of initial private investment capital for start-ups in New Orleans is limited. Of the \$20.9 billion venture capital deals across the US in 2004, Louisiana captured only \$3.2 million. Hotel Bookings Solutions, a former New Orleans based firm, tried unsuccessfully to raise \$8 million in investment financing from private equity sources. This failure forced the company to move to Atlanta, where there is a much larger pool of investment funds. These failures are emblematic of the daunting challenges that Louisiana firms face in acquiring an infusion of early stage capital.

At the same time, when private firms invest capital, they do so to make a return by minimizing their risk. Therefore, the most successful public projects that attract private funding show an understanding of the perceived risks those investors face. They do so by taking steps to help private investors better manage their risks by meeting certain objectives. Some that are more relevant to this digital media project include but are not limited to the following:

- *Reducing the project's cost of financing*

This is usually done by subsidizing the interest costs on project loans (for example, with tax-exempt financing or low-interest loans). They also can reduce loan underwriting and documentation costs by taking advantage of loan packaging assistance or technical support that might be available through Community Development Corporations (CDCs) and other local institutions.

- *Offering terms or incentives to ease the Project's financial situation*

Tools like tax abatements, tax credits, or grace periods can improve the project's cash flow and make the project numbers work. Similarly, training and technical assistance services can offset project costs and reduce the need for cash.

- *Offering assistance or information that provides investor and lender comfort*

Performance data for the industry or insurance that can help transfer risk may increase the investor's and lender's comfort level with a digital media incubator project.

Meeting these objectives, particularly by using tax incentives, may allow this project to tap into private equity sources. Tax incentives help with a project's cash flow by allowing revenue to be used for the project purposes rather than for tax payments. With a digital media project, a direct financial assistance program through tax incentives may help fill capital gaps by financing specific parts of the project or offsetting the extra up-front costs of construction.

At the Louisiana state level, the most critical of these incentive programs are those that promote digital media development. Under this arrangement, investors are given 20% credit for investment made during the first and second years after certification; 15% credit for investment made during the third and fourth years of the project; 10% credit for investment made during the fifth and sixth years of the project; and 10-year carry forward on credits with the provision that these credits are transferable. These arrangements expire January 1, 2010.

At the Federal level, \$1 billion in New Market Tax Credit authority is provided from 2005 through 2007. This authority is for investment in community development with the goal of fostering recovery and redevelopment in hurricane affected areas. The program exists to create investment into urban and rural low-income areas to help finance community development projects, stimulate economic growth and create jobs. Private-sector investors receive credit against federal income taxes.

### *Partnerships*

In the face of limited private equity sources, one option for involving the private sector is through partnership agreements with individuals and private companies that have demonstrated interest in the film industry in New Orleans. These sources include corporations, individuals, production companies, and universities. While some of these sources might be competition for the proposed digital media incubator, it may be worthwhile to pursue partnership possibilities with one or more of them.

Production companies that are active in the film industry in New Orleans include the Louisiana Institute of Film Technology (LIFT), Film Factory LLC, Lions Gate Entertainment, Louisiana Entertainment Associates and Independent Studios of New Orleans. LIFT and Film Factory LLC have recently acquired New Orleans City Council approval to construct a \$100 million movie production studio. The city's Industrial Development Board and the State Bond Commission have given preliminary approval to selling as much as \$150 million in bonds to build and equip the studio and vocational school.

In addition, Alfredo Leone and Robert Dimilia, partners in the Louisiana Entertainment Associates, have plans to build a \$250 million movie-making complex, which they hope to call the Louisiana Cinema City Studios in Tangipahoa Parish, about 50 miles northwest of

New Orleans. Before Hurricane Katrina, Threshold Entertainment, producers of Mortal Kombat movies and video games, had interest in building a \$150 million film studio and digital theme park in New Orleans.

Similarly, a number of corporations have demonstrated interest in the film industry in New Orleans, including Sony and Disney. Disney is currently filming “Déjà vu”, a \$75 million movie, in New Orleans. Last year, Sony shot “All the King’s Men” in New Orleans. Sony is also especially interested in a recording studio and production facilities in New Orleans. Computer companies, such as Microsoft or Apple, who are particularly eager to break into the film and digital media industry might be interested in donating studio equipment, thus lowering the expenditure on such cost items.

Partnerships with universities may also provide a key strategic alliance for this project because of their focus on bringing new technologies to the marketplace and developing a new workforce. Undergraduate programs provide the practical creative technical and digital arts skills needed to fuel the industry. Graduate programs allow for cross- fertilization of ideas and create an environment conducive to cutting edge research and innovation.

#### *Debt*

Tax-exempt and Industrial Development Bonds represent another potential financing source. These bonds are typically issued by state, county, or municipal governments whose interest payments to the bondholder are not taxed by the federal government and may or may not be subject to state or local income taxes. More importantly, under the Gulf Opportunity Act of 2005 signed by Congress, the State of Louisiana has been authorized to issue up to \$7.9 billion of a special class of private activity bonds called Gulf Opportunity Zone Bonds outside the state volume caps. Either the State or Municipalities can issue these bonds with the proceeds used to pay for acquisition, construction and renovation of non-residential real estate. This authority expires after Dec. 31, 2010.

