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February 13, 2015

Janette Millin Young, Chairperson
Economic Development,
Agriculture and Planning
PO Box 1690
St. Thomas, VI 00804

Dear Honorable Janette Millin Young:

Thank you for giving me the opportunity to submit my testimony on bill No. 31-0009 sponsored by Senator Clifford Graham, related to conventional on-location film production incentives production in the VI. I will be able to attend the Committee on Economic Development, Agriculture and Planning meeting on February 23, 2015 to submit my testimony in person. I understand my written testimony will be distributed to all representatives relative to this matter.

I am writing to lend my support to bill No. 31-0009 an act repealing and reenacting with amendment title 29 VI Code, chapter 12 subchapter III as enacted under Bill No. 29-0146, also known as the STARS Act legislation. Upon reading about the STARS Act legislation in the May 9, 2013 article in the Daily News, I was compelled to write a letter to Mr. Fred Handleman, Economic Development Authority Director of Legislature Affairs expressing my concern for the STARS Act as written (see attached letter). My concerns were further amplified after having the opportunity to read the actual STARS Act legislation (bill No. 29-0146).

In my letter to Mr. Handleman I was critical of the of bill No. 29-0146. While I was sure the bill was well intended, it unfortunately missed what I understood was the desired incentive target. In my opinion, in an effort to best salvage the STARS Act would be to repeal the present STARS Act legislation and replace it with a well thought out workable piece of legislation. To do this, I strongly advised that those drafting the revised legislation draw on the expertise of film and music industry professionals, who are knowledgeable in the area of incentive programs. Their input would be invaluable as to how the most effective incentive programs work.

In addition, I stated there is no reason to "recreate the wheel", as there are a number of excellent examples of successful film/TV industry tax incentive programs in the states and in the Caribbean such as in Georgia, Montana, Louisiana, Puerto Rico, Dominican Republic and Trinidad & Tobago, to name a few. These programs are reaping financial, promotional and related benefits from visiting production companies without an encumbrance of an over abundance of "red tape" (time killer) that is evident in the existing STARS Act rules and regulations. The fact is, the degree of red tape will make the incentive program unworkable for most, and will damage the VI's reputation as a host for productions in the eyes of the very industry it desires to attract.

My letter concluded by saying what is needed is a common sense realistic piece of legislation that minimizes the EDA administrative red tape of the incentive program, in order to best serve the interest of the film/music industry and that of the VI. A tax incentive program to help encourage film/music production in the VI is a step in the right direction. However, in taking that step let's be sure and get it right and to do so, we need to involve those who know what is needed in creating the best possible program.

To this, I am pleased to say those who took part in the drafting of bill No. 31-0009, hit the nail on the head. It is evident by the insightful amendments and reenactment in bill No. 31-0009 that considerable research and professional input from entertainment industry representatives was obtained to produce a tax incentive program that makes sense and can work for all.

My interest in the STARS Act legislation is based on my deep interest in the ongoing development of the film/TV industry in the VI. Thus, I strongly believe, after reading both STARS Act bills, that bill No. 31-0009 is vastly superior. While I don't profess to be an expert on tax-related economic incentives for the film/entertainment industry, I do have considerable hands-on working experience with the film industry in terms of attracting film/TV productions to the VI and facilitating their needs. My film/TV experience in the VI covered 20 years of which 17 years were spent as the Assistant Director of Film Promotion Office (FPO) in the VI Tourism Department of which I co-founded and co-wrote the legislation creating the office in 1973, and also was one of the founders of the Association of Film Commissioners.

In the ensuing years after my departure from the FPO, I have made it my business to stay informed as to the growth of the film offices, also known as "film commissions" throughout the US and around the world. When the VI FPO was established in 1973 there were only seven such offices in the US compared to over 100 today, so there was minimal competition and little need to offer tax and economic incentives to the film/TV industry during the 70's & 80's.

Evolution of the Tax and Economic Incentive Programs for the Film/TV Industry

As the TV and film industries grew through the 1990s, so did concern over runaway productions, TV shows and films that are intended for a US audience but are filmed in other countries, in order to reduce production costs. The issue of runaway productions gained further traction after Canada adopted a movie production incentive program in 1997. Also in the 1990s, U.S. states saw the opportunity to launch their own production incentives as an effort to capture some of the perceived economic benefits of film and TV production. Louisiana was the first state to do so in 1991, and in 2002 passed legislation to further increase the scope of its incentives. Over the next three years, Louisiana experienced an increase in film and television productions. The success of Louisiana's incentive program did not go unnoticed by other states, and by 2009 the number of states which offered incentives was 44, up from 5 in 2002.

Film production incentives are tax benefits or cash rebates offered on a state-by-state basis throughout the U S to encourage in-state film production. These incentives came about in response to the flight of movie productions to other countries such as Canada. Since then, states have offered increasingly competitive incentives to lure productions away from other states. The structure, type, and size of the incentives vary from state to state. Many include tax credits and exemptions, and other incentive packages include cash grants, fee-free locations, or other perks. Proponents of these programs point to increased economic activity and job creation as justification for the credits.

Proponents of production incentives for the film industry point to increases in job creation, small business and infrastructure development, the generation of tax revenue, and increased tourism as positive byproducts of the incentives. Supporters also maintain that incentives are a net benefit to the states because they attract productions that would have gone elsewhere did they not exist and that they pay for themselves with the increased tax revenue that they foster.

