

City of Fayetteville Staff Review Form

2020-1046

Legistar File ID

12/15/2020

City Council Meeting Date - Agenda Item Only
N/A for Non-Agenda Item

Devin Howland

11/23/2020

ECONOMIC DEVELOPMENT (050)

Submitted By

Submitted Date

Division / Department

Action Recommendation:

A RESOLUTION TO AUTHORIZE THE REMITTANCE OF \$500,000 TO RANDOM PRODUCTIONS LLC FOR THE PRODUCTION OF TRUE DETECTIVE SEASON THREE IN FAYETTEVILLE AND TO APPROVE A BUDGET ADJUSTMENT.

Budget Impact:

1010.090.6600-5315.00

1010 - General Fund

Account Number

Fund

20021

Economic Development (True Detective Series)

Project Number

Project Title

Budgeted Item? No

Current Budget \$ -

Funds Obligated \$ -

Current Balance **\$ -**

Does item have a cost? Yes

Item Cost \$ 500,000.00

Budget Adjustment Attached? Yes

Budget Adjustment \$ 500,000.00

Remaining Budget **\$ -**

V20180321

Purchase Order Number: _____

Previous Ordinance or Resolution # _____

Change Order Number: _____

Approval Date: _____

Original Contract Number: _____

Comments:



MEETING OF DECEMBER 15, 2020

TO: Mayor and City Council
THRU: Susan Norton, Chief of Staff
FROM: Devin Howland, Director of Economic Vitality
DATE: November 23, 2020

SUBJECT: A Resolution Authorizing the Remittance of \$500,000 to Home Box Office to produce True Detective Season Three in Fayetteville and to approve a budget adjustment

RECOMMENDATION:

Staff is recommending approval of a resolution authorizing the remittance of \$500,000 to Home Box Office for the production of True Detective Season Three in Fayetteville.

BACKGROUND:

On Oct. 3, 2017 the Fayetteville City Council passed Resolution 211-17 (attached), expressing its intent to participate in funding for a network episodic television series which would be filmed in Fayetteville. Shortly after passage of the resolution, it was announced the production was the award-winning HBO series *True Detective*.

This project highlighted the economic engine behind the creative economy, showcased the best of national and local talent and infused tens of millions of dollars into our City's economy. *True Detective Season Three* is the largest film production in Arkansas's history; the economic impact and ancillary benefits of this production demonstrates the importance of the creative economy as an economic driver in Fayetteville.

DISCUSSION:

Because the City of Fayetteville was a funding partner in this project, the Arkansas Film Commission gave the City's Department of Economic Vitality staff access to the project's performance report and the production's expenditure schedules. These reports are protected by Arkansas law and are not available for public review. However, staff was given access to confirm expenditures in the community as justification for the remittance of the incentive. City staff spent several days with the reports, which included more than 92,000 lines of data. The information in the following sections was confirmed by City staff, who have validated through internal calculations and attest to the accuracy of the information.

PRIVATE SECTOR BENEFITS:

Employment Opportunities and Payroll:

Within Resolution 211-17, staff estimated more than 200 members within the production. While the static crew was nearly fifty percent more than estimated, more than 1,895 Arkansas residents participated within the cast and crew (receiving payment), greatly exceeding staff's original estimation. Local creative economy professionals also contributed to the series, highlighting the talent available in Fayetteville for future productions.

The quality of talent was noted during a media event on Aug. 17, 2018 by the series creator and writer Nic Pizzolatto, Executive Producer Scott Stephens and lead actor Mahershala Ali. The interviews can be viewed on KNWA's YouTube page.

While specifics of payroll cannot be disclosed, staff can attest that the project met and exceeded payroll estimations of \$37.6M projected in Resolution 211-17.

PUBLIC SECTOR BENEFITS:

Direct Economic Impact via Tax Revenue received by the City of Fayetteville:

While production schedules cannot be disclosed, staff did have the opportunity to review the entirety of the schedules which included more than 92,000 lines of spending data. Economic Vitality staff reviewed this information and can confirm its accuracy. On Oct. 3, 2017, City staff estimated direct tax revenue to be \$709,000. During the meeting, staff derived these estimations from the following categories:

- Direct expenditures such as materials, costumes and equipment
- Lodging, restaurants and per diem allotments
- Fuel Purchases

Staff's review of expenditures did not calculate the following areas due to the inability to distinguish the zip codes where the sale was made:

- Airline tickets
- Rental cars

Staff found that direct tax impact to the City of Fayetteville exceeded its estimate of \$709,000.

