Film and Television Tax Credit Programs

PROGRESS REPORT

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EXECUTIVE SUMMARY

Since Assembly Bill 1839 was enacted in January 2015, the California Film Commission (CFC) has administered the state’s new and expanded Film & Television Tax Credit Program 2.0 (Program 2.0) as well as the expiring, first-generation film and TV tax credit program (Program 1.0). Both programs were created as targeted economic stimulus initiatives designed to increase film and television production, jobs, and tax revenues in California. The CFC issues an annual report to provide the Legislature, state government staff, and the public with an assessment of each program’s economic benefit to the state, as well as statistical information and insights into California’s entertainment production industry.

The following report provides an overview of Program 2.0 as it wraps its inaugural 2015-16 fiscal year and begins its second year. It includes project information, a breakdown (by project category) of tax credits allocated, and a summary of project spending. It also includes a summary of project information and spending estimates for each fiscal year of Program 1.0, from its launch in July 2009 through June 2016. In addition, the report provides a summary of findings of studies done by other groups to analyze the effectiveness of Program 1.0. The CFC will continue administering both programs simultaneously until the final tax credit certificates for Program 1.0 are issued.

Building on a growing body of Program 1.0 data, this report analyzes what happens to projects that apply for California’s incentive program, but are denied tax credits. The latest evidence bolsters last year’s findings that the majority of such projects “runaway” to locales where tax credits are available, and this in turn results in an economic loss for California.

As in prior years, this 2016 report provides a brief overview of California’s film and television production industry, including the global competition from other states and countries as they build production infrastructure and offer guaranteed incentives.

Finally, this report provides encouraging third-party data showing increased employment among major industry labor unions coinciding with implementation of Program 2.0.
Information specific to this year’s report includes:

- **Summary of the new Film & Television Tax Credit Program 2.0**
  Enacted in January 2015, the five-year program increases fiscal year funding from $100 million to $330 million annually through FY 2019-20. Note that for the first year (2015-16), Program 2.0 funding totaled just $230 million. (The full $330 million in funding becomes available in fiscal year 2016-17.) Even with reduced funding, projects in the first fiscal year of Program 2.0 are estimated to generate $1.5 billion in direct in-state spending, including $600 million in below-the-line wages.

- **Summary of each fiscal year of Program 1.0**
  In aggregate (including the most recent fiscal year’s conditionally allocated tax credits), approximately $675 million in credits has been allocated (reserved) for eligible projects. The projects that received these credits are estimated to spend at least $5.5 billion directly, including an estimated $1.9 billion in qualified (below-the-line) wages.

- **Summary of television series that have relocated to California due to the tax credit program**
  A separate (dedicated) funding bucket was added to Program 2.0 specifically to target relocating TV series. In its first year, Program 2.0 began achieving its goal of attracting relocating TV projects, as six such projects relocated to California. These projects are on track to generate $328 million in direct in-state spending. During all seven years of Program 1.0, a total of four television series relocated from out-of-state, contributing a combined $343 million in direct spending. It is worthwhile to note the substantial economic value of luring relocating TV series, which typically generate more consistent, longer-term employment compared to feature film projects.

- **Summary of economic impact in counties outside of Los Angeles**
  This report describes Program 2.0 provisions that provide added incentives for projects filming outside the Los Angeles region. It also includes a brief overview of supplementary local/regional incentives offered by cities and counties across California to attract film and television production.

- **Updated analysis of projects that applied to Program 1.0, but were denied due to insufficient availability of tax credits**
  Of the projects that were denied California tax credits and were subsequently produced, only a small number elected to shoot in California. The overwhelming majority of projects denied credits were shot outside the state, in jurisdictions where tax credits were available. From 2010 – June 2016, such ‘runaway’ projects accounted for more than $3.7 billion in production spending outside California. It is important to note that this figure does not include the economic loss from projects that were either ineligible for the Program or did not bother to apply, as they sought incentives more readily available elsewhere. This data suggests the important role tax credits play in determining where a film or TV project is made.
INTRODUCTION

Progress Report – August 2016

Since the passage of the new Film and TV Tax Credit Program 2.0 (Program 2.0), the California Film Commission (CFC) has administered two parallel programs for allocating tax credits to film and TV productions that meet specific criteria. Both programs were enacted as part of targeted economic stimulus packages aimed at increasing film and television production spending, jobs, and tax revenues in California.

This report provides an in-depth summary of the first year of Program 2.0, including an analysis of its effectiveness. It also summarizes results from the expiring first-generation California Film & Television Tax Credit Program (Program 1.0), from its launch in July 2009 through June 2016. This analysis includes spending estimates and project information for the current fiscal year (July 2016 - June 2017).

Note that the CFC’s analysis in this report only focuses on the direct spending for the projects receiving the credits. It does not attempt to measure any secondary economic impacts. Generally recognized formulas or multipliers are not used in this report.

Program 1.0 vs. Program 2.0 – Basic Provisions

<table>
<thead>
<tr>
<th></th>
<th>Program 1.0</th>
<th>Program 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding</strong></td>
<td>$100M per Fiscal Year</td>
<td>$330M per Fiscal Year ($230M in Year 1)</td>
</tr>
<tr>
<td><strong>Funding Categories</strong></td>
<td>10% Reserved for Independent Productions 90% Unspecified</td>
<td>40% – TV Series, Pilots, MOWs 35% – Non-independent Films 20% – Relocating TV Series 5% – Independent Films</td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
<td>Non-indie and Indie films (budget caps apply), Movies of the Week, Mini-series, Relocating TV Series, and 1-hr TV Series (produced for basic cable)</td>
<td>Expands eligibility to include Feature Films without budget limit, 1-hr TV Series (for any distribution outlet) and TV Pilots.</td>
</tr>
<tr>
<td><strong>Budget Caps</strong></td>
<td>$75M production budget cap (for non-indie films) or $10M qualified expenditure budget cap (for independent films)</td>
<td>No budget caps, but tax credit eligibility applies only to each project’s first $100M in qualified spending (for non-independent films) or first $10M (for independent films).</td>
</tr>
<tr>
<td><strong>Application Selection</strong></td>
<td>Lottery</td>
<td>“Jobs Ratio” Ranking within Specific Categories</td>
</tr>
<tr>
<td><strong>Allocation Periods</strong></td>
<td>Once per fiscal year</td>
<td>Multiple allocation periods throughout year</td>
</tr>
<tr>
<td><strong>Tax Credit Allocation</strong></td>
<td>Indies – 25% Non-Indies – 20%</td>
<td>Indies and Relocating TV – 25% Non-Indies – 20% (base) Additional 5% “Uplift” for filming outside the 30-Mile Zone, visual effects and music scoring/recording expenditures</td>
</tr>
</tbody>
</table>
I. Tax Credit Program 2.0 – Year One Overview

In September 2014, Governor Brown signed bipartisan legislation establishing the new tax credit program, now dubbed Program 2.0. The legislation created a five-year program beginning in FY 2015-16 and running through FY 2019-20. The legislation increased program funding from $100 million to $330 million per fiscal year. However, for the first fiscal year (2015-16), $230 million was made available for Program 2.0 because $100 million in funding was already reserved for the final year of the expiring, first-generation Program 1.0. Aimed at retaining and attracting production jobs and economic activity across the state, Program 2.0 also expands eligibility to include a range of project types that were excluded from the first-generation program. Such projects include big-budget feature films, TV pilots, and 1-hr TV series for any distribution outlet. This expanded eligibility represents a major strategic improvement for California’s Film & TV Tax Credit Program that is enabling the state to attract a greater number and wider range of films and TV series.

