

To: Governor Earl Ray Tomblin
Joint Committee on Government and Finance, WV Legislature

FROM: Pam Haynes
Director, West Virginia Film Office
WV Department of Commerce, Division of Tourism

DATE: December 22, 2014

SUBJECT: Annual Report of Recommendations to Expand Film Industry

STATUTORY AUTHORITY

Pursuant to **W. Va. Code §11-13X-12**, the West Virginia Development Office, in consultation and coordination with the appropriate public and private entities, shall promote, foster, encourage and monitor the development of the film industry in this state as part of its comprehensive economic development strategy for West Virginia and report recommendations for expanding the industry in the state to the Governor and the Joint Committee on Government and Finance annually on or before the first day of December.

BRIEF HISTORY

Since 1994, the West Virginia Film Office ("Film Office") has been charged with recruiting motion picture, television, commercial and related media productions to select West Virginia as a place to conduct business. It does this by promoting business service providers and workforce to business prospects; promoting locations available for filming; acting as a liaison among business prospects and governmental agencies, communities, and property owners; scouting for and compiling photo packages of potential filming locations for business prospects; assisting prospects with business registration issues, research, logistical support, and coordinating itineraries; and administering and promoting the WV Film Industry Investment Act.

From 1994 to September 2006, the office consisted of one (1) full-time employee. An improvement package approved by the legislature for FY2007 enabled the full-time staff to increase to three (3). Also enacted for FY2007 was the WV Film Industry Investment Act ("the Act"), a jobs and business development program that allows for an allocation of tax credits based on a participant's qualified in-state expenditures. The Act enables West Virginia to better position itself as a competitor in recruiting film and television prospects to conduct business in the state. After improvements to the Act during the 2008 and 2009 legislative sessions, the Act spurred a large increase in the number of film and television productions that chose to conduct business in the state, including the following high profile productions:

- **"Super 8,"** a Paramount Pictures feature film shot in Weirton, directed by J.J. Abrams and executive produced by Steven Spielberg, which incurred more than \$14 million in direct expenditures, making it the largest film to have ever shot in the state.
- History's **"The Men Who Built America,"** an 8-part miniseries filmed in the Eastern and Northern Panhandles, produced by Stephen David Entertainment, nominated for 4 Emmy Awards, won 2.
- History's **"The World Wars,"** a 4-part miniseries filmed in the Eastern Panhandle, produced by Stephen David Entertainment, nominated for 3 Emmy Awards.
- Lionsgate's **"Out of the Furnace,"** starring Christian Bale, Casey Affleck, Woody Harrelson, partially filmed at the former WV State Penitentiary in Moundsville.
- ABC-TV's **"Jamie Oliver's Food Revolution,"** filmed in Huntington, won Emmy Award.

SUMMARY

A recognized sector of the manufacturing industry, West Virginia's film industry provides employment opportunities to hundreds of resident workers and positive direct and indirect economic impact to ancillary business service providers. The focus of the Film Office is to develop a sustainable film industry where there is year-round production that keeps the state's film industry workforce employed full-time and where a strong infrastructure of business service providers exist that serve film industry-specific needs, such as transportation equipment companies, camera and sound equipment rental companies, grip and electric rental companies, and more. The Film Office believes the WV Film Industry Investment Act needs to be strengthened in order to become a more successful, competitive economic development tool.

The Film Office believes the recommendations below will aid in building a sustainable film industry that will enhance West Virginia's economy by revitalizing and expanding film industry workforce and promoting growth of business service providers.

RECOMMENDATION NO. 1: DEVELOP SKILLED LABOR POOL FOR FILM INDUSTRY

The film and television industry (hereinafter "film industry") depends on knowledge-intensive jobs, such as skilled technicians working in specialized crafts (e.g., electricians, carpenters, camera operators) and creative professionals (e.g., writers, producers, directors). A robust film industry enables and supports the development and retention of local, skilled labor. When companies look beyond the top production regions of Los Angeles and New York City, key factors they consider are physical assets, tax and other inducements, and the quality of skilled labor. It is in the financial interests of nearly all companies to hire local, skilled labor.

During the past several years, the Film Office has become more aggressive in leading the charge of developing workforce training programs that meet the needs of companies filming in the state. A persistent obstacle is the transient nature of the film industry itself as it relates to traditional job placement models associated with federally funded training programs. Most workers in the film industry are freelance *[it's important to note that "freelance" is not synonymous with "part-time" as many freelance workers work full-time]* and are hired on a job-to-job basis (similar to the construction industry). Herein lies the dilemma. If training programs provide workers with film industry skill sets, currently, there are no guaranteed jobs waiting for them, but without a skilled labor pool, it is difficult to recruit business prospects. Companies are choosing to conduct business where the labor pool has greater depth. And the reason is simple: companies who must transport and house production staff, talent, and service providers from one state to another for on-site filming are faced with substantially greater costs, which effectively causes a region to be less competitive.