Residual Spending (not tracked) and Induced and Indirect Impact via Tax Review received by the City of Fayetteville:

One item which cannot be observed through production schedules or within the AEDC Performance Report is that of induced and indirect economic impact from the production, as well as residual spending by the crew not tracked within the schedules. The inability to review or track induced and indirect impact is the reason economic modeling is conducted by trained economist.

What is induced and indirect impact? According to The University of Alabama, “The indirect impact includes local industries buying goods from other local industries. The cycle of spending works its way backward through the supply chain...” Induced economic impact is defined by the University of Alabama as “The response by an economy to an initial change (direct effect) that occurs through re-spending of income received by a component of value added.” Examples of the types of spending covered in induced and indirect impact are:

- Expenditures from tourism stemming from the production
- Expenditures between businesses stemming from production activity
- Expenditures from the production not tracked in production schedules such as:
 - Grocery shopping
 - Eating and drinking out
 - Shopping for health and wellness items
 - Entertainment expenditures and recreation

In 2017, the Film Commission provided the City of Fayetteville with an Economic Research Associates (ERA)- Arkansas Film Economic Impact Study (conducted by the Arkansas Institute for Economic Advancement). The results of the model which was conducted in 2017 are show in the table below:

ITEM	FIGURE
Total Budget	\$69,851,849
Additional Spending	\$64,263,701
Earning’s Direct Spending	\$15,367,407
Induced/Indirect	\$26,543,703
Additional Sales Tax	\$1,676,444
Total Spend+Impact	\$177,703,104
FTE Jobs	985
FTE Wage Average	\$34.00

Using the same basis from 2017 and having reviewed the entirety of the production reports and AEDC performance report, staff confirms an estimated \$26,500,000 in induced and indirect spending in the economy as a result of this production. Maintaining the same conservative position staff took in 2017, staff is only assuming 1/4th was spent in Fayetteville, roughly \$6.6M in additional expenditures for tax revenue of \$200,000 for this item alone. When combined with tax revenue from direct expenditures discussed in the previous section, this brings confirmed tax revenue close to approaching \$1M, as an extremely conservative metric.

Promotion and awareness of Fayetteville for Tourism and future Film Projects:

The City of Fayetteville enjoyed a wide array of media coverage from outlets across the nation when it became the backdrop for the third season of *True Detective*. On Oct. 3, 2017, Arkansas Film Commissioner Chris Crane told the City Council that Fayetteville and Northwest Arkansas would be characters in the series and shown in a positive light. This was most certainly the case as the series highlighted some of the most cherished locations in Fayetteville and throughout the region. Staff sees great value in not only the many references to Fayetteville within the

series, but also the positive references made during post-production interviews with producers and actors, including lead actor Mahershala Ali. Department of Economic Vitality staff have met with subsequent productions filmed in Fayetteville and the region after *True Detective* concluded. One of the production companies explained that they became aware of the region as an opportunity to film following HBO's success filming here.

Establishing infrastructure for the future:

Fayetteville quickly had to establish a permit and review process to accommodate the production to accommodate the dozens of filming locations across the City. The Fayetteville Film Permit process was established to provide timely review and expedited assistance to this and future productions, large or small. The permit process requires robust communication, something staff noticed HBO excelled at when it filmed in an area. The Film Permit has gone on to be used by local professional filming companies, commercial producers and even High School students making productions for their courses.

ANCILLARY BENEFITS:

Supporting local and giving back:

One of the highlights of the production was its intentionality toward supporting local Fayetteville businesses and non-profits. In addition to the production's daily support of local restaurants, many of the set, props and wardrobe came from Fayetteville small businesses as well. Nine tractor-trailer loads of purchased material was donated back to thrift stores such as the Salvation Army on 1645 S. West Ave. The Salvation Army went on to sell these items to residents who wanted to retain a piece of the production.

