



# AN INTRODUCTION TO FINANCING

The words “financing” and “budgeting” strike terror deep in the heart of many would-be directors. This is the part of video and filmmaking they would gladly hand off to somebody else. But even though financing and budgeting sound like uncreative areas filled with cold facts and hard figures, this is far from the truth. Good financial planning is essential to the success of every digital video project and the quality of your planning can make or break your project.

There are two ways to produce your project: guerrilla-style and traditional Hollywood-style. A guerrilla production means you do everything as cheaply as possible: avoid paying for shooting permits, equipment, cast and crew salaries and so on. But even the guerrilla filmmaker should know some financial and legal basics to protect themselves and their project from lawsuits and other financial pitfalls.

In the traditional Hollywood-style production, the director/producer forms a company for the sake of producing the film. This means creating a corporation or limited partnership, coming up with a business plan or prospectus and pitching the project to investors, corporations or non-profit funding organizations. Usually this type of production requires the services of several professionals, including entertainment lawyers, producer’s reps, casting agents, accountants, writers’ agents, distributors, development executives and completion bond companies.

This essay presents a broad overview of project financing. Obviously, film financing is an entire career and your local library or bookstore will contain shelves full of books on the subject. Our goal here is to help you understand what questions you need to ask to fund your project and where you might be able to find answers.

## WAYS TO FINANCE YOUR PROJECT

There are six basic ways to finance your project and most productions will use a combination of them:

- **Self-financing:** Credit cards, trust funds, hard earned savings, etc. This option is usually limited to smaller-scale, very low budget projects and also esoteric projects that are hard to finance through traditional means.
- **Grants:** Grant money is a great resource if your project fits the goals of the granting organization. For example, just because you qualify for the “Women Artists” grant, your film about a male prize fighter might not. Be sure to do your homework about the organization. Learn about the awardees from previous years and try to determine if the organization will



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be interested in your type of project. Since there's often an application fee and a rather lengthy and complicated application process, assessing your chances of winning the grant can save you some wasted time and effort. Lots of grantwriting resources are available both in print and on the web.

- **Corporate underwriting:** Many corporations are willing to underwrite projects that they feel are worthy. Because it helps them improve their image, some of the bigger companies even have money set aside for this kind of underwriting. For example, big oil companies will fund feel-good environmental documentaries and so on. Moral qualms aside, there's a lot of potential money here and your project might be ideally suited to a particular company. Usually, this avenue is limited to documentary and/or promotional projects.
- **Investors:** You may have heard the urban myth-like stories of a feature film being funded by a group of dentists who banded together and financed a million-dollar movie, remained hands-off during the production, and then sat back and watched as the film went on to earn amazing returns for all involved. Investing in a feature film is a risky venture but many people will do it for the fun and glamour of it. Having private investors requires a lot of professionalism but the fact that you are working with other people's money can add a degree of responsibility that is often missing in self-funded and sometimes even grant-funded projects.
- **In-kind donations:** Beg, borrow, but don't steal (posting bail can quickly eat up your budget!). Depending on your project and your connections, getting free equipment and labor can be easier to get than you think. In addition, local film commissions can often be very helpful in arranging donated locations and permits. Film commissions can also help you make contact with local businesses, investors and talent.
- **Competitions:** Another form of grants are the various screenplay competitions that are staged every year. With prizes ranging from \$5,000 to \$20,000, winning such a competition can be a great way to raise money, make valuable industry contacts, and get some good publicity that can be used to further other fundraising efforts. Be sure to read the fine print when applying. In addition to application fees and deadlines, you'll want to be clear about who maintains ownership of the winning screenplay.

Depending on the size of your budget, the nature of your project and such practical concerns as your experience and industry connections, you'll probably find yourself mixing and matching many different fundraising strategies. Be creative! There's no one way to finance a film and, in the end, anything goes.