#### *Grants*

Grant funding presents one of the most likely sources of financing for this project. There are several grant programs the state or federal level, with the Community Development Block Grants (CDBG) and the Economic Development Administration Programs showing the most potential.

- *CDBG*

CDBG grants can be used for infrastructure improvements or, under certain circumstances, lent to private companies for economic development projects, such as job creation for low- and moderate income people. CDBG allocation for Louisiana for 2006 is nearly \$10.2 billion. While most of this allocation has been earmarked for housing investment, it may be possible to obtain a CDBG grant for this project, particular because of its flexible nature.

- *Economic Development Administration Programs*

The Economic Development Administration (EDA) has emerged as one of strongest funding partners for digital media incubators. Three of the EDA programs are particularly suited for investment in digital media incubators: the Public Works Program, the Economic Adjustment Assistance Program and the Local Technical Assistance Program. The Public Works Program empowers distressed communities to revitalize, expand and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies and generate or retain long-term, private sector jobs and investment.

The Economic Adjustment Program assists state and local interests to design and implement strategies to adjust or bring about change to an economy. The program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base.

The Technical Assistance Program helps fill the knowledge and information gaps that may help leaders in the public and nonprofit sectors to make informed decisions in allocating limited resources in distressed areas. Grants under the Local Technical Assistance Program often support feasibility studies on potential economic development projects, such as industrial parks or business incubators.

### Proposed Finance Plan

The project's analysis shows that the proposed digital media project could be financed using the following model. The model calls for the use of \$6,342,792 million in equity funding facilitated by state tax incentives of \$2 million and New Market Tax Credits of \$4,342,792 million. A further \$1.5 million comes from the EDA Public Works and Economic Adjustment Programs. In addition, a \$50,000 technical assistance grant is expected from the EDA. CDBG funding for this project is expected to be \$2 million given that most of this year's allocation has been earmarked for housing. Partnership sources are expected to net \$1.95 million from various sources including those from corporate partners in software and high tech equipment industries. The city is expected to donate the land required for the construction of the incubator.

Table 1. Proposed Finance Plan

Type of Financing	Source	Amount	Restrictions
City of New Orleans	Public Land	Land	Property acquisition
Equity	State Tax Incentive	\$2,000,000	Construction
	New Market Tax Credit	\$4,342,792	Construction
Grant	EDA-Public Works	\$900,000	Construction
	EDA-Economic Adjustment	\$600,000	Soft cost
	EDA- Planning	\$50,000	Planning
	CDBG	\$2,000,000	Construction
Partnerships	Individual & Family Foundations	\$1,000,000	Construction
	Microsoft	\$300,000	Software
	Hewlett Packard	\$250,000	Equipment
	Shell	\$200,000	Construction
	JP Morgan	\$200,000	Construction

### *Future sustainability*

Sustaining a successful incubator requires careful planning and hard work. Many incubators offer little more than a place to set up shop. Such organizations will hardly be able to deliver superior value to start-ups and investors; in fact, many of them are likely to fail. If competition in the film industry in New Orleans grows as it is projected, it would be difficult for incubators that are no more than “set up shops” to survive. The distinguishing feature of a successful digital media incubator is one that has mechanisms to foster partnerships among successful film-oriented firms. This helps to facilitate the flow of knowledge and talent across companies and to forge marketing and technology relationships between them. With the help of such an incubator, start-ups can network to obtain resources and partner with others quickly, allowing them to establish themselves in the marketplace ahead of competitors. The new economy is a network economy and only those incubators that can exploit networking by providing fledgling and small digital media establishments with preferential access to potential partners and advisers will succeed. This is perhaps the most challenging task for the proposed digital media incubator. Its long term sustainability depends on the extent to which it is able to become a highly networked organization.

## IV. Financial Analysis

Appendix 1 contains a detailed financial analysis for a \$25 million, 60,000 square foot digital media center. It is based on the recommendations of the MIT team and a financial model provided by Jill Dominguez, president of the WRJ group, a Community Investment Corporation that specializes in high-tech business incubators serving minority and low-income communities. Though the MIT team endeavored to use current and accurate inputs to the extent possible, it was necessary to make a number of assumptions regarding construction and equipment costs, rents, absorption, depreciation and capitalization rates and a number of other variables. Therefore the following analysis should be viewed as a sketch of a possible scenario, and as such a springboard for further discussion and analysis. The following two paragraphs explain some of our central assumptions in creating the financial model.

