California Film & Television Tax Credit Program

Progress Report

January 2011

California Film Commission
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California Film & Television Tax Credit Program

<u>Program Progress Report – January 2011</u>

In February 2009, the *California Film & Television Tax Credit Program* was enacted as part of a targeted economic stimulus package to increase production spending, jobs and tax revenues in California. The California Film Commission (CFC) administers the five year, $500 million program which provides tax credits (beginning in tax year 2011) to eligible film and TV productions that meet the program's criteria. The program, which launched in July 2009, specifically targets productions that are most likely to leave the state due to incentives being offered in other states and countries. It has enabled California to be competitive and to keep many of those at-risk films in state.

Program Summary for Fiscal Year 2009-10 (July 2009 – June 2010)

Enabling statute provides that the California Film Commission may allocate up to $100 million dollars in tax credits each fiscal year to eligible productions, on a first-come first-served basis, through FY 2013-14. It also provides that if the amount of credits applied for in any fiscal year exceeds the amount authorized ($100 million), then credits may be allocated from the next succeeding fiscal year. This provision enabled the CFC to allocate two fiscal year's funding in the first year of the program. For all remaining fiscal year allocation periods, including the current fiscal year, the CFC will have access to only one year's funding. The statute also allows for any unallocated credits to roll forward into the next fiscal year's allocations.

Program regulations were approved in June of 2009 and the CFC began accepting applications on July 1, 2009. By the end of July, all $100 million in tax credits from FY 2009-10 were allocated. The initial allocation is treated as a "reservation" of tax credits. Due to the high volume of applications, the CFC then allocated credits from FY 2010-11. This continued through January 2010 until all 2010-11 tax credits had been exhausted. For the remainder of the fiscal year, through June 2010, the CFC maintained a waiting list. When any approved productions withdrew from the program (due to a variety of causes – lack of adequate funding, schedule delays that pushed it beyond the program's timeline criteria, casting issues, etc.) available credits were reassigned to projects on the waiting list.

Productions do not receive their tax credit certificates until they have completed post-production and the Film Commission has reviewed their required documentation - including CPA audited cost reports. The statute also provides that no tax credits were to be issued prior to January 1, 2011. Program year 2009-10 impact is as follows:

- $176 million in tax credits allocated to 70 projects.

- **Estimated aggregate direct spending by the 70 projects is $1.2 billion**. That spending breaks down as follows: $453 million in direct qualified wages (excludes any wages for actors, directors, writers and producers), $430 million in qualified non-wage expenditures and $346 million in non-qualified production expenditures (e.g. additional spending that does not qualify for tax credits).

- An estimated 18,200 crew and 4000 cast members have been or will be hired by the approved projects. (An additional 113,000 individuals will receive daily employment as background players.)

- While most of the filming activity occurs in Los Angeles County, several productions filmed, or plan to film in Alameda, Inyo, Kern, San Bernardino, San Diego, and San Francisco counties.

Program Summary for Fiscal Year 2010-11 (July 2010 – June 2011)

On June 1, 2010, the Film Commission began accepting applications for the 2011-12 fiscal year. These funds were available for allocation on July 1, 2010. Seventy applications were received on June 1st and credit allocations (reservations) were issued to 43 projects. These 43 applications exhausted the $100 million in available funding for the current fiscal year. This is a mixed blessing in that the Program is proving to be an immediate success in achieving its objectives but "sold out" in just one day. Program year 2010-11 impact is as follows:

- $121 million in tax credits allocated to 43 projects.

- **Estimated aggregate direct spending by the 43 projects is $969 million**. Over $275 million is directly attributed to qualified wages (excludes any compensation for actors, directors, writers and producers) and $315 million is in qualified non-wage expenditures. The balance of $379 million is in non-qualified production expenditures (e.g. additional spending that does not qualify for tax credits).

- An estimated 7500 crew and 2100 cast members have been or will be hired by the approved projects. (An additional 59,000 individuals will receive daily employment as background players.)

For the remainder of the fiscal year, the Film Commission continues to manage the waiting list and monitor any productions that inquire about tax credits but ultimately move their productions out of state to access incentives offered elsewhere. In this way, the Film Commission can begin to track some of the revenue that the state is losing. However, this will not capture any lost revenues associated with productions that do not apply or contact the Film Commission once they learn that the funds are already depleted. As of this writing, an additional 15 projects are on the wait list.

Aggregate Spending and Economic Impact

To date, $300 million in tax credits have been allocated (reserved) resulting in:

- Total aggregate direct spending by Program projects: $2.2 billion
- Total wages paid / to be paid by Program projects: $728 million

Further, using the generic multipliers for motion picture and video industries in California, the broader economic impact of the Film and Television Tax Credit Program is:

- **Total output (business revenues): $6.5 billion[1]**
- **Total Full Time Equivalent jobs generated by Program projects: 40,996[2]**
- **Total earnings generated by Program projects: $1.8 billion[3]**

California's Motion Picture Industry

In 2003, 66% of studio feature films were filmed in California. In 2009, only 38% of studio films were filmed in state. San Francisco film and TV production employment dropped 43% between 2001 and 2006.

The Los Angeles region experienced a steady decline in feature film production days in 11 out of the last 13 years. **However, Film L.A., the permitting agency for Los Angeles, reported that in 2010, feature film production posted a 28.1 % fourth quarter gain and a year-over-year gain of 8.1 %. "The annual increase can be wholly attributed to California's Film and Television Tax Credit. The State program attracted dozens of new feature film projects to Los Angeles, which were responsible for 26 % of local feature production for the year. Were it not for these projects, 2010 would have been the worst year on record,"** reported Film L.A. in their Jan. 11, 2011 release. These numbers are an excellent early indicator that the incentive program is having an immediate impact on production levels.

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[1] Output: Each dollar of film production spending in California generates total output (business revenues) of $2.95 statewide, including the initial dollar. Economic output is the increase in gross receipts realized by all firms as a result of direct and indirect economic activity associated with the initial production spending. (*Los Angeles Economic Development Corp.*)

[2] Employment: Based on the RIMS II input-output model for California, each $1 million of film production spending in state generates 18.65 FTE (full-time equivalent) jobs statewide, including both direct employment (on the production) and indirect employment (people who owe their jobs to the purchases made by the firms and people working on each production.) (*Los Angeles Economic Development Corp.*)

[3] Earnings: Each dollar of film production spending in California generates total earnings of $0.81 statewide. These are the earnings of the direct workers and indirect workers. (*Los Angeles Economic Development Corp.*)

General Overview:

- The motion picture industry is an essential source of economic activity, tax revenue, jobs and tourism for California contributing $38 billion dollars annually to our state's economy and supporting nearly 250,000 well-paying direct jobs - with health benefits. (Source: Motion Picture Association of America – MPAA)

- The average daily shooting costs on a feature film or TV series range from $100,000 to $250,000 per day. That's actual dollars that each production spends on groceries, hotel rooms, gas, building supplies, props and payroll.

- A typical film shooting outside of Los Angeles County will spend on average $50,000 per day in a local community. (Source: Association of Film Commissions International)

- The average salary for production employees is $75,000, well above the national average. (Source: MPAA)

- This industry is dominated by small businesses – 80% of entertainment companies employ fewer than 10 people. (Source: MPAA)

- An average $70 million dollar feature film generates $10.6 million in state sales and income taxes. (Source: Los Angeles Economic Development Corp)

- The motion picture industry is the fifth highest ranking employer in southern California. (Source: Los Angeles Economic Development Corp.)

- Film and TV production brings millions of tourists every year to California.

Global Competition for California's Motion Picture Production

Today's business model for motion picture production is such that studios and independent producers count on tax incentives as a way to keep costs down. The vast majority of companies only shoot their projects in those territories that offer financial incentives. In addition to the international competition from Canada, Australia and most EU nations, over 40 U.S. states offer meaningful financial incentives to the film industry successfully luring production and post-production jobs and spending away from California.

Once their incentives take root, other states and countries successfully build up their long-term infrastructure with stage construction, post-production facilities and job training programs. New Mexico, Louisiana, Philadelphia, Michigan, Toronto and Hungary continue to build more multi-studio facilities.

After introducing their incentive programs, film production spending in the states listed below increased as follows:

- Michigan: from $2 million in 2007 to $220 million in 2009.
- New Mexico: from $14 million in 2003 to $260 million in 2008.
- Massachusetts: from $6 million in 2005 to $450 million in 2008.
- Louisiana: from $3.5 million in 2002 to $400 million in 2007.