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### FINANCING AS YOU GO

For most low budget, independently financed projects, financing will be an on-going effort. You'll raise seed money to get your project off the ground, raise money for the principal shoot, raise some more for post and still more to get your release print. Financing a big project this way can take years. If you already know that you'll be financing as you go, try to make sure you have the money for each phase of your production before you start that phase. Also, aim for an attainable (for you) total budget, something you think you can accomplish in a reasonable amount of time. If your sci-fi epic cannot be made for less than \$5 million and you have no experience, connections or promising investors, it probably will take several years to make your film, if you succeed at making it at all.

Creating a budget for a project that will be financed as you go sounds difficult but that doesn't mean you shouldn't do it. Budget your whole project at the outset, so that you know how much money you need/want. Then, as your project progresses, revise your budgets for each phase of production, as you learn what your financial assets will be. Many producers make more than one budget at the beginning to compare the options available to them. Budgeting software like Screenplay Systems' Movie Magic Budgeting accounts for the possibility of more than one budget for a given project. For example, you can use it to set up a budget based on shooting 35mm film, 16mm film and digital video.

### GETTING IT "IN THE CAN"

Most projects that finance as they go start with the goal of "getting it in the can," a film term which comes from the idea that once you finish your principal film shoot, all your film stock goes back in the film cans it came in and ready to be sent to the lab for processing. When Spike Lee made his first feature, *She's Gotta Have It* in 1986, he was coming off the heels of a project that got permanently stalled because it didn't have enough money. Determined not to make that mistake again, he decided not to start his next project until he had at least \$45,000 to get it "in the can."

Nowadays, the filmmaker who is willing to shoot digital video instead of film could probably lower that figure to \$5,000 - 20,000. Whatever your figure is, Spike Lee's example is worth following: he knew the minimum amount of money he needed to get the film "in the can" and he refused to compromise that figure. No matter how "guerrilla" your project, you should know the minimum dollar amount you need to get your project shot, whether it's \$500 or \$500,000.

Once you've identified a fundraising source, you'll need to make a pitch. In addition, you're probably going to need the help of a number of professionals.



## PITCHING

You will have to pitch your project every time you want someone to get involved, whether they're a potential backer or a potential actor. Before you start to talk to investors, actors or key crewmembers, you should perfect your pitch so as to present your project in the best possible light. You may have to alter the pitch for different audiences, just as you might tailor a resumé for a specific job.

### SHORT ATTENTION SPAN THEATRE

Most people you will pitch your project to won't have time to read the whole script, even if it's not feature length. Therefore, your pitch should be a short and engaging written or verbal presentation that conveys both a sense of the story and the visual elements you will use to tell the story.

- **Verbal pitch:** Your energy and enthusiasm for the project are the keys to a successful verbal pitch. Practice on friends if you're feeling timid or insecure. Remember that you are not only trying to convey what a great project you're producing, you're also trying to convey your own dedication to the project.
- **One-liner:** You should have a catchy one-line description of your story for both verbal and written presentations. The short answer to the question "What's it about?" If your prospect seems interested, you can launch into your longer description. This is similar to a "grabber," the line used in publicity and advertising materials. See chapter 2 for more on grabbers and one-liners.
- **Written synopsis or treatment:** A synopsis should be one or two pages, a treatment 20-30 pages, depending, of course, on the length of your project. Both should cover the entire story and convey the mood or tone of the project.
- **Coverage:** Try to get your script covered by a professional reader. Hopefully the coverage will be positive and you can include it as part of your pitch. The more prestigious the letterhead on the coverage (i.e. a major studio), the better. This will show that even though your script isn't suited to be a major studio project, it's a good script.
- **Audio/Visual materials:** Some people go as far as shooting a trailer for their film before they actually shoot the movie, others create fake movie posters or newspaper ads for the project. There are a lot of options here and much will depend on the sort of project you are trying to finance .
- **Market research:** Any facts and figures on similar projects will be of interest to investors. For example, it's said that at present a gay-themed film can't earn more than \$3 million. However, if your budget is only



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\$300,000, making \$3 million is not such a bad thing. Also, having a “niche” market appeal, like in the case of a gay-themed movie, almost guarantees an audience, however limited.

