

Henry McMaster
Governor

Duane N. Parrish
Director

August 31, 2018

The Honorable Gary E. Clary
Executive Subcommittee Chair
House Legislative Oversight Committee
PO Box 11867
Columbia, SC 29211

Re: Follow-up from Subcommittee Letter Dated August 20, 2018

Dear Chairman Clary:

Thank you for the opportunity to provide additional information to the Executive Subcommittee regarding the South Carolina Film Commission. For your reference and convenience, the information in this letter and the enclosures (or attachments) are in the same order as the information requested in the August 20, 2018 letter.

Agency Housing the Film Commission

1. As illustrated in the agency presentation on August 6, 2018, the South Carolina Film Commission has been housed under a number of various state agencies since its inception in the early 1980s. The two agencies which have most frequently housed the SC Film Commission are the South Carolina Department of Commerce and the South Carolina Department of Parks, Recreation & Tourism.

In terms of aligning with Agency Mission and Goals, both SCPRT and the Department of Commerce are equally suitable agencies to house the SC Film Commission. Like the SC Film Commission, both agencies seek to provide positive impacts to South Carolina's economy and enhance the quality of life for South Carolina citizens through business development. In terms of resources, both SCPRT and the SC Department of Commerce have the ability to provide additional resources to augment the SC Film Commission's activities.

The primary activities of the SC Film Commission have commonalities with both SCPRT and the SC Department of Commerce. For example, like SCPRT, a primary activity of the SC Film Commission is to promote South Carolina locations based on the natural and cultural assets available. On the other hand, both the SC Department of Commerce and the SC Film Commission share the common activity of directly creating job opportunities for South Carolina residents through pro-active business recruitment utilizing incentives. However, neither of the aforementioned activities are exclusive to either SCPRT, the SC Department of Commerce or the SC Film Commission. Rather, they are activities that are undertaken to a degree by all three agencies.

Ultimately, the unique nature of the SC Film Commission's overall activities and goals may be viewed as either a challenge or an opportunity for its parent agency. Thus, in SCPRT's opinion, the appropriate placement of the SC Film Commission cannot be determined solely based upon the commonality of activities and goals. Rather, the appropriate placement of the SC Film Commission

should be determined based on the ability of the SC Film Commission and its parent agency to leverage the activities of one another to create reciprocating benefits for both.

Given the tourism impact of motion picture projects demonstrated through research, as well as potential impact of increased consumer awareness and travel popularity of South Carolina destinations on motion picture project recruitment, SCPRT believes that maintaining the SC Film Commission within the agency will allow South Carolina to capitalize on the potential synergy achieved through the activities of both agencies. Moreover, in achieving this synergy of activities, SCPRT also believes that it can better leverage the outcomes of these activities to optimize their impact on the state's economy and quality of life.

Film Incentives

2. Please find below a list of potential positive and negative impacts for each major type of film incentive.

Cash Rebate

Pros: Cash rebates are completely transparent. Projects are vetted and accepted based on projected spending and approved projects are rebated on only what the production spends that qualifies in South Carolina. Because film incentives are an appropriation in the State's annual budget, monitoring film activity within the state is manageable since the State cannot award more incentive dollars than allocated per annum. Payment to production companies is immediate.

Cons: Incentive programs utilizing cash rebates have relatively less funds available than programs that utilize Tax Credits.

Transferrable Tax Credit¹

Pros: Transferrable Tax Credits are not in the annual State budget as a line item and, therefore, do not have to compete for funding priority. Tax credits are often termed revenue neutral since they are not in the budget. This also allows states to "commit" a higher amount of incentives to offer to productions.

Cons: Unless capped per year, transferrable tax credits can unpredictably and negatively impact a state's budget long-term as it reduces the state's revenue from corporate tax income. SCDOR may not understand rebate-able items and "film auditors" may need to be frequently consulted for clarification. Issuing a credit certificate to a production company may take as long as three years. Production companies must pay a broker to sell the credit and the rebate "income" may not be realized for several years, as opposed to cash rebate or tax return.

