MARYLAND FILM
MFIC
INDUSTRY COALITION

December 2, 2014

Dear Honorable Co-Chairs and Distinguished Members of the Tax Credit Evaluation Committee,

Thank you for your important work in reviewing and evaluating Maryland's tax credit programs.

The Maryland Film Industry Coalition, Inc. ("Coalition") is an alliance of business and labor leaders, representatives of education institutions, government entities, non-profit organizations and individuals that recognize the importance of film, television and media production to Maryland's economy and its citizens.

The Coalition believes that policy makers deserve a complete and accurate picture of the benefits to Maryland and its citizens when film and television productions choose Maryland. The production incentive program plays an important role by ensuring that Maryland is able to attract this vibrant industry.

The Coalition wishes to provide its comments about the production incentive tax credit program, and the draft Evaluation of Maryland's Film Production Tax Credit Program, prepared by the Department of Legislative Services. Please consider the attached comments of the Maryland Film Industry Coalition, in your evaluation of this important tax credit program.

Respectfully submitted,

E. Scott Johnson, Chair

Maryland Film Industry Coalition Response

DEPARTMENT OF LEGISLATIVE SERVICES EVALUATION OF THE MARYLAND FILM PRODUCTION TAX CREDIT (DRAFT)

I. Introduction

The Maryland Film Industry Coalition, Inc. (the "Coalition") is an alliance of business and labor leaders, representatives of educational institutions, government entities, non-profit organizations and individuals that recognize the importance of film, television and media production to Maryland's economy. In 2008, when the Coalition was organized, Maryland was losing its film industry to other states because Maryland did not offer comparable film production incentives. Our skilled film and television labor force ("crew base") left Maryland for other states that offered film production incentives. Then and now, the majority of states have concluded that production incentives are a good investment, yielding many economic and non-economic benefits for a state.

The General Assembly unanimously passed the Maryland Film Production Employment Act of 2011 (the "Act"), which provides tax credits for film and television productions that meet verifiable criteria. The tax credits are offered on a first-come, first served basis, and awarded solely on "qualified expenditures" in Maryland, i.e., expenditures made and verified in compliance with the Act and the requirements established by the Maryland Department of Business and Economic Development ("DBED"). Maryland does not pay out any money up front. In fact, no money is paid out until after the production company has completed the production, spent its money in Maryland, submitted all of the required paperwork documenting its qualified expenditures, and the State has reviewed and approved all documentation.

Since the Act took effect, ten (10) productions[1] have hired over 12,000 Marylanders, done business with over 12,000 vendors, and created a projected economic impact of over a half a billion dollars.[2] The program enables workforce development, providing employment, internship and other educational opportunities for Maryland students. Jobs in the film and television industries are high paying career positions, and for the most part come with health and pension benefits.

The Economic and Fiscal Impact Study completed this year by Towson University's Regional Economic Studies Institute (RESI), confirms that Maryland's production incentive program effectively pays for itself, creates Maryland jobs, and produces significant economic benefits for our state, its residents and its small businesses.[3] According to DBED, $54 million in tax credits have been or will be awarded through FY 2016, attracting over half a billion dollars ($505,638,393) in economic activity in Maryland.[4]

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[1] Each season of a television series is treated as a separate production.

[2] DBED, *Film Production Activity Tax Credit Requests FY 2014 – FY 2016* (2014)

[3] *See*, *Economic and Fiscal Impacts of the Film Production Tax Credit in Maryland*, REGIONAL ECONOMIC STUDIES INSTITUTE, Towson University (February 10, 2014).

[4] DBED, *supra* fn 1.

Film and television production offers Maryland an unusual opportunity for fast and permanent job growth. A stable production incentive program is essential to capture this growth opportunity.

II. Department of Legislative Services ("DLS") Draft Evaluation

The Tax Credit Evaluation Act of 2012 sets forth the process to evaluate tax credits. The Department of Legislative Services ("DLS") submitted a draft Evaluation of the Maryland Film Production Tax Credit ("Evaluation") to assist the Tax Credit Evaluation Committee ("Committee") in its review.

