

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

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

DATE: February 5, 2016

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. The staff grew to three (3) in FY2007 following legislative approval of an improvement package. At the same time, the WV Film Industry Investment Act ("the Act") was enacted, which is a jobs creation and business development program providing 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 business recruitment. The Act spurred a large increase in business prospects that have spent more than \$43 million in direct expenditures, including:

- **"Super 8,"** a Paramount Pictures feature film shot in Weirton, directed by J.J. Abrams and executive produced by Steven Spielberg; incurred more than \$14 million in direct expenditures.
- History's **"The Men Who Built America,"** an 8-part miniseries filmed in the Eastern and Northern Panhandles, nominated for 4 Emmy Awards, won 2.
- History's **"The World Wars,"** a 4-part miniseries filmed in the Eastern Panhandle, 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.
- AMC's **"The Making of the Mob: New York,"** an 8-part miniseries filmed in the Eastern Panhandle.
- NatGeo's **"American Genius,"** an 8-part miniseries filmed in the Eastern Panhandle.
- Discovery's **"The West,"** an 8-part miniseries filmed in the Eastern Panhandle (not yet broadcast).
- CMT's **"American Speed,"** an 8-part miniseries filmed in the Eastern Panhandle (not yet broadcast).

SUMMARY OF REPORT

The core focus of the Film Office's responsibilities 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 business prospect needs, such as transportation equipment companies, camera and sound equipment rental companies, grip and electric rental companies, hotels, caterers, lumber and construction, and much more.

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 Film Office believes the WV Film Industry Investment Act needs to be strengthened in order to become a more successful competitive economic development, jobs creation, and business development tool.

Other recommendations include creation of a Film Advisory Council and a Certified Film Friendly Community program, both of which would trigger a broader level of statewide business and community support and provide important guidance toward Film Office efforts.

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 generating revenue 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 dilemma by repurposing portions of its marketing budget and directing those limited funds toward workforce training programs. The Film Office has hosted nine (9) workforce training programs, serving nearly 260 people, in five (5) in-demand skill sets: grips and electricians, location scouts, production office coordinators, costume department production assistants, and entry level production assistants for the office and the set. During a 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 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.

During the past four years, the Eastern Panhandle has experienced a large amount of film production, and the Film Office anticipates more high-profile production during 2016 in several regions of the state. In anticipation of more production, the Film Office will continue its efforts to meet the workforce demands of these business prospects. Interest is strong among business and economic development organizations, community and technical colleges, and vocational schools to work with the Film Office in targeting traditional and non-traditional students alike to engage in learning new skill sets that business prospects have indicated are in high demand. In the past, WorkForceWV has worked with a specific business prospect on job matching services to expand hiring opportunities for workers that have transferable skill sets that can be used on film productions, such as electricians, carpenters, inventory managers, landscapers, welders, drivers, accountants, and clerical.

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 continuing to host 3-5 training programs annually. The Film Office has had to repurpose portions of its marketing budget to direct those limited funds toward these important training programs. Costs vary per workshop based on the venue and the topic, skills, and experience necessary from each instructor. Based on the models of prior workshops hosted by the Film Office, each workshop costs between \$6,000-8,000, for an allocation between \$18,000-\$40,000 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 six (6) recent miniseries that filmed in the Eastern Panhandle between 2012-2015 effectively "saved" a hotel that was operating "in the red." The combined room nights for multiple hotels in Jefferson and Berkeley Counties totaled more than 10,000. The hotel that was struggling is now operating "in the black" due to these productions alone, according to the general manager. The general manager at another hotel saw a revenue increase through its in-house coin laundry facility by more than \$1,000 directly attributable to the filming of only one of these miniseries.

In order to build long-term growth, West Virginia must create opportunities and develop benefits that encourage business prospects 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 working together to identify 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 the number of business prospects continues to increase, its relationship with the Development Office must strengthen. The Film Office's work is clearly associated with business recruitment and workforce development. On average, the Film Office receives 300 business prospect inquiries every year. 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 film industry business prospects. Additionally, the Development Office is in a better position to 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 business prospects 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, during the early years of the program when the original annual allotment was \$10 million in tax credits, the allotment was not fully exhausted. The chief reasons are because \$10 million (A) does not provide ample incentive for the larger budgeted productions (i.e., productions with budgets in excess of \$30 million) and (B) as noted further below, the state is overlooked for other states with more robust incentives. In addition, as noted in Recommendation No. 1, the under-utilization of the credit also relates to 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, a reduction in the tax credit allocation to \$5 million beginning in FY2014 has created an even more problematic situation. The available credit is no longer large enough for major motion pictures or television programs to consider West Virginia as a business location. Not only has West Virginia lost productions because of the reduction in its tax credit allotment, in many cases – and as noted below, it is no longer being considered for large budgeted productions. The program does continue to attract lower budgeted productions.