In early 2013, the Film Office confronted this problem by repurposing portions of its marketing budget and directing those limited funds toward workforce training programs. The Film Office has hosted five workforce training programs, serving more than 160 people, in three in-demand skill sets, namely, grips and electricians, location scouts, and production assistants. During the most recent workshop in August 2014, Blue Ridge Community & Technical College extended optional college credit or CEUs to participants. This was a significant step forward, as it served as a foundation for continued collaboration among workforce development partners statewide. Importantly, several dozen of the participants in these training programs have been subsequently hired on several productions that filmed in West Virginia. More training is needed for other key workforce classifications, too.

West Virginia is not alone in its efforts to build a workforce that will sustain long-term, year-round employment for film industry labor. New Mexico, Louisiana, Michigan, Massachusetts, and many others are offering workforce training for skill sets synonymous to the film industry. Nevertheless, it is difficult to build a sustainable film industry in an environment without properly trained workforce.

The Eastern Panhandle has been experiencing a large amount of film production during the past two years, and the Film Office anticipates several more film productions during 2015. In a concerted effort to meet the workforce demands for these upcoming productions, the Film Office is in the planning stages to organize a job fair in the Eastern Panhandle during early 2015, with business and economic development partners, to specifically target certain skillsets that business prospects have indicated are in high demand. And another workforce training program targeting entry level skillsets is being considered to immediately follow the job fair.

Based on the Film Office's knowledge and experience, it is evident that there is a high degree of interest by West Virginia residents in pursuing workforce training opportunities in the film industry. The Film Office recommends hosting 4-6 training programs annually. The limited budget of the Film Office is unable to fully absorb the workforce training programs needed to pursue this recommendation. Costs will vary per workshop based on the venue and the topic, skills, and experience necessary from each instructor. Based on the models of the prior workshops hosted by the Film Office, each workshop costs between \$6,000-10,000, for a maximum allocation of \$60,000 per year.

RECOMMENDATION NO. 2: CREATE OPPORTUNITIES TO INCREASE LONG-TERM BUSINESS GROWTH

In addition to labor retention and an overall increase in job opportunities, the film industry provides the impetus to directly benefit local business sectors, such as heavy equipment rentals, transportation rentals, construction, lodging, food and other retail services, and a host of other personal, business and location services. Similar to workforce, it is in the financial interests of companies doing business in West Virginia to utilize the facilities and services of local merchants, thus generating additional work opportunities, positive cash flow, and tax collections.

For example, the influx of direct expenditures related to two recent miniseries that filmed in the Eastern Panhandle effectively "saved" a hotel that was operating "in the red." The total room nights for several hotels totaled more than 7,500 over a 4-month period. The hotel that was struggling is now operating "in the black" due to this production alone, according to the general manager. At another hotel, the general manager saw an increase in revenue through its in-house laundry coin facility by more than \$1,000 directly attributable to the filming of these miniseries.

In order to build long-term growth, West Virginia must create opportunities and develop benefits that encourage film industry businesses to invest in establishing permanent facilities in the state. Such facilities may include, among other things, post-production facilities (e.g., editing, sound production), soundstages (e.g., constructing large sets), and rental facilities (e.g., camera equipment, lighting equipment).

The Film Office and the Development Office have begun to work together to identify current facilities (e.g., airplane hangars, empty warehouses, abandoned industrial sites, etc.) that could be retrofitted to accommodate some of the needs identified above. Those efforts should continue.

Currently, the Film Office is housed and budgeted within the Division of Tourism. While that relationship has been positive and the Division has been supportive, as Film Office efforts expand and film industry activity increases, its relationship with the Development Office must strengthen. The Film Office's work is clearly associated with business recruitment and workforce development. The Development Office is capable of providing information quickly, identifying current business incentive programs (e.g., Economic Opportunity Credit, Corporate Headquarters Credit, and Manufacturing Investment Credit) as well as workforce development programs which would be applicable to the film industry. Additionally, the Development Office could help the Film Office identify programs which might be modified or enhanced to include specific provisions related to the film industry and film industry-related companies. Coupled with the current WV Film

Industry Investment Act, these actions would encourage new businesses to develop a permanent presence in the state, thus providing a channel for job retention, job creation, and business service provider growth, all generating more tax revenues for the state.