The July 2010 Milken Institute report, *Film Flight: Lost Production and Its Economic Impact on California,* stated, "There's no doubt that incentives have been drawing jobs and wages away from California." The report estimated that California's movie industry lost 10,600 direct jobs and 25,500 indirect jobs since its peak employment level in 1997.

Conclusions

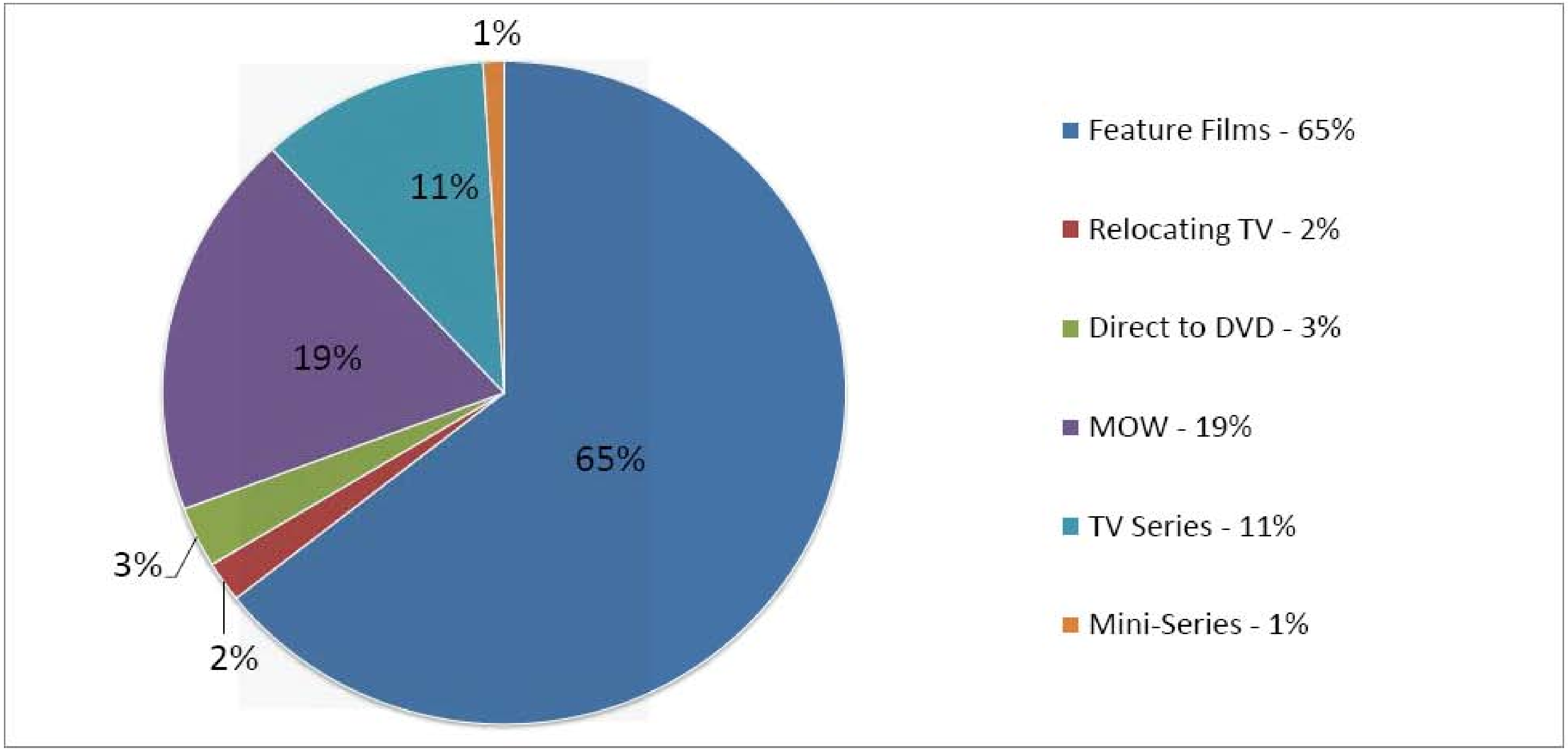
California still boasts a superior critical mass of plentiful state-of-the-art facilities and highly-skilled film crews but this infrastructure is steadily eroding. Entertainment industry unions report high levels of unemployment among their members, production facilities have closed or have had to lay off employees, while others have expanded their businesses out of state rather than investing in their California facilities.

Clearly, the demand for tax credits from the production community far exceeds the annual funding levels. Without adequate funding for the tax credit program, California will continue to lose the direct spending and tax revenues from film and TV productions that choose to film out of state. This is particularly true for television series productions, as series producers are not likely to film their first season in the state without the expectation that tax credits will be available for future television seasons.

The California Film and Television Tax Credit program was designed to target those productions most at risk of leaving the state while recognizing annual funding limits due to state budget constraints. The program has succeeded in attracting this target group: basic cable TV series, mid-sized feature films and made for TV movies. Even with this narrow target of potential applicants, which excludes the big-budget feature films and broadcast network TV series, demand exceeds supply. In order to retain and grow California's signature entertainment industry, the state must be competitive so that productions will choose to base their film shoots in California. An enhanced incentive program will prevent production companies from moving their projects, jobs and spending out of state.

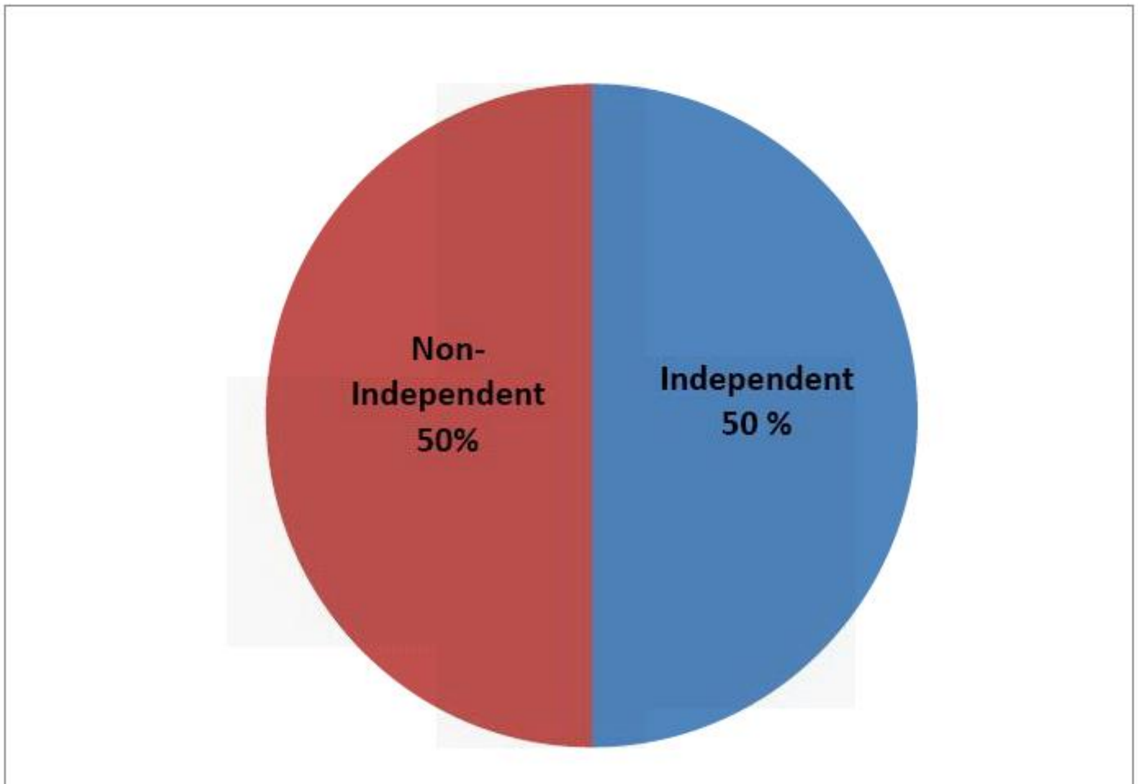
Breakdown by Production Type

Feature Films	75	65.0%
Relocating TV	2	2.0%
Direct to DVD	3	3.0%
MOW	22	19.0%
TV Series	13	11.0%
Mini-Series	1	0.8%
TOTAL	**116**	**100%**