Tax Refund

Pros: Tax refunds are favored by production companies almost as much as cash grants or rebates. The refund is received within a year of the completion of production.

Cons: Tax refunds have the same potential negative impacts as transferrable credit, with the exception that brokers are not involved.

¹ The information in this section of the response letter is specific to Transferrable Tax Credits. Since Non-transferrable Tax Credits would only be available to South Carolina taxpayers, they would not be serve as an effective incentive for out-of-state production companies.

3. For your reference, please see the enclosed list of projects that the state has lost from 2016 through 2018 due to a lack of available incentive funds at the time these productions expressed interest in filming in South Carolina. For clarification, in the column labeled "Filmed Elsewhere In," an "N/A" indicates that the SC Film Commission is unaware of where the project was ultimately filmed.
4. Once a production company decides they want to come to South Carolina, they must complete an application that includes a project overview and budget. SC Film Commission staff review the budget and determine the amount of incentive to be reserved. The application then goes to the Film Advisory Committee at SCPRT for review. Per SC Film Commission policy, the SC Film Commission will notify an applicant within fifteen business days of receipt of an application whether that application has been approved or disapproved. A "Qualifying Production Letter" is sent via email and US Mail to the applicant either rejecting or accepting their application. If an application is approved, the production company must sign and return the Qualifying Production Letter to the SC Film Commission within ten business days of the date in the letter.

In order for SC Film Commission to continue to reserve funds for the production and in order for the production company to continue to comply with the terms of the Qualifying Production Letter, the production must meet all of the criteria below:

- The production must start verifiable production activity in South Carolina within sixty calendar days from the date of the Qualifying Production Letter unless stated otherwise in the terms of the letter.
 - Principal Photography must begin within thirty calendar days of the date specified in the Qualifying Production Letter unless stated otherwise in the terms of the letter.
5. The S.C. Coordinating Council for Economic Development (SCCED) was the approving authority for motion picture incentive applications from 2006 through 2008. Members of the SCCED received a summary detailing the spending and benefits of the production as well as a brief description of the motion picture content. Currently, SCPRT's Film Advisory Committee evaluates film projects based on production budget, estimated impact to South Carolina, and other information provided by the SC Film Commission in a Project Summary Sheet. For your reference, an example of a Project Summary Sheet for *Mr. Mercedes*-Season One is enclosed with this letter. In addition, the Film Evaluation Committee reviews project scripts and discusses other qualifying criteria such as the distribution plan for the project and the availability of incentive funds.
 6. Exit interviews are typically conducted with the Unit Production Manager and Producer. Through these exit interviews, the SC Film Commission is able to receive input from a production company regarding their experience working in South Carolina. These interviews also often provide testimonials about working in South Carolina that the SC Film Commission can use in trade publications and the SC Film Commission website. Through the Final Audit process, the SC Film Commission collects detailed data on all spending by the production company both within and outside of South Carolina. This spending data includes all wages and benefits, and a detailed accounting of spending with vendors, including petty cash expenditures such as fuel and other small expenses. This data is used to determine the rebate amounts for a project and ultimately determine production trends such as use of local hires and types of spending. Through a combination of the data collected during the Final Audit and the Exit Interviews, the agency is able to continually monitor the changing needs of motion picture productions and the ability of South Carolina to satisfy those needs locally.

7. In response to this question, the agency would like to clarify that the Film Commission does not focus exclusively on the recruitment of television series or online series projects. Rather, the Film Commission regularly recruits television/online-streaming series and feature films, as well as non-incentivized projects such as TV commercials, web, catalogue and still photo projects. From 2014 through 2017, the Film Commission recruited six feature films, eight television series, and five television pilots.