### *Building Dimensions*

According to our recommendations for the physical program of the Digital Media Center, we have assumed that the site will contain 40,000 square feet of office space and 19,200 square feet of studio space, which will be used by a business incubator, a partnering academic institution, and non-incubator tenants. Of the 40,000 square feet of office space, 30,000 square feet will house the incubator, 5,000 square feet will house classrooms for use by the university or community college, and 5,000 square feet will be rented to non-incubator digital media companies. Though the latter space will be available to rent by the entire community, it is expected that most of the tenants will be companies that graduate from the incubator but want to continue to work in the media center because of the quality of the facilities and the synergies with other tenants. The 19,200 square foot studio space will be shared by the office tenants, with the rent obligation divided between the three groups of users in rough proportion to their level of occupancy of the office space. Thus, incubator tenants will rent the equivalent of 10,000 square feet of the studio space while academic and other tenants will rent the equivalent of 4,600 square feet.

### *Project Costs*

To come up with the project costs for a digital media center at the desired scale we researched comparable projects from around the country and analyzed their construction and equipment costs. After based on the construction costs for similar projects in California, Massachusetts and Baton Rouge, Louisiana, we decided on direct construction costs of \$150 per square foot which, when financing, development and other “soft” costs are taken into consideration, brings total construction costs, excluding land acquisition, to \$10,686,692. Given a similar investigation of equipment costs in comparable projects, we came up with total equipment costs of \$1,156,100. If the total costs are expected to be \$25 million, this would mean the project could be located on land worth \$13 million which, according to our financing recommendations, would be donated to the project by the city. It is the opinion of the MIT team that this is a large amount to spend on land, and it would be more advisable to either increase the size of the facility from 60,000 to 80,000 or 100,000 square feet, or reducing the amount of financial resources sought for the project.

## V. Managing and Expanding Visions of the Digital Media Industry

### Combining Visions

Interviews revealed differing visions of the digital media industry in New Orleans. Various parties seem to be considering different ways to serve the digital media industry, and expansion plans of existing centers, such as the NIMS Center and L.I.F.T, are under way in the city and surrounding parishes. As they currently exist, these different visions risk duplication of efforts and potentially unproductive competition. To take full advantage of the human, physical, and financial capital invested in the digital media industry in New Orleans, we strongly recommend an organization that will serve as a vehicle for collaboration among the visionaries in the digital media industry.

There is some dispute as to who might serve as the best facilitator of such an effort. The city could take the lead in such efforts, organizing a group to strategize about the creation of such a group. However, the city should be prepared to promote equal voice to all parties; civic, for-profit, and non-profit. The needs and ideas of small, local companies should not be subverted to larger voices of more powerful studios that can speak more immediately to the economic interests of the city. Ideally, the results of an equitable conversation would yield a well-rounded discussion where the consideration of a variety of perspectives results in a holistic, creative vision of the future of the industry.

An organization structure could be formal or informal, ranging from an industry association to a development corporation. It could be based on sliding scale or no-fee structure, and would hopefully serve as a way to foster and carry out joint projects.

### Expanding the Vision

In an attempt to consider a more holistic vision of the future of the digital media industry, ways to foster the growth of the industry in general are considered below. Such efforts should require less resources and increase demand for services provided by a digital media center.

The following are reasons to expand the city's efforts beyond a physical digital media center:

- *General demand for digital media services must be created and sustained.*

These recommendations are a more comprehensive approach to increasing demand for digital media services in New Orleans through a stronger local industry.

- *The character of the city will be additionally enhanced by developing a digital media culture.*

The development of a more engaging digital media culture should stimulate additional spending and may spillover into other industries such as tourism.

- *Supporting small-scale, local digital media companies requires more than the provision of physical space.*

While small, local digital media companies will benefit from access to equipment, offices, and studios, physical space may not always be the strongest need. Small production companies often spend more time shooting on location, and may benefit more from efforts to create a thriving market for their services.

### ***Fostering Digital Media Culture***

The following list outlines various components that work together to foster digital media culture more widely, with the goal of building a thriving industry capable of sustaining a larger number of local firms. This list is not necessarily comprehensive, but it does outline a holistic and regional approach to building a city's film industry and creating a network of services, events, and venues to support the growth of digital media.

While some of these categories, such as community programming, can be applied to all digital media, a narrower focus on film culture is often taken. Similar logic can be applied to other aspects of digital media. Websites for the organizations referred to in this section can be found in the Additional Resources section.

#### *1. Festivals/Contests*

A variety of festivals and contests appealing to different creative elements engages people of all ages in the film culture of the city. For more information on the value of film festivals for local films and for their comparison with the benefits of small cinemas, which we address below, see Paul Harril's article, cited in the sources for this section. Unfortunately, the success of film festivals and contests is mixed. Strong marketing can help ensure the success of a festival or contest. New Orleans already has some film festivals, and the city should consider how best to support and expand these efforts.

Music festivals are already also very popular in New Orleans, and should continue to be supported. Additional events combining music and film can create linkages between the two pieces of digital media. In addition, some less conventional festivals involving other aspects of digital media should be promoted.