Retaining talent:

While most of the production's workforce were Arkansas and Northwest Arkansas residents (1,895 including extras and stand ins), many production professionals who traveled here from out of state made the decision to stay here permanently. These new residents contribute to Fayetteville's skilled creative workforce, making it even more attractive to future productions. *True Detective* also provided an opportunity for creative professionals and artists to have their work shown on a global stage. Arkansas Film Commissioner Chris Crane has commented that this project was also about Arkansas exporting content, not just content developers. And as we look to the future of economic vitality, the rise of digital content production and future film projects should be an integral part of Fayetteville's strategy to continue growing and leveraging its robust creative economy.

With the passage of 211-17, the Fayetteville City Council believed such an investment would pay off in ways beyond direct economic impact and demonstrate that Fayetteville can host large scale productions of this caliber in the future. The City was fortunate to have one of the world's foremost production companies operating within it for nearly a year. Its benefits have continued, and subsequent productions have followed.

BUDGET/STAFF IMPACT:

\$500,000 from reserves will be used to remit the payment.

Attachments:

Resolution 211-17

Letter of Support from the Fayetteville Chamber of Commerce



113 West Mountain Street
Fayetteville, AR 72701
(479) 575-8323

Resolution: 211-17

File Number: 2017-0525

NETWORK EPISODIC TELEVISION SERIES:

A RESOLUTION TO EXPRESS THE CITY COUNCIL'S INTENT TO PARTICIPATE IN FUNDING FOR A NETWORK EPISODIC TELEVISION SERIES BEING FILMED IN FAYETTEVILLE IN AN AMOUNT NOT TO EXCEED \$500,000.00 OVER A TWO-YEAR PERIOD

WHEREAS, the City of Fayetteville has been presented with an opportunity to participate in funding a network episodic television series to be filmed in Fayetteville; and

WHEREAS, a series of this size and caliber would have a very positive impact on the City of Fayetteville, our local business and the local economy; and


WHEREAS, the project has the support of the Arkansas Economic Development Commission, Governor Asa Hutchinson, the Fayetteville Chamber of Commerce, and the Fayetteville Convention & Visitors Bureau.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAYETTEVILLE, ARKANSAS:

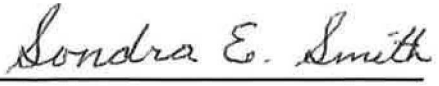
Section 1: That the City Council of the City of Fayetteville, Arkansas hereby expresses its intent to participate in funding for a network episodic television series being filmed in Fayetteville in an amount not to exceed \$500,000.00 over a two-year period.

PASSED and APPROVED on 10/3/2017

Approved:


Lioneld Jordan, Mayor

Attest:


Sondra E. Smith, City Clerk Treasurer





City of Fayetteville, Arkansas

113 West Mountain Street
Fayetteville, AR 72701
(479) 575-8323

Text File

File Number: 2017-0525

Agenda Date: 10/3/2017

Version: 1

Status: Passed

In Control: City Council Meeting

File Type: Resolution

Agenda Number: C. 5

NETWORK EPISODIC TELEVISION SERIES:

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BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAYETTEVILLE, ARKANSAS:

Section 1: That the City Council of the City of Fayetteville, Arkansas hereby expresses its intent to participate in funding for a network episodic television series being filmed in Fayetteville in an amount not to exceed \$500,000.00 over a two-year period.

City of Fayetteville Staff Review Form

2017-0525

Legistar File ID

10/3/2017

City Council Meeting Date - Agenda Item Only
N/A for Non-Agenda Item

Devin Howland

9/15/2017

ECONOMIC DEVELOPMENT (050)

Submitted By

Submitted Date

Division / Department

Action Recommendation:

APPROVAL OF A RESOLUTION OF INTENT TO PARTICIPATE IN FUNDING FOR A NETWORK EPISODIC TELEVISION SERIES BEING FILMED IN FAYETTEVILLE FOR AN AMOUNT NOT TO EXCEED \$500,000 OVER A TWO YEAR PERIOD.