- **A budget summary:** You can learn more about budget summaries here.
- **Resumés of key participants in the project.** These people combined with your script constitute your “package.” Click here for more on packaging.

### The Short Form

After finishing a screenplay for his big-budget, special effects-heavy feature “Starship Troopers” director Paul Verhoeven was having trouble convincing the studio that it was possible to create realistic giant bugs. To ease their minds, Verhoeven and effects supervisor Phil Tippett spent six months producing a 2-minute “bug test.” The short, a simple scene of a futuristic soldier being chased and killed by two giant bugs, convinced the studio to green-light the picture.

## PACKAGING

Assuming you’ve got your script ready to go, the next step is to attempt to “package” your project. This means attaching a writer or a script (if you don’t already have it), actors, a director, and any other key players: a band if it’s a music video, a visual effects artist if that’s a key element, a director of photography, a composer, and so on. The more successful and well-known the people in your “package” the better your chances of finding investors for your project.

There is a tricky side to packaging however: if you create an undesirable package, for example by making a firm commitment to an unknown lead actor, it’s possible that a key financial player may decide to pass on your project, no matter how appealing the rest of the package is. The suggested approach is usually to walk the fine line between attaching talent to your project and making a legally binding commitment with them. It’s best to be up front and let your collaborators know that everything is still up in the air until you secure your financing. Most experienced people will understand your position.

## THE CASTING AGENT

A lot of people are surprised that a casting agent often comes in this early in the game. If you’re trying to package your project, a casting agent is the best way to go if you want to attach a famous name to your script. Some casting



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agents will (rarely) agree to waive their fee, others will accept a percentage deal. Most likely, though, they'll want a pretty good chunk of change, \$5,000 at the low end and upwards of \$20,000 for a bigger budget movie. You're paying for their contacts and access to people who are usually very hard to get to, and if this is within your means, it's probably worth it. After all, how many times have you watched some unheard of film because so-and-so was in it? Having a famous name attached to your project is the easiest guarantee that you'll get a distribution deal of some sort. This is why those big stars get paid so much money. The same holds true for famous bands in music videos, famous keynote speakers in corporate presentations and so on. Unfortunately, there's no such thing as a band casting agent but bands, authors, and keynote speakers usually have managers, publicists and other agent-types who perform a similar role for them.

For those who've already committed to the guerrilla-style film, the casting agent could still be an ally. A lot of casting agents represent less-famous people or young actors that have a lot of promise but no big credits yet. The casting agent wants to get exposure for their clients and might be willing to help you cast your film for less than the going rate if you're willing to work with their second- and third-tier talent. This doesn't mean these actors are without talent, they're simply waiting for their big break just like you are.

If you are convinced that you have neither the time nor the money to woo a casting director, take heart. Many successful independent films do not have famous actors in them: *The Brothers McMullen*, *The Full Monty*, *Swingers*, and *Welcome to the Dollhouse*, to name a few, may have created some new stars but their successes were not due to big name lead actors. In fact, many famous actors got that way thanks to independent films and many already-known actors have earned artistic credibility by appearing in no-budget or low-budget movies.

## CREATING A PRODUCTION COMPANY

If you decide to approach private investors, you'll need to form a production company. When you are raising money from private investors, you are dealing with "securities," whether they are stock in your corporation, units in a limited partnership, or any other sort of investment deal. Forming a public company is a complicated and expensive process. Most independent producers will opt for a limited partnership or a sole proprietorship.

### SOLE PROPRIETORSHIP

In a sole proprietorship, the production company is owned and financed by one person, the sole proprietor. Any profit goes straight to that person and is taxed as personal income. In addition, the sole proprietor is personally



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responsible for all liability and debt. This is the easiest business to form, requiring merely that you file a few papers and pay a nominal fee. It also has the fewest legal advantages.

### **LIMITED PARTNERSHIP**

A limited partnership is generally the best type of production company for a smaller production. In a limited partnership there are general partners and limited partners. The general partner(s) runs the company and is liable for all debts and other obligations. The limited partners have no control over how the company is run but are exempt from liability. The profit is not taxed until it is distributed to the partners, where it is taxed as individual income.