Given the current levels of appropriations or funding for film incentives, the agency believes that television series provide the best overall impact for the state's film industry. For example, a television series production typically lasts from three to eight months, whereas a feature film production typically ranges from 15 to 44 days. The longer production schedule of a television series provides South Carolina-based crew a steadier source of employment. In addition, television series have greater potential for longer-term employment and, in successive seasons, can result in an increased number of in-state crew hires. Over time, this allows South Carolina-based crew better opportunities to earn positions of higher responsibility (and commensurate pay), ultimately increasing the number of available department heads within the state.

In order to compare the relative impact of television series and feature films, please find below brief project summaries for two recently completed projects: *Mr. Mercedes – Season One* (television series) and *Naked* (feature film).

Naked

Production Days: 33 (10.13.16 – 11.22.16)

Total Qualified SC Spend: \$ 6,286,161

Total Rebate: \$ 3,309,886

Total SC Hires: 858

Total Hotel Nights: 2,482

Mr. Mercedes – Season One

Production Days: 89 (1.09.17 – 5.26.17)

Total Qualified SC Spend: \$14,609,865

Total Rebate: \$7,827,009

Total SC Hires: 967

Total Hotel Nights: 14,916

As demonstrated in these summaries, the feature film had approximately one month of production, while the series had approximately three months of production. The prolonged schedule of the series resulted in a total qualified spend that more than doubled that of the feature film and nearly five times the number of hotel room nights.

Another benefit provided by series, especially those series that last more than one season, is the opportunity for the state to forge close working relationships that positively affect South Carolina's local communities. The longer a series films in a specific location, the more invested and involved it becomes in that location and the local community.

Over the past several years, series productions by ABC, NBC, Lifetime, HBO, and Cinemax have generated several community responsibility projects and charitable funding. For example, HBO and Cinemax contributed significant cash donations to the Mother Emanuel AME Church after the mass shootings in Charleston in 2015. These studios also donated a truckload of water in the aftermath of Hurricane Matthew in 2016. During six of the show's seven seasons, *Army Wives* principal actors

were required by ABC to take part in community non-profit efforts on an on-going basis. These efforts included working with minority children and adults, volunteering at MUSC, and working in a battered women's shelter. At the end of the series, *Army Wives* (ABC/Disney) donated 80 tractor-trailer loads of furniture, clothing, shoes, household goods, and military memorabilia to the local USO. These charitable efforts of the *Army Wives* cast, as well as the cast's increasing fondness for the Charleston area, were memorialized in two behind-the-scene videos that ABC/Disney produced. These videos can be found on the SC Film Commission's website at the following link:
<https://filmssc.com/filming/vault/behindscenes/default.aspx>

Most recently, in the upcoming *Righteous Gemstones* series, HBO will work with the SC Film Commission and Trident Technical College to provide internships for at least eight students during the production.

In summary, while the agency seeks to recruit both feature films and television series equally, it has found that television series carry the greatest potential for long-term, lasting impacts in terms of direct spending, business and crew development, and local community engagement.

8. In order to increase returns to the general fund from the state's investment in film incentives, the state would have to eliminate the Sales and Use Tax Exemption offered to productions that qualify for wage and supplier rebates. Since the state is able to identify the exact amount productions spend in South Carolina, the sales and use taxes from these expenditures could then be redirected directly back into the funds for motion picture incentives. Or, these funds could be redirected to a special "closing fund" for film projects that could be used by the SC Film Commission, at its discretion, to provide additional project funding in the event of insufficient appropriated incentive funds necessary to recruit a project.

Another potential means to increase returns to the general fund is to increase filming activity in South Carolina by providing an optional incentive mechanism for local governments to utilize specifically to recruit motion picture projects. For example, if local governments were given the option to implement a local admissions tax, under the condition that a portion of those local admissions taxes must be used for supplemental motion picture incentives, then counties or municipalities within the state would have the ability to offer additional incentives. This approach could make the state more competitive in film recruitment without requiring additional appropriations from the state's general fund.

I hope that this information and the enclosed reports and documents will adequately satisfy the needs of the Subcommittee. If I may provide any additional information or clarification about any of the information provide in this letter or accompanying documents, please do not hesitate to contact me.

