Film and Television Tax Credit Programs

PROGRESS REPORT

September 2017

Amy Lemisch, Executive Director

CALIFORNIA FILM COMMISSION

323-860-2960 | 7080 Hollywood Blvd.
Hollywood, CA 90028 | www.film.ca.gov

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CALIFORNIA FILM COMMISSION

California Film & Television Tax Credit Programs

EXECUTIVE SUMMARY

The California Film Commission (CFC) administers the state's two film and television incentive programs - the expanded Film & Television Tax Credit Program 2.0 (Program 2.0) enacted in 2015, as well as the expired, first-generation film and television tax credit program (Program 1.0) which launched in 2009. 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 second program year (FY 2016-17) and begins its third year. It includes project information, a breakdown (by project category) of tax credits allocated, and a summary of project spending as well as a summary of the Career Readiness component of Program 2.0. 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 2017. The CFC will continue administering both programs simultaneously until the final tax credit certificates for Program 1.0 are issued.

As in prior years, this 2017 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. In addition, the report provides a summary of findings of studies done by other groups to analyze the effectiveness of Program 1.0.

Finally, this report provides encouraging third-party data that shows 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 expanded Film & Television Tax Credit Program 2.0**
  In just two years under Program 2.0, California has attracted or retained 100 film and television projects generating an estimated $3.7 billion in <u>direct</u> spending to the state - including $1.4 billion in below-the-line wages. Enacted in January 2015, the five-year program increased fiscal year funding from $100 million to $330 million annually through FY 2019-20.

- **Summary of television series that have relocated to California due to the tax credit program**
  Program 2.0's establishment of separate (dedicated) funding categories has enabled California to attract twelve television series from out-of-state to relocate. These projects are on track to generate $891 million in direct in-state spending including $315 million in below-the-line wages. They moved their operations from across North America – Canada, Florida, Louisiana, Maryland, New York, North Carolina, and Texas. It is worthwhile to note the substantial economic value of luring a television series to relocate to California, which typically generate 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. As a result, more productions are filming in other counties. To date, approved productions have spent $28 million across ten counties outside of Los Angeles. The report also includes a brief overview of supplementary local/regional incentives offered by cities and counties across California to attract film and television production.

- **Career Readiness Requirement Summary**
  Program 2.0 mandates that all projects participating under Program 2.0 fulfill the "Career Readiness" requirement. This report summarizes this requirement and tracks how productions are participating in career-based learning opportunities including paid internships, faculty externships, classroom workshops, professional skills tours and donations.

- **Summary of each fiscal year of Program 1.0**
  In aggregate, approximately $667 million in tax credits has been allocated (reserved) for eligible projects. The projects approved for tax credits under Program 1.0 are estimated to spend more than $5.3 billion directly, including an estimated $1.9 billion in qualified below-the-line wages.

- **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 July 2010 – June 2017, such 'runaway' projects accounted for more than $3.8 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 Program 1.0 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 television project is filmed.

Progress Report – July 2017

Since the passage of the new Film & Television 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 television 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 two years of Program 2.0, including early indicators of the Program's effectiveness. In addition, it includes spending estimates and project information for the current fiscal year (July 2017 - June 2018). The report also summarizes results from the expired original California Film & Television Tax Credit Program (Program 1.0), from its launch in July 2009 through June 2017.

For a detailed comparison of the provisions of Program 1.0 versus Program 2.0 see Appendix A.