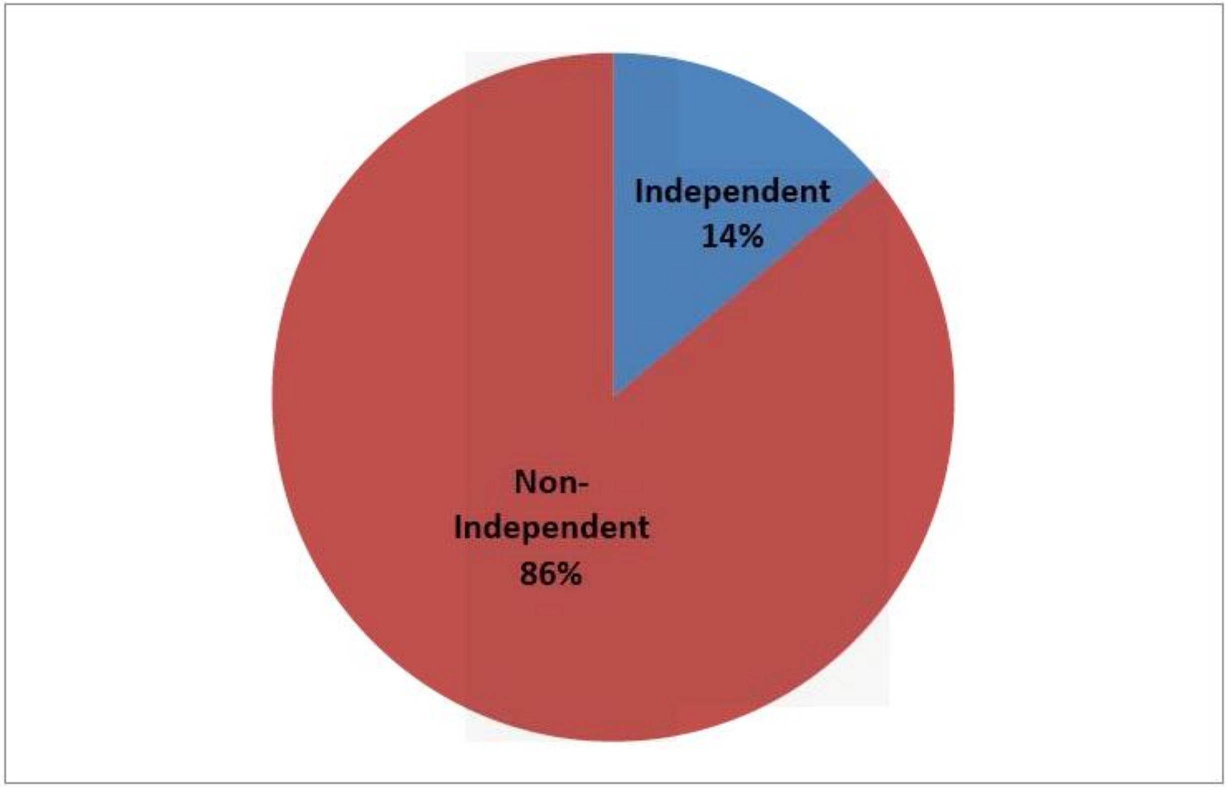
Approved Projects by Company Type

Independent	58	50.0%
Non-Independent	58	50.0%
TOTAL	**116**	**100%**

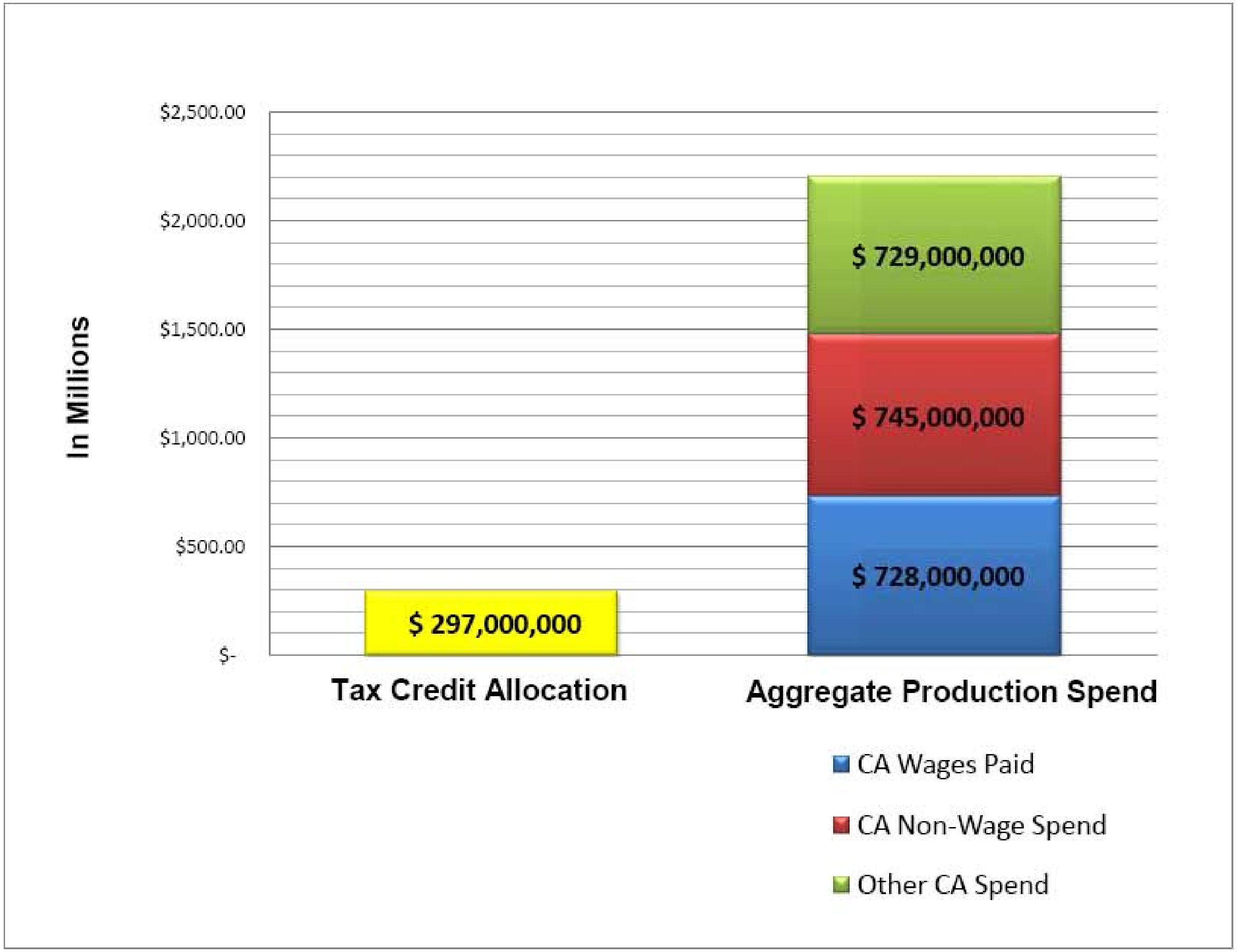


Credit Allocations by Company Type

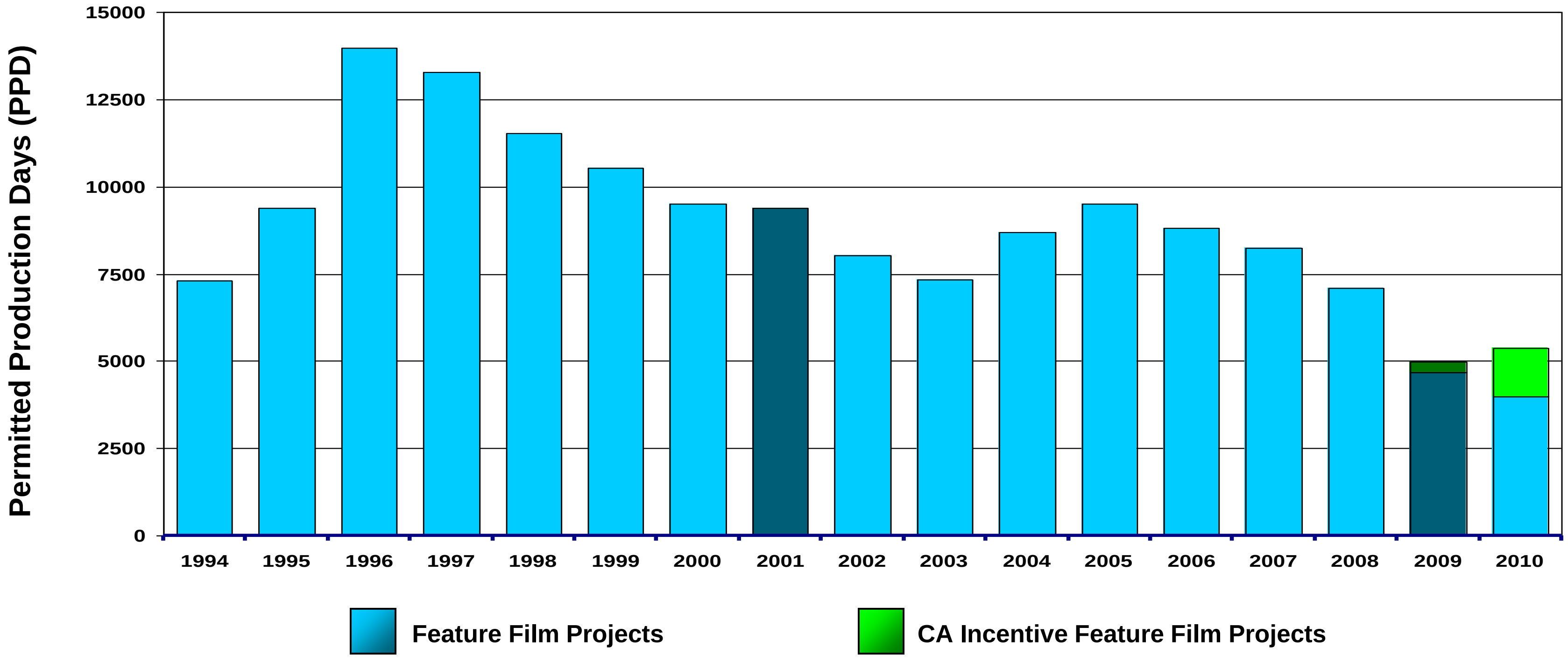
Independent	$	38,733,515.00	14.0%
Non-Independent	$	235,282,949.00	86.0%
TOTAL	**$**	**274,016,464.00**	**100%**