During meetings with business prospects in Los Angeles over the past three years, production executives at numerous motion picture studios (e.g., The Walt Disney Company, ABC Television Studios, Warner Bros., Paramount Pictures) as well as numerous other smaller studios, have repeatedly stated that they no longer look at West Virginia for locations because their production budgets are too large for West Virginia's incentive program. It is impossible to measure the complete loss of tax revenue and direct and indirect economic impacts. In other words, without West Virginia being on a "go to" list of states to consider for filming opportunities, it will be nearly impossible to increase the state's film industry growth beyond its current level, which is a detriment to the state and its citizens.

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		Ohio	\$40 million
Pennsylvania	\$60 million	Virginia	\$6.5 million + additional \$4.8 million at Governor's discretion
Maryland	\$7.5 million	Georgia	No Cap
Kentucky	No Cap	New York	\$420 million
Louisiana	\$180 million	California	\$330 million
Massachusetts	No Cap	New Mexico	\$50 million
Mississippi	\$20 million	North Carolina	\$30 million
Alabama	\$20 million	Florida	\$296 million
Oklahoma	\$5 million	Arkansas	No Cap
Connecticut	No Cap	Illinois	No Cap

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 tax credit allocation. While that level of credit will still be inadequate for large budgeted productions, it will allow West Virginia to more effectively compete with other states for moderate size productions.

There is substantial potential in the film industry for West Virginia. Last year, the Film Office was informed by a major production company (which previously filmed six (6) miniseries in the state), that it has numerous other productions that it would prefer to film in West Virginia. 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 were forced to move the productions elsewhere 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 hundreds of local businesses. It is this type of relationship we have worked hard to secure, but is now suffering the consequences because of a non-competitive incentive.

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

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.

RECOMMENDATION NO. 5: CREATE FILM ADVISORY COUNCIL

In February 2001, then-Governor Wise signed Executive Order No. 7-01, followed by another Executive Order (No. 10-02) in September 2002. No candidates were ever appointed and the commission was never formed. During the 2004 legislative session, two resolutions were submitted in the House and Senate (originated in the private sector) regarding the film industry, one of which (SR 69) related to forming a film commission. It did not come out of committee. During this general time frame, the Tourism Commission formed an ad hoc "film committee" to provide support for the Film Office.

In 2007, Governor Manchin directed the Film Office to create a list of candidates to be considered for a film commission to support the Film Office. On May 11, 2007, the Film Office submitted to the Governor a proposed structure of the commission and how it would operate. Based upon information and belief, no action was taken to form the commission.

In order to undertake all of the recommendations delineated in this report, the Film Office continues to believe that a support system for the Film Office would be beneficial to the state and its citizens and recommends an Advisory Council be created. The council would act as a beacon for the Film Office and provide guidance and other support to help 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. The Film Office stands ready to update prior executive orders to better align with the current state of the industry.

RECOMMENDATION NO. 6: CREATE CERTIFIED FILM FRIENDLY COMMUNITIES

The Film Office is a member of the Association of Film Commissioners International (AFCI), a non-profit educational organization that, among other things, trains film offices around the world to support all levels of production. Last year, the AFCI unveiled two new training programs specifically targeting community and business leaders called "AFCI Film Liaison" and "Hotel/Hospitality Liaison." Liaisons who take the course walk away with a basic understanding of the roles of film offices and liaisons, the fundamentals of film production, working with the film industry, location scout, and economic opportunities for local labor, businesses, and services.

The Film Office recommends taking this a step further and creating "Certified Film Friendly Communities." In addition to being required to take the AFCI Film Liaison course, communities that desire to elevate their reputation as a Certified Film Friendly Community would be required to attend a Film Office-conducted training workshop; actively engage in connecting the Film Office with business services in their regions and submitting data to the Film Office's online business directory; actively engage in scouting and photographing locations in their region and submitting data to the Film Office's online locations library; and pass filming guidelines approved by the Film Office.

This type of program would enable the Film Office to receive broad business and community support, showcasing the value of the economic development possibilities from film industry growth.

P.H. — 02.05.2016

cc: J. Keith Burdette, Secretary of Commerce
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