The Evaluation is not a reliable economic assessment, because it is incomplete and inaccurate in certain key respects.

In contrast, two respected economic research firms, Anirban Basu's Sage Policy Group, and Dr. Daraius Irani's Regional Economic Studies Institute (RESI) at Towson University, have analyzed the economic and fiscal impacts of incented film and television productions in Maryland, and both found significant economic and fiscal impacts from incented film and television production activity.

In The Baltimore Sun last week, Anirban Basu, Chairman and CEO of Sage Policy Group, was quoted expressing support for the current tax credit program, stating: "...from an economic development perspective we really cannot afford to give up on this industry...I really believe that if we stay with the current formula, because the current formula is working, very large benefits will be experienced in the future. And it should be stated that the benefits are already quite large." Basu goes on to cite "reputational and marketing benefits" and the "base of human capital" in Maryland.[5]

The Evaluation only considers the tax revenue generated by a production company's "direct" spending, concluding that the tax credits produce $.10 return in state and local tax revenues for each $1.00 in tax credits claimed. What does "direct" spending leave out? Among other things, DLS did not fully consider basic production expenditures for lumber, paint, nails or catering costs, which it considers "indirect" expenditures. This is in stark contrast with the Economic and Fiscal Impacts Study prepared earlier this year by Towson University's RESI, which looked more deeply and inclusively at tax revenues from spending related to incented production activity, including direct induced spending.[6] RESI counted spending on lumber, paint, nails and catering because such spending is made in connection with the incented production activity. According to RESI's February 10, 2014 Report, for every reported $1 claimed in film tax credits, Maryland gains $1.03 in total additional property, sales, income and other tax revenues. In addition, the RESI found that Maryland receives $3.69 in additional output from every $1

[5] Anirban Basu, *Z on TV*, THE BALTIMORE SUN (November 28, 2014)

[6] The "direct" spend for a movie or series includes payments to the cast, crew and rental of the soundstage. Anything directly related to the production of the movie or series. The "indirect" spend includes monies spent to support the production of the movie or series, e.g., catering, hotel rooms, car rentals, purchase of paint, fabric, hiring security, etc. The "induced" spend is spending by households of persons who are directly employed or indirectly employed for the movie or series, spending money in the local economy on groceries, dental services, etc.

claimed under the current program. The Coalition urges the Committee to consider the totality of economic and non-economic benefits in its evaluation of the film and television production incentive program.

RESI is not the first respected Maryland-based economic research firm to evaluate film production incentives programs in Maryland. DLS cites the 2010 Report of the Film Production Workgroup ("2010 Workgroup Report"). That Workgroup was convened by DBED in response to a request in the Senate Budget and Taxation Committee and House Committee on Appropriations Joint Chairman's Report, 2009 Legislative Session. To inform the Workgroup, DBED commissioned the Sage Policy Group, to analyze and prepare an economic and fiscal impact study of Maryland's film production incentive (then a grant) program (the "Sage Study").[7] The Sage Study confirmed that Maryland was losing its film crew base and small business infrastructure, and that a meaningful production incentive program was required to preserve those jobs and small businesses. Sage calculated a 58% return in state and local taxes from a 25% production incentive, without taking into account revenues from film tourism, non-incented production activity resulting from incented production activity, residual earnings from incented productions, time value of money, or investments in infrastructure and communities from incented activity.

The Evaluation addresses tax revenues lost for the sales and use tax exemption. However, the "losses" claimed by DLS are overstated as they include any and all productions in Maryland, not just those associated with productions that received the tax credit. In addition, only certain items actually qualify for a sales and use tax exemption, but the Evaluation uses aggregate numbers as though everything qualified, so the total sales and use tax exemption associated with productions receiving credits appears to have been over-estimated in not one but two different ways.