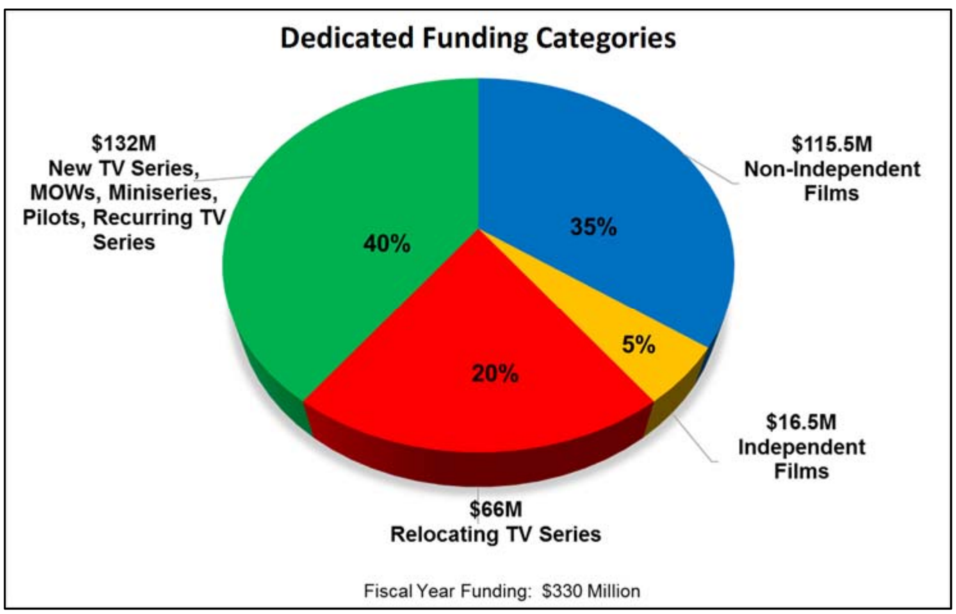
Note that the CFC's analysis utilizes the direct spending for the projects receiving the credits. It does not attempt to measure any secondary economic impacts. Generally recognized formulas or multipliers are not used in this report.

I. Tax Credit Program 2.0 – Overview

In September 2014, Governor Edmund G. Brown, Jr. signed bipartisan legislation establishing the new Film & Television Tax Credit Program, known as *Program 2.0*, creating 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. During 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 expanded eligibility to include a range of project types that were excluded from Program 1.0. Such projects include big-budget feature films, television pilots, and expanded the eligibility of 1-hr television series for any distribution outlet. This expanded eligibility represents a major strategic improvement for California's Film & Television Tax Credit Program which now enables the state to attract a greater number and wider range of films and television series.

In just two years of operating the expanded program, California has gained 38 feature film projects, 50 television projects comprised of 8 pilots, 2 movies of the week, 27 television series, 1 mini-series and 12 relocating television series.

Under Program 2.0, tax credits are allocated from four dedicated funding "buckets" that target different categories of production. These include: 1) television projects (new television series, miniseries, movies of the week, pilots, and recurring television series already in the Program), 2) Relocating television series, 3) Independent films, 4) Non-independent (e.g., studio) films. Allocating tax credits via these categories 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 tax credits from a specified category to another category with higher demand for tax credits, albeit with certain limitations.

Project Eligibility and Selection

Projects eligible for a 25% tax credit on qualified spending include:

- **Relocating Television Series:** Regardless of episode length that filmed its most recent season (minimum 6 episodes) outside California. The non-transferable credit is reduced to 20% after the first season filmed in California.
- **Independent Films**: No budget cap, but credits apply only to the first $10 million of qualified expenditures. Credit is transferable.

The following types of productions are eligible for a 20% non-transferable credit:

- **Feature Films (non-independent)**: No maximum budget cap, but credit allocation applies only to the first $100 million of qualified expenditures.
- **Movies-of-the-Week** and **Miniseries**
- **New Television Series** for any distribution outlet at least 40 minutes per episode, excluding commercials; one-half hour shows, non-scripted series and other exclusions apply.
- **Television Pilots**: For any distribution outlet, scripted series at least 40 minutes per episode, excluding commercials.

In addition to the 20% tax credit, projects under Program 2.0 may receive “uplifts” (additional 5% tax credits) 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.

Program 2.0 utilizes a “Jobs Ratio” ranking system for selecting projects to receive tax credits. This new system replaced the random lottery system utilized under Program 1.0.

Projects selected for Program 2.0 are required to participate in the “Career Readiness” provision that requires projects participate in career-based learning and training programs for California students. (See Section VII. for details about this requirement.)

> A note about Program regulations: 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

Each fiscal year, the CFC conducts multiple application periods which are grouped according to type of production – television project applications or feature project applications. During FY 2015-16 and FY 2016-17, the CFC administered five application periods each fiscal year. Two application periods targeted independent[1] films and non-independent feature films, and three application periods were conducted for television projects and relocating television series. For the third program year, the CFC has added another feature film application window for a total of six application periods in FY 2017-18.

With the changing landscape for television (including non-traditional distribution), it is becoming increasingly difficult to pinpoint the optimal dates for television project applications. Likewise, identifying the best timing for feature film applicants is challenging. This year's addition of a third feature film application window offers more opportunities for feature film applicants to apply at the most advantageous time for their productions.