Budget Impact:

Account Number		Fund	
Project Number		Project Title	
Budgeted Item?	No	Current Budget	\$ -
		Funds Obligated	\$ -
		Current Balance	\$ -
Does item have a cost?	NA	Item Cost	
Budget Adjustment Attached?	No	Budget Adjustment	
		Remaining Budget	\$ -

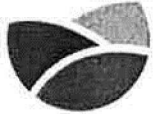
V20140710

Previous Ordinance or Resolution # _____

Original Contract Number: _____

Approval Date: _____

Comments:



MEETING OF OCTOBER 3, 2017

TO: Mayor and City Council
THRU: Don Marr, Chief of Staff
FROM: Devin Howland, Director of Economic Vitality
DATE: September 15, 2017
SUBJECT: Network Episodic Television Series (Eight Episodes) funding for production in Fayetteville

RECOMMENDATION:

City Staff is recommending the approval of a resolution of intent to participate in funding for a Network Episodic Television series in Fayetteville Arkansas not to exceed \$500,000- with \$250,000 being spent in 2017 and \$250,000 being spent in 2018.

BACKGROUND:

The Fayetteville Chamber of Commerce and the Arkansas Film Commission within the Arkansas Economic Development Commission contacted the City of Fayetteville in July of 2017 regarding a potential Network Episodic Television series being filmed in Fayetteville Arkansas. Arkansas is currently in a competition with another state for the project. This resolution of intent will serve as a piece of the total incentive package being developed by the Arkansas Economic Development Commission. This project has the support of Governor Asa Hutchinson, the Arkansas Economic Development Commission, the Fayetteville Chamber of Commerce and the Convention and Visitors Bureau.

DISCUSSION:

A film series of this size and caliber will have a very positive economic impact on the City of Fayetteville, our local businesses and our economy. There are both economic and ancillary benefits to this project. On the economic side, film incentives create both short-run and long-run economic and fiscal benefits that include increased tourism, development of film industry infrastructure such as studios and service providers, and attraction of production activities. The benefits also transcend both the public and private sectors:

- Private Sector Benefits:
 - Additional jobs in the City of Fayetteville
 - Increased payroll in the community
 - Increased spending in our retail, service, accommodation, and lodging establishments
- Public Sector Benefits:
 - Promotion of the City of Fayetteville

- Increased sales and HMR tax revenue
- Quality jobs for Fayetteville residents
- Unique educational opportunity for students interested in film

The Arkansas Economic Development Commission commissioned studies on the economic impact of film projects, the study was conducted by the Institute for Economic Advancement. The study found that for each dollar spent in the industry, there is an additional \$0.91 generated elsewhere in the state economy through output impact. These output impacts will create a multiplier effect in the City of Fayetteville economy. Using this study, AEDC has calculated a total economic impact of \$177,703,104.

This series production has a total budget of \$70,000,000 and will take place over a nine-month period. The entire production crew totals over 236 people with a total payroll of \$37,676,319. The entire production crew will be lodging and spending their income in our local businesses. Over 100 jobs will be filled locally, these jobs offer extremely high wages for a nine-month period. Many of these jobs will be filled by Fayetteville residents who will not only receive quality compensation, but the experience of a lifetime.

Fayetteville's businesses will also benefit greatly from this project, with an estimated amount of \$19,847,938 being spent locally on materials. This total does not include production crew expenditures for lodging, meals, services, and retail shopping.

Lastly, the City of Fayetteville will be showcased in a beautiful light- bringing global attention to our community. The Mayor's office is excited about the opportunity welcome this network episodic television series to our community as well as the economic benefits of the series being filmed in Fayetteville. Staff believes this type of project will bring global awareness to our community, and increase sales and HMR tax revenue and have a very positive impact on our economy.

BUDGET/STAFF IMPACT:

\$250,000 will be deducted from reserves in 2017 and \$250,000 will be deducted from reserves in 2018.

Attachments:

Exhibit A: Economic Impact Model Results

ERA Model Results: Network Episodic Television Series

Budget	\$69,851,849
Additional Spending	\$64,263,701
Earnings Direct Spending	\$15,367,407
Induced/Indirect	\$26,543,703
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Economic Research Associates- Arkansas Film Economic Impact Study

Based on the impacts in output, earnings and employment in the motion picture and video production industries, the following implications and conclusions may be drawn:

• **Output Impact:**

The total impacts for the State of Arkansas are about \$1.9 million based on the estimated expenditures of \$1 million. For each \$1 dollar spent in the industry, there is an additional \$0.91 created elsewhere in the State economy through induced and indirect impacts. This compares to a national figure of \$1.58 of output for sector as a whole. This indicates that Arkansas is able to capture approximately 67 percent of the total economic activity associated with film expenditures based on the existing industrial structure of the state. Note that this leakage would not impact any proposed incentive program that focuses on in state spending. Any economic development program would focus on the direct in-state expenditures and would not offer advantages for out-of-state expenditures. This percentage capture can be expected to grow over time as the industry develops in the state and as more firms and productions are able to take advantage of any Arkansas expenditure incentives for motion picture production.