DLS's analysis is of limited value for policy makers because the scope of its review is limited. It doesn't show the larger picture. It is not reliable because its analysis is based in part on inaccurate assumptions. These comments more accurately reflect how the film and television industries operate, and, in at least one instance, how Maryland's film production tax credit program actually works.[8]

III. Five Factors

In its cover letter to the Committee, DLS's Director states that it was required to evaluate the film tax credit program based on five (5) specific factors:

(1) the purpose for which the tax credit was established;

(2) whether the original intent of the tax credit is still appropriate;

(3) whether the tax credit is meeting its objectives;

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[7] *An Economic Assessment of Maryland's Film & Television Production Industry and Policy Implications*, SAGE POLICY GROUP, INC. (January 2010).
[8] *See*, Response to Recommendation No. 7, below.

(4) whether the goals of the tax credit could be more effectively carried out by other means; and

(5) the cost of the tax credit to the State and local governments.

In most cases these five (5) factors can be answered simply and directly based on data collected by DBED, and the actual history of the film and television industry in Maryland, during the years following 2002, when other states began implementing production incentive program to attract film and television productions, while Maryland lagged behind and lost much of its film industry and infrastructure.

Following is a direct and accurate assessment of these five (5) specific factors:

1. **The purpose for which the tax credit was established.**

Response: The tax credit program was established to attract film and television productions to Maryland, create jobs, stimulate business activity in the State, enable Maryland's skilled film and television crew base to return to Maryland, and provide positive economic impacts. An additional purpose was to attract television series, which tend to have longer lasting impacts on a community due to the fact that a series may be produced for multiple episodes and years.

DLS cites Chapter 516 of the Act, which enumerated in its Preamble twelve (12) findings supporting film tax incentives. DLS also cites the 2010 Workgroup Report, which articulated the need for a stable and sufficient production incentive program to stem the loss of Maryland's film and television crew base and small businesses, recommending a slightly higher incentive for television series. The purposes of the Act are amply reflected in these two documents cited by DLS.

2. **Whether the original intent of the tax credit is still appropriate.**

Response: Yes. The original intent of stemming the loss of Maryland's crew base, creating jobs and reestablishing film and television production activity in Maryland, and attracting television series remains appropriate.

Film production activity commenced immediately upon enactment of the Act in 2011, and continues to provide jobs, support small businesses, provide opportunities for film, television and media students at Maryland universities, and other significant benefits. Maryland's film industry workers are back in Maryland and many are hard at work on productions that otherwise would not be in Maryland.

Because of the Act, three (3) independent films and two (2) major television series (HBO's *VEEP* and Netflix's *House of Cards*) came to Maryland and both series remain in Maryland, renting large facilities, building sets, employing thousands of Marylanders, and making multiple and ongoing purchases from local vendors. Without the credits, these television productions would not be in Maryland.

3. Whether the tax credit is meeting its objectives.

Response: Yes. The credits have been instrumental in attracting major productions that would not be in Maryland without the credit. It is these larger productions that drive the industry, provide the highest paying jobs and spur local business with multiple purchases.

DLS points out a $200,000 tax credit that went to the production company that produced *Ping Pong Summer* in Ocean City, Maryland, arguing it would have been produced there anyway, thus rendering the incentive unnecessary. However, according to George Rush, the film's producer, *Ping Pong Summer* would not have been produced in Maryland without the incentive. See Exhibit A, letter from George Rush, dated December 1, 2014.

Even if it was true that *Ping Pong Summer* would have been produced in Maryland without the production incentive, the tax credits issued for this small budget independent film represent only 0.37% of the total tax credits allocated. The other 99.63% of the credits were used to attract large scale productions that otherwise would not be in Maryland -- $54 million in tax credits that have been or will be awarded through FY2016, have attracted over half a billion dollars ($505,638,393) in economic activity to Maryland[9].