Production Spending Breakdown



Annual On-Location Feature Filming in Los Angeles (in PPD)



Data provided by Film L.A.

California Film & Television Tax Credit Program

Regional Expenditure Report

County: SAN DIEGO

www.film.ca.gov

REPORTING PERIOD: JAN. 2010—JUNE 2010

As a result of our film & TV incentive program, California was able to retain this production and to increase the number of productions working in state. This regional report summarizes the economic benefit to the local community.

Project: TERRIERS, Season 1

Terriers is a one-hour cable TV series produced by 20th Century Fox Television for FX Channel. "Had it not been for the Film & TV Incentive Program we would not have been able to produce *Terriers* in California," remarked Jim Sharp, Executive Vice President, 20th Century Fox Television. "San Diego, offered a beach community look, a talented local crew, and ease of operation thanks to cooperation from the city and local film office."

Donal Logue and Michael Raymond-James in "Terriers"

Shoot Days

Prep/Wrap	**46**
Shoot	**85**
Total	**131**

Local Hires

Cast and Crew	**478**
Daily Hires	**2,926**

Expenditure Detail

Description	Amount
Hotel (Residence Inn / Mission Valley: 5,213 Room/Days)	**$ 521,401.00**
Catering & Groceries	**387,191.00**
Hardware & Lumber Supplies	**289,418.00**
Office Rental, Equipment, & Supplies	**682,872.00**
Location Fees	**977,463.00**
Off-Duty Personnel (Police & Fire)	**119,577.00**
Local Wages Paid	**10,508,508.00**
Local Purchases/Rentals (Wardrobe, Gas, Gov't. Fees, Other)	**2,945,149.00**
GRAND TOTAL SPENT in COUNTY	**$ 16,431,579.00**

California Film & Television Tax Credit Program

Regional Expenditure Report

County: ALAMEDA

www.film.ca.gov

REPORTING PERIOD: JULY 2010—SEPTEMBER 2010

As a result of our film & TV incentive program, California was able to retain this production and to increase the number of productions working in state. This regional report summarizes the economic benefit to the local community.

Project: MONEYBALL

Moneyball is a true story behind Oakland A's general manager Billy Beane and his successful attempt to put together a baseball club, on a budget, by employing computer-generated analysis to draft his players. Moneyball is distributed by Columbia Pictures and will be out in theaters on September 23, 2011.

Shoot Days

Prep/Wrap	**15**
Shoot	**5**
Total	**20**

Local Hires

Cast and Crew	**100**
Daily Hires	**2,000**

Expenditure Detail

Description	Amount
Hotel (Oakland Airport Hilton & Claremont Resort: 1,500 Room/Days)	**$ 181,006.00**
Catering & Groceries	**201,022.00**
Hardware & Lumber Supplies	**26,075.00**
Office Rental, Equipment, & Supplies	**24,285.00**
Location Fees	**434,713.00**
Car Rental (60 Rental Days)	**8,069.00**
Local Wages Paid	**661,503.00**
Local Purchases/Rentals (Wardrobe, Gas, Gov't. Fees, Other)	**171,607.00**
GRAND TOTAL SPENT in COUNTY	**$ 1,708,280.00**

California Film and Television Tax Credit Program

PRODUCER TESTIMONIALS

JUSTIFIED (Sony Television series)

- $12, 000,000 Crew Wages paid
- 1,320 crew hired
- $9,200,000 Vendor purchases, rentals and services

The pilot episode for this TV series filmed in Pittsburgh. California was selected as the location for the series due to the incentive.

"Thanks to the production incentive and with assistance from the guilds and unions, we were able to prevent this show from leaving California. We are extremely grateful that this new program allows us to keep the series here." - Ed Lammi, Executive Vice President of Production for Sony Pictures Television.

FASTER – (Feature Film, CBS Films)

- $9,952,842 Crew Wages paid
- 160 Crew hired
- $9,128,369 Vendor purchases, rentals and services

"As we began the budgeting process for *Faster* it became clear that we would need to shoot in a southwestern state that offered incentives, which at the time ruled out California. Fortunately for everyone involved, the California production credit passed soon after and we were able to shoot the entire film within sixty minutes of Los Angeles. 1,534 jobs were created in California rather than elsewhere, and payments in excess of $9,000,000.00 were made to California vendors, creating even broader payback for the incentives. *Faster* hits the big screen this November and we look forward to audiences around the world enjoying a movie proudly made in California." -- David Rubin, EVP Physical Production, CBS Films

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BEVERLY HILLS CHIHUAHUA 2 (Disney - Direct to DVD Feature)

- $5,200,000 million in Crew Wages paid
- 176 crew hired
- $4,800,000 million in Vendor purchases, rentals and services

Disney"s Direct to DVD film *Beverly Hills Chihuhua 2* originally planned to film in Vancouver. Due to the incentive, the producers were able to keep the film in California.
"Because of the California Production Tax Incentive we were able to shoot *Beverly Hills Chihuahua 2* in Los Angeles. Were it not for the incentive, our production would have seriously considered locations outside of California. Thankfully this program made it possible for us to stay here. On behalf of the Producers, our Director, cast and crew we are all very grateful that California has put this program in place, as it gave us the opportunity to work at home and support our state" - Sara E. White, Executive Producer, *Beverly Hills Chihuahua 2.*

HORRIBLE BOSSES – (New Line Feature Film)

- $12,831,996 Crew Wages paid
- 161 Crew hired
- $11,743,508 Vendor purchases, rentals and services

"New Line is shooting [*Horrible Bosses*] in Los Angeles, but only because the studio received a tax rebate. „It definitely made a big difference," Producer Roland Emmerich said. „If we hadn't gotten it, we'd be shooting in Michigan or Massachusetts."' – Los Angeles Times, Aug. 9, 2010.

California Film and Television Tax Credit Program

CHRISTMAS IN BEVERLY HILLS (Independent Feature Film)

- $2,290,000 Crew Wages paid
- 200 Crew hired (estimate)
- $1,600,000 Vendor purchases, rentals and services

"The California tax incentive was a total blessing for my production *Christmas in Beverly Hills*. I had already scouted Tucson Arizona as it looked similar to California and offered the incentive. Once I got the news that California had the incentive I immediately moved to Los Angeles and started my pre-production. I"ve been shooting around the world and the incentives always make a great difference. It makes our business more attractive." – Luigi De Laurentiis, Producer, Film Mauro, Italy

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AMISH GRACE (Independent TV Movie for Lifetime Television)

- $891,000 Crew Wages paid
- 200 crew hired (estimate)
- $368,000 Vendor purchases, rentals and services

"This tax credit program afforded me the opportunity to film in Los Angeles, and therefore work with the most experienced and creative talent in the world while sleeping in my own bed at home each night. Without the tax credit program, I would have found myself back in Vancouver." - Larry A. Thompson, Executive Producer, *Amish Grace*

THE GOOD DOCTOR (Independent Feature Film)

- $3,154,000 Crew Wages paid
- 182 crew hired
- $1,495,000 Vendor purchases, rentals and services

"To my surprise and delight, our independent film is staying in Los Angeles to shoot principal photography due to California's new production incentive program. The California incentive actually beat numbers from other incentive programs around the country; plus we get to tap into a large, experienced cast and crew base. I am thrilled to be able to stay home and work." - Patty Long, line producer, *The Good Doctor*

YOU AGAIN (Disney Feature Film)

- $9,773,000 Crew Wages paid
- 161 Crew hired
- $6,222,000 Vendor purchases, rentals and services

When putting together the budget for feature film *You Again,* the producers priced what it would cost to shoot in California as well as in Vancouver, Atlanta, and Massachusetts.