Sincerely,



Duane Parrish

Enclosures

cc: The Honorable Laurie Slade Funderburk
The Honorable Wm. Weston J Newton
The Honorable Robert Q. Williams

PROJECT NAME	TYPE	STATUS	FILE OPENED DATE	FILMED ELSEWHERE IN	PROPOSED SC LOCATION(S)	BUDGET
The Last Full Measure	Feature	Lost / Incentives	7/5/2016	Savannah & Atlanta	Columbia & Charleston	\$13,000,000
American Animals	Feature	Lost / Incentives	8/31/2015	Charlotte	Columbia & Rock Hill	\$8,500,000
When the Street Lights Go On - Pilot (Hulu)	TV Shows / TV Series	Lost / Incentives	2/1/2016	Atlanta	Rock Hill	\$7,500,000
The Divorce Party	Feature	Lost / Incentives	9/9/2016	Savannah	Charleston	\$1,200,000
Preacher - Season 2	TV Shows / TV Series	Lost / Incentives	8/12/2016	Louisiana	Charleston	\$40,000,000
Untitled NBC / UCP	MOWs / Cable Movies	Lost / Incentives	3/15/2017	N/A	Charleston	\$7,000,000
Marvel's Cloak & Dagger (ABC)	TV Shows / TV Series	Lost / Incentives	3/25/2017	Louisiana	Charleston	\$40,000,000
A&E Untitled Series	TV Shows / TV Series	Lost / Incentives	4/11/2017	N/A	Charleston	\$40,000,000
Untitled SONY MOW	MOWs / Cable Movies	Lost / Incentives	4/11/2017	Savannah	Rock Hill	\$7,000,000
Skinny Dip - Pilot (CBS)	TV Shows / TV Series	Lost / Incentives	2/28/2018	New Orleans	Charleston	\$7,000,000
The Act (Universal)	TV Shows / TV Series	Lost / Incentives	4/20/2018	N/A	Rock Hill	\$40,000,000
American Pain (Warner Bros.)	Feature	Lost / Incentives	4/26/2018	N/A	Charleston	\$12,000,000
Sweet Magnolias (Lifetime)	TV Shows / TV Series	Lost / Incentives	5/2/2018	N/A	Charleston	\$30,000,000
Queen Fur (Showtime)	TV Shows / TV Series	Lost / Incentives	5/16/2018	Georgia	Charleston	\$48,000,000
Looking for Alaska (Hulu)	TV Shows / TV Series	Lost / Incentives	5/30/2018	N/A	Rock Hill	\$4,000,000

Sonar Entertainment dba Hodges Productions llc
Mr. Mercedes (wt)
Film Evaluation and Advisory Committee
FILM PROJECT SUMMARY SHEET

Company: Sonar (Hodges) for ATT/Direct TV

Project Number: 17004

Project Name: **Mr. Mercedes**

County: Berkley, Charleston, Richland, Georgetown

Project Qualifies as: 10 part series

Project Summary: Applying for Wage and Supplier Rebates; Sales/Accommodations Tax Exemptions

Project Parameters

Office opens	December 1, 2016
Production Begins (camera):	January 17, 2017
90 principal photo days 60 prep days	
Production Ends:	May 24, 2017
Wrap	June 21, 2017

Project investment:	
Total budget:	\$51,000,000.00
Spend in SC:	\$43,000,000.00

Economic Impact to SC:	
Jobs:	193(technicians) 70% SC 50 (actors) 20% SC 2600 man days (BG) 20 DP

Eligible Expenditures for SC Wage Rebate	
Total Expenditures:	\$32,200,000.00
Estimated Rebate:	\$ 5,500,000.00

Eligible Expenditures for SC Supplier Rebate	
Total Expenditures:	\$11,400,000 .00
Estimated Rebate:	\$ 3,000,000.00

Total Estimated Rebate Dollars:	\$ 8,500,000 .00
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