4. Whether the goals of the tax credit could be more effectively carried out by other means.

Response: Maryland is able to compete effectively with the current tax credit program, because it provides certainty to production companies that qualify for the credit. In short, the program works. Modifying the program in ways that could make it seem unpredictable or out-of-step with other states competing for productions, would reduce Maryland's competiveness. In making decisions about where to produce a film or television series, production companies are accustomed to comparing similar state programs - - apples to apples. To qualify for Maryland's production tax credit, substantial budget and financial reporting requirements must be satisfied. For eligible productions meeting these requirements, producers can expect a level playing field in Maryland. Consequently, producers can rely on the requirements to qualify for Maryland's production tax credit, knowing that if they meet them they will receive credits if credits are available. First come, first served. No surprises.

5. The cost of the tax credit to the state and local governments.

Response: In contrast to the more comprehensive RESI and Sage studies, DLS's Evaluation only took into account revenues on direct spending, without considering taxes generated from indirect and induced spending, or many other positive economic (and non-economic) benefits Maryland derives from production activity. DLS has expressed similar views via the annual fiscal notes it generates on proposed film product incentive programs, including the "grant" program it now recommends in lieu of the successful tax credit program. Policy

[9] DBED, *supra* fn 1.

makers deserve an accurate and complete picture of all of the benefits that flow from this program that is vital to so many Marylanders.

According to RESI's February, 2014 Report, $1.03 in tax revenue is returned to state and local governments for every $1.00 of tax credit, i.e. state and local governments realize a modest return on investment.

IV. DLS Recommendations

DLS recommends ending the film production incentive program. Failing that, it makes a series of recommendations for changes to the program, almost all of which, if followed, would eliminate or jeopardize the significant benefits that have begun to accrue to Maryland under the film production incentive program.

This section addresses DLS's recommendations:

DLS Recommendation #1. DLS recommends that the General Assembly allow the film production activity tax credit to sunset as scheduled on July 1, 2016. Going forward DLS recommends that the General Assembly focus economic development efforts on incentives that create permanent and lasting employment, rather than temporary jobs.

Response: Film and television crew jobs are high paying jobs that for the most part come with excellent health and pension benefits. The median income for a film industry worker far exceeds the median annual income in the US. A driver, carpenter or painter spending 5-6 months on show like *VEEP*, earns more during that time than many other workers in such trades earn in a year.

VEEP is currently in its fourth season and *House of Cards* is in its third season. Both television series show no sign of stopping with their current seasons. The crew base working on these and other productions are not "temporary" workers. In the film and television industries, workers go from one project to the next like any contractor or construction worker might. The jobs, by the nature of the industry, are on a project-to-project basis. These are specialized and well trained positions that create long term careers, not part time jobs. A worker on one production gains valuable experience, and is likely to be hired on the next production that comes to Maryland. If the incentive program is reliable, film crew jobs will continue to be created in Maryland. Additionally, many other local jobs will continue to be created in support services and small businesses such as hotels, restaurants, caterers, lumber and paint companies, electricians, rental cars, and many more – local Maryland businesses will create jobs and workers will benefit from a vibrant film and television industry.

Without a reliable and sufficient production incentive program, Maryland will not attract major film and television productions, which would result in the same negative impacts reported by the 2010 Workgroup Report cited by DLS: Maryland's film crews will be forced to leave Maryland to find work, which will damage Maryland's film industry infrastructure. The small businesses servicing this industry, the students that depend on major productions for internship, and employment opportunities upon graduation, the business that hotels, restaurants and other Maryland businesses enjoy from production activity and its aftermath will disappear.

Recommendation #2. DLS recommends that the General Assembly consider replacing the tax credit with a grant program funded through the State budget and administered by DBED

Response: Maryland had a grant program that failed to deliver. Annual funding was never reliable, finally dwindling to about $800,000 in the year before the tax credit program was enacted in 2011. DLS itself points out why the current program is superior to a grant program: "[F]unding through a grant program could cause some uncertainty about funding levels from year to year …."[10] That is exactly what happened with Maryland's grant program, which is why the Coalition supports a tax credit program with the amount of available credits established in legislation.[11] The current program is superior to the grants program it replaced, because it is not subject to budget wrangling each year, with predictably unpredictable results. Uncertainty over the availability of production incentives from year-to-year deters production companies from considering Maryland.