"The locales outside the state looked favorable financially but receiving tax breaks to stay in California is what kept the $20 million production here." - Mario Iscovich, Executive Producer, *You Again*

HUGE (Television Series, ABC Family Channel)

- $13,331,000 Crew Wages paid
- 391 crew hired
- $6,862,000 Vendor purchases, rentals and services

“As the production company for basic cable dramatic programs, I can tell you that it is extremely difficult (in all likelihood we would not have been able) to produce a show in California without the incentive. Our extremely tight budget levels and very narrow margins dictate that we must utilize every available strategy to be able to produce our shows, including taking advantage of incentives offered by other states and countries. On behalf of the 350 rank and file employees (staff, crew, extras etc) on *Huge* as well as all the employees of the dozens of vendors, I thank you for keeping this show in the city and state.

Unfortunately, I understand that fund is depleted for this year. We therefore are forced to explore out of state production options for this year‟s new shows. In each of the last three years the network has ordered three new series, so it is especially sad, particularly given the financial condition of the state of California, that the tens of million of dollars that would have been spent during a full season here will apparently be going elsewhere.

In any case, please know just how much we appreciate the wonderful cooperation and partnership you and your team have been to *Huge* and we look forward to at least that show continuing to enjoy the great benefits of filming in Los Angeles.” - John Ziffren, Executive Producer *Huge*

TERRIERS (20th Century Fox Television / basic cable series)

- $11,700,000 Crew Wages paid
- 150 Crew hired
- $10,500,000 Vendor purchases, rentals and services

The studio and network were looking to produce *Terriers* as a high-quality basic cable series in a beach community. The series had to be produced in a state or country that offered a tax incentive program due to the strict economic business model to which they had to adhere.

“I can honestly say that had *Terriers* not qualified for the California Film & TV Tax Credit Program, we would not have been able to produce this series in San Diego. From the creative and logistical point of view, San Diego offered ease of operation, accessible film locations, and talented local crew members. The City bent over backward to assist our needs along with the local film office. This is a great example of had there not been a CA Film & Television Tax Credit, our company would have produced *Terriers* somewhere else.” – Jim Sharp, Executive VP Production, 20th Century Fox Television.

story and film, inc.

December 7, 2010

Ms. Amy Lemisch
Ms. Nancy Rae Stone
California Film Commission
7080 Hollywood Blvd., Suite 900
Hollywood, CA 90028

Dear Amy and Nancy:

I am writing you from the set of "Rampart" to say "thank you." As you know, thanks to the California Film & Television Tax Credit program, we are employing hundreds of people on our production here in California. I'm happy to our report that our production is going very smoothly and right on schedule

As you also know, we are spending more than $12.5 million on our production, and we are spending it here in California because of the tax credit program. Receiving the tax credit has enabled us to employ hundreds of people here in California, as well as to pay for services, rent locations, rent equipment, rent vehicles, and to buy food and other products here in our state. But the majority of our budget goes to employing the hard-working people who are hired on our production.

Though I am a Californian, over the years I have produced a number of films in Canada. In fact, prior to "Rampart," my previous two films were produced entirely in Canada, because the Canadian incentives programs made it possible to produce films there much more affordably than could be done here in California. But thanks to the CA tax credit, I am now able to stay here in California for this film, where we can employ Californians, rather than taking our business (and employment) up to Canada, or to another state. I hope to be able to stay in California for my future productions as well.

With Rampart, as you also know, we almost did not receive the CA tax credit, as we were on the program's waiting list for months. The limited total amount of the CA tax credit program makes it difficult to commit to filming in our state, because of the uncertainty that comes with not knowing if a production will receive the credit or not. In other words, it's hard to plan for future productions when we don't know if we'll receive a credit or not. I would support any efforts to increase the total amount of the tax credit program, as such an increase would do so much to make filming in California a sustainable and predictable business practice. And it would do so much to help re-stimulate one of our state's greatest export industries.

I cannot tell you how many of our employees have told us how thankful they are to have jobs here in California during these tough economic times. Many of our people have endured tough times as they have watched productions leave California for other states and countries. Being able to work on our California-based production this year has truly made a huge difference in the lives of the hundreds of people we are employing.

On behalf of all the people working on our production, I would like to say thanks to our legislators and to the California Film Commission for making this credit possible. We truly appreciate the many ways that it helps our industry and our state. Please let me know what I can do to help get the word out about how successful this program is, and how much more potential it has.

Sincerely,

Clark Peterson
Producer, "Rampart"

LOS ANGELES Daily News

LA's on-screen role gets bigger

Tax incentives boost filming in city

By Bob Strauss, Staff Writer
Posted: 01/11/2011 08:55:47 PM PST

Propelled by year-end commercial and feature shoots, filming jumped 15 percent in the Los Angeles region in 2010 as producers took advantage of state tax credits, according to a report released Tuesday.

Film crews in Los Angeles logged 43,646 permitted production days last year, compared with 37,979 the previous year, according to FilmL.A., the not-for-profit group that coordinates and processes permits.

In addition, movie and TV show production off of studio lots surged 28.1 and 49.9 percent, respectively, in the fourth quarter of last year compared with 2009.

But don't pop the champagne corks too quickly.

"Yes, it was a nice, 28 percent increase in the fourth quarter," said Todd Lindgren, FilmL.A.'s vice president of communications and public affairs. "But the reality is that we're only looking at a total (increase) of 5,300-plus days for the year - which, historically, is in the dumps.

"2009, which was the worst year on record, was 64 percent below our high for on-location feature days which we hit in 1996, at roughly 14,000 days a year."

FilmL.A. officials credited increase in feature production to the state's production tax credit program that took effect in July 2009. Incentivized feature projects accounted for 1,400 PPDs, or 26 percent of the total.

Without the credits, which were worth $200 million in the first 18 months of the program, 2010 feature shooting in L.A. and surrounding areas would have been the worst ever.

"It reinforces what we've been saying from the beginning: That this type of program has an immediate impact on production decisions and on the level of production," said Amy Lemisch, director of the California Film Commission, which administers the tax credit program.

"That's what makes it different from other economic development tools. You don't have to wait to build a factory. You get the incentive, you make your decision and boom - you open a production office and start hiring your crew," she said. "It has a very immediate effect."

"Burlesque," "The Social Network" and the soon-to-be-released "No Strings Attached" and "Water for Elephants" are among features that have taken advantage of the incentives and shot a good portion of their footage in Southern California.

The commission estimates that incentivized projects brought $2 billion worth of direct spending into California, which is in stiff competition with numerous other states and countries that offer generous tax breaks and other inducements.

Sacramento's role

However, California's new governor, Jerry Brown, may be less amenable to the program than the Hollywood star he replaced, Arnold Schwarzenegger. Brown has already targeted such tax-credit havens as enterprise zones to help balance California's overdrawn budget.

"I'm aware that Governor Brown has a personal philosophy against tax incentives," said Lindgren, emphasizing that he was speaking for himself rather than FilmL.A. "However, in his inauguration speech, he recognized the entertainment industry as an engine of the state's economy. So he's going to have to reconcile that in the face of drastic declines in the amount of production that California is able to win from its competitors."

According to state Sen. Ron Calderon, D-Montebello, Brown indicated during a meeting Tuesday of the Democratic Caucus that he might be amenable to continuing successful programs like the film tax credits.

"What I got out of the meeting was that he feels some tax credit programs are very valuable," said Calderon, who was the Senate's lead author of the filming incentive legislation and chairs the Select Committee on the Movie and Television Industry. "I did not get the feeling from him at all that he was going after tax credits in general.

"He's surgically going after certain tax credits that are going to yield big savings. There's plenty of empirical data that the film tax credit is very little money spent to gain a lot of jobs and a lot of tax revenue."

According to Assemblyman Cameron Smyth, R-Santa Clarita, others in Sacramento may need convincing.

"It's not only a concern with Gov. Brown, but also with my colleagues in the Legislature because of term limits," said Smyth, who was part of the bipartisan group that authored the film tax credit law.

