



Minnesota Film and TV Board

The Legislature needs to clearly articulate its expectations for the state's film production jobs program, fund the program accordingly, and hold the Minnesota Film and TV Board accountable for meeting the Legislature's expectations.

Key Facts and Findings:

- The Minnesota Film and TV Board is a private, nonprofit corporation that receives state funds for its operations and to administer the film production jobs program. The Department of Employment and Economic Development (DEED) oversees state funding to the board.
- The Legislature has not been clear about its expectations of the board or the film production jobs program, making state oversight challenging.
- The 2015 appropriation for the film production jobs program—\$5 million—was similar to funding in a sample of states, although it was still below funding in most states with film incentives.
- Thirty productions approved for Minnesota incentives in fiscal year 2014 received almost \$1.2 million and spent over \$5.5 million in the state.
- These productions provided work for an estimated 496 Minnesotans, most of whom worked ten days or less on assisted projects.
- When Legacy Arts and Cultural Heritage funds supported the film production jobs program, the board stayed within its approved budget but exceeded the administrative expenses allowed by the law that governs the program.
- Most of the productions that the board approved for rebates between July 2013 and December 2014 were television commercials, postproduction-only projects, or low-budget films.
- The Minnesota Film and TV Board staff thoroughly review productions' expenditures before forwarding them to DEED for reimbursement.
- The board has created eligibility criteria for the film production jobs program that may limit job creation, and two criteria were not clearly permitted by law.

Key Recommendations:

- In statutes or appropriation laws, the Legislature should write clear expectations for operations grants to the Minnesota Film and TV Board and for the state's film production jobs program.
- The Legislature should fund the film production jobs program at a level consistent with its expectations, and the board should administer the program consistent with those expectations.
- The Minnesota Film and TV Board and DEED should develop grant agreements that include clear board duties and measurable goals.
- The board should report completely and accurately on its activities and achievements related to state grant funds.

Report Summary

The Minnesota Film and TV Board is a private, nonprofit corporation. Acting as the state's film commission, its purpose is to support and facilitate the film and television industry and production in the state. For example, the board helps producers find Minnesota acting talent and crew members who work in the industry. It also helps producers identify filming locations and obtain permits to film in specific locations.

The state began funding board operations in the fall of 1983. For the past several years, the Legislature has granted \$325,000 per year for board operations. The board must match \$1 from nonstate sources—either in cash or in kind—for every \$3 of state funding.

The board also administers the state's film production jobs program. The program is intended to support productions that create new jobs for Minnesotans who work in the film and television industry.

The film production jobs program provides a rebate to film productions that meet eligibility criteria. The rebate equals 20 or 25 percent of production-related expenses. Certain expenses, such as alcohol and tobacco, are not eligible for rebate. Minnesotans' wages and some nonresident wages are eligible.

The Legislature has provided inconsistent funding for the film production jobs program. The Legislature appropriated \$10 million for the program for the 2014-2015 biennium. This funding level exceeded all previous funding for the program combined. The fiscal year 2015 appropriation of \$5 million was similar to funding for a sample of other states' programs, but was below funding in most other states with film incentive programs.

Currently, the Department of Employment and Economic Development (DEED) provides

oversight for state grants to the board. Since fiscal year 2010, Explore Minnesota Tourism and the Department of Administration have provided oversight at different times.

The Legislature and state grant agreements have not been clear about expectations for board operations grants or the film production jobs program.

State grants to the board are legislatively mandated. That is, the Legislature has named the board to receive or administer the grant funds. Ideally, grantee duties in agreements for legislatively mandated grants are based in part on legislation. Appropriation language for the operations grant has stated only that the grant is for the board.

When the Legislature is not clear about its expectations, the state oversight agency may be unable to judge whether the board's proposed activities are consistent with legislative expectations. The fiscal year 2010 through 2013 operations grant agreements between the state and the board specified grantee duties by incorporating the board's annual work plans. The work plans did not identify which items were board duties under the state grant agreement.

The board's current operations grant agreement with DEED includes fewer but more concrete duties. The agreement lists six finite duties. They include, for example, (1) launch Snowbate, (2) increase the listings in the Minnesota Production Guide, and (3) produce and distribute three to five Minnesota film location and incentive marketing trailers.¹

Regarding the film production jobs program, the Legislature has left many program details to the Minnesota Film and TV Board. For example, the board approves program eligibility criteria developed by its Snowbate Operations Committee.

¹ "Snowbate" is the name the Minnesota Film and TV Board has given the state's film production jobs program.

The board’s eligibility criteria for the film production jobs program may be limiting the program’s ability to realize some film-production benefits, but state funding of the program is likely a contributing factor too.

States offer film incentives to obtain a range of benefits attributed to incentives, including (1) job creation, (2) spending “on Main Street,” (3) other production-related spending, (4) tourism, and (5) tax revenue. Different types of projects will yield more or less of each benefit.