DLS also states that "replacing the tax credit with a grant program could also aid in credit transparency …." However, that ignores the fact that transparency is already built into the process that <u>leads up to</u> granting the credit, and would be the same whether grant or tax credit. No money is awarded, granted or approved until after the production company has completed the production spent its money and the records reflecting the qualified expenditures have been submitted to and approved by the State. Once the tax credit is granted, just as once a grant award would be granted, all of the information and details necessary to analyze the spending within the State will have already been completed and submitted.[12]

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[10] *Evaluation of the Maryland Film Production Tax Credit (Draft)*, DEPARTMENT OF LEGISLATIVE SERVICES (2014).
[11] DLS cites a recommendation in the 2010 Film Production Workgroup, that the "existing program" (then, a grant program) should be maintained. However, eight (8) of the thirteen (13) people who served on that Workgroup have publically supported the Coalition's position, including Coalition board service by seven persons who served on that Workgroup, all who came to believe that a tax credit program is preferable to a grant program because of the grant program's vulnerability to budget wrangling and the need for stability in a production incentive program. That is why the Coalition supports a tax credit program, so that the funding is provided through legislation and not administrative fiat.
[12] Maryland pays the ***lesser of*** the "going in budget" submitted to DBED with the production company's initial application, or the amount of qualified expenditures actually spent to produce the project. Thus, if a production applies with a "going in budget" of $10 million and spends only $8 million, the tax credits would be based on $8 million - the lesser amount. Importantly, if, a production company spends more than the going in budget estimate submitted with its application, even significantly more as happened with *House of Cards*, tax credits are nevertheless limited to the budget amount in the initial application. As a result, the ***effective*** percentage of qualified expenditures on which the tax credit is calculated, is lower –perhaps significantly lower - in those cases, because not all of the qualified spending will be eligible for the tax credits.

In fact, there are no advantages to be gained by converting the program from a tax credit program to a grants program, but there are considerable disadvantages.[13]

Recommendation #3. DLS recommends that the General Assembly require local governments to contribute a portion of the State's tax credit costs for productions in which at least 50% of the principal photography occurs in that jurisdiction. Alternatively, local governments could contribute a portion of the tax credit's costs based on the proportion of production expenditures in their jurisdictions.

Response: Maryland is known as a good state for filmmakers, because within a small state, a producer can access locations in the mountains, beach, lakeside, urban, suburban, farmland, and small towns -- the full gamut of locations that film producers might need. Film and television productions are different from most other businesses, because they are mobile – they can and do move around the state. Productions draw skilled crew members from across the State, irrespective of where the principal photography occurs.

There is little doubt that "cost-sharing" would add a significant layer of administrative complexity that does not exist in states offering production incentives, which could have a chilling effect on the incentive program.

Recommendation #4. DLS recommends that the General Assembly require DBED to monitor and report in its annual report on the number of film production vendors that qualify as small, minority-and women- owned firms. In addition, if the data collected suggest that these firms consist of only a small percentage of the vendors, DBED should consider methods by which film production entities can provide opportunities for small, minority-and women-owned businesses.

Response: The Coalition welcomes and endorses DLS's recommendation that DBED provide additional information on vendors that qualify as small, minority or women owned businesses as well as incentives provided in other states.

Recommendation #5. DLS recommends that the General Assembly require DBED to routinely report annually information on the film production incentives provided in other states, particularly for states with large credit programs such as California, New York, Louisiana and Pennsylvania.

Response: The Coalition welcomes and endorses to the recommendation that DBED report on film production incentives provided in other states.