### **CORPORATION**

Forming a corporation is a costly process and not advisable for most small production companies. All profits are considered taxable income for the corporation, then when the after-tax profit is distributed amongst stockholders, they are taxed individually. In other words, the profit is taxed twice, once as corporate income and then again as individual income. There are options that avoid this, such as an S-corporation but this is a very restricted type of corporation and most production companies do not qualify.

### **ENTERTAINMENT LAWYERS**

The entertainment lawyer will be another key figure in the financing of your film. Aside from the obvious help with negotiating contracts, drafting legal documents and helping you set up a company, the entertainment lawyer can also play a key role in attaching private investors to your project. Entertainment lawyers often have contacts to groups of investors who wish to invest in a feature film for tax-related purposes.

Many bar associations have lawyer referral services to help you find an attorney to set up your company.

### **THE FOREIGN SALES AGENT**

A foreign sales agent or producer's rep is a person who takes your package and attempts to sell it to foreign investors and distributors. Usually they do this by pitching your project at film markets and conferences like IFFCOM (the International Film Financing Conference) in San Francisco in January, AFM (the American Film Market) in the Los Angeles area in February, MIF (Marché International du Film) in Cannes in May, and MIFED (Mercato Internazionale



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Filme e Documentario) in Milan in October. In addition to their industry contacts, having a producer's rep can save you the cost and time of attending these conferences yourself. Producer's reps and foreign sales agents will try to get commitments for foreign pre-sales of your project and usually expect a percentage amount in return for their efforts. Their chance for success is usually based on the marketability of your package, i.e., your cast or other well-known person, like a famous writer. Many independent productions find financing this way.

## **BANK LOANS, COMPLETION BONDS, AND INSURANCE**

Many readers might think that bank loans, completion bonds and so on are out of their league. This is probably true if your project is not a feature film. But if your project is in the \$1 million range, it's very likely that you'll end up with some combination of a distribution agreement and a bank loan. However, you can't get a bank loan without a completion bond, an insurance policy which provides protection against overbudget expenses for the bank investing in the film. A completion bond guarantees that the film will not have to cease production due to lack of funds. This is good for you because it improves your chances of finishing the project and it's good for the bank because having a finished project to sell improves your chances of repaying the loan. (If you think your project is going to use bank loans for financing, you should do thorough research on the process. Some good print resources are *The Producer's Masterguide* and the *Hollywood Financial Directory*.)

If you think the realm of entertainment lawyers and completion bonds is out of your league, you might be wrong. One independent filmmaker ended up consulting with a well-known entertainment lawyer whose fee was a pricey \$60,000. But, the lawyer agreed that if the filmmaker could raise the \$60,000, he would get them an additional \$300,000. With some difficulty, the filmmaker came up with the \$60,000 and the lawyer came through with the \$300,000. Through his connections he raised the money and made a deal with Showtime and Channel Four London for the film to be broadcast after it had run its course in theatres. To produce these additional masters, the budget was upped to \$750,000. To raise these new, additional funds, they found a Hong Kong-based distributor who contributed \$250,000 and the rights to theatrical distribution in Asia. At this point they technically had \$1 million but in order to get the money, they had to arrange for a completion bond. In short, they turned a relatively small initial sum (\$60,000) into \$1 million.



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### **INSURANCE**

There are several different types of insurance available for productions. In short, your options are: cast insurance, negative film and videotape insurance, property damage liability insurance, errors and omissions insurance, workers' compensation, and comprehensive liability.

Generally, for any business, having some sort of liability insurance and workers' comp insurance is essential. In addition, if you own expensive equipment, you'll probably want to insure it, whether it's through renters' insurance, equipment insurance or homeowners insurance. Renting big ticket items usually means you need insurance, but a lot of places will add insurance to your bill just as car rental companies do.

Most low budget companies have no insurance or have minimal policies that cover liability, workers' comp and equipment. If you're working under the blanket of a larger corporate entity, they should be able to extend their insurance to your project.