Under Program 2.0, tax credits are allocated from four dedicated funding “buckets” that target different categories of production. These include: 1) TV projects (new TV series, miniseries, movies of the week (MOW), pilots, and recurring TV series already in the Program); 2) relocating TV series; 3) independent films; and, 4) non-independent (e.g., studio) films. Allocating credits via these “buckets” enables applicants to compete directly against comparable projects.

The enacting statute established specific percentages of fiscal year funding available for each production category. The CFC is authorized to allocate any unused credits from a specified category to another category with higher demand for tax credits, albeit with certain limitations.

Dedicated Funding Categories

Fiscal Year Funding: $330 Million 2016-17 through 2019-20
Another key change in Program 2.0 is the “Jobs Ratio” ranking system for selecting projects to receive tax credits. This new system replaced the random lottery system. Another significant change is the new “Career Readiness” provision that requires projects to participate in career-based learning and training programs for California students. (See Section VI for details about this requirement.)

In addition, “uplifts” (additional 5% tax credits) are now available for non-independent projects that shoot outside the Los Angeles 30-mile zone, have qualified expenditures for visual effects (minimum thresholds apply), and/or perform music scoring/track recording in-state.

During the inaugural year of Program 2.0, the CFC performed administration under emergency (interim) regulations approved in April 2015. The emergency regulations were adopted a second time in January 2016, with permanent regulations approved in May 2016. The regulations articulate the framework for administering Program 2.0, including the application process, eligibility and tax credit allocation, project selection and ranking, and final audit requirements. In addition to the regulations, the CFC has created guidelines, FAQs, and other helpful tools for applicants.

**Application Process**

During the first fiscal year of Program 2.0, the CFC administered five application periods via a new online application portal. Two application periods (July 2015 and January 2016) targeted independent¹ projects and non-independent feature films, and three application periods (May and November 2015, and February 2016) were conducted for television projects and relocating TV series.

Timing of the TV application windows was structured to align with notifications for TV series that will be “picked-up” and moved into active series production. With the changing landscape for television (including non-traditional distribution), it is becoming increasingly difficult to pinpoint the optimal dates for TV project applications.

**Note:** During fiscal year 2015-16, $230 million in tax credits were available for Program 2.0 allocation. The program’s full $330 million in annual tax credit funding began in fiscal year 2016-17 and will run through 2019-20.

Any credits that become available when projects withdraw from the program are rolled into the next fiscal year’s funding.

¹ The statute distinguishes between “Non-Independent” and “Independent” based on whether a company is publicly traded/partially owned by a publicly-traded company or privately-held. Independent companies cannot be publicly traded. Tax credits for non-independent projects are non-transferable (i.e., may be used only by the production company to offset in-state income tax or sales & use tax liability), while credits for independent projects may be transferred (i.e., sold to a third party).
**Application Selection - Jobs Ratio Ranking**

At the close of each application period, the CFC reviews submitted applications to assess each project’s eligibility and Jobs Ratio score. Projects that rank highly, but don’t make the cut before the supply of available credits is exhausted, are placed on a waiting list. If a selected project fails to move into production and is therefore forced to withdraw from the program, the next project in line on the waiting list is offered credits as they become available.

Projects are selected for tax credits based on their Jobs Ratio score, which is determined by the amount of qualified wages the project will generate divided by the amount of tax credits to be allocated, plus other factors including qualified spending for vendors, equipment, etc. The base jobs ratio can be increased up to 25% by accruing “bonus points” for in-state spending on visual effects, filming outside the Los Angeles 30-mile zone, and filming at approved production facilities. All applications submitted during an application period are ranked from highest to lowest against “like” projects (e.g., TV against TV or independent against independent) according to their jobs ratio score. Applications with a jobs ratio score within the top 200 percent (i.e., those that would qualify if double the amount of funding was available for the current allocation period) are elevated to Phase II for further evaluation and review. The highest ranking projects (top 100%) are selected to receive a conditional allocation of tax credits until the available credits for each application period are exhausted. The remaining applications not selected are placed on the waiting list.

Waiting lists expire at the beginning of the next application period for the specific project category. If an applicant does not receive a tax credit allocation and has not begun principal photography, they may re-apply during any subsequent application period for that category.

(See [www.film.ca.gov/incentives](http://www.film.ca.gov/incentives) for a detailed explanation of the new jobs ratio ranking and bonus points system.)

**Tax Credit Certificate Issuance**

The initial allocation for each selected project is treated as a “reservation” for tax credits. Tax credit certificates are awarded only after selected projects: 1) complete post-production; 2) verify the creation of in-state jobs (in accordance with their jobs-ratio score); and, 3) provide all required documentation, including CPA audited cost reports.

At the end of production, each project’s Jobs Ratio will be recomputed and compared to the Jobs Ratio determined at the time of application. Penalties apply if the final Jobs Ratio score has been reduced by a specified amount.

The CFC conducts an annual seminar for CPA firms interested in performing the Agreed Upon Procedures (AUP). Once a firm completes the orientation, it is eligible to perform the AUP for applicants. The Program’s rigorous AUP has served as the model for several states seeking to design their own audit procedures.
II. Program 2.0 Year 1 – Allocation Summary: July 2015 - June 2016

During fiscal year 2015-16, approximately $230 million in tax credits were allocated to 55 film and television projects. Based on the budgets submitted by applicants, these projects are estimated to expend $1.5 billion in direct in-state spending, including $600 million in qualified wages. (Qualified wages do not include wage amounts paid to actors, writers, producers, directors, or other “above-the-line” workers, as these salaries do not qualify for credits.)

<table>
<thead>
<tr>
<th>Project Types</th>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Estimated Total Expenditures</th>
<th>Estimated Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Indie Film</td>
<td>13</td>
<td>$600 Million</td>
<td>$410 Million</td>
<td>$508 Million</td>
<td>$1.5 Billion</td>
<td>$201 Million</td>
<td>5988</td>
<td>8543</td>
</tr>
<tr>
<td>Indie Film</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TV Series</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relocating TV</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pilot</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mini-Series</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movie of the Week</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These figures reflect direct spending for the projects receiving the credits. The report does not attempt to measure any secondary economic impacts. Generally recognized formulas or multipliers are not used.

See Appendix B for a detailed list of tax credit allocations and spending estimates for each Year-1 application period.

Initial Employment and Production Metrics

After one year, key entertainment industry labor organizations are reporting increased levels of employment.

- An analysis of hours worked by members of California’s below-the-line unions (Teamsters, IATSE, basic crafts, and others covered under the Motion Picture Industry Pension & Health Plans) shows a 12.45 percent increase for the first quarter of 2016 compared to the same period last year.