#### *2. Cinemas/Exhibitions*

Public spaces are needed for residents to enjoy the fruits of local contributions to digital media, and the film industry in particular, enabling enthusiasts to fully engage in the industry. Cinemas are one such venue, but unfortunately, they require additional construction capital. A non-profit movie theater in Vancouver cited a development budget of \$5 million, much lower than the capital budget for the digital media center. These projects could be spearheaded by non-profit and for-profit establishments with

support from the city. The city could sell abandoned land or unused buildings at low costs or connect non-profits to funds associated with such development.

As in the case of the UBC Film Society's Norm Theatre, a small cinema can partner with a school in showing local and independent films, international films, obscure or creative, cutting edge films. Unfortunately, some small, independent theaters have had trouble staying afloat without foundation or city support.

If this strategy is unsuccessful, small theaters and film festivals could be products of local art or cultural institutions. For example, Boston's Museum of Fine Arts has a film series, which

“features contemporary international cinema, restored classics, American independent films (including films by local artists), films showing for the first time in Boston, and retrospectives by international film artists. The Program also hosts a number of film festivals throughout the year, plus special screenings and films relating to special exhibitions. Visiting artists frequently attend screenings and discuss their work with the audience” ([www.mfa.org](http://www.mfa.org)).

In addition, small digital media galleries can be promoted and supported to provide exhibition space and local events. The 119 Gallery in Lowell, Massachusetts is an example of a successful non-profit digital media gallery that has various events engaging local and non-local artists and digital media enthusiasts. In fact, the gallery has been successful in attracting Boston residents despite its location at a 30-minute drive from the larger city.

### 3. *Online Networks*

Examples of virtual resources include general cultural publications geared towards specific audiences (such as *Gambit Weekly* and *Where Y'at* in New Orleans), weblogs and other news sources, and resources specific to film or other digital media needs, such as [NewEnglandFilm.com](http://NewEnglandFilm.com). Content can include news, job postings, event listings, forums for discussion, and listings of local films. According to an article by Judy Malloy on Center for Digital Democracy, online presence is critical for emerging and experimental artists and alternative art spaces. The artists could be provided free online space through a served devoted to digital media.

Lafilm.org is an excellent resource for the state, but a gap may exist for the city level. The city could implement a survey to determine what resources exist in New Orleans, and a city-specific site could be created from this information.

### 4. *University Culture*

Schools with film programs generate local film culture. A strong, engaged student body creates more demand for independent theaters, more enthusiasm for local contests, and more film culture in general. Students bring fresh ideas and inexpensive talent to the film industry. In addition, universities can serve as valuable partners in many digital media

projects. Cuts in digital media programs at local universities would detract from the larger industry in New Orleans, and if schools are considering such cuts, they can be offered incentives to continue to put resources into these programs.

#### 5. *Community Programs*

Non-profit community programs connect low-income youth and adults to digital media with the goal of skill and confidence building and the utilization of digital media as an artistic means of expression. For example, United Teen Equality Center (UTEC) in Lowell, Massachusetts has multiple programs connecting teens to digital media as career development. One such program, called The Open School, provides GED preparation and multimedia training skills for “out-of-school” youth. Students receive certificates for completing work skills training in computer repair, video production, or sound recording, and are then offered paid internships creating a youth-run multimedia business to provide services for local non-profits and small businesses.

The city can provide moral support for these types of programs, encouraging community involvement and potentially supporting nonprofits in fundraising.

#### 6. *For-profit Industry*

The for-profit industry encompasses a wide range of efforts. As the digital media center plan recognizes, resources must be invested in the fostering of local for-profit businesses to increase New Orleans’ capacity to provide local digital media services.

Even small, local production companies can have a larger effect on the digital media industry. Chris Cagle writes, “Television and advertising have a tangible spillover into the economy of film production. They give employment to filmmakers, editors, DPs, writers, sound specialists ... and they give business to a number of support industries, such as film developing and set construction” (2006).

#### 7. *Non-profit Digital Media Centers*

The Nims Center is an example of a non-profit media center that provides a significant amount of studio space and is expanding to meet existing demand. It tends to serve larger out-of-state production companies that come to New Orleans to take advantage of state tax incentives. However, the Nims Center is also hosting a small, local production firm that experienced losses during Katrina, provides internships for local students, and supported a UNO student effort to create a full-length, animated film called LUBU. Rather than competing with this existing non-profit media center, the city should focus on integrating its efforts with the existing infrastructure provided by the Nims Center.

#### ***Example/Best Practices: Vancouver***

This case study focuses more specifically on the film industry as a way to illustrate a broad approach to creating film culture. According to various websites, Vancouver is the third

largest film production center in the world. Its tax incentives and local characteristics including climate, varied topography, and generic appearance have enabled rapid industry growth. A wide range of services and facilities exist to serve production companies. The following are examples of how Vancouver meets the recommendations listed above.