The board has set low minimum spending requirements for productions. Television commercials, postproduction-only projects, and low-budget films accounted for most projects that the board approved for incentive funds in fiscal year 2014. Several people we spoke to said that low-budget films do not create jobs that pay well. Postproduction-only projects include little spending “on Main Street” beyond the postproduction businesses themselves. And we question the ability of any of these types of projects to induce significant tourism in the state.

The Legislature’s funding of the program may also be affecting the ability of the state to attract larger-budget films or television series.

We question whether two eligibility criteria the board developed are consistent with the state law that governs the film production jobs program.

The film production jobs program has a standard reimbursement rate, but state law specifies that productions can receive a higher rate if they meet criteria related to higher spending or filming outside the Twin Cities metropolitan area.

When the Legacy Arts and Cultural Heritage fund supported the film production jobs program in fiscal years 2012 and 2013, the board approved criteria that allowed reimbursement at the higher rate for productions in which

three of the top five highest paid positions were held by Minnesotans. All productions that received a rebate during this time qualified for the higher rate based on this criterion.²

Currently, board criteria allow the higher reimbursement rate when a postproduction-only project spends at least \$200,000 in Minnesota. According to state law, the minimum spending needed to receive the higher reimbursement is \$1 million unless the production occurs outside the Twin Cities metropolitan area.

Minnesota Film and TV Board staff appear to submit accurate requests for operating funds to the state and thoroughly review expense reports submitted by productions approved for film production jobs rebates.

State oversight of the Minnesota Film and TV Board has focused on financial issues. State agencies have, for example, verified that the board meets the private-match requirement, that the board’s expenditures are consistent with grantee duties and the law, and that the board has sufficiently reviewed reimbursement requests submitted by production companies to receive incentive funds.

Agency staff found few problems during their reviews. DEED staff indicated that the board’s documents were consistent and accurate and that they have found only minor errors. The staff person from Explore Minnesota Tourism commented that the board’s incentives specialist and financial administrators showed attention to detail. The staff person at the Department of Administration who oversaw the grant said he found only minor issues during his oversight of the board’s grant.

In our review of productions’ files, we saw evidence that the incentives specialist completed detailed reviews of expenditure

² At that time, the standard rate was 15 percent and the higher reimbursement rate was 20 percent.

reports. Files contained correspondence between the board's incentives specialist and production companies questioning and resolving some expenses.

However, we noted a problem with the board's administrative expenses during one grant period.

Board administrative expenses for the film production jobs program under one of the grant agreements exceeded the limit in state law. State law limits the program's administrative expenses to 5 percent of appropriations for the program in any year.

The board's administrative costs for the film production jobs program were between 6 and 13 percent of the Legacy Arts and Cultural Heritage fund appropriation. The Department of Administration retained an additional percentage.³

The board stayed within the budget approved by the Department of Administration, but the approved budget exceeded the amount allowed by the law that authorizes the film production jobs program.

The Minnesota Film and TV Board's grant reports have been incomplete, inaccurate, and potentially misleading.

As part of its grantee duties, the board has created annual and sometimes mid-term grant reports. These reports have not fully reflected the scope of the board's work.

In some cases, the board's grant reports have included inaccurate information. These inaccuracies appear to be errors rather than deliberate misreporting. As a case in point, the board's calculations related to full-time-equivalent jobs (FTEs) associated with projects have been imprecise and, at times, inaccurate. For example, the board's reports of FTEs associated with projects assisted by the incentive program include principal performers who do not live in Minnesota. At this time, the impact of including non-Minnesotans in FTE calculations is limited because few projects have employed non-Minnesota principal performers.

³ The appropriation law permitted the department to retain 1 percent of granted funds for administration. *Laws of Minnesota 2011*, First Special Session, chapter 6, art. 4, subd. 6.

Summary of Agency Response

In a letter dated March 31, 2015, the Minnesota Film and TV Board's Executive Director, Lucinda Winter, said "[t]he Board does not take issue with the majority of the report's key facts and findings" or its key recommendations. She highlighted a challenge to attracting studio features and scripted television series that is noted in the report: "inconsistent funding of the film production job program and low levels of funding relative to other states."

At the same time, Ms. Winter commented on several findings. In response to findings about the film production jobs program when it was supported by the Legacy Arts and Cultural Heritage fund, she described the board's extensive consultation with the Office of Grants Management. Ms. Winter noted that low minimum spending requirements for current program eligibility are consistent with program funding and help workers gain experience "from working on smaller projects that may pay less, but provide invaluable on-the-job training and opportunities to build a resume." She also defended postproduction-only project eligibility, saying "post production houses create high paying, highly skilled jobs." Finally, Ms. Winter objected to the evaluation's characterization of the board's grant reporting as incomplete, inaccurate, and potentially misleading, noting that the board has "consistently and promptly" responded to grant managers' requests for information.

The full evaluation report, *Minnesota Film and TV Board*, is available at 651-296-4708 or:
www.auditor.leg.state.mn.us/ped/2015/filmboard.htm