- SAG-AFTRA employment data indicates that background actors working in scripted film and television in California reached an impressive 19.7 percent increase in daily employment from the first quarter of 2015 compared to the same quarter in 2016.

- Teamsters Local 399 reports that members are working at “full employment” for the first time since 2007. As a result, additional (non-member) workers are being hired “off permit.”

- In addition, IATSE Local 44 (affiliated property craftspersons) has seen 4.9 percent growth in membership for the first quarter of 2016 compared to the same period in 2015. The organization hasn’t experienced membership growth this substantial since the mid-1990s.

In California as a whole, the year over year change from January 2015 to January 2016 shows an increase of 2.8% in non-farm payroll jobs according to Employment Development Department data.
While it may be too early to evaluate a causal link, the statistics cited above are encouraging. The CFC will monitor available data in both production and employment in 2017, when Program 2.0 will operate with the full $330 million in annual funding, rather than the reduced year-one funding of $230 million.

Beyond employment data, the most recent quarterly update from FilmL.A., the not-for-profit film office serving the Greater Los Angeles region, reported a 9.7 percent increase in on-location feature film production compared to the same period in 2015, and the film office credited the state’s tax credit program for the growth. FilmL.A. also noted that among all the production categories it tracks, television is most crucially linked to the availability of tax credits. FilmL.A. reported in their recent Pilot production study that in 2015, approximately half of L.A.’s TV Drama production was incentive-driven. See complete report: [http://filmla.com/news_releases.php](http://filmla.com/news_releases.php).
III. Program 2.0 Year 2 – Initial Allocation

Year 2 - Allocation Period # 1

The CFC began accepting TV applications for fiscal year 2016-17 tax credits during the May 18 - 27, 2016 application window. Eligibility for this period was open only to Recurring TV Series and Relocating TV Series. Due to the success of Program 2.0 during its first year in attracting television production to California, the CFC did not accept applications for any new TV Series, TV Pilot, MOW, or Mini-series during the first allocation period of program year-two. This restriction was necessary in order to accommodate the numerous recurring TV applications. A “Recurring TV Series” is defined as a TV Series or Relocating TV Series (in its second or subsequent season in California) that received a prior allocation of tax credits.

A total of 11 TV projects received an allocation. They included six first-season series picked up from pilots accepted previously into the program, four recurring TV series already in the program and renewed for another season of in-state production, and one series (American Crime - ABC) that relocated from Texas. The following chart contains submitted project spending estimates:

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Estimated Total Expenditures</th>
<th>Estimated Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>$171 Million</td>
<td>$130 Million</td>
<td>$162 Million</td>
<td>$464 Million</td>
<td>$65 Million</td>
<td>1856</td>
<td>1840</td>
</tr>
</tbody>
</table>

**Project Types**

TV Series: 10
Relocating TV: 1

Note about Recurring TV Series

Program 2.0 statute mandates first priority of available tax credits for recurring projects that have received a prior credit allocation. Priority is determined by the fiscal year of the original credit allocation, with priority afforded to the oldest projects. If further prioritization is necessary, applications are ranked according to Jobs Ratio score in the most current applications.

Year 2 - Allocation Period # 2

The CFC received 91 applications during the July 2016 application period for independent and non-independent feature films. Twenty six projects were selected to receive $108 million in tax credits.

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Estimated Total Expenditures</th>
<th>Estimated Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>$324 Million</td>
<td>$204 Million</td>
<td>$347 Million</td>
<td>$875 Million</td>
<td>$108 Million</td>
<td>1204</td>
<td>4469</td>
</tr>
</tbody>
</table>

**Project Types**

Non-Indie Film: 16
Indie Film: 10
IV. Program 2.0 – Relocating Television Series

By adding a separate funding “bucket” for the Relocating TV category, applicants that consider moving a series to California have much greater certainty that credits will be available. During the three television application periods for the first year of Program 2.0, a total of five series were selected under the Relocating TV Series category. During the first application period of Year 2, California gained another relocating project, giving the state a total of six series that have moved to California under Program 2.0.

A “Relocating Television Series” is a scripted series of any episode length that filmed its most recent season (minimum 6 episodes) outside California. This category qualifies for a 25% tax credit, which is reduced to 20% for any successive seasons (after it’s first) filmed in California.

The six Relocating TV Series projects are: *Mistresses* (which returned to California from Vancouver), *Scream Queens* and *American Horror Story* (which moved from Louisiana), *Veep* (from Maryland), *Secrets and Lies* (from North Carolina), and *American Crime - ABC* (which recently moved from Texas).

While not technically in the relocating TV category (but of related interest), three projects under the new TV series category (*Good Girls Revolt*, *Rosewood*, and *Shooter*) were picked up from pilots that were filmed outside of California. The pilot for *Good Girls Revolt* was set and filmed in New York, while *Rosewood* filmed its pilot in Miami (where the story is set) and *Shooter* filmed its pilot in Vancouver. These productions elected to base production in California after receiving the tax credit, despite establishing locations, crews, and vendors in other states.

As illustrated below, Relocating TV Series bring significant spending to the state.

<table>
<thead>
<tr>
<th>Program 2.0 Relocating Television Series *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>American Crime - ABC</td>
</tr>
<tr>
<td>American Horror Story</td>
</tr>
<tr>
<td>Mistresses</td>
</tr>
<tr>
<td>Scream Queens</td>
</tr>
<tr>
<td>Secrets and Lies</td>
</tr>
<tr>
<td>Veep</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

* Data reflects Program 2.0 Year 1 and first allocation of Year 2.
V. Program 2.0 Statewide Impact - Local Spend Summary

Program 2.0 encourages productions to utilize locations throughout California. Non-independent projects that film outside the Los Angeles 30-miie zone are eligible to receive an additional five percent tax credit for related costs incurred during the applicable period (prep, shoot, and strike). This additional incentive applies only to non-independent projects, as independent projects already receive the maximum 25 percent tax credit. Projects may also receive up to 10 bonus points to increase their Jobs Ratio score (and therefore chance of being selected) based on the percentage of filming days that occur outside the Los Angeles 30-mile zone.

Data show that when productions film on-location outside the Los Angeles area, they typically spend $50,000 - $100,000 per day in the local region. This spending benefits many small businesses – grocers, hardware stores, gas stations, hotels, and many other retail businesses – as well as local hires, such as catering and construction workers. In addition, such spending impacts local governments directly with payments made to local police and fire departments, as well as revenue from local permit fees.