### 1. *Festivals/Contests*

Vancouver has a wide range of festivals that appeal to a variety of audiences, and seems to market the festivals successfully. A few examples of the many successful film festivals in Vancouver are:

- International Film Festival
- Reel to Real: Celebration of moving images for youth
- Chilliwack Documentary Film Festival
- Vancouver Queer Film & Video Festival

### 2. *Cinemas/Exhibitions*

The Vancouver International Film Center Vancity Theater is a non-profit independent film house. The following quote is taken from this \$5 million, 14,000 square foot facility's vision:

“The Vancouver International Film Centre and Vancity Theatre is an exciting new centre of excellence for Vancouver's film lovers, both for filmmakers and for cinephiles. It marries the art of film with emerging new technologies and allows the Greater Vancouver International Film Festival Society to broaden its public, cultural and educational mandate” (<http://www.vifc.org/about.html>).

The UBC Film Society cinema is associated with the University of British Columbia. This cinema has a theater called the Norm, which “has hosted speaking engagements from local notables David Suzuki and Mike Harcourt, hosted film festivals and regular screenings, and is used for various conferences and lectures” (<http://www.ams.ubc.ca/clubs/filmsoc/>).

### 3. *Online Networks*

The following are just a few examples of online resources providing news, networking, job opportunities, and production services:

- Hollywood North FilmNet
- ReelWest
- Hollywood North FilmNet
- BCFilm.com

### 4. *University Culture*

Vancouver Productions lists many acting and film schools in Vancouver. For example:

- Pacific Audio Visual Institute is a career school for Audio Engineering, Broadcast, Sound Production, Film & Music Business, Digital Filmmaking, Game Design, and

- the Entertainment Industry. It has a full-service music recording studio and film studio complex.
- VanArts (Vancouver Institute of Media Arts) offers one and two-year diploma and six-month certificate programs in 2D Animation, 3D Animation, Game Art & Design, and Visual Effects.

##### 5. *For-profit Industry*

As the third largest film industry in the world, Vancouver has a well developed for-profit industry. The following is a list of established physical studios in Vancouver:

- Vancouver Film Studios
- Lions Gate Studios/Northshore
- The Bridge Studios
- Fastcat Studios
- A-Frame Studios
- Boundary Road Studios

Another important component of a successful for-profit industry is the existence of local post-production services. Because modern technology overcomes geographic limitation in post-production work, it may be unreasonable for small New Orleans firms to compete with established production companies in Hollywood. However, the construction of some viable post-production services would capture more out-of-state money spent on films. Rainmaker Entertainment in Vancouver is an example of a post-production and visual effects facility.

## VI. Alternative Proposal

What has been presented thus far represents a holistic approach to achieving economic development goals through the digital media industry, including the construction of a digital media center with a small business incubator, the creation of a collaborative organization to expand the vision of the industry, and a strategy to stimulate local digital media culture. However, there are funding challenges in constructing and operating a physical digital media center. In case these challenges prove to be deterrents, we suggest a two-pronged approach which can be substituted for the construction of a physical center:

1. A “Business Incubator Without Walls” for the local digital media industry
2. Comprehensive training to produce a workforce capable of supporting large-scale productions to harness more out-of-state money spent on film production in New Orleans.

The justification for recommending an alternative approach is three-fold:

- *The alternative proposal may be less risky in light of doubtful viability of non-profit media centers.*

Brian Newman’s article, “The End of an Era?”, expresses concern over the failing of numerous nonprofit centers, citing signs of a general downturn, including a number of closings and withdrawal of foundation support.

- *Less capital investment is required to support a business incubator without walls and comprehensive training program.*

Capital for projects like a digital media center may be difficult to find funding for post-Katrina due to the allocation of funds to more basic rebuilding needs. In addition, workforce development funds may be more easily allocated to direct training programs.

- *A physical center is less adaptable over time.*

Digital media centers have been criticized for failing to adapt to changing filmmaker needs. Infrastructure should respond to changes in demand, tax incentives, and the economic needs of the city. Our alternative recommendations surpass the limitations of a physical space.

### Business Incubator without Walls

Idea Village serves as a model of a business incubator without walls. Its strategy may be applied to digital media companies, with some adjustments. The proposed business incubator without walls for the digital media industry should support local start-ups and young, growing firms in the digital media industry. It should connect those in the industry to each other, to equipment, to financing, and to business assistance. The repertoire of services

should include the following:

1. *Business Services*

A graduate with digital media expertise may not have the business skills necessary to start and run a successful small business. Incubatees should have access to business courses, either through existing courses at colleges or universities or training programs through organizations like Idea Village.

2. *Entrepreneurial/Professional Networks*

Two key networks must be created and nurtured:

- Digital media industry firms and professionals
- Business professionals who can provide mentoring and low cost business services

These two networks will require extensive cultivation. A partnership with Idea Village could provide the business network. The digital media network must be developed by someone knowledgeable in the industry. It should provide access to local studios, incoming production companies, software and other digital media networks, and mentors for growing businesses.

3. *Digital Media Education*

The development of competitive, cutting edge digital media companies requires continual access to training in new technologies. Partnerships with universities or community colleges could provide this educational link.

4. *Access to Infrastructure*

Existing infrastructure at Tulane, UNO, and the NIMS Center should be enough to support small business needs. Standardization can be achieved through negotiation of consistent reduced pricing and rules of use.