"But I think the evidence from the previous credits really speaks for itself," Smyth said. "A tax credit like this is a small investment, in the grand scheme of things, that goes a long way to putting California back to work."

Numbers encouraging

In other sectors, the FilmL.A. report noted that production of commercials increased 28.1 percent in 2010 over 2009.

Television entertainment was up 11.9 percent for the full year, driven by a 77.9 percent jump in sitcoms and a 46.6 percent increase in reality shows. Dramas were down 18.9 percent and pilots down 8.6 percent from 2009.

That latter anomaly was attributed to a trend by producers to shoot more dramas on studio lots - where FilmL.A. does not track production days - and more comedies on area streets. It's less than encouraging, though, to see cheap reality programs supporting a boom that can always use more bigger - and bigger-budgeted - productions.

"A production day is not a production day is not a production day," Lindgren cautioned. "We track a reality show production day the same as we do a tentpole feature film. Obviously, the feature employs substantially more people and spends a lot more on vendors and equipment and salaries and wages than a reality show. But in our numbers, they're one and the same. So you can't use them to extrapolate the full economic impact of production."

Nevertheless, there's enough good news in the 2010 report to justify opening, if not an expensive champagne, a nice chardonnay.

"We realize that a production day means people working," Lindgren said. "It means our local vendors who supply to the industry are making sales, and are therefore able to stay in Los Angeles and continue to pay employees and business tax and everything else that makes the economy go `round. We're very aware that when our numbers go up, that means that our friends are working."

The Hollywood Reporter.com

Filming in L.A. Soars 15% in 2010

Sitcoms, reality shows and the California tax credit helped attract new business.

January 11, 2011

By Gregg Kilday

Thanks to California's Film and Television Tax Credit, on-location filming in the Los Angeles area surged in the final quarter of 2010, and film, TV and commercial production increased nearly 15 percent for all of 2010 over the 2009 figures.

Commercial production posted the biggest year-to-year increase, rising by 28.1 percent. On-location feature production logged a year-over-year gain of 8.1 percent, and TV production was up 11.9 percent.

FilmL.A., the non-profit organization that coordinates permits for on-location shoots in the city of Los Angeles, unincorporated parts of Los Angeles County and other local jurisdictions, issued its annual report Tuesday. In all, FilmL.A. recorded 43,646 permitted production days in 2010, compared to 37,979 in 2009.

Feature production surged by 28.1 percent in the fourth quarter of 2010 versus the fourth quarter of 2009. FilmL.A. attributed the increase in filming to the California tax credit, which the California Film Commission estimates has brought $2 billion in direct spending into California communities since it was launched in mid-2009.

In 2010, the program was responsible for 26% of the local film production in L.A.

TV production posted a fourth quarter gain of 49.9 percent versus the same quarter in 2009. The two TV categories that saw the biggest increase were sitcoms and reality shows, while both dramas (many of which shifted onto studio lots) and TV pilots were down. Incentive-qualifying productions made up just 2.6 percent of L.A.'s on-location TV filming in 2010.

While the commercials category had a weak fourth quarter, commercials' annual increase of 28.1 percent was the category's largest year-over-year increase since tracking began in 1993. "The uptick in numbers clearly reflects the reality that the advertising industry is rebounding nicely from one of its greatest slumps in history," Matt Miller, president and CEO, Assn. of Independent Commercial Producers, said.

Surveying the increase in production over the three categories, Film L.A. president Paul Audley said, "On balance, the numbers are positive, and I am cautiously optimistic about 2011. Hopefully, with FilmL.A.'s new Film Works' marketing campaign and the California Film & Television Tax Credit, our state and region will win back entertainment projects and jobs once taken for granted."

Filming in L.A. Soars 15% in 2010
Hollywood Reporter 01-11-11

Fox&Hounds
KEEPING TABS ON CALIFORNIA BUSINESS AND POLITICS
DAILY

Silver screen means jobs for Golden State

By Assemblyman Cameron Smyth
Assembly Republican Caucus Chair representing the 38th Assembly District

Wed, January 5th, 2011

The California Film and Television Tax Credit has proven to be a wildly successful case of the state working with businesses to keep jobs (and over $2 billion in direct spending) right here in California. But not all critics are impressed.

Prior to the Film and Television Tax Credit, “runaway production” had cost California over 10,600 jobs in film, TV and commercial production, and more than 25,000 related jobs, according to a report by The Milken Institute, a nonprofit economic think tank.

Unfortunately, taking our allies of commerce for granted is not a new attitude. The flight of film production, like so many other industries, is part of a distinctly Californian trend. To illustrate, forty years ago California was the hub of our nation’s aerospace industry. Thousands of Californians—with varying skill sets and education levels—could count on on well-paying, high quality aerospace jobs. Twenty years later, my friends and I grew up believing that we would have similar job opportunities in the entertainment industry.

But as California now struggles to maintain its place as the country’s entertainment capital, history threatens to repeat itself. Businesses and jobs are again chased away by our state’s overly aggressive regulatory environment, high taxes, and growing competition from other states. The promise of both industries remains endangered.

To battle this trend, legislators from across the state came together in 2009 and passed legislation to re-energize the film and television production industry. In fact, it was more successful than any of us imagined.

In the past two years, the California Film Commission has allocated about $300 million in tax credits to 100 projects. These incentives have brought in an estimated $2 billion in direct spending to California communities, including $736 million in wages paid to “below-the-line” crew members (electricians, grips, drivers, costumers), according to data compiled by the Film Commission.

That’s 18,200 crew and 4,000 cast members hired by the approved projects. An additional 113,000 individuals will be employed on a day-to-day basis as background players. This includes dry cleaners, caterers, florists, and construction workers, among many other neighborhood businesses in our communities.

The Los Angeles Times recently hailed aspects of this program as the “model for how the Legislature should approach corporate tax breaks.”

But as any artist knows, critics, by trade, will always find something to criticize.

Dan Morain, editorial writer at the Sacramento Bee, recently suggested that the film and television tax credit remains popular largely due to the “well-orchestrated lobby effort” put forth by “organized labor” and “[e]ntertainment conglomerates.” These subsidies, Mr. Morain continues, move us closer to tax hikes, classrooms and welfare cuts, and—by an argument noteworthy for creativity—a step backwards for the anti-smoking movement (as tax credits may go to films that “glamorize smoking”).

Suggesting that a widespread lobby effort is necessary to convince the lawmakers to maintain a quantifiably successful jobs program is a tough sell. It is equally a stretch to argue that California’s budget woes are gravely worsened by the Film Commission’s measurable and substantial return on investment. And of course, Mr. Morain’s public health criticism is as immaterial as his subtle derision towards the light-hearted films the credits supported. A film job is still a job, regardless of whether its award statue reads “Razzie” or “Oscar.”

Finally, Mr. Morain points out that Iowa and Missouri are both questioning their film credit programs; in the latter case due to the credit serving “too narrow of an industry.” Thankfully, film and TV production is not a narrow industry in California. In this competitive market we should now, more than ever, stay the course and bring the jobs home.

This tax credit is one of many ladders to help our state climb out of the fiscal ditch we have dug for ourselves by pushing away businesses and jobs.

Expanding the breadth and longevity of the Film and Television Tax Credit is a necessary step to ensuring this industry continues to thrive by investing our world-class workforce.

MYTHS ABOUT MOTION PICTURE PRODUCTION INCENTIVES

myth A motion picture production tax credit is corporate welfare, only benefiting big studios, actors and directors.

fact

* *Runaway Production* hurts the "little guys," not the "big guys." Whenever a production films in California, "below-the-line" workers, such as electricians, grips, camera operators, drivers, extras, costumers, carpenters and make-up artists are employed. These are working-class jobs that pay competitive wages and offer excellent benefits. When productions leave the state, the jobs leave too. (Top actors, directors and producers tend to keep their jobs, even when a production films elsewhere.)
* The motion picture industry is supported by *thousands* of small businesses that provide services and materials, ranging from post-production and catering, to supplying lumber and wardrobe. Keeping production in California helps keep these businesses thriving.

myth These "incentivized" productions would be filming here anyway. This program is a giveaway.

fact

* The Film & TV Tax Credit Program <u>specifically targets the types of productions most likely to leave</u> the state due to incentives offered elsewhere. According to Film.LA., the organization that coordinates film permits for the City and County of Los Angeles, feature film production in 2010 posted a 28% fourth quarter gain and a year-over-year gain of 8%: "*The annual increase can be wholly attributed to California's Film and TV Tax Credit*. *Were it not for these projects, 2010 would have been the worst year on record.*"
* Several basic cable TV series that were set to shoot out of state, reversed a trend and moved production to California (including a series filming in San Diego) when they were accepted into the tax credit program.
* The majority of companies shoot their projects only in those territories that offer financial incentives. Over 40 states, and dozens of foreign countries, offer meaningful incentives. Productions go where the incentives are, and California must remain competitive.