Below are preliminary spending estimates from Program 2.0 projects that reported out-of-zone filming in 2015 and 2016:

<table>
<thead>
<tr>
<th>County</th>
<th>Project Title</th>
<th>Total Local Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marin</td>
<td>13 Reasons Why</td>
<td>$37,000,000</td>
</tr>
<tr>
<td>Orange</td>
<td>CHiPs, Rosewood, This Is Us</td>
<td>$832,000</td>
</tr>
<tr>
<td>Riverside</td>
<td>Twin Peaks</td>
<td>$89,000</td>
</tr>
<tr>
<td>San Diego</td>
<td>Pitch (Pilot)</td>
<td>$2,758,000</td>
</tr>
</tbody>
</table>

VI. Career Readiness – Educational Opportunities

Another substantial addition to Program 2.0 is the “Career Readiness” requirement. All accepted applicants must participate in career-based learning and training programs that have been approved by the CFC. The structure for participation was developed based on extensive collaboration with the California Department of Education and the California Community Colleges Chancellor’s Office. The CFC is also engaged in outreach to non-profits and other organizations involved in linked-learning opportunities for high school and post-high school students, such as The Los Angeles Fund for Public Education (LA Fund) and Veterans in Film & Television (VFT).

To satisfy the Career Readiness requirement, applicants must choose one of the following methods of participation:
- **Paid Internship**: Provide students enrolled in an accredited high school or community college three paid internship positions for a minimum of 75 hours each, or a combination of internships with a minimum of 75 hours per student and a total 225 hours.

- **Classroom Workshop**: Provide students enrolled in an accredited high school or community college a minimum of eight hours of classroom workshops or demonstrations conducted by entertainment industry professionals. Topics may cover various aspects of the industry, such as set operations, post-production, and specific technical crafts.

- **Studio Employment and Professional Skills Tour**: Provide students enrolled in an accredited high school or community college a minimum of eight hours of studio employment and professional skills tour, which may include set visit and/or tours of set construction, wardrobe department, art department, or editorial department.

- **Faculty Externship**: Provide a minimum of eight hours of continuing education for faculty and/or other educators to observe set operations, post-production, and other specialized departments.

- **Financial Contribution**: Make a financial contribution to a specific local educational agency or higher education institution specializing in arts, media, and entertainment career oriented programs.

Thus far, many productions have elected to hire interns (minimum 75 hours each) who gain exposure to various departments, including time spent on set or within the production office and/or art, camera, sound, publicity, and post-production departments. Intern feedback has described the process as a “great learning experience” and “a first-hand opportunity to understand production.” An adjunct faculty professor who spent time with a TV series as an extern found the production personnel “incredibly supportive,” enabling him to observe and ask questions in multiple departments.

A significant number of productions chose to make contributions to either high school or community college funds. The community college funds are used for other paid internships for arts/media/entertainment students.

This year, donations to the California Department of Education (high schools) have provided scholarships for the 2016 summer session at the California State Summer School for the Arts (CSSSA). CSSSA is a rigorous, pre-professional, month-long training program for talented students of high school age in visual and performing arts, creative writing, animation, and film. Its purpose is to provide a training ground for students who wish to pursue careers in the arts and entertainment industries in California.
VII. Program 1.0 – “First Generation” Tax Credit Program Overview

Passed in 2009, the original legislation established a five-year, $500 million ($100 million per fiscal year) Film & TV Tax Credit Program. The Program was extended for an additional year in September 2011, then extended for two more years in September 2012, for a total of $300 million in additional funding. At the time the Program was conceived, it was designed to make the best use of available funding by targeting those productions most likely to leave California due to incentives offered by other states and countries. Such projects included TV series produced for basic cable, and low-to mid-budget feature films.

Program 1.0 achieved its goal of keeping many such at-risk projects in the state. However, despite this success, California continued to experience a steady erosion of projects not eligible for the Program, including television series dramas produced for network distribution and big-budget (‘tent-pole’) feature films.

The original 2009 law mandated the CFC to allocate up to $100 million dollars in tax credits each fiscal year to eligible projects selected by a random lottery. If the amount of credits requested by applicants exceeded the amount authorized for the program ($100 million annually), credits could be allocated from the succeeding fiscal year. This provision enabled the CFC to allocate two years of fiscal year funding during the first year of the program. As a result, the eight years of funding was allocated over seven program years.

Under Program 1.0 rules, tax credits were assigned via a lottery whenever more than one application was received on any given day. At the beginning of each application period, the CFC was flooded with hundreds of applications from independent and studio producers eager to film in California. The lottery system helped ensure that tax credits were distributed as equitably and transparently as possible. It was a unique solution to a uniquely California problem: California has remained the first choice for the majority of producers and filmmakers, but each year, California’s relatively modest tax credit Program was immediately over-subscribed. To maximize ROI, the new law that created Program 2.0 replaced the random lottery system with a “Jobs Ratio” ranking system intended to maximize the number of jobs created for each dollar of tax credits issued.

Each year, some projects selected initially to receive an allocation of California tax credits ultimately withdrew from the Program due to a variety of factors – lack of adequate funding, schedule delays that extended beyond the program’s timeline requirements, actor or director availability issues, or other unforeseen causes. Upon withdrawal, each such project’s tax credits were reassigned to the project next in line on the waiting list. Similarly, under Program 2.0, the CFC actively manages the waiting list for each project category, monitors the status of productions, and assigns tax credits as they become available to the next project.
Productions do not receive tax credit certificates (i.e., actual tax credits) until all post-production is completed and the CFC has reviewed all required documentation - including CPA audited cost reports. As per the statute, no credits were issued prior to January 1, 2011. Because of varying production schedules, applicants typically submitted their final documentation within 12 – 24 months after they received their initial allocation letter. The CFC generally issues tax credit certificates within 20 business days of receiving final documentation.

Total Program 1.0 Tax Credit Certificates Issued as of June 30, 2016: $492,463,000 to 248 applicants

- $38,275,000 claimed against sales and use taxes.
- $258,756,521 claimed against income tax liability.
VIII. Program 1.0 - Allocation Summary and Aggregate Spending

Including this fiscal year’s conditionally allocated tax credits, approximately $675 million in credits has been allocated (reserved) for eligible film and TV projects under Program 1.0. Total aggregate direct spending in California is $5.5 billion, including an estimated $1.9 billion in qualified (below-the-line) wages. (Note: Figures for program years 1 through 4 are based on actual, audited spending; the remaining fiscal years are based on production estimates).

The following chart provides details on project spending and other statistics per program year. All figures reflect direct spending. Generally recognized formulas, or multipliers, reflecting secondary economic impact are not utilized in this report.