Any credits that become available when projects withdraw from the program are allocated to projects on the waiting list or are rolled into the next applicable application period.

Note: During fiscal year 2015-16, $230 million in tax credits was 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.

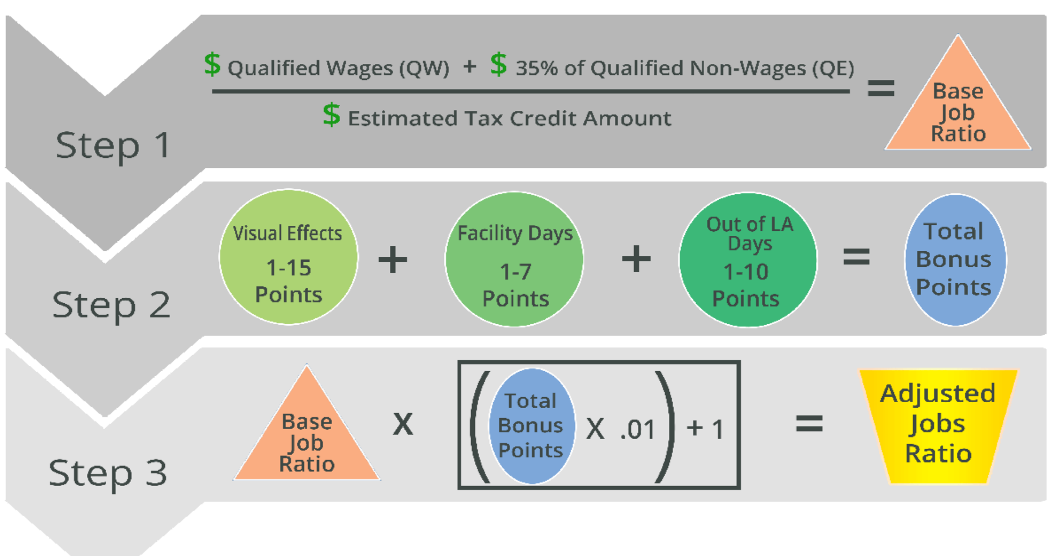
[1] The statute distinguishes between "Non-Independent" and "Independent" based on whether a company is publicly traded/partially owned by a publicly-traded company or privately-held. Independent companies cannot be publicly traded. Tax credits for non-independent projects are non-transferable (i.e., may be used only by the production company to offset in-state income tax or sales and use tax liability), while tax 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 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 score 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 comparable projects (e.g., television against television 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. 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.

Waiting lists expire at the beginning of the next application period for the dedicated funding 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 the applicable category.



Note: See 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 Certified Public Accountant audited cost reports.

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

Due to long pre-production, production and post-production schedules, applicants typically receive their tax credit certificate 18 – 24 months after their initial tax credit reservation. The CFC generally reviews and issues tax credit certificates within 20 business days of receiving final documentation.

Certificate Issuance Timeline

The CFC periodically conducts a 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. A significant component of the AUP is verification of each project's Jobs Ratio. The Program's rigorous AUP has served as the model for several states seeking to design their own audit procedures.

Credit Caps and Feature Films

Program 2.0 expanded eligibility by eliminating the caps on the maximum budget allowable for feature films. While productions of any size may apply, the tax credit applies only to the first $100 million in qualified spend for non-independent films and the first $10 million for independent films. Previously under Program 1.0, films with budgets in excess of $75 million (non-independent) and $10 million (independent) were not eligible to apply.

To date, six big-budget films (over $75 million) have been accepted into the program resulting in $730 million of direct spend in California. These types of feature films have a big spending footprint and were a target of Program 2.0. However, other states and countries that continue to offer uncapped incentives have been successful in attracting many of these big-budget films, also known as "tent-pole" movies, as the differential in incentives offered is too great.

The elimination of the budget caps has allowed California to attract bigger budget independent films as well. These types of projects provide a great return on investment for the state as the tax credit is capped, however, it has negatively affected the ability of smaller independent films to compete for the limited available credits (5% of the total annual allocation).

II. Program 2.0 Year 1 - Allocation Summary: July 2015 - June 2016

During fiscal year 2015-16, the CFC allocated approximately $173 million in tax credits to 47 film and television projects. Based on the budgets submitted by applicants, these projects are estimated to expend $1.3 billion in direct in-state spending, including $509 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 tax credits.

