

# SENATE BILL REPORT

## SB 6027

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As of March 26, 2015

**Title:** An act relating to increasing Washington state's motion picture and film industry viability by increasing the tax credit available to certain motion picture activities.

**Brief Description:** Increasing Washington state's motion picture and film industry viability by increasing the tax credit available to certain motion picture activities.

**Sponsors:** Senators Kohl-Welles, Fain, Billig and Benton.

**Brief History:**

**Committee Activity:** Ways & Means: 3/25/15.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Juliana Roe (786-7438)

**Background:** The Legislature created the Motion Picture Competitiveness Program (Program) in 2002 with the intent of maintaining Washington's position as a competitive location for filming motion pictures, television, and television commercials. The Program allows taxpayers that contribute to an incentive fund to receive a credit against their business and occupation (B&O) tax for the full amount contributed. Qualifying production companies that film in Washington can apply for payment from the incentive fund.

The Department of Community, Trade, and Economic Development – now the Department of Commerce, was directed to adopt criteria for an approved motion picture competitiveness program with the sole purpose of revitalizing the state's economic, cultural, and educational standing in the national and international market of motion picture production. The Department of Commerce (Commerce) was also directed to adopt rules, within established criteria, for awarding incentive payments to production companies. Additionally, Commerce was required to create and annually collect surveys from the production companies receiving the incentives, and to provide statistical reports to the Legislature based on the information in the surveys.

The 2006 legislation called for the creation of a nonprofit corporation to administer the incentive payments to production companies. Washington Filmworks, the nonprofit corporation, processes the production companies' applications for incentive payments pursuant to Commerce's rules.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

In December 2010, the Joint Legislative Audit and Review Committee (JLARC) made recommendations to the Legislature based on its review of the effectiveness of the program. Based on these recommendations, the Legislature extended the expiration date of the credit to July 1, 2017. It also modified various parts of the Program including how funding was to be allocated, expanded the purpose of the Program, and capped the statewide B&O tax credit at \$3.5 million per calendar year. The credit is also limited to \$1 million per business per year.

JLARC is currently reviewing the Program again. Its recommendations should be available to the Legislature by December 2015.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** The last day by which B&O tax credits may be earned for contributions to the Program is extended from July 1, 2017, to December 31, 2022.

The annual statewide B&O tax credit cap is increased as follows:

- for calendar year 2016, the credit cap is \$5.25 million;
- for calendar year 2017, the credit cap is \$7 million;
- for calendar year 2018, the credit cap is \$8.5 million; and
- for calendar year 2019 and thereafter is \$10 million.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Filmworks is the private, no-profit entity that manages the state film and production incentive program. Last year the \$3.5 million of funding was exhausted by May. We expect the same will happen this year and plan to announce next week that all the 2015 funds have been exhausted. This is a model incentive program. No money gets paid out of the program until the project has invested in the Washington State economy and jobs have been created. We have a rigorous audit and review process that requires production to provide every receipt and payroll report. This bill is vital to the film industry and it helps provide a foundation for the creative economy.

Over the past two years, 61 unique jurisdictions outside of Seattle and Spokane have been impacted by this incentive. Furthermore, over the last two years, dollars from this program have been for approved projects in every single legislative district. Historically, incentives have been distributed about 50/50 on both sides of the state. Last year there were 14 projects overall that benefited from the incentive. The process by which money is distributed is based on the economic impact and jobs created for Washington workers. The first call Filmworks gets from those in the film industry has to do with Washington's incentive and business plan.

Currently, the location as to where to film the movie – The Boys in the Boat – is being decided between Seattle and Vancouver, B.C.

This incentive has provided many jobs, living wages, health care, retirement, etc. By investing in this program you are investing in people's futures.

Those who work in film have had to adapt to a job market that is now dictated by incentive programs across the country. Within that landscape, the Washington incentive program is the model by which all other programs should be judged. It is the only program that requires health and retirement programs for its employees. It is extremely effective in bringing good-quality family-wage jobs that are depended on. It only rewards instate spending and its employees. The program has been responsible for \$44 million in wages in benefits and a 50 percent increase in my group's membership since its inception.

The breakdown as to who contributes to the program is as follows: professional services contribute about 32 percent, the film industry contributes about 29 percent, hospitality businesses contribute about 18 percent, financial institutions contribute about 11 percent, and others contribute about 10 percent.

A production manager stated that it is difficult to compete with other states like Alabama, for example, that has a \$20 million cap, when we here in Washington have a cap of \$3.5 million. Because of Washington's low cap, 35 percent of my crew have moved to Oregon, New York, and Alabama. We want to bring this money to Washington. The industry is incentivized at the national level. The question is it whether we want to compete in the film industry. People want to film shows and movies in Washington, but it is expensive and many will move to other locations due to better incentives being offered elsewhere. It is frustrating to see projects go elsewhere because the incentive is too low.

One post-production facility that provides back-end services to the films that come through the state employs ten full-time employees, four part-time employees, and several freelancers. Washington State has much to offer the filmmaking business. Filmmaking in Washington has tremendous value due to its diverse locations. But, a competitive incentive program is missing to draw businesses to Washington. This has a large impact on many lives. The return on this investment is tangible and makes sound business sense.

A casting director casts regional actors in lead roles for Z-Nation. This work is being distributed through platforms such as Netflix, Amazon, etc. They are casting 100 percent of the show with Washington preferred actors which is unprecedented.

Companies film in a diversity of locations all over Washington. It is a business that impacts both small and large cities. The industry needs to grow, and it won't if we don't pass this bill.

A local actor with a leading role in Z-Nation auditioned for every part he could for roles that paid only \$100 per day. It is not uncommon to drive back and forth between Washington and Portland for casting calls on various shows filmed in Oregon where they pay a little more. Now, due to Z-Nation and other shows, people have the ability to make a living wage as an actor and pay their bills. People shouldn't have to go to places like Los Angeles and New York to get jobs. They should be able to live and work in Washington so that they can raise

their families in Washington for the quality of life we've all grown accustomed to in this state.

Many people have had to spend time working in other states. Oregon has about a \$10 million fund. Oregon can fund three episodic series in Portland which leads to the people who are involved in the series to pay rent, buy gas and groceries, and generally contribute to their economy.

When making plans, whether that be in filming or manufacturing products, certainty and reliability matter. We want to be able to look into the future and make decisions. The economic development effect that ripples throughout the state – whether it's through restaurants and hotels, or services locally – is greatly needed. The tourism aspect and bragging rights alone, with having motion pictures in the state, is priceless.

**Persons Testifying:** PRO: Kevin Cook, International Alliance of Theatrical Stage Employees Local 488; Greg Smith, Film professional, key grip; Jason McKee, MODEx – founder, VFX Supervisor – Z Nation; Amy Lillard, WA Filmworks; Peter Barnes, Clatter and Din; Mary Russell, Production Manager; David Drummond, Location Manager; Nike Imoru, Nike Imoru Casting; Kate Becker, city of Seattle, Office of Film + Music; Russel Hodgkinson, actor.

**Persons Signed in to Testify But Not Testifying:** PRO: Yujie Zhang, WA film industry; Mary Russell, UPM; Denise Gibbs, film professional, casting director; Vu Le, WA TALENT; Kate Becker, Director, Seattle Office of Film + Music; Lisa Coronado, actress; Dennise Larson, actor.