<table>
<thead>
<tr>
<th>Program Year</th>
<th>FY Funding</th>
<th>Estimated Tax Credit Allocation</th>
<th>Estimated Direct Spending</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wage Expenditures</th>
<th>Non-Qualified Expenditures</th>
<th>Cast</th>
<th>Crew</th>
<th>Extras</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2009-10</td>
<td>$153,615,000</td>
<td>$1,228,427,000</td>
<td>$456,827,000</td>
<td>$319,086,000</td>
<td>$452,515,000</td>
<td>4,676</td>
<td>8,982</td>
<td>114,297</td>
</tr>
<tr>
<td>2</td>
<td>2010-11</td>
<td>$95,094,000</td>
<td>$830,863,000</td>
<td>$272,461,000</td>
<td>$196,726,000</td>
<td>$361,651,000</td>
<td>3,652</td>
<td>7,382</td>
<td>73,036</td>
</tr>
<tr>
<td>3</td>
<td>2011-12</td>
<td>$68,940,000</td>
<td>$606,044,000</td>
<td>$185,498,000</td>
<td>$137,016,000</td>
<td>$283,493,000</td>
<td>3,496</td>
<td>6,026</td>
<td>56,122</td>
</tr>
<tr>
<td>4</td>
<td>2012-13</td>
<td>$96,851,000</td>
<td>$766,840,000</td>
<td>$262,022,000</td>
<td>$188,735,000</td>
<td>$311,530,000</td>
<td>3,506</td>
<td>6,796</td>
<td>73,885</td>
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<td>5</td>
<td>2013-14</td>
<td>$88,507,000</td>
<td>$700,305,000</td>
<td>$246,920,000</td>
<td>$174,647,000</td>
<td>$277,571,000</td>
<td>3,661</td>
<td>6,547</td>
<td>71,173</td>
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<tr>
<td>6</td>
<td>2014-15</td>
<td>$89,292,000</td>
<td>$734,675,000</td>
<td>$240,599,000</td>
<td>$170,106,000</td>
<td>$311,676,000</td>
<td>2,759</td>
<td>3,627</td>
<td>72,039</td>
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<tr>
<td>7</td>
<td>2015-16</td>
<td>$85,146,000</td>
<td>$649,361,000</td>
<td>$234,044,000</td>
<td>$150,597,000</td>
<td>$250,272,000</td>
<td>1,697</td>
<td>2,953</td>
<td>74,443</td>
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<tr>
<td>Aggregate All Years</td>
<td></td>
<td>$675,344,000</td>
<td>$5,516,523,000</td>
<td>$1,898,371,000</td>
<td>$1,336,921,000</td>
<td>$2,281,231,000</td>
<td>23,447</td>
<td>42,313</td>
<td>539,995</td>
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</table>

It is important to note that the aggregate non-qualified estimated spending of $2.28 billion in the chart above is direct spending that does not receive a tax credit benefit, as the program does not provide tax credits for this portion of a production’s spending. Non-qualified spending typically includes significant payments made to “above-the-line” individuals (actors, producers, directors) who reside in, and pay taxes in, California.

See Appendix A for a detailed breakdown of allocations by type of project.
IX. Program 1.0 - Relocating Television Series

California’s Tax Credit Program 1.0 allowed broader eligibility criteria for TV series that wished to relocate production to California from out-of-state. Like Program 2.0, these are classified as “relocating TV series,” and included scripted 1-hour and half-hour programs for distribution on network, basic, or premium cable channels, or the internet. Since Program 1.0 launched in 2009, the following series relocated to California: *Important Things with Demetri Martin* (from New York), *Torchwood* (from U.K.), *Body of Proof* (from Rhode Island), and *Teen Wolf* (from Georgia).

Each year, the CFC received applications for many TV shows hoping to relocate. Only those that received credits have moved to California. Moving an established TV series is costly and requires detailed advanced planning to dismantle, transport and rebuild sets, relocate cast members, find comparable locations, etc. all within a tight time-frame. In addition, all of these series had received tax credits in the state or country where they originated.

The four series that relocated to California under Program 1.0 contributed more than $343 million in direct spending. *Teen Wolf* is expected to film another season in California and has created hundreds of jobs.

<table>
<thead>
<tr>
<th>Program 1.0 Relocating Television Series</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Body of Proof</td>
</tr>
<tr>
<td>Important Things w/ Demetri Martin</td>
</tr>
<tr>
<td>Teen Wolf</td>
</tr>
<tr>
<td>Torchwood</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>
X. Program 1.0 Waitlist Analysis – Projects That Did Not Receive Credits

Data suggests that the credit has an impact on encouraging film and television projects to locate in California. While the state has retained much production as a result of the first-generation Program, a large number of projects that applied were denied due to limited funding. The CFC has tracked the fate of those projects that were denied and subsequently produced without California tax credits. This analysis covers Program Years 2 through 6 (2010-11 through 2014-15).

The analysis in the waitlist diagram reveals that the majority of these projects left California to produce out-of-state. In fact, the state lost 84-percent of production spending by projects that applied, but were denied.

The table below illustrates that while some productions elected to shoot in California without a tax credit, the majority of projects – especially those with larger budgets – left. From 2010 – 2016, these ‘runaway’ projects accounted for $3.7 billion in production spending outside California - a loss to the state’s below-the-line production workers and the businesses that rely on the film/TV production industry.

Notably, of the 164 projects that filmed outside of California, all but two filmed in jurisdictions that offered tax credits.

Note that the CFC is not able to track projects that do not apply for California’s film and TV tax credits or that are ineligible.
## XI. Program 1.0 - Local Filming and Spending Impact

While most California production activity under Program 1.0 occurred in the greater Los Angeles area, other regions across the state nonetheless experienced significant economic impact from these productions. A sampling of Program 1.0 spending impact outside Los Angeles includes:

<table>
<thead>
<tr>
<th>County</th>
<th>Years</th>
<th>Project Titles</th>
<th>Total Local Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>2010 to 2011</td>
<td>Hemingway &amp; Gellhorn, Moneyball</td>
<td>$4,447,000</td>
</tr>
<tr>
<td>Humboldt</td>
<td>2015</td>
<td>Swiss Army Man, Woodshock</td>
<td>$855,000</td>
</tr>
<tr>
<td>Imperial</td>
<td>2014</td>
<td>American Sniper, Last Days in the Desert</td>
<td>$817,000</td>
</tr>
<tr>
<td>Kern</td>
<td>2009 to 2013</td>
<td>The Congress, Faster, Justified, In Your Pocket, Priest</td>
<td>$327,000</td>
</tr>
<tr>
<td>Nevada</td>
<td>2012</td>
<td>Her</td>
<td>$16,000</td>
</tr>
<tr>
<td>Orange</td>
<td>2009</td>
<td>J. Edgar, Jackass, Look of Love, Saving Mr. Banks</td>
<td>$190,000</td>
</tr>
<tr>
<td>Placer</td>
<td>2010</td>
<td>Jackass</td>
<td>$65,000</td>
</tr>
<tr>
<td>Riverside</td>
<td>2011 to 2014</td>
<td>Behind the Candelabra, Billion Dollar Movie, The Gambler, Knight of Cups</td>
<td>$621,000</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>2009 to 2016</td>
<td>American Sniper, Argo, Her, Hirokin, Hit the Floor, Jackass, Priest</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>San Diego</td>
<td>2009 to 2014</td>
<td>Indwelling: Return of the Saint, Last Days in the Desert, Paranormal Activity: The Marked Ones, Terriers</td>
<td>$19,000,000</td>
</tr>
<tr>
<td>San Francisco</td>
<td>2011 to 2016</td>
<td>Hemingway &amp; Gellhorn, Knife Fight, Murder in the First, Nine Lives of Chloe King, Please Stand By</td>
<td>$16,000,000</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>2010</td>
<td>Jackass</td>
<td>$68,000</td>
</tr>
<tr>
<td>San Mateo</td>
<td>2011 to 2015</td>
<td>Chasing Mavericks, Swiss Army Man</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>2010</td>
<td>No Strings Attached, Rites of Passage</td>
<td>$410,000</td>
</tr>
<tr>
<td>Ventura</td>
<td>2010 to 2013</td>
<td>Jackass, Justified, Super 8, Water for Elephants, We Bought a Zoo</td>
<td>$6,500,000</td>
</tr>
</tbody>
</table>
XII. Global Competition for California’s Motion Picture Industry