While a total of $230 million was available for Program Year 1, the CFC allocated $173 million as some projects initially allocated tax withdrew, and due to the timing of those withdrawals, any remaining tax credits were rolled over into the next fiscal year’s funding. Program Year 1 impact is as follows:

Program 2.0 Year 1 - Aggregate Summary							
# of Projects	Qualified Wages	Qualified Non-Wages	Non-Qualified Expenditures	Estimated Total Expenditures	Estimated Tax Credit Allocation	# of Cast	# of Crew
47	$509 Million	$376 Million	$425 Million	$1.3 Billion	$173 Million	5,489	8,688
Project Types							
Non-Indie Film	Indie Film	TV Series	Relocating TV	Pilot	Mini-Series	Movie of the Week	
8	2	18	5	11	1	2	

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.

III. Program 2.0 Year 2 – Allocation Summary: July 2016 - June 2017

During fiscal year 2016-17, $339 million was allocated to 64 film and television projects. During the first two television application periods, only Recurring Television Series and Relocating Television Series were permitted to apply. 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 Television Series, Television Pilots, Movies of the Week, or Mini-series during the first and second allocation periods of Program Year 2. This restriction was necessary in order to accommodate the numerous recurring television applications. A "Recurring TV Series" is defined as a Television Series or Relocating Television Series (in its second or subsequent season in California) that received a prior allocation of tax credits. Any unallocated tax credits remaining at the end of the fiscal year are rolled into the next fiscal year funds.

The 64 approved projects for program year 2 are estimated to expend $2.4 billion in direct in-state spending, including more than $900 million in qualified wages.

Program 2.0 Year 2 - Aggregate Summary

# of Projects	Qualified Wages	Qualified Non-Wages	Non-Qualified Expenditures	Estimated Total Expenditures	Estimated Tax Credit Allocation	# of Cast	# of Crew
64	$903 Million	$760 Million	$732 Million	$2.4 Billion	$339 Million	5,700	10,636

Project Types

Non-Indie Film	Indie Film	TV Series	Relocating TV	Pilot
10	17	25	6	6

Note about Recurring Television Series

Program 2.0 statute mandates first priority of available tax credits for recurring television 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 the Jobs Ratio score in the most current applications.

IV. Program 2.0 – Relocating Television Series

The dedicated funding category for Relocating Television Series, gives applicants who consider moving a series to California much greater certainty that tax credits will be available. During the first two years of Program 2.0, a total of eleven series were selected under the Relocating Television Series category. During the first application period of Program Year Three, California gained another relocating project, *Timeless*, moving from Vancouver, Canada. Twelve television series in total 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.

Program 2.0 attracted projects from across North America – Florida (*Ballers*), Louisiana (*American Horror Story* and *Scream Queens*), Maryland (*VEEP*), New York (*The Affair*, *The OA*), North Carolina (*Secrets and Lies*), Texas (*American Crime*), and four television series from Vancouver, Canada (*Legion*, *Lucifer*, *Mistresses*, and *Timeless*).

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

Program 2.0 - Relocating Television Series

Title	Previous Location	Seasons in CA	Qualified Wages for All Seasons in CA	Qualified Non-Wages for All Seasons in CA	Total CA Expenditures for All Seasons in CA	Total Credit Allocation for All Seasons in CA
American Crime - ABC	Texas	1	$ 12,077,000	$ 8,818,000	$ 35,622,000	$ 5,223,000
American Horror Story	Louisiana	3	$ 68,201,000	$ 45,748,000	$ 202,042,000	$ 25,847,000
Ballers	Florida	1	$ 16,397,000	$ 14,115,000	$ 56,330,000	$ 8,391,000
Legion	Vancouver	1	$ 21,900,000	$ 18,891,000	$ 60,904,000	$ 11,032,000
Lucifer	Vancouver	1	$ 34,886,000	$ 26,247,000	$ 92,094,000	$ 16,811,000
Mistresses	Vancouver	1	$ 13,403,000	$ 8,499,000	$ 21,903,000	$ 5,475,000
Scream Queens	Louisiana	1	$ 26,225,000	$ 18,983,000	$ 61,891,000	$ 9,200,000
Secrets and Lies	North Carolina	1	$ 13,487,000	$ 9,451,000	$ 35,981,000	$ 5,734,000
Timeless	Vancouver	1	$ 22,261,000	$ 17,567,000	$ 56,676,000	$ 9,957,000
The Affair	New York	1	$ 19,073,000	$ 14,555,000	$ 50,181,000	$ 8,407,000
The OA	New York	1	$ 17,976,000	$ 14,834,000	$ 45,163,000	$ 8,202,000
Veep	Maryland	3	$ 49,350,000	$ 39,702,000	$ 172,571,000	$ 20,361,000
		TOTAL	**$ 315,236,000**	**$ 237,410,000**	**$ 891,358,000**	**$ 134,640,000**