5. *Loan Fund*

While perhaps not initially feasible, one goal of the business incubator without walls should be to secure financing for a small loan fund providing emergency assistance to small companies. Over time, the incubator without walls should aim to expand this fund so that it can provide equipment and other capital grants.

The problem of finding the right kinds of entrepreneurs to join the business incubator without walls remains. An extensive screening program must be established, and financing should accommodate these efforts.

The Idea Village provided a rough operating budget for comparison with the cost of the physical center. The operating budget is only slightly less than the operating budget for the

digital media center, however, it avoids the large capital costs of construction and equipment purchase. Instead, a large percentage of the cost of this strategy is in the investment in extensive mentoring of small businesses. Entrepreneurs in Residence are experienced, high level entrepreneurs who manage a portfolio of clients, providing intensive, one-on-one guidance in business start-up and growth.

Table 2. Idea Village Current Operating Budget

<b>Operating Expenses</b>	<b><u>Amt/yr</u></b>	<b><u>#/yr</u></b>	<b><u>Year 1</u></b>	<b><u>% of total</u></b>
Staffing			\$ 380,000	32.04%
Entrepreneur in Residence	\$ 80,000	5.0	\$ 400,000	33.73%
Fellowships	\$ 40,000	5.0	\$ 200,000	16.86%
Student Internships 10/yr (ea. 250 hrs @\$20)	\$ 5,000	10.0	\$ 50,000	4.22%
Marketing (includes events and public relations)			\$ 50,000	4.22%
Occupancy Costs			\$ 36,000	3.04%
Equipment (Computers, etc.)			\$ 15,000	1.26%
Professional fees (accounting & legal)			\$ 5,000	0.42%
General & Administrative			\$ 50,000	4.22%
<b>Total Idea Village</b>			\$ 1,186,000	100.00%

### Training

To revive New Orleans's film industry and attract the digital media industry to the city, a major focus must be placed on developing a workforce that can support and thrive off these industries. Prior to Katrina, the film, television, and music industries brought millions of dollars to New Orleans. However, as New Orleans strove to compete with New York and Los Angeles for productions in these industries, it became apparent that the key to survival would be through work force development. A major production issue that left New Orleans at a disadvantage was that production companies had to import technical crews, which made the cost of producing media in New Orleans prohibitive. Prior to the storm, economic development officials encouraged unions to have on-the-job training programs that would give its members transferable skills, such as carpentry, electricians, and other types of technical skills.

In 2005, Louisiana Governor Kathleen Babineaux Blanco proposed a three pronged strategy to boost economic development, which we recommend being adopted by the Mayor's Office to boost economic development in post-Katrina New Orleans:

#### *1. Expanding opportunities for high school students*

In 2004, less than 10% of Louisiana's graduating seniors entered two-year postgraduate programs. Louisiana's High School Redesign Commission has been developing programs that will provide skills training in high school and allowing students to complete community and technical college courses prior to graduation, helping these

students become an integral part of New Orleans's digital media and entertainment workforce.

2. *Addressing the needs of the existing workforce through continuing education*

65% of the workforce needs training beyond high school in either community or technical colleges, therefore, officials have called on state community colleges to sponsor classes that would teach related skills such as set production, lighting, and other technical jobs. To date, TANF-2 was provided for the development of a Grip, Lighting and AVID training programs at Lafayette, Baton Rouge and Jefferson Community/ Technical Colleges. South Louisiana Community College has developed course offerings which utilize state of the art equipment and applications such as Shake 3.0 Visual Effects and Compositing, Digital Design Pro Tools HD and Final Cut Pro 4. In addition, SLCC offers courses in Final Cut Pro Editing, HD Cinematography/ Shake Compositing, Live Sound Engineering, HD Audio Production, and Film/ Video Production. Finally, Baton Rouge Community College offers an Entertainment Technologies Concentration as part of its General Studies Associate Degree, which targets specific types of production such as film, theater, photography, television, game design and graphic design, while also providing classes in two and three dimensional design, computer art, and film production.

3. *Better connecting future workforce development directly to the needs of the industry*

In order to bring large studios and production companies back to the city after the storm, as well as provide incentives for the digital media industry to consider New Orleans a viable site for production, there must a workforce available to support these industries. The biggest complaint of industry and production personnel is the lack of skilled workers available to support the workforce needs of the film and media industries. By focusing on training workers in transferable skills that will not only be particularly useful to these industries, but to building a skilled labor force overall, the Mayor's Office will be able to fulfill part of its economic development goals through job creation.

## VI. Additional Resources

### State Incentives

As of Jan. 1, 2006, the State of Louisiana will provide incentives solely for in-state production expenditures.