myth California cannot afford a production tax credit.

fact

* Other states and countries are succeeding in luring our signature industry and we must not let it go! The economic activity and tax revenue generated from a targeted incentive will pay for itself. The first two years of the tax credit program ($300 million in allocations) is generating over $2 billion in additional production spending including $730 million in wages paid to California's film workers with over 20,000 crew members hired. California cannot afford <u>not</u> to offer production tax credits.

myth The entertainment industry only matters to Southern California.

fact

* While the bulk of production activity still occurs in Southern California, the economic impact and tax revenues benefit the entire state. A healthy, vibrant entertainment industry is good for all of California.
* Other areas of the state have seen the economic impact of filming and with the help of the FLICS (Film Liaisons in California Statewide), these regions are working to attract production. Several "incentivized" productions have filmed across the state including San Diego, Alameda, San Francisco, Kern and San Bernardino counties. These regions receive direct economic benefits in local spending, jobs and hotel stays.

myth Motion picture production will always be a California industry.

fact

* Who thought the auto industry would leave Detroit? Or that California would lose the aerospace industry? Businesses move to locations that make fiscal sense, and motion picture production is no different. It is *easy* for productions to move out of state since they are highly mobile. And every time a project shoots elsewhere, it is a de facto training program that helps boost the crew base and build infrastructure outside California.

Milken Institute

Executive Summary

California Center | July 2010

Film Flight: Lost Production and Its Economic Impact on California

Hollywood has always been the heart of the entertainment industry, but today a host of competitors are vying for new film and television productions—and the jobs that go along with them. Rival locations (especially Canada, New York, Georgia, Louisiana, North Carolina, and New Mexico) now offer an attractive combination of lower costs, technical talent, incentives, and infrastructure.

California no longer can afford to rest on its laurels or its storied entertainment industry pedigree. Movie projects can move, and when they do, they take with them millions of dollars in lost local spending. In recent years, according to the California Film Commission, the number of movies either wholly or partially filmed in state has fallen sharply, from 272 in 2000 to 160 in 2008.

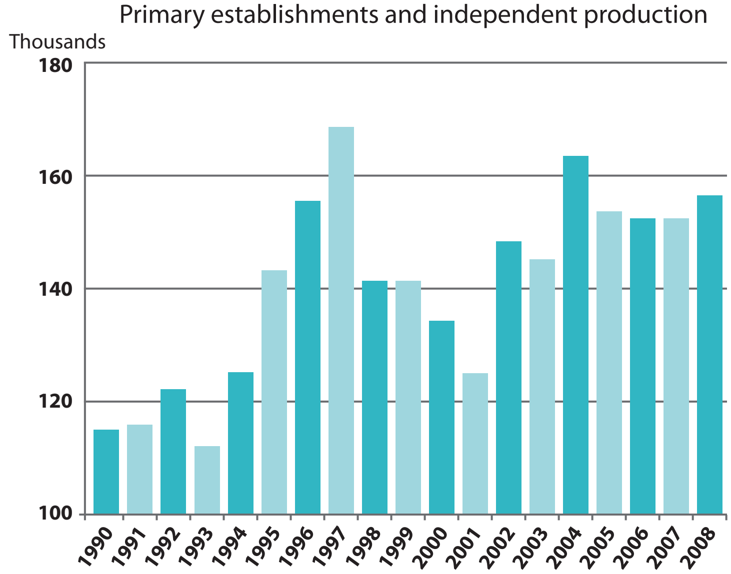
Employment in California's movie and video industry (encompassing production, post-production, and independent artists) reached its peak in 1997. But since then, the state's share of North American employment in the industry has declined from 40 percent to 37.4 percent in 2008.

Our research shows that if California had managed to retain the 40 percent share of North American employment it once enjoyed, 10,600 direct jobs would have been preserved here in 2008. Furthermore, those direct jobs would have had broader economic impact, generating an *additional* 25,500 jobs after rippling through other sectors. If the state had maintained its former level of dominance, a total of 36,000 jobs would have been saved, generating $2.4 billion in wages and $4.2 billion in output.

California finally passed a film incentive program in 2009 (though it is more restrictive than other states' programs and specifically excludes big-budget films). Early data from FilmL.A., which coordinates permits for on-location shooting, shows a solid increase in production days in Los Angeles for the first two quarters of 2010. This fledgling rebound is attributable to both the new state incentives and general economic recovery from the slump of 2009. It's a positive sign—but it would be premature to conclude that the battle is won.

California's movie and video industry employment

Primary establishments and independent production



Sources: California Employment Development Department, Moody's Economy.com

Estimated gains in broader economy if California had retained its 1997 share of North American employment

	Direct impact	Indirect impact	Total impact
Employment	10, 606	25,487	36,093
Wages	$970M	$1.43B	$2.40B
Real output	$1.58B	$2.63B	$4.21B
Wages per employee	$91,893	$56,000	$66,547
Real output per employee	$148,782	$103,100	$116,524

Sources: BLS, BEA, Moody's Economy.com, Milken Institute.

MILKEN INSTITUTE

Executive Summary

Recommendations

California has the opportunity to build on this early momentum. The existing incentives could be more effective if they were made permanent and expanded to include big-budget films, which generate greater local spending. To retain and grow film and television production, the state should take the following steps:

- design a balanced and sustainable two-tier film incentive program to maintain competitiveness (with one set of benefits to engage big-budget films, and another set to attract smaller independent productions, including those intended for cable)
- expand the current tax credit for television production to encompass network and premium cable shows
- make tax incentive programs permanent, thus signaling long-term commitment
- consider implementing a new digital media tax credit to attract and retain developers of digital animation, visual effects, and video games
- more effectively track film production data, including how many days of production are spent within the state versus other locations, along with the utilization rates of studio soundstages and similar facilities
- encourage long-term investments in infrastructure by implementing tax credits for building or upgrading studio or post-production space
- improve the ability of local film commissions to expedite the permitting process
- create proactive marketing and outreach strategies
- establish cooperative relationships beyond the state's borders to attract and better facilitate foreign-funded productions

One route to implementing several of these recommendations would be providing the California Film Commission with enhanced staffing and marketing resources. The commission could then take on the task of comprehensive data collection, establishing a clear mechanism for monitoring the health of a crucial industry. Industry data is currently inconsistent and often incomplete, a problem that needs to be corrected, especially if effective policies are to be put in place.

There's no denying this is a tough time to afford targeted or expanded tax breaks—but in this case, California can't afford *not* to. The state can't squander any opportunities to retain and add significant numbers of high-paying jobs. Given the trends over the last decade, the long-term payoff of shoring up a major industry far outweighs the short-term cost to revenues.

If production losses continue, industry professionals will relocate altogether, with increasing consequences for California's revenues and its pool of human capital.

It would be infeasible to match incentives from other locations that provide large upfront cash advances and unsustainably large film credits. However, by providing modestly expanded and more effectively targeted credits that lower the cost of production to a reasonably competitive level, California will position itself to win over producers based on its strengths in human capital and facilities as well as its reputation for excellence.

Even if tradition keeps the headquarters of the main studios and production houses in the state, it will mean very little if the actual production work is done elsewhere. Over the past few decades, California has watched a number of its major industries—including financial services, aerospace, and garment manufacturing—pack up and move to greener pastures. Especially in the current climate, California cannot allow another key industry to slip away.

The Milken Institute is a leading economic think tank based in Santa Monica. Our California Center is dedicated to ensuring the state's long-term prosperity and quality of life. The full "Film Flight" report, by Kevin Klowden, Anusuya Chatterjee, and Candice Flor Hynek, is available for download at **www.milkeninstitute.org.**

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CALIFORNIA FILM COMMISSION

CALIFORNIA FILM & TELEVISION TAX CREDIT PROGRAM

Applications for the new fiscal year's credits will be accepted beginning on June 1, 2011. Currently the program is fully subscribed. Program guidelines and application instructions are available at www.film.ca.gov.

How the Tax Credit Works
Qualified taxpayers are allowed a credit against income and/or sales and use taxes, based on qualified expenditures, for taxable years beginning on or after January 1, 2011. Credits applied to income tax liability are not refundable. Only tax credits issued to an "independent film" may be transferred or sold to an unrelated party. Other qualified taxpayers may carryover tax credits for 5 years and transfer tax credits to an affiliate.

