

JLARC Economic Development Subcommittee Meeting

November 13, 2017

MINUTES

AttendingJLARC Members:

Senator Thomas Norment: Vice-Chairman, Senator Janet Howell, Delegate R. Steven Landes, and Delegate John M. O'Bannon.

JLARC Staff:

Hal Greer, Director; Justin Brown, Senior Associate Director; Kimberly Sarte, Associate Director; Ellen Miller, Chief Analyst for Economic Development; Erik Beecroft, Danielle Childress, Drew Dickinson, Kathy DuVall, Maria Garnett, Paula Lambert, Nathan Skreslet.

Others:

Terance Rephann (Regional Economist with the Weldon Cooper Center for Public Service); Andy Edmunds (Director, Virginia Film Office); Mitch Rosenfeld (Vice President for Operations and Finance, Virginia Tourism Corporation); Stephen Moret (CEO, Virginia Economic Development Partnership); Charles Kennington (Senate Finance Committee staff); Skip Maupai (House Appropriations Committee staff); Mike Woods (Troutman Sanders); Terry Stroud (Virginia Production Alliance); Michael Martz (Richmond Times Dispatch).

The meeting was called to order at 8:35 a.m. by Delegate Landes since both Delegate Jones (Chairman) and Senator Norment (Vice-Chairman) were not present. Delegate Landes then recognized Hal Greer who provided a brief overview of the meeting agenda and introduced Terry Rephann, Regional Economist with the Weldon Cooper Center for Public Service who performed extensive data and economic impact analysis for the JLARC reports. Mr. Greer then introduced Ellen Miller, Chief Analyst for Economic Development, who provided the subcommittee with briefings of the *Economic Development Incentives 2017* and *Evaluation: Film Incentives* reports. The subcommittee members did not have any questions about the *Economic Development Incentives 2017* portion of Ms. Miller's presentation.

Senator Norment commented on the 19 percent reimbursement rate for Virginia's film incentives. He also asked if there is an unquantifiable benefit from tourism when calculating the return on investment. Ms. Miller stated that there is additional tourism that comes from advertising, which is incorporated in the report. Senator Norment also asked if the *Lincoln* or *TURN* films would have come to Virginia without the film incentives. Ms. Miller said that she would not want to speculate on this. Senator Norment then said that Virginia had the assets available for *Lincoln* and for *TURN*, there was the historic triangle. He said that other states would have had difficulty providing these assets because the number of locations around the country with historical venues is limited. Senator Howell said that similarly with the Mercy Street TV series, Alexandria and Petersburg were natural locations.

Senator Norment asked if Virginia should discontinue the film incentives and shift the funding to something with a higher return on investment. He questioned whether we want to have films in Virginia for the money we are paying. Delegate O'Bannon stated that things do not occur in isolation and that neighboring states are competing heavily for film business.

Delegate Landes said it is interesting that the grant program is more effective for films than tax credits, but that the opposite seems to be true more generally. Ms. Miller said that JLARC staff have not done this analysis more broadly. She said this report focuses only on the film industry, and the 2012 JLARC report focused only on incentive grants.

Senator Norment asked who has the authority to determine which production companies receive the incentives. Ms. Miller said that tax credits are decided on by the Film Office, but for grants, the Film Office makes a recommendation which is approved by the Governor. Senator Norment said that for other large incentives, policymakers get together and look at them carefully through the MEI commission. He then asked if there is any independent oversight of the film office and tourism. Ms. Miller said she did not think so and that Andy Edmunds, Director of the Virginia Film Office, will address this in his remarks.

Delegate O'Bannon asked if JLARC staff factored the positive benefits of tourism into the return in revenue calculations. Ms. Miller said that tourism impact is not included in the summary figures presented because JLARC staff felt that they were too speculative.

Senator Howell asked about the report recommendation that the joint subcommittee on tax preferences review the merits of the exemption in achieving a more efficient tax system. She said that she is on that subcommittee and they have not met in months. Ms. Miller said that as an alternative, staff could assess this as part of the next in-depth review, but that it would be six to seven years before the film incentive comes back up in the JLARC review cycle.

Senator Norment said that having some experience with the *Lincoln*, *TURN*, and *John Adams* films, he thinks that one of the positive takeaways is that Tom Hanks was willing to do some public service announcements for the *John Adams* miniseries, however, quantifying the benefit of this is difficult. He continued by saying that the Virginia Tourism Corporation is enthusiastic to bring films to Virginia, but this often depends on the locations, which are assets to the Commonwealth and need to be protected from potentially adverse impacts.