- Investor Tax Credit: Flat 25% based upon investments \$300,000 and up.
- Employment Tax Credit: 10% credit of aggregate Louisiana payroll.
- Infrastructure Tax Credit: 15% of investment for the construction of new production facilities.
- Digital Interactive Media Production Tax Credit Program (SB 341): Provides tax credits totaling 10-15% depending on the amount of investment with no more than \$5 million in credits granted each year.
- Sound Recording Credits:
  - 10% of total music budget for the project when total Louisiana music expenditures exceed \$30,000.
  - 20% of total music budget for the project when total Louisiana music expenditures exceed \$100,000.

### Major Players

#### *Public*

- State
  - State of Louisiana Department of Recreation, Culture & Tourism.
  - Alex Schott: Governor's Office of Film and Television Development.
  - Mark Smith: Chief Officer for Entertainment Industry Development.
- City
  - Mayor's Office of Economic Development: Joan Judycki, 504.658.0923, [jjudycki@tulane.edu](mailto:jjudycki@tulane.edu)
  - New Orleans Film Commission: Stephanie Dupuy, Director, 504.658.0912
  - Scott Aiges: Director of Music Business Development before Katrina.

#### *University*

- University of New Orleans

The film school at UNO has a very good reputation and offers both graduate and undergraduate degrees. Students are drawn to this school for its relatively low tuition and the opportunity to get a hands-on education producing their own films. (Students in the "top 5" film schools generally work on other people's films.) Interns at UNO have recently worked on major feature films such as, "Runaway Jury," "Ray," and "Glory Road." UNO was named #1 film school for independent filmmakers by Think Quest USA. This is particularly important as it would be independent filmmakers and recent graduates who would primarily be interested in a film business incubator.

Robert E. Nims Center for Entertainment Arts, Amusements and Multimedia Industries: Dr. Roger Benischek, Director. 504.280.6345/rbenisch@uno.edu

- Delgado Community College  
Delgado is known primarily as a trade school and is the likely source for training in many industry jobs.
- South Louisiana Community College, Center for Digital Media, Marcus Brown, Director.  
This center was begun in 2002 for the purpose of training students in the HD technology so that they may take advantage of the jobs that would be created as a result of the tax incentives offered for film and video production.

### *Private*

#### *Production Companies*

- The Louisiana Institute of Film Technology (L.I.F.T.): Production service company, production finance company, equipment lessor, and educational provider. L.I.F.T. provides manufacturer-certified training in production and post-production equipment. It is also a full-service production company creating feature films, television, and music videos for major distributors, record labels, and manufacturers. Productions filmed in Louisiana include “Waiting” and “Factory Girl.” L.I.F.T. provides debt, equity, and rebates of as much as 20% of a project’s budget in return for assignment of the Louisiana State tax credits generated by production.

L.I.F.T. Corporate Office: 365 Canal Street, Suite 3170, New Orleans, LA  
70130/504.565.5438/www.lift-la.com

- Lionsgate Entertainment: Production company, “Crash.” Has a very strong commitment to New Orleans. Recently donated \$100,000 to the Louisiana Cultural Economy Fund to train movie industry workers. Has plans for two pictures to be shot in Louisiana in the near future, “PDR” and “Punisher 2.” Had made “Monster’s Ball” in New Orleans area before the movie industry tax incentive program was created in 2002.

Wayne Levin, General Corporate Counsel and Executive Vice President of Corporate Operations.

Joel C. High, Senior Vice President of Music and Soundtracks. Mr. High is very committed to New Orleans. In January 2006, he collaborated with a 33-piece orchestra on the first recording of a major motion picture orchestral film score in New Orleans. This was the score for New Orleans native, Tyler Perry’s feature film comedy, “Madea’s Family Reunion.”

- Louisiana Entertainment Associates: Partners, Alfredo Leone and Robert Dimilia.  
Separately involved with the production of more than 35 films. Leone has extensive experience in the foreign film market and is poised to lure overseas film companies to Louisiana. They have concrete plans for a \$250 million movie-making complex called,

Louisiana Cinema City Studios in Tangipahoa Parish, about 50 miles northwest of New Orleans. This would include studios, production offices, a film laboratory, shops, restaurants, condominiums, and a golf course. They see this as a 3-year project. First year plans include 250,000 square feet of sound and broadcast stage space. Sound stages would be 18-38,000 square feet with the ability to combine multiple stages. Grid heights would be adjustable to 40 feet. They have equity in place and are working to secure the debt component, likely through a bond sale. They have not yet formally applied for any state investment. I see this as an important company to watch as it may prove to be a serious competitor. Because of the sheer size and comprehensiveness of this project, the New Orleans project may look for ways to complement as well as compete with this company.