RECOMMENDATION NO. 3: STRENGTHEN COMPETITIVENESS OF WV FILM INDUSTRY INVESTMENT ACT

The WV Film Industry Investment Act (W.Va. Code § 11-13X-1, et seq.) was designed to recruit the film industry – a recognized sector of the manufacturing industry – into the state; to create a sustainable industry; to generate revenue; and to increase opportunities for West Virginia residents to become employed on film industry productions.

The Film Office recognizes that, in past years, the original, annual allotment of \$10 million in tax credits was not fully exhausted. As outlined under Recommendation No. 1, the chief reason for the under-utilization of the credit has historically been the lack of an adequately trained workforce that would allow for more competitive production costs. Unfortunately, while the Film Office has been aggressively working to resolve that problem, the reduction in the tax credit allocation to \$5 million beginning in FY2014 has created a different issue. The available credit is no longer large enough to potentially cover the credit that would be consumed by, for example, a major motion picture. While West Virginia is creating a more cost-effective environment for production, is identifying more potential sites, and is gaining a reputation for being a positive production environment, the limited tax credit allocation severely restricts the productions that West Virginia can compete for. The film industry creates for West Virginia, and other states, substantial potential for economic diversification and growth, but it is still a transitory industry in our state that requires a transferable credit of appropriate size and scope to be effective.

For comparison, the table below is an overview of incentive programs of some of West Virginia's neighbors as well as other prominent production hubs around the nation:

State	Program Allotment	State	Program Allotment
West Virginia = \$5 million			
Pennsylvania	\$60 million	Ohio	\$40 million
Maryland	\$7.5 million	Virginia	\$6.5 million + additional \$4.8 million at Governor's discretion
Kentucky	No Cap	Georgia	No Cap
Louisiana	No Cap	Michigan	\$50 million
Massachusetts	No Cap	New Mexico	No Cap
Mississippi	\$20 million	New Jersey	\$10 million
Alabama	No Cap	Florida	\$296 million
Alaska	\$200 million	Arkansas	No Cap
Connecticut	No Cap	Illinois	No Cap
North Carolina	\$20 million	Oklahoma	No Cap

West Virginia has recently not only lost productions because of the limited amount of its tax credit allotment, in many cases, it is no longer being considered for business. During recent meetings with business prospects in Los Angeles, Film Office staff was informed by production executives at The Walt Disney Company/ABC Television Studios and Warner Bros. that they no longer look at West Virginia for locations because their production budgets are too large for the state's incentive program to handle. It is impossible to measure the complete loss of tax revenue and economic impact because of this issue.

The Film Office believes that, in order to strengthen the competitiveness of the film tax credit program, the first step should be to restore the \$10 million credit level. While that level of credit will still be inadequate for some productions, it will allow West Virginia to more effectively compete.

There is substantial potential in the film industry for West Virginia. Recently, the Film Office was informed by a major production company (which previously filmed four (4) miniseries in the state), that it has entered into contractual arrangements to film an additional 5-6 miniseries during 2015, with potential for another 5-6 in 2016. While the company has had, by their own admission, a positive experience filming in West Virginia and would look very favorably on filming many, if not most, of these projects in the state, they may be forced to look at other states because of the limitations of West Virginia's credits. This company has already spent millions of dollars in West Virginia, has hired dozens of West Virginia workers, leased properties, and utilized the support services of dozens of local businesses on its productions. It is the type of relationship that we have worked hard to secure, but it is now at risk.

The Film Office does believe that, while the credit can be effectively expanded, it is also prepared to recommend other modifications to the credit. The Film Office believes that an adjustment of the tax credits authorized as a percentage of qualified expenditures be (A) lowered for companies that do not employ ten (10) or more West Virginia residents as part of its full-time employees, from the current 27% to 25% and (B) increased for companies that do hire ten (10) or more West Virginia residents as part of its full-time employees, from the current 31% to 35%.

RECOMMENDATION NO.4: CONDUCT WORKFORCE & BUSINESS SERVICE PROVIDER ASSESSMENT

Finally, we believe a workforce and business service provider assessment would prove beneficial to gauge the current environment, to peek into the future, and to gauge the impact of our efforts if additional improvements are made to workforce and other infrastructure opportunities. While we know that attracting a more vibrant industry environment will have a positive effect on those business service providers who could be engaged with the industry, such an assessment would quantify as well as qualify the film industry and would help answer important questions about, among other things, current workforce strength, potential workforce impact, current and potential educational opportunities, strengths and weaknesses of business service providers, and leveraging the film tax credit program for long-term economic growth. Such a review would require a one-time appropriation as an enhancement to the Film Office's budget.

P.H. — 12.22.2014

cc: J. Keith Burdette, Secretary of Commerce
Joshua L. Jarrell, General Counsel and Deputy Secretary of Commerce
Amy S. Goodwin, Deputy Secretary of Commerce and Commissioner of Tourism0