* Data reflects Program 2.0 Program Year 1, 2 and first allocation of Program Year 3

V. Program 2.0 Statewide Impact - Local Spend Summary

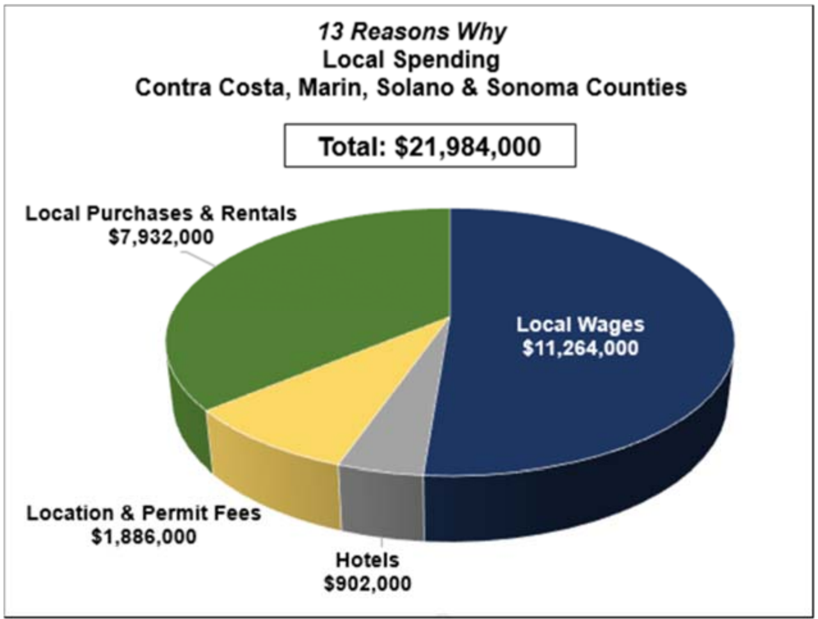
Program 2.0 encourages productions to utilize locations throughout California. Non-independent projects that film outside the Los Angeles 30-mile zone are eligible to receive an additional five percent tax credit for related costs incurred during the applicable period (prep, shoot, and strike). The Los Angeles 30-mile zone is the area general bounded by Los Angeles, CA, where most filming typically occurs. 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 raise their Jobs Ratio score increasing their 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, including grocers, hardware stores, gas stations, hotels, and other retail businesses as well as local hires for services such as catering and construction work. 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 spending estimates from Program 2.0 projects that reported out-of-zone filming in FY 2015-16 and 2016-17:

Local Spend Outside Los Angeles 30-Mile Zone		
County	**Project Title**	**Total Local Spending**
Contra Costa	*13 Reasons Why*	**$335,000**
Humboldt	*A Wrinkle In Time*	**$498,000**
Marin	*13 Reasons Why*	**$7,992,000**
Orange	*CHiPs, Magic Camp, Rosewood, Suburbicon, This Is Us*	**$1,513,000**
Riverside	*Twin Peaks*	**$89,000**
San Bernardino	*Veep 5*	**$115,000**
San Diego	*Pitch* (Pilot), *Animal Kingdom 2*	**$3,614,000**
Solano	*13 Reasons Why*	**$10,267,000**
Sonoma	*13 Reasons Why*	**$3,370,000**
Ventura	*Magic Camp*	**$126,000**

Of particular interest, the television series *13 Reasons Why*, was able to gain bonus points by filming in Northern California. Produced by Paramount Pictures for distribution through Netflix, the series films entirely in the Bay Area, outside of San Francisco. In their first 13-episode season, this production spent more than $11 million in qualified wages for the locally hired crew and nearly $22 million in Contra Costa, Marin, Solano and Sonoma counties.



This production is the first long-term tenant at the new Film Mare Island production facility in Vallejo, California. Film Mare Island operates stages and equipment rentals at this former Navy ship building property.