- Independent Studios of New Orleans. Locally owned and operated in New Orleans' Ninth Ward for 35 years. Independent Studios recently announced that it would undergo a \$1 million renovation and host job training and workforce development programs for students and apprentice workers.
- Threshold Entertainment: Producers of Mortal Kombat movies and video games. Before Katrina was interested in building a \$150 million film studio and digital theme park in New Orleans. This would provide space for studios and training. Plans were put on hold after the storm.
- Celtic Group L-L-C: Has plans for a small, 30,000 square foot, studio in Baton Rouge.
- Disney: Currently filming feature, "Déjà vu" in New Orleans. This is a \$75 million movie that could bring as much as \$30 million into the local economy. The producer is Jerry Bruckheimer and the director is Tony Scott. It stars Denzel Washington, Jim Caviezel and Val Kilmer. Disney also filmed "Glory Road" in New Orleans last year. This is the first production to film in New Orleans after Katrina. It is hoped to send a positive message to Hollywood that New Orleans is now open for business.
- Sony: Production company, "All the King's Men," shot in New Orleans last year. Sony has an affinity for New Orleans and is interested in sound recording and digital production.
- Piety Street Studio: Music recording studio located in the Bywater section of New Orleans. Worked with Joel C. High on orchestral film score.

#### *Individuals & Other Entities*

- Tom Dey: Director, "Failure to Launch," filmed in New Orleans, 2005. Tom Dey lives in Los Angeles and New York, but has a great affinity for New Orleans because of the rich experience of life to be gained while working here. Of the New Orleans crew: "Where they didn't have the depth of experience, they were passionate and eager to learn." Dey would like to direct an adaptation of Walker Percy's "The Moviegoer" in New Orleans.
- Terry Bradshaw: Actor and former professional football player, "Failure to Launch." As a Shreveport native, Bradshaw has close ties to the state.

- Lee MacKenzie, Talent Agent, Fameagency, Metairie, LA.
- Terence Blanchard: Local jazz trumpeter. Best known as Spike Lee's main composer. Has scored many films, but generally records in London and Los Angeles.
- Jay Weigel: Contemporary Arts Center, Director. Before joining CAC in 1996, Weigel, a composer, wrote music for television, documentaries, and films.
- Louisiana Philharmonic Orchestra
- Producers Guild of America
- David Torkanowsky: New Orleans film score composer, PBS drama "Elysian Fields" and USA series "The Big Easy."
- Association of Film Commissioners International: A good source of information on economic impacts and other factors concerning the decentralization of the film industry.

#### Organization/Website References – Digital Media Culture

<i>Organization</i>	<i>Website</i>
<b>Cinemas/Exhibitions</b>	
UBC Film Society	<a href="http://www.ams.ubc.ca/clubs/filmsoc/">http://www.ams.ubc.ca/clubs/filmsoc/</a>
Museum of Fine Arts	<a href="http://www.mfa.org">http://www.mfa.org</a>
119 Gallery	<a href="http://www.911gallery.org/">http://www.911gallery.org/</a>
<b>Online Networks</b>	
New England Film	<a href="http://www.newenglandfilm.com">http://www.newenglandfilm.com</a>
LAFilm.org	<a href="http://www.lafilm.org">http://www.lafilm.org</a>
Gambit Weekly	<a href="http://www.bestofneworleans.com/">http://www.bestofneworleans.com/</a>
Where Y'at	<a href="http://www.wheremat.net/">http://www.wheremat.net/</a>
Hollywood North FilmNet	<a href="http://www.hollywoodnorthpr.com/">http://www.hollywoodnorthpr.com/</a>
ReelWest	<a href="http://www.reelwest.com/">http://www.reelwest.com/</a>
BCFilm.com	<a href="http://www.bcfilm.com/">http://www.bcfilm.com/</a>
<b>University Culture</b>	
VanArts	<a href="http://www.vanarts.com/">http://www.vanarts.com/</a>
Vancouver Productions	<a href="http://vancouverproductions.com/directory/acting-and-film-schools/">http://vancouverproductions.com/directory/acting-and-film-schools/</a>
Pacific Audio Visual Institute	<a href="http://www.pacificav.com/">http://www.pacificav.com/</a>
<b>Community Programs</b>	
United Teen Equality Center	<a href="http://www.utec-lowell.org">http://www.utec-lowell.org</a>

**For-profit Industry**

Vancouver Film Studios	<a href="http://www.vancouverfilmstudios.com/">http://www.vancouverfilmstudios.com/</a>
Lions Gate Studios/Northshore	<a href="http://www.lionsgatestudios.com/index_flash.html">http://www.lionsgatestudios.com/index_flash.html</a>
The Bridge Studios	<a href="http://www.bridgestudios.com/">http://www.bridgestudios.com/</a>
Fastcat Studios	<a href="http://www.locationscout360.com/property/20015.html">http://www.locationscout360.com/property/20015.html</a>
A-Frame Studios	<a href="http://www.locationscout360.com/property/20038.html">http://www.locationscout360.com/property/20038.html</a>
Boundary Road Studios	<a href="http://www.boundaryroadstudios.com/">http://www.boundaryroadstudios.com/</a>
Rainmaker Entertainment	<a href="http://www.rainmaker.com/home_frame.html">http://www.rainmaker.com/home_frame.html</a>

**Non-profit Digital Media Centers**

The Nims Center Studios	<a href="http://www.digitalcinemastudio.com/">http://www.digitalcinemastudio.com/</a>
Vancouver International Film Center Vancity Theater	<a href="http://www.vifc.org">http://www.vifc.org</a>

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