At the conclusion of Ms. Miller's presentation, Senator Norment recognized Andy Edmunds, Director of the Virginia Film Office who provided some remarks to the subcommittee in response to the JLARC reports. He said that the expansion of television channels and networks creates a larger appetite for content and an enormous opportunity for Virginia. In response to Senator Norment's question, he said that he is certain that the film productions would not have come to Virginia without the film incentives. Mr. Edmunds explained that for the *Lincoln* film, the Film Office leveraged the incentives and received the production for much less than what Georgia was offering. He further noted that they received free advertising from *TURN* and *Mery Street*, and that tourism in Alexandria increased by 150 percent after the *Mery Street* series. He also mentioned that *TURN* ran a promotional clip for Colonial Williamsburg 80 times. Mr. Edmunds provided the subcommittee with some additional remarks about other film productions in Virginia and the associated ancillary benefits.

Senator Norment asked if the Film Office would have any objection to having oversight of incentives before deciding whether to offer awards to production companies. Mr. Edmunds stated that the Virginia Film Office would welcome input, but his business operates very quickly so he would not want to slow it down.

Delegate Landes said that the tax credit does not provide as large of a return as the incentive grant, which surprises him. He said that it is the General Assembly's job to make sure Virginia experiences the largest return possible, but the tax credit does not have as big of an impact as he thought. Mr. Edmunds said that all of the tax credit productions were for large, big-budget productions and they were combined with an incentive grant, which makes it difficult to separate the return specific to the tax credit. The grant is also able to build off of the tax credit. He then said that it represents a small sample of 33 projects over a six-year period. Mr. Edmunds further stated that the tax credit has an advantage of being in statute, so production companies are able to count on it.

Delegate Landes asked if JLARC staff looked at how the performance of Virginia's film incentives compares to that of other states. Ms. Miller stated that the evaluation did include looking at other states and Virginia's film incentive return on investment is ranked in the middle. She said that Maryland has a return of six cents in state tax revenue per dollar spent on the incentive, Mississippi has 49 cents per dollar, and Michigan is similar to Virginia.

Senator Howell asked how long the Virginia Film Office has been around and how many people work there. Mr. Edmunds explained that the Film Office is part of the Virginia Tourism Corporation, and has been around for 35 years. He said that five people work at the Film Office.

Following Mr. Edmunds remarks, Senator Norment recognized Mr. Greer again who introduced Stephen Moret, CEO of the Virginia Economic Development Partnership (VEDP), who provided the subcommittee with a presentation update on the implementation of VEDP reforms based on recommendations from JLARC's 2016 report. Mr. Moret stated that he plans to submit a formal progress report to JLARC by the end of December.

Senator Norment said that he has read a number of opinions regarding why Virginia has slipped in the national rankings as a place to do business. He asked what the number one factor is for this change. Mr. Moret said the tax burden on new investment and new firm formation, as well as sequestration impacts are both factors that contribute to the change in Virginia's ranking. He further stated that Virginia's ranking has also dropped based on surveys of business executives.

Senator Norment asked Mr. Moret how he feels about the implementation of the reformulated VEDP. Mr. Moret said he feels very good about the changes and feels VEDP has made a lot of progress, however, there are some places where Virginia is not yet competitive with other states. Delegate O'Bannon thanked Mr. Moret for being willing to come to Virginia and for the progress that he has made at VEDP. Senator Norment concurred with this statement.

Subsequently, Mr. Greer directed the subcommittee's attention to the staff proposal for economic development incentives to evaluate in 2019. Ms. Miller provided the subcommittee with a brief summary of the proposal to evaluate nine incentives for data centers and manufacturers, as well as FY16 spending for the nine incentives. Ms. Miller also noted that Delegate Jones (chairman of the

subcommittee) was in favor of reviewing these incentives. Senator Norment asked if the subcommittee needs to take action on this proposal. Mr. Greer stated that the staff does need approval from the subcommittee to begin this work. Senator Norment stated that the subcommittee approves of the proposed list of incentives to be evaluated in 2019.

There being no further business, the subcommittee adjourned at 9:50 a.m.

Approved by: Hal E Greer
Hal E. Greer, Director

Date: 11/16/17

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