Recommendation #6. DBED should comment on the process and criteria used to attract film and television productions to Maryland and how allocations of tax credits to

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[13] Tax credits are only refunded after the production company completes the production, makes the qualified expenditures, meets all of the documentation requirements, receives the tax credit certificate, and files its corporate tax return generally during the calendar year subsequent to the completion of the production activity. Maryland benefits by that longer period of time during it which it has use of the funds. In contrast, a grant program would pay quicker.

these productions are determined. The General Assembly may also wish to consider developing specific criteria to be used by DBED in determining whether productions should be allocated tax credits, including whether limitations on the amount of tax credits that any single production may receive in a given fiscal year would be appropriate.

Response: The Coalition endorses the first part of this recommendation that DBED comment on the process and criteria used to attract productions. However, the Coalition is concerned that the second part of this recommendation could undermine or politicize the production incentive program.

The nationwide marketplace for film and television production incentives is well established. The majority of states in the United States offer incentives to attract film and television productions. Producers and financiers routinely compare incentives. DLS confirms that tax credits are the most popular form of production incentives offered by states.[14] Predictability is one of the best features of the Act. Producers with eligible projects ready to commence production in Maryland can be confident they will qualify for tax credits if they are the first to apply and tax credits remain available. Certainty of a level playing field and a stable program encourages producers to choose Maryland. The current program is successful because it has these attributes. The more idiosyncratic Maryland's program becomes, the less competitive Maryland will be.

Recommendation #7. DBED should comment on, as a condition of receiving tax credits, the feasibility of requiring a film or television production to commit to stay in the State for the duration of the production of the film or series, essentially requiring a multiyear commitment to the State when appropriate.

Response: While the Coalition has no objection to the recommendation that DBED comment on the "feasibility" of imposing such conditions, this recommendation reflects a lack of understanding of the television industry, or of how production incentives for a television series are applied for and awarded in Maryland.

No responsible financier would accept this condition and no other state production incentive program imposes such a condition.[15] DLS does not appear to be suggesting that Maryland consider committing to offer multi-year production incentives, but only that it should consider requiring a producer to agree never to leave the State as a condition of receiving a production tax credit for producing a single season of a series in Maryland. Is DLS suggesting that MD lure productions to Maryland and then pull the rug out from under them?

Each <u>**season**</u> of a television series is considered a **separate** production under Maryland's film production tax credit program. There are many reasons for this, beginning with the fact that television series are almost never guaranteed to run beyond an initial season. Also, not all

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[14] DEPARTMENT OF LEGISLATIVE SERVICES, *supra* fn 10.

[15] California recently enacted an amendment to its incentive program, which awards tax credits to a television series for each subsequent year of production, for the life of the series, once the television series has been approved and issued a tax credit by the California Film Commission. A reciprocal "guarantee" is not required for the production. Presumably that is not what DLS has in mind.

television series are the same – some may be location-based in a special way, such that season three would have to be shot in Alaska, and season four would have to be shot in Sub-Saharan Africa. Moreover, to expect a television production company to create a budget for a fifth season when it has only completed a pilot would be highly speculative at best. The subject matter of the series, the success of the series, and many other factors can determine how long a series continues beyond the first season, and whether filming in the same location makes sense for future seasons.

Recommendation #8. The General Assembly may wish to consider legislation that would require the recapture of tax credits awarded to or claimed by a production entity that later leaves the State to film in another jurisdiction, similar to language contained in the version of Senate Bill 1051 of 2014 as passed by the House of Delegates.

Response: The recommendation that Maryland consider "taking back" incentives is unnecessary because only AFTER a production spends the money is it eligible to apply for a tax credit. If such legislation was enacted, Maryland would appear unpredictable and quite business "unfriendly." It would destroy Maryland's ability to attract television series.

Only AFTER a production company spends the money is it eligible to apply for a tax credit. This was true when Maryland offered a "grant" program, is true now, and would remain true if the tax credit was re-characterized as a grant. Currently, when a production company meets its obligation to make qualifying expenditures in the State for the season for which it applied, and the State issues the tax credit, both the production company and the State have fully performed. That is because each season of a television series is treated as a separate production for purposes of applying for tax credits. Future seasons are not guaranteed by either party. Only if Maryland is prepared to commit to providing an equivalent amount of production incentives for an unlimited number of seasons going forward, should Maryland consider requiring that a series not leave the State for an unlimited number of seasons going forward. However, even then such a requirement would be ill-advised and impractical for the reasons set forth in the Response to Recommendation #7, above.