VI. Career Readiness – Educational Opportunities

Program 2.0 created the "Career Readiness" requirement. All applicants that receive a tax credit reservation 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 with non-profits and other organizations involved in career-based learning opportunities for high school and post-high school students, such as Hire LA's Youth, Streetlights LA and Ghetto Film School. This requirement must be satisfied prior to the final audit documentation review by the CFC.

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, community college or approved career-based learning program 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/Panel: 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.

- 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 the California Department of Education (CDE) or the Foundation for California Community Colleges (FCCC). These funds are earmarked for use in arts, media and entertainment career oriented programs. The permanent regulations increased the minimum contribution for independent and non-independent productions from $3,000 and $5,000 respectively to a contribution based on .025% of the estimated tax credit with a minimum of $5,000 and a maximum of $12,000.

To date, 30 productions elected to hire student **Paid Interns** who gained exposure to various departments, including art, camera, grip, electric and the production office. A total of 56 students were hired to work as interns on film and television productions - four of the interns were from *Veterans in Film & TV L.A.*, nine interns were from *Hire LA's Youth*, and the remainder from various community colleges.

Responding to a survey on their experiences, 100% of the surveyed interns said they would recommend this program to their peers with reasons such as "I learned an incredible amount and I don't think what I experienced is something you can learn in a classroom", "great learning experience" and "a first-hand opportunity to understand production."

The **Classroom Workshop/Panel** option was selected by three productions to satisfy this requirement. One independent film supplied six crew members - ranging from the production designer to the producer's assistant - to participate on a panel at the *Student Voices* event. The crew members discussed their career pathways and job descriptions with the student participants of the event.

Four of the projects opted to conduct a **Professional Skills Tour**, bringing teachers with a small group of students on sets to observe and learn.

During Program Years 1 and 2, seven projects chose **Faculty Externships**, enabling 14 educators to immerse themselves on the sets of film or television productions. The teachers enjoyed learning about nearly every aspect of the production, from the publicists running social media for actors to the carpenters building sets. Said one educator: "It was phenomenal just to be able to bring that knowledge back to our classroom -- all the different types of jobs that are available for students to work in the industry." An adjunct faculty professor who spent time with a television series as an extern found the production personnel "incredibly supportive," enabling him to observe and ask questions in multiple departments.

To date, 41 productions chose to make **Financial Contributions** to either the high school or community college funds. Donations to the CDE provided 65 scholarships to underserved students for the 2016 and 2017 summer sessions 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.

With contributions from tax credit projects, the CDE also helped support the California for Arts Education event, *Student Voices*. The event, which took place in Los Angeles, invited students to make their voices heard in their school district by creating short original videos that capture their vision for their education.

The community college funds are used for paid internships outside of Program 2.0. The FCCC works with entertainment employers and community colleges to provide paid internship opportunities for arts/media/entertainment students.

CFC Recognized for Creating Work Experience Opportunities

College of the Canyons Community College, whose students received internships in the Career Readiness Program on several different projects, nominated the CFC for a 2017 California Internship & Work Experience Association (CIWEA) Outstanding Internship Employer Award. The CIWEA annually recognizes employers or organizations which play an integral role in creating internship and work experience opportunities for students. CIWEA does this in an effort to support and encourage organizations to continue offering resources and opportunities for students to succeed. The CFC was one of two recipients of this award, which was given at the CIWEA conference in San Francisco, California on April 6, 2017.

VII. Employment and Production Metrics

The CFC collects data from a variety of sources in order to track and better understand film and television production levels as well as employment in the entertainment sector.

- California's motion picture employment increased 12.38% from 162,300 jobs in 2015 to 182,400 in 2016. In a year-over-year comparison (December 2015 to December 2016), non-farm payroll employment in California increased by 2.0% (California Employment Development Department).

- 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) and working in film and television production shows a 12% increase in 2016 compared to 2014.

- SAG-AFTRA reported a dramatic increase in the number of entertainment background performer jobs in 2016. Employment for background actors working in scripted film and television in California increased 14.3% in 2016 compared to 2015. The number of background jobs worked by San Francisco background performers grew by 58% and the number of jobs worked by background performers in San Diego grew by 111% in 2016 compared to 2015.