Today’s business model for feature film and scripted TV production continues to rely heavily on tax incentives to reduce production costs. Although there are films produced without the benefit of tax credits, financing for projects by independent production companies incorporate the monetization of tax credits (selling tax credits to third parties) as a key part of the financing structure. Therefore, the availability of tax credits has become a key factor when it comes to where projects are filmed. Non-independent (studio) productions factor in tax incentives heavily when considering production locations, creating multiple budget comparisons to calculate net costs and savings realized by virtue of tax credits. In addition to international competition from Canada, Australia, the U.K., and most EU nations, nearly 40 U.S. states offer financial incentives to lure production and post-production jobs and spending away from California. For a comprehensive listing of film and television tax credits available around the world, see: https://www.epfinancialsolutions.com/

Threat to Infrastructure

Once such incentives take root in other states and countries, those locales effectively develop their long-term infrastructure with stage construction, post-production facilities, and job training programs. For example, incentive-rich jurisdictions such as New York, Louisiana, Massachusetts, Georgia, Toronto, and Hungary have all built impressive multi-studio facilities over just the past few years. Many of these regions have instituted education and job training programs.

While production companies will often relocate their relatively small creative teams (producers, actors, directors, writers) to another state for the duration of a film shoot, very few “below-the-line” crew members (e.g., camera technicians, grips, electricians, carpenters, make-up artists, prop masters, drivers) from California are hired due to the additional expense for travel and housing. The few that work on-location out of state pay income tax in the work state. (California receives only the differential in taxes owed based on the tax rate in state versus out of state.) Furthermore, skilled California crew members end up training the local workforce. This process has helped create a growing pool of skilled local crews across the country and around the world.

Some film industry workers who cannot find work in California have relocated their families to incentive states, resulting in lost tax revenue and a steadily decreasing pool of skilled labor.

California has lost film and television productions as each year, competing states that offer incentives achieve dramatic growth in production spending. In recent years:

- Georgia has become the third largest production center after California and New York with a reported $2 billion in direct production spending in FY 2016, according to the Georgia Department of Economic Development. Georgia realized a 1300% increase in production spending since its program began in 2005. Georgia’s motion picture union, IATSE Local 479, experienced a 980% growth in membership in 2015 compared to 2005.
Production spending in Louisiana topped $863 million in 2015 -- a 970% increase since the state introduced its incentive in 2003 according to Louisiana Economic Development. Membership in IATSE Local 478 increased 208% between 2005 and 2015. It is likely that production spending will dip significantly in 2016 since the Louisiana legislature’s recent move to restrict the amount of credits that could be transferred each year.

New York has succeeded in attracting film and TV industry activity over the last decade. Between 2009 and 2013, New York City’s motion picture employment rose by 44% and in New York State, employment in this category rose by 30%. By comparison, nationally, during the same time period, employment in motion pictures expanded by approximately 6%, according to a June 2014 report titled “New York’s Motion Picture Industry: A Statewide and Regional Analysis” prepared by the New York State Department of Labor.

Ohio is already reaping benefits after recently doubling its annual tax incentive from $20 million to $40 million in order to lure larger-budget projects. They recently announced that The Life and Death of John Gotti, about the New York mob boss, will film in Cincinnati.

Production in the U.K. is booming in all sectors. The British Film Institute reported that in fiscal year 2015-16 total spend on film production in the U.K. was more than £1.4 billion, up 20% from the previous year. This followed their government’s implementation of increased tax credits for bigger-budget films, television production, and visual effects in 2013. High-end TV spending alone topped £759 million.

Production expenditures in British Columbia, Canada reached an estimated $2 billion in the 2014-2015 fiscal year, up from $1.45 billion the year before. 2015 Film and TV production spending in Ontario topped $1.3 billion, an 18% increase since 2014, according to the Ontario Media Development Corp.

Impact of Large-Scale Feature Film Production

Perhaps the segment of entertainment production that has had the most detrimental effect on California’s infrastructure is the loss of big-budget feature films. Each big-budget production employs thousands of workers and typically utilizes more than a thousand support businesses. They also may require the use of several very large sound stages for building complex sets.

In 2015, 26 big-budget feature films with budgets over $75 million were released. None of these films were filmed primarily in California (seven filmed partially in-state). Of the 30 big-budget films released in 2014, only one shot primarily in California.

The loss of big-budget feature films has been particularly devastating for Northern California’s film production community. While all of the following films were set in San Francisco, each filmed only a few days in the city:
- *Ant-Man* (Georgia)
- *Age of Adeline* (Vancouver, Canada)
- *Godzilla* (Vancouver, Canada)
- *Dawn of the Planet of the Apes* (Louisiana)
- *Big Eyes* (Vancouver, Canada / U.K.)
- *San Andreas* (Australia)
- *Terminator 5* (Louisiana)

The more recent Program 2.0 legislation attempts to correct this trend by no longer restricting eligibility to projects under $75 million. It expands eligibility to attract any size feature film, but restricts the calculation of the tax credit to a maximum of $100 million in qualified spending. This allows any sized feature film to apply, but effectively caps the maximum credit that any one project can receive. To date, Program 2.0 has not attracted any feature films with budgets exceeding $75 million. This is likely due to the credit cap and the resulting lack of interest from big-budget feature producers.

**California’s Visual Effects Industry in Decline**

In addition to luring a large portion of film production, many states and countries have enacted incentives that specifically target the visual effects industry. For example, British Columbia provides a 17.5% credit on visual effects work produced in the province, while Quebec provides a 16% credit – both of which are in addition to their provincial and federal tax breaks. In turn, many visual effects companies of all sizes have relocated to Vancouver, taking high-wage jobs with them. In 2014, Sony Pictures Imageworks moved their headquarters from Culver City, CA to Vancouver, Canada. Here in the U.S., New York State offers a 30% tax credit for visual effects and post production work. This trend is also occurring on a global scale. One prominent example involves Industrial Light and Magic (ILM) – the renowned visual effects company founded by George Lucas. Based in the Bay Area, the company recently turned its focus to expansion in the U.K.

Gretchen Libby, Executive in Charge, ILM Global Studio, described the situation as follows:

*Overseas countries, in particular the U.K., are offering tax breaks that put pressure on California companies such as Industrial Light and Magic. ILM has expanded and grown its business by opening a U.K. division to develop and train locals to handle work for many visual effects projects, including the ‘Star Wars’ franchise. The company also has a growing Vancouver studio and a studio in Singapore."

In their annual report on feature film production, FilmL.A. analyzed visual effects work on the top live-action films released in 2015 and found that the U.K. and Canada have usurped California as global centers for this specialized work. The full FilmL.A. report can be found here: http://www.filmla.com/data_reports.php.