V. Economic Impacts

As though this is a bad thing, DLS emphasizes that most of the tax credits have been allocated to two television series. However, one of the goals of the program was to incentivize television series to come to Maryland, because they tend to stay longer and have greater economic impacts. Maryland has attracted TWO! *VEEP* and *House of Cards* are large productions with sizable budgets that bring many jobs to the State, and both have been here since the Act was enacted. The few independent films that have received credits would not, by themselves, sustain the local industry. That said, the experience gained by local crews / cast in large shows can spark and add to the level of local talent that goes on to make smaller independent films.

Both RESI and the Sage Policy Group concluded that production incentives have beneficial economic impacts, considering tax revenues alone. But production activity results in many other economic benefits to the State that are uncounted, but real.

For example, if HBO had not produced *Game Change* in Maryland, Woody Harrelson would not have spent several months in Maryland, fallen in love with the Black Olive restaurant in Fells Point, and invested $4.5 million in the business, becoming a partner and ensuring that a great restaurant will be serving and employing Marylanders for a long time to come. Or the landmark church in Baltimore, whose parishioners enjoyed seeing their church serve as a location for several scenes in *House of Cards.* DSL asserts that "as soon as a film production ends, all positive economic impacts cease too.[16] Don't tell that to the owners of the Inn at Perry Cabin in St. Michael's, Maryland, which year after year books wedding receptions for couples enchanted by the wedding reception scene in the 2005 romantic comedy *Wedding Crashers*, which was filmed at the Inn at Perry Cabin. Or Berlin, Maryland, named "America's Coolest Small Town" this year by Budget Travel, in part because Berlin has marketed itself as the small town where *Runaway Bride* and *Tuck Everlasting* were filmed. What is the marketing value of the "Richard Gere Suite" in the Atlantic Hotel on North Main Street? *Runaway Bride* was filmed in 1998, **16 years ago**, but Berlin, Maryland still benefits from that production. Film tourism can create economic impacts for decades after a film or television series has wrapped and these are impacts that cannot be fully measured in economic impact studies. But all of those benefits are real. Other states' economic impact studies have endeavored to quantify these impacts, resulting in positive ROI based on the totality of economic activity.

There are important non-economic benefits policy-makers should consider, when evaluating the totality of benefits to Marylanders from incented film and television production activity, including educational opportunities for Maryland's students. DLS made no effort to assess the value any of these benefits to Maryland citizens.

For example, according to Jed Dietz, Director of the Maryland Film Festival, Johns Hopkins University and Maryland Institute College of Art (MICA) are expanding their respective film departments and as a result are assisting in two major building projects in Baltimore's Station North Arts and Entertainment District. The two film departments will take 30,000 sq. feet in the rehabbed 10 East North Avenue building (70,000 sq. ft. overall), and will move in next fall (Fall 2015). Both programs will interact with the Maryland Film Festival in a number of ways when it opens the Parkway Theater, a new 3-screen 600 seat film center in the fall of 2016, which will occupy four currently abandoned buildings on the corner of Charles and North Ave, across the street from the new academic center. Expanding film production in Maryland, and the filmmaker interactions that come along with it, are considered essential to these efforts.

According to Keith Mehlinger, Director of the Broadcasting and Integrated Media Production Department at Morgan State University:

> "Almost twenty state and private undergraduate liberal arts programs in the state of Maryland award bachelor's degrees in majors with film as a dedicated area of study or as a component of interdisciplinary programs in film and television, and new media. Over five graduate programs include film and digital media as

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[16] DEPARTMENT OF LEGISLATIVE SERVICES, *supra* fn 10.