How much was allocated to the program?

- $100 million annually beginning fiscal year 2009/2010 through fiscal year 2013/2014
- $10 million of the annual funding will be set aside for independent films each year

What Types of Productions Qualify for the Program?

To apply for the California Film and Television Incentive Program, a "qualified motion picture" must be one of the following:

Eligible for 20% Tax Credit

- Feature Films: $1 million minimum to $75 million maximum production budget
- Movies of the Week or Miniseries: $500,000 minimum production budget
- New television series licensed for original distribution on basic cable: $1 million minimum budget; one-half hour shows and other exclusions apply

Eligible for 25% Tax Credit

- A television series, without regard to episode length, that filmed all of its prior seasons outside of California.
- An "independent film": $1 million to $10 million (Qualified spend budget) that is produced by a company that is not publicly traded and that publicly traded companies do not own more than 25% of the producing company.

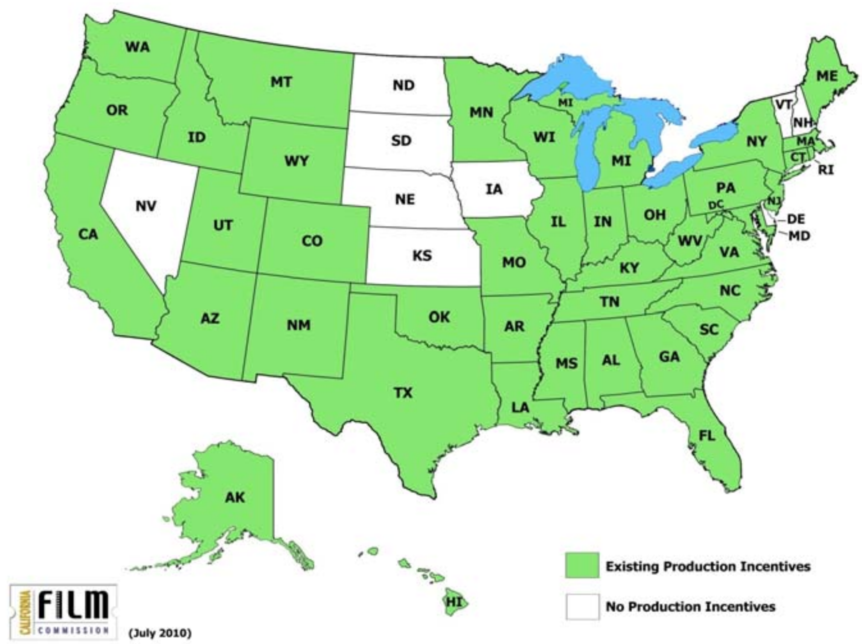
A "qualified motion picture" must also meet the following conditions:

- 75% test (production days or total production budget) in California
- Application must be submitted at least 30 days prior to principal photography
- Once an application is approved, principal photography must begin within 180 days
- Independent CPA must perform Agreed Upon Procedures (audit) upon completion

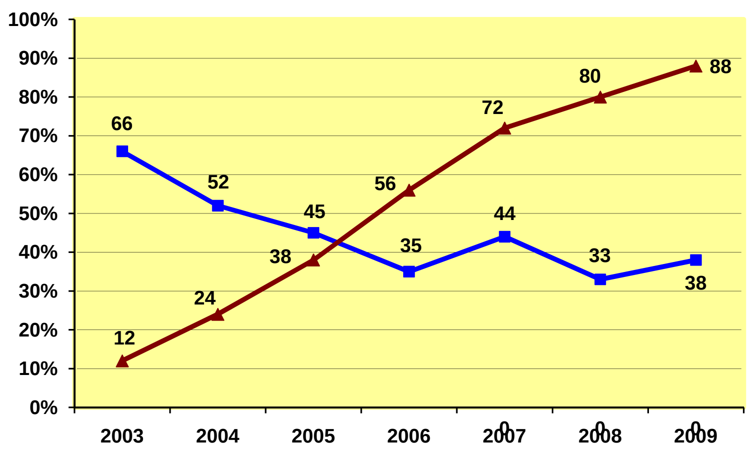
CALIFORNIA FILM COMMISSION

Please visit www.film.ca.gov/incentives for details on application procedures as well as guidance on qualified expenditures.

STATE MOTION PICTURE PRODUCTION INCENTIVES



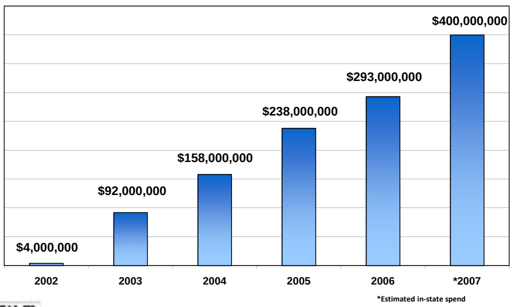
California's Market Share of Studio Feature Production



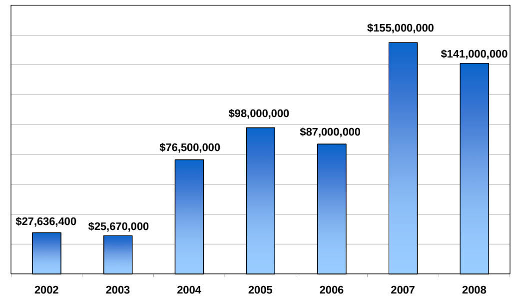
Percentage of total studio films shot in California

Percentage of states with tax incentive programs

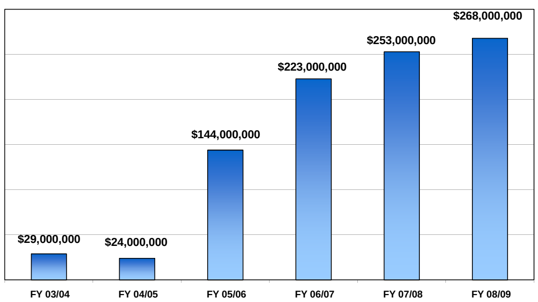
LOUISIANA
Film and TV Dollars Spent in State



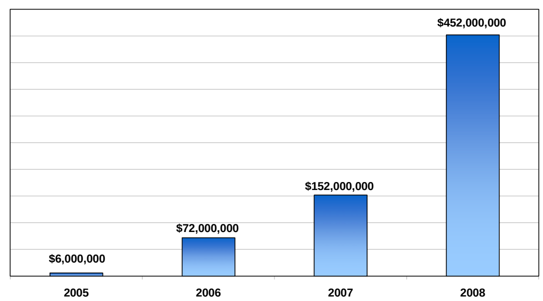
ILLINOIS
Film and TV Dollars Spent in State



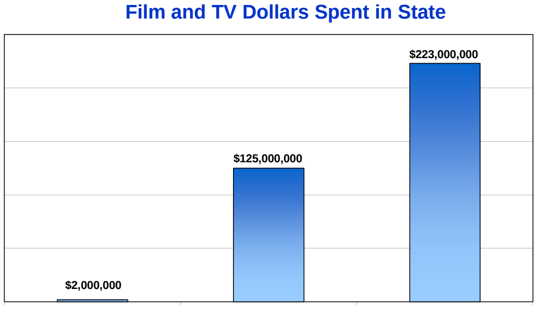
NEW MEXICO
Film and TV Dollars Spent in State



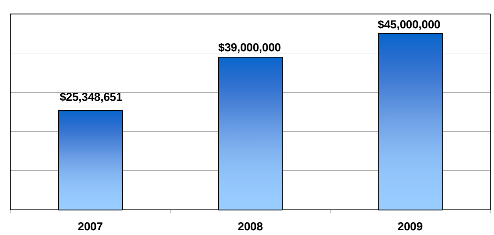
MASSACHUSETTS
Film and TV Dollars Spent in State



MICHIGAN
Film and TV Dollars Spent in State



SOUTH CAROLINA
Film and TV Dollars Spent in State



Typical Example of U.S. Incentives

- **New York** – 30% Refundable tax credit of qualified production expenditures
- **New Mexico** – 25% Refundable tax credit on in state spending; plus no interest loan program
- **Louisiana** – 30% Transferable tax credit on in state spending
- **Massachusetts**– 25% Transferable tax credit on in state spending

Typical Example of Foreign Incentives

- **Canada** - Labor Tax Credits – 16% federal and 25% - 55% in provincial labor credits
- **Australia** – 15% rebate on qualifying spending
- **U.K.** – 20% tax credit on films over £20 million; 25% on projects under £20 million
- **Ireland** – Up to 20% of local spend
- **Germany** -20% of qualifying local spend