• **Earnings Impact:**

In the State of Arkansas, \$1 million in expenditures generates \$224,000 in earnings direct spending. This in turn generates an additional \$380,000 in induced and indirect impacts, or about \$0.38 for every \$1 spent in the area.

• **Employment Impact:**

Every \$1 million spent on the motion picture and video productions industries generates about 14.1 FTE jobs in the state. The average annual wage for workers in the State of Arkansas in this industry ranges between \$27,000 to \$45,000 annually depending on the position.

• **Sales Tax Impact:**

Based on the intermediate inputs that are subject to sales and use tax in the state of Arkansas, every \$1 spent generates approximately \$.024 in sales tax. This means that every \$1 million spent in the industry would therefore generate roughly \$24,000 in sales tax.

Illustrative Impact on a Sample Budget:

To summarize the above, an independent feature film with a budget of \$5 million that shot entirely in Arkansas would generate approximately \$4.6 million in additional spending (output) elsewhere in the state, approximately \$1.1 million in earnings direct spending, which in turn would generate an additional \$1.9 million in induced and indirect impacts, generate 70.5 FTE jobs, and an additional \$120,000 in sales tax.

Conclusion from Ernst and Young's most recent report: Evaluating the Effectiveness of State Film Tax**Credit Programs:**

"Film credit studies have shown that film credit programs have generated significant private sector benefits including thousands of jobs on productions, increased tourism activity, investment in industry infrastructure and the retention of existing production activity. Whether the costs of the programs are justified by these economic benefits must be answered by comparing the benefit-cost ratios of film credit programs with those achieved by other economic development programs. Although economic development programs generally have long-term goals, many analyses of film credit programs evaluate the credits from a short-run perspective, asserting that the credits must generate tax revenue equal to the cost of the program on an annual basis. While several of the most comprehensive film credit studies show that the credit costs of film credit programs may be fully offset by additional state and local taxes from expanded economic activity, film credits that do not meet this test may still provide relatively high benefit-cost ratios compared to other economic development programs."

Page 18, January 2017

CHAMBER

FAYETTEVILLE

November 23, 2020

Mayor Lioneld Jordan
Fayetteville City Council
113 W. Mountain St.
Fayetteville, AR 72701

Dear Mayor Jordan and Council Aldermen,

The Fayetteville Chamber of Commerce and the Arkansas Film Commission worked to present the City of Fayetteville the opportunity to provide incentives the Home Box Office (HBO) for the filming of a Network Episodic Television series, True Detective. This project was supported by the Arkansas Economic Development Commission, Governor Asa Hutchinson, the Convention and Visitors Bureau and ultimately the City of Fayetteville. In October of 2017, the City Council approved a resolution to participate and fund up to a \$500,000 incentive for this project. The project was completed in Fayetteville per the resolution.

Given that this project was completed, and an audit has been completed by the City's Department of Economic Vitality, I strongly recommend supporting the remittance of \$500,000 to HBO.

Listed below are just a few highlights of our return on investment:

- 1,895 Arkansas residents participated and were paid during this project
- Meet or exceeded 37.6M expectation set out in the original agreement
- In excess of \$709,000 in local sales tax was generated
- The City itself did receive positive and national notoriety from this project

This project supports the City's economic development goals as outlined in our contract. This project positively impacted and promoted the City of Fayetteville's public image. The estimated \$70M spend by HBO generated an estimated \$20 to 30M spend in Arkansas, a significant portion of which was in Fayetteville. Many local residents were paid as a part of this project and local students were able to get hands on experience in the Film Industry.

Thank you for your consideration,



Steve Clark
President and Chief Executive Officer
Fayetteville Chamber of Commerce
21 W. Mountain St., Ste. 300 72701