> concentrations for Masters degrees (including the M.A. and the M.F.A.).
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> At Morgan State University alone with an enrollment of approximately 7,000 students, the major in Broadcasting and Integrated Media Production is the largest in the College of Liberal Arts with over 400 majors.
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> The expense of travel and housing for media centers in California or Florida, and New York, has made it more desirable than ever for students to find local training grounds if they exist.
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> The [Film Production Tax Credits] give Maryland the competitive edge it needs to sustain its film industry. The [Production Incentive Legislation] also sets the stage for its growth as a new generation of filmmakers now in undergraduate and graduate programs throughout the state move into film careers."

Maryland is part of a federal system that places it in competition with other states. The majority of states recognize the benefits of attracting major film and television productions, offering production incentives to compete for a share of this vibrant industry. Film production in Maryland creates positive publicity that enhances Maryland's desirability for businesses. Maryland should send a consistent message that it is open for business to this industry, and understand that tax credits are an essential ingredient. There is no reason to expect this to change in the foreseeable future.

When major productions choose to film in Maryland, its citizens benefit in many ways. Some benefits are easier to quantify, but other benefits are harder – yet they still create positive value for Maryland. Whether it's a hotel that rents out hundreds of extra room-nights, a college film student getting an opportunity to intern or work on her first "big" production, a location that attracts more visitors because it is identified with a popular film or television series, a great restaurant that gains national exposure or a new partner, or simply the pride that Marylanders feel when they see their home towns on the big (or small) screen -- Maryland benefits when movies are made here.

EXHIBIT A

PING PONG SUMMER, LLC

December 1, 2014

Tax Credit Evaluation Committee

Dear Committee Members:

I have had the great honor of producing a film (Ping Pong Summer) in Maryland in 2012, and we were able to take advantage of the Maryland production tax credit. The director is a Maryland native, so it was a dream come true for him to be able to make his film in Ocean City. The film was released in June, and continues to do steady business throughout the world.

However, I recently reviewed the Film Credit Evaluation and noted Ping Pong Summer's inclusion therein. I believe both mentions of my production paint an inaccurate picture of what has transpired. First, a quote from the director Michael Tully is included to stating that the only place we would have made the film is in Maryland, and inferring that the tax credit was not an inducement for us to shoot in Maryland. This is taken out of context, and from the director's perspective, not from the producers. When it seemed as if Maryland tax credits were not going to be available for our film,, we planned to shoot a couple of days of exteriors in Ocean City, but the rest of the film in Virginia to take advantage of their film incentives. I even started the paperwork with them. Luckily, some of the Maryland tax credits did become available, and we were able to shoot 100% of our production in Maryland. A huge reason our whole production was in Maryland was because production tax credit program.

Later in the report, it is noted that the box office for the opening weekend of Ping Pong Summer was $26K, inferring that it was not a successful release. To infer such is based on an old economic model of film distribution that simply doesn't apply to us. The film was a day and date release theatrically and Video on Demand (VOD)--meaning it was released nationally on VOD when it was released theatrically. The revenue generator in such situation is VOD as the theatrical is to a large degree to drive publicity about the film--and Ping Pong Summer got massive national publicity for a film its size (the today show, the late late show, people, sports illustrated, etc). The revenue from VOD is still coming in, but it is in the six figures. Additionally, Ping Pong Summer has been sold in the following territories: UK, Australia, France, Russia, Latin America, Bulgaria and Scandinavia, with significant theatrical releases in France, Russia, Scandinavia and Australia. To solely look at theatrical receipts is basing things on a traditional business model that isn't really applicable to most American indies. More and more, the driver is VOD and digital (i-tunes, etc.).

Prior to this film, I had no ties to Maryland and never contemplated producing a film there. But my experience with Maryland was so positive--between the talented crews, the variety of locations the support and the production tax credit --I'd definitely produce another film there.

Thank you and please let me know if I can be of any assistance in this matter.

Sincerely,

George Rush
Producer

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