Program 2.0 was designed with provisions to incentivize more visual effects work to stay in California by providing an additional 5% tax credit for projects that spend at least $10 million on visual effects work in-state (or spend 75% of their total visual effects budget here). Applicants can also accrue Jobs Ratio bonus points based on their total visual effects spending in California.
XIII. Conclusion

California’s modest first-generation tax credit program (Program 1.0) achieved its goal of retaining certain targeted projects most susceptible to runaway production. As noted in a recent Legislative Analyst’s Office report, Program 1.0 projects generated roughly $4.5 billion of additional spending on film production in the state that resulted from the first film tax credit program. (See Appendix D.)

It’s important to note, due to overwhelming demand, Program 1.0 accommodated only a small fraction of the productions that sought to shoot in California. For this reason, the state continued to experience a pronounced loss of big-budget feature films and 1-hr TV dramas.

Recognizing the need to address this erosion and compete more effectively on a global scale, state lawmakers and Governor Brown created the expanded Program 2.0, which more than triples Program 1.0 funding and adds key provisions to attract additional types of projects (e.g., big-budget feature films and TV series) that are highly vulnerable to runaway production. After just its first year, the results are encouraging as six TV series have relocated to California. All of these series had received tax credits in the state where they originated. These six series are already on track to spend more than $328 million collectively in state. Over multiple seasons, their spending impact will be even more significant.

In a highly competitive global environment, California still boasts a superior critical mass of state-of-the-art facilities, highly skilled crews, and the best talent -- both in front of and behind the camera. Leveraging modest sustainable tax credits against the robust private spending associated with most film and TV series production empowers our state to retain and grow its share of jobs and economic development generated by this uniquely California industry.

XIV. About the California Film Commission

The CFC was created in 1984 to enhance California’s position as the premier location for motion picture production.

The CFC supports film, TV, and commercial production of all sizes and budgets by providing one-stop support services including location and troubleshooting assistance, permits for filming at state-owned facilities, and access to resources including an extensive digital location library. The CFC also administers the state’s Film & Television Tax Credit Program and serves as the primary liaison between the production community and all levels of government (including local, state, and federal jurisdictions) to eliminate barriers to filming in-state.

The CFC encourages a production-friendly environment to retain/grow production jobs and economic activity statewide. It works in conjunction with more than 50 local film offices/commissions (Regional Film Partners) across California to resolve film-related issues and handle specific filming requests.

More information is available at http://www.film.ca.gov.
### Appendix A | Program 1.0 (Years 1 – 7) Supplementary Breakdowns

#### Breakdown by Project Type

<table>
<thead>
<tr>
<th>Program Year</th>
<th>Feature Film</th>
<th>MOW</th>
<th>TV Series</th>
<th>Relocating TV</th>
<th>Mini-Series</th>
<th>Total Projects</th>
<th>Feature Film</th>
<th>MOW</th>
<th>TV Series</th>
<th>Relocating TV</th>
<th>Mini-Series</th>
<th>Total</th>
<th>% of Credit Allocation per Project Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>46</td>
<td>13</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>67</td>
<td>84.5%</td>
<td>3.6%</td>
<td>10.3%</td>
<td>0.9%</td>
<td>0.7%</td>
<td>100%</td>
<td></td>
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<tr>
<td>2</td>
<td>21</td>
<td>12</td>
<td>11</td>
<td>2</td>
<td>0</td>
<td>46</td>
<td>42.4%</td>
<td>6.2%</td>
<td>38.2%</td>
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<td>26</td>
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<td>47.5%</td>
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<td>7</td>
<td>12</td>
<td>5</td>
<td>9</td>
<td>1</td>
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<td>12.1%</td>
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<td>Aggregate All Years</td>
<td>160</td>
<td>77</td>
<td>63</td>
<td>9</td>
<td>2</td>
<td>311</td>
<td>44.9%</td>
<td>4.6%</td>
<td>41.7%</td>
<td>8.6%</td>
<td>0.2%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
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#### Indie/Non-Indie Analysis

<table>
<thead>
<tr>
<th>Program Year</th>
<th># of Projects</th>
<th>% of Total Credit Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indie</td>
<td>Non-Indie</td>
</tr>
<tr>
<td>1</td>
<td>30</td>
<td>37</td>
</tr>
<tr>
<td>2</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>3</td>
<td>32</td>
<td>15</td>
</tr>
<tr>
<td>4</td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>7</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Aggregate All Years</td>
<td>176</td>
<td>135</td>
</tr>
</tbody>
</table>
# Appendix B | Program 2.0 Year 1 - Allocation Period Details

## Allocation # 1: TV Projects

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Total Expenditures</th>
<th>Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>$162 Million</td>
<td>$115 Million</td>
<td>$164 Million</td>
<td>$441 Million</td>
<td>$62.2 Million</td>
<td>2499</td>
<td>2576</td>
</tr>
</tbody>
</table>

### Project Types
- TV Series
- Relocating TV
- Pilot
- Mini-Series

## Allocation # 2: Independent and Non-Independent Feature Films

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Total Expenditures</th>
<th>Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>$79.8 Million</td>
<td>$52.1 Million</td>
<td>$82.2 Million</td>
<td>$214 Million</td>
<td>$25.8 Million</td>
<td>342</td>
<td>889</td>
</tr>
</tbody>
</table>

### Project Types
- Non-Indie Film
- Indie Film

## Allocation # 3: TV Projects

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Total Expenditures</th>
<th>Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>$104 Million</td>
<td>$71.9 Million</td>
<td>$78.7 Million</td>
<td>$255 Million</td>
<td>$38.2 Million</td>
<td>1223</td>
<td>1855</td>
</tr>
</tbody>
</table>

### Project Types
- TV Series
- Relocating TV
- Pilot
- Movie of the Week

## Allocation # 4: Independent and Non-Independent Feature Films

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Total Expenditures</th>
<th>Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>$134 Million</td>
<td>$89.1 Million</td>
<td>$72.6 Million</td>
<td>$295 Million</td>
<td>$37.5 Million</td>
<td>686</td>
<td>1762</td>
</tr>
</tbody>
</table>

### Project Types
- Non-Indie Film
- Indie Film

## Allocation # 5: TV Projects

<table>
<thead>
<tr>
<th># of Projects</th>
<th>Qualified Wages</th>
<th>Qualified Non-Wages</th>
<th>Non-Qualified Expenditures</th>
<th>Total Expenditures</th>
<th>Tax Credit Allocation</th>
<th># of Cast</th>
<th># of Crew</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>$121 Million</td>
<td>$82.3 Million</td>
<td>$110 Million</td>
<td>$313 Million</td>
<td>$37.6 Million</td>
<td>1238</td>
<td>1461</td>
</tr>
</tbody>
</table>

### Project Types
- TV Series
- Relocating TV
- Mini-Series

Note: Values are estimates based on application data.
Appendix C | Enacting Legislation

- SB X3 15 (Calderon) / ABX3 15 (Krekorian) was enacted in 2009 to create the California Film and Television Tax Credit Program, which provided a five-year, $500 million tax credit to be administered by the CFC.