### **CONTRACTS, RELEASES, UNIONS, AND GUILDS**

As with any business, the business of making a digital video project involves myriad contracts including releases, license agreements, deal memos, and deferred payment agreements to name just a few. Though this is definitely the realm of an entertainment lawyer, here are some basics.

You should always enlist the help of an attorney when negotiating contracts and other legally binding agreements. You can save a lot of lawyer's fees if you educate yourself and do some of the preliminary work on your own. There are several print, web and software-based resources for entertainment and small business contracts such as *Contracts for the Film and Television Industry*, Mark Litwak, Silman-James Press. These resources are also available in print and on CD-ROM.

### **RELEASES**

Everyone who appears in your project should sign a release granting you permission to use their likeness in your project. Some documentary producers do this by getting the person to give a verbal release on-camera, including their full name and contact information. Usually this should be followed up with a written contract, although it often isn't.



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### DEAL MEMOS

Deal memos are the contracts you negotiate with the different crewmembers on your project. You determine whether they are to be paid on an hourly, daily, weekly or flat rate. Usually a weekly rate is the best deal for the producer. You'll also need to negotiate overtime payment, turnaround, travel per diems and so on. The terms of the deal memos are often set up by unions like SAG (the Screen Actors' Guild), the DGA (the Directors Guild) and many others. Two good resources for budgeting labor rates are the Industry Labor Guide on CD-ROM for Windows or Macintosh and Movie Magic Integrated Labor Rates, also on CD-ROM, which works in tandem with Movie Magic's Budgeting software.

### UNIONS AND GUILDS

A lot of unions and guilds have good web sites that post their current labor rates, contact information, and even contracts. The best are the [WGA](#) (Writer's Guild of America), [SAG](#) (Screen Actor's Guild), The [DGA](#) (Director's Guild of America) and the [Editor's Guild](#).

### LICENSE AGREEMENTS

Thanks to software companies, many people are familiar with license agreements. When you buy a copy of Adobe Photoshop you are buying a license to use the software but not to distribute it. Similarly, if you want to use a piece of music for your project, and your project is for profit, you will have to license it. The same goes for film clips, video clips, photographs and artwork. Usually you will have to pay per second of screentime and clips can cost as much as \$10,000 a minute. If you are producing a project for a network or corporation, they may contractually require that you get the rights for a certain number of years or in perpetuity, for domestic release or worldwide, for theatrical release, broadcast, home video, etc. It's best to figure this stuff out in advance and start dealing with it early on since it can take a long time to track down the person or company who owns the property and to negotiate an agreement with them.

### DEFERRING PAYMENT

The crewmember equivalent of in-kind donations is a deferred payment agreement which states that a crewmember agrees to defer the payment of their salary until the project earns a profit, usually well after the project is completed. Usually there is some sort of schedule or contract that says who will get paid first and so on.



## HOW NOT TO DEFER PAYMENT

An independent filmmaker scraped together her resources and came up with just enough money to pay for film stock, expendables, food and other basics. She and her producer decided to defer payment for the cast, crew, some rental companies and also themselves. The 100+ individuals involved in the project agreed to defer their salaries. Eight months later, in the midst of editing, they received \$100,000 from a new investor. Word spread through the grapevine and the crewmembers rejoiced that they would finally be paid for their hard work the summer before. But, the deferred payment agreement had been drawn up so that, after equipment rental debts were paid, the director and the producer were paid \$50,000 each, then the cast members. Only after those costs had been paid would the the crew salaries be paid, starting with production and finally post-production. The editing staff, who were in the middle of editing the film, heard all this and realized they would possibly never get paid since they were at the bottom of the deferment schedule. Angrily, they confronted the director but failed to make any headway and both ended up quitting the job.

Moral: If there isn't enough to go around, it's bad form to pay yourself before you pay your employees. Don't make a deferred payment agreement if you have no intention of paying your crewmembers. If you really can't pay, offer them credit and a VHS copy as payment.

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