In Louisiana, for instance, after the production incentive bill was passed in 2005, the industry grew from supporting 5,437 jobs and having \$7.5 million in output in 2003 to supporting 18,882 jobs and producing \$343.8 million in output in 2005. Similarly, according to comptroller Thomas DiNapoli, New York has seen a \$7 billion influx into the state's economy between 2004, when the incentives were instituted, and 2008. During that same period, the number of motion picture, video production, and post-production jobs also rose by 14.2%

The offering of tax and other related economic incentives to attract film/TV related-production has grown dramatically over the past 10 years from a competitive perspective. Today over 42 states and 30 countries offer production incentives in some form or another. In order for the VI to be on the cutting edge of attracting film production, it must demonstrate it is receptive to the particular business needs of the film industry of today, as it is no longer enough to just offer good locations and basic services. The offering of tax and economic incentives as part of the VI FPO marketing package can be a major factor in attracting more productions to the VI.

The problem with the economic incentive programs presently available in the VI (title 29 VI Code, chapter 12 subchapter III Act No. 7344) is they are tailored to businesses that locate in the VI on a long term bases, whereas the vast majority of film related production companies are in a community for comparatively a short time. Also, the laws governing tax or other related economic incentives can be complicated, inflexible and time consuming. Most companies will not be able to qualify or they will likely be turned off by the time consuming red tape.

I was never a big proponent offering tax and related economic incentives to the entertainment industry, in effort to attract production to the VI, until well after my time as Assistant Director of the FPO. I changed my position on the tax incentive issue due to the fierce competition from the growing number of states as well as our Caribbean neighbors offering tax incentives. It is a matter of common sense the VI must embrace a strong tax incentive program for the entertainment industry, if it expects to compete for productions. Bill No. 31-0009, in my view, clearly offers the VI the best opportunity to be successful.

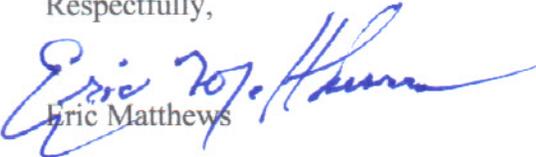
The competition will become even more challenging now that the sleeping giant "Hollywood" has woken-up. A bill to lure filmmakers into California with significant tax incentives for the entertainment industry passed unanimously in the state Assembly in May of 2014 and was subsequently signed into law by Governor Jerry Brown. Assembly member Scott Wilk, who co-authored the bill, has promoted the measure as a way to create and retain jobs by sweetening the pot for the film industry, which he said has been migrating outside of California, since the late 1990's because of better tax credits offered elsewhere. The California Film Commission is in charge of dispensing and administrating the tax credits program.

While having a strong tax incentive program in place can play a major role in attracting productions, they are only effective as the marketing team that supports the program. The success of the tax incentive program is contingent on three core factors (1) A strong director of the FPO with a wealth of experience in handling film-related productions in the VI, such as we have in Steve Bornn and able support staff, (2) Establish a clear and responsive chain of command between the Department of Tourism Film Promotion Office, ED&A and the Governor for reviewing tax incentive applications, (3) Retain the services of a part-time rep in LA knowledgeable of the film/TV industry, filming on location in the VI and capable of marketing the VI tax incentive program to the industry.

In closing, assuming the VI has a workable film/TV/music tax-related incentive program in place, the VI must be ready to hit the ground running by pulling out all marketing stops in order to gain the attention of the entertainment industry.

Although long overdue, this legislation (Bill 31-0009) couldn't have come at a better time: a very critical time when we need to diversify and grow the economy more than ever!

Respectfully,


Eric Matthews

cc: Clifford Graham, Senator
David Bornn, Attorney

encl.

**Eric Matthews
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May 20, 2013

Mr. Fred Handleman
Economic Development Authority
Director of Legislative Affairs

Dear Mr. Handelman:

This letter is in response to the May 9th article in the Daily News on the EDA tax incentive programs as it relates to the STARS Act legislation. I will not be able read the draft of the proposed EDA's rules and regulation in its entirety as I am traveling out of the territory throughout the month of May. Based on what I have read, I would like to voice my opinion on the STARS Act and the rules and regulation reflected in the Daily News.

I have a deep caring interest in the development of the film/TV industry in the VI. My interest in the STARS Act and subsequent administration of the rules and regulation stems from my years working in film and TV industry in LA and the VI. My film/TV experience in the VI covered 20 years of which 17 years were spent as the assistant director of Film Promotion Office in the VI Tourism Department of which I co-founded and co-wrote the legislation creating the office in 1973.

The STARS Act could be a valuable law in helping to advance the film and music industry in the VI as I am sure it is well intended but it unfortunately, misses what I understand is the desired incentive target. In my opinion, in an effort to best salvage the STARS Act, while extreme would be to repeal the present STARS Act legislation and replace it with a well thought out workable piece of legislation. To do this, I would strongly advise that those drafting the revised legislation draw on the expertise of film and music industry professionals, who are knowledgeable in the area of incentive programs. Their input would be invaluable as to how the most effective incentive programs work.

In short, there is no reason to "recreate the wheel", as there are a number of excellent examples of successful film/music tax incentive programs in the states and right here in the Caribbean such as in Georgia, Montana, Puerto Rico, Dominican Republic, Trinidad & Tobago to name a few. These programs are reaping financial, promotional and related benefits from visiting companies without the encumbrance of all the "red tape" (time killer) that is so evident in the existing STARS Act. The fact is, the red tape will make the incentive program unworkable for most, and will further damage the VI's reputation as a host for productions in the eyes of the very industry it desires to attract.

What is needed is a common sense realistic piece of legislation that minimizes the EDA administrative red tape of the incentive program in order to best serve the interest of the film/music industry and that of the VI. A tax incentive program to help encourage film/music production in the VI is a step in the right direction. However, in taking that step lets be sure and get it right and to do so, we need to involve those who know what is needed in creating the best possible program.

Thank you for the opportunity to express myself on this important matter.

Respectfully,


Eric Matthews