- AB1069 (Fuentes) was enacted in October 2011 to provide a one-year extension to the California Film & Television Tax Credit Program through FY 2014-15. The original bill sought a five-year extension, but was reduced to one-year in the Senate.

- AB2026 (Fuentes) was enacted in September 2012 to provide a two-year extension to the California Film & Television Tax Credit Program through FY 2016-17. The bill sought a five-year extension, but was reduced to a two-year bill in the Senate.

- SB1197 (Calderon), identical to AB2026, was enacted in September 2012 to provide a two-year extension to the California Film & Television Tax Credit Program through FY 2016-17. The bill sought a five-year extension, but was reduced to a two-year bill in the Senate.

- AB1839 (Gatto) was enacted in September 2014 creating a new Film and Television Tax Credit Program for five years and authorized funding at $230 million in FY 2015-16 and $330 million for each of the next four years. It expanded eligibility to include all 1-hour scripted television series regardless of distribution mechanism (network, premium cable, internet, TV, etc.), big-budget feature films (but restrict credits to the first $100 million in qualified expenditures), and television pilots.
Several studies have reported on California’s Film and Television Tax Credit Program. A summary of past economic analyses is included for reference below.

**Legislative Analyst’s Office**
In September 2016, the Legislative Analyst’s Office (LAO), as required by statute, evaluated the economic effects and the administration of Program 1.0 in their report, *California’s First Film Tax Credit Program*. The LAO noted that while 30% of projects in the program may have occurred in California without the benefit of a tax credit, fully 70% were drawn to the state as a result of the Program. They estimated that Program 1.0 resulted in additional spending of roughly $4.5 billion in the state.

The full LAO report can be found here: [http://www.lao.ca.gov/Publications/Report/3502](http://www.lao.ca.gov/Publications/Report/3502)

**Southern California Association of Governments (SCAG)**
In March of 2014, the Southern California Association of Governments (SCAG) released a study titled, *California’s Film and Television Tax Credit Program: Assessing Its Impact*. The research was conducted by the Economic and Policy Analysis Group at the Los Angeles County Economic Development Corporation.

The SCAG report measured the economic and fiscal impacts in terms of the current dollar value of the tax credits issued and found that for each dollar of tax credit certificate issued:

- Total economic activity in the state increased by $19.12
- Labor income per dollar tax credit (including to the self-employed) increased by $7.15
- Total state GDP per dollar tax credit increased by $9.48
- $1.11 in tax revenue was returned to state and local governments (ROI)

The report notes that its findings do not include the impact of film-related tourism, which is known to generate significant revenues at all levels of government. The full SCAG study can be found at: [http://www.scag.ca.gov/Documents/SCAGFilmReport-Final.pdf](http://www.scag.ca.gov/Documents/SCAGFilmReport-Final.pdf)

**Milken Institute**
A Milken Institute report released in Feb. 2014, *A Hollywood Exit: What California Must Do to Remain Competitive in Entertainment – and Keep Jobs*, noted that California’s stronghold on the entertainment industry is loosening as production jobs are lured to other locations due to production credits and other tax breaks. The report’s finding is sobering: “Between 2004 and 2012, the state lost more than 16,000 jobs in filmed production employment – a more than 10 percent drop. Meanwhile, New York, California’s main rival, added more than 10,000 such jobs.” The full Milken Institute report can be found here: [http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=38801463&cat=resrep](http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=38801463&cat=resrep)

**Los Angeles Economic Development Corporation (LAEDC)**
In June 2011, the Los Angeles Economic Development Corporation (LAEDC) released a study to determine the economic impact of the tax credit program. The study analyzed the first 77 productions approved for tax credits totaling nearly $200 million. The executive summary states:

“*During the first two years of the program, California’s Film and Television Tax Credit has generated more than $3.8 billion in economic output and is supporting more than 20,000 jobs in California.*
For every tax credit dollar approved under California’s Film and Television Tax Credit program, at least $1.13 in tax revenue will be returned to state and local governments.”

The full study is available at: http://www.film.ca.gov/2011_Reports_&_Studies.htm

**Headway Project/ UCLA Institute for Research on Labor and Employment**

In February 2012, another report (conducted by The Headway Project in collaboration with the UCLA Institute for Research on Labor and Employment) reviewed the methodology and results of the 2011 LAEDC report. The Headway/UCLA report made adjustments, based on more recent data, and determined that for every dollar in tax credits issued, $1.04 in state and local tax revenues will be returned - rather than $1.13 as indicated in the LAEDC study. Regardless of which report is referenced, the Program has been determined to generate a positive return on investment. The full Headway/UCLA report is available at: http://www.headwayproject.org/downloads/Headway_Entertainment_Report.pdf.
Appendix E | Local Statewide Film Incentives

Many jurisdictions outside of Los Angeles have created local initiatives to attract film and television production.

Los Angeles
- Provides free use of most available, city-owned locations for filming.
- Entertainment Production Tax Cap - caps local tax liability for production costs.
- Business Tax Exemptions are available for qualifying new businesses, small businesses, and creative artists. Reduced tax rates are available for motion picture production businesses.
- Creative Artist Tax Exemption - no tax is required to be paid by a person for gross receipts attributable to “Creative Activities.”

Riverside County
- Waives all film permit fees in unincorporated areas.
- Free use of County-owned properties for projects lasting 10 days or less.
- Waives transient occupancy tax (TOT) at participating hotels.
- Palm Springs offers permit fee waivers and a $5,000 grant available for qualified productions within the City of Palm Springs.
- San Jacinto – waives film permit fees, with no location fees for filming on city-owned property.
- Temecula - no film permit fees.

San Francisco
- Offers a rebate program that refunds up to $600,000 on any fees paid to the City of San Francisco for production of a scripted or unscripted television episode or feature length film or documentary. The rebate covers permit fees, payroll taxes, cost to pay up to four police officers per day, fees for city-owned locations, stage space costs, and street closure fees and more.

Santa Barbara County
- Media Production Incentive Program provides a cash rebate to qualified still photo campaigns, commercials, unscripted and scripted television, and feature film production.

Santa Clarita
- Offers a three-part film incentive program that refunds basic permit fees for locally-based, recurring and California Film & Television Tax Credit Program-approved productions.
- Provides partial refunds of Transient Occupancy Taxes (TOT).
The motion picture industry is an essential source of economic activity, tax revenue, jobs, and tourism in California. Annually, it contributes $18 billion in wages while supporting 180,000 well-paying entertainment industry jobs that provide health benefits. (Source: Employment Development Department and Motion Picture Association of America – MPAA)

The average shooting cost for a feature film or TV series ranges from $100,000 to $300,000 per day. That’s actual dollars that each production spends on wages, groceries, hotel rooms, gas, building supplies, props, payroll, etc.

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

The national average annual salary for production employees is $89,000 -- well above the national private-sector average. (Source: Legislative Analyst’s Office)

The U.S. motion picture industry is dominated by small businesses – 84% of entertainment companies employ fewer than 10 people. (Source: MPAA)

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

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