- Teamsters Local 399 (representing drivers, location managers, casting directors, and animal wranglers) reported an 11% growth in membership since Program 2.0 began in July 2015. In addition, Local 399 drivers experienced full employment during a 6-month period in 2016.

Beyond employment data, filming days data tracked by FilmL.A., the not-for-profit film office serving the Greater Los Angeles region, reported a 6.2 percent annual increase in on-location production compared to 2015, and stated that "The increase helped make 2016 the busiest year in recent memory." By the end of 2016, the feature film category had grown 12% making 2016 the strongest year for feature film production in Los Angeles since California launched its first film incentive program in 2009. For more information, please see: https://www.filmla.com/feature-production-rebounds-in-l-a-as-local-filming-sets-new-records/

Statewide, filming days for feature films and scripted television increased 6% in 2016 over the previous year.

While it may be too early to evaluate a causal link, the statistics cited above are encouraging.

VIII. 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 & Television 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. Program 1.0 officially ended June 30, 2017 per the sunset provision, however, the CFC will continue to review audits and other compliance requirements and process requests for tax credit certificates until all Program 1.0 projects have completed their final paperwork.

From the inception of the heritage Program 1.0 in 2009 through fiscal year 2016-17, the program has allocated $667 million in tax credits which has resulted in more than $5.35 billion in estimated direct in-state spending.

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 the State's return on investment, the new law that created Program 2.0 replaced the random lottery system with a Jobs Ratio scoring 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.

By the 7th Program Year, recurring television series, which were all non-independent productions (owned wholly or partially by publicly traded companies), required nearly 90% of the available tax credits. This was due to the statutory requirement that the program reserve tax credits for recurring television series for the life of the series as long as credits were available.

As the CFC cannot predict which television series will be picked up for subsequent seasons, it was obligated to reserve tax credits for all the series in the program. Due to the fact that non-independent television projects required nearly 90% of the available FY 2015-16 funding, the remaining funding as per the statute, was reserved for independent films. Therefore, during the final lottery held in April 2015, only projects in the independent film category were able to apply for the FY 2015-16 tax credits.

Tax credits for the selected independent projects were reserved on July 1, 2015, marking the beginning of the fiscal year. The CFC continued to allocate tax credits for projects from the independent waiting list until the list expired on June 30, 2016.

Since the final lottery, the tax credit program continued to allocate Program 1.0 tax credits to series that have returned for another season. However, numerous projects from Program 1.0 have since been cancelled. In addition to the tax credits now available from cancelled television series, tax credits have become available from projects whose final awarded tax credits were less than the original estimate or from feature films that previously received an allocation but have since withdrawn. These factors are reflected in the final amount of unallocated credits from Program 1.0 which total $133 million dollars.

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 television 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 <u>not</u> eligible for the Program 1.0, including television series dramas produced for network, pay cable and internet distribution and big-budget feature films.

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. Because of varying production schedules, applicants typically submitted their final documentation within 18 – 24 months after they received their initial allocation letter.

Program 1.0 Tax Credit Certificate Status of June 30, 2017:

Tax Credits Issued to 277 applicants: **$559,477,000**

- ❖ Credits claimed against sales and use taxes: **$53,034,200**
- ❖ Credits claimed against income tax liability: **$324,120,800**

IX. Program 1.0 - Allocation Summary and Aggregate Spending

At the close of Program 1.0 in June of 2017, approximately $667 million in credits has been allocated (reserved) for eligible film and television projects. The aggregate direct spending from these projects in California is **$5.35 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 final figures or production estimates).

Program 1.0 Years 1 - 7 Aggregate Summary									
Program Year	FY Funding	Estimated Tax Credit Allocation	Estimated Direct Spending	Qualified Wages	Qualified Non-Wage Expenditures	Non-Qualified Expenditures	# of Cast	# of Crew	# of Extras
1	2009-10 2010-11	$ 153,615,000	$ 1,230,290,000	$ 454,942,000	$ 321,190,000	$ 454,158,000	4,676	8,982	114,297
2	2011-12	$ 95,094,000	$ 830,863,000	$ 272,461,000	$ 196,728,000	$ 361,629,000	3,652	7,382	73,036
3	2012-13	$ 68,838,000	$ 602,107,000	$ 185,454,000	$ 136,688,000	$ 279,965,000	3,477	5,946	56,166
4	2013-14	$ 96,651,000	$ 764,025,000	$ 263,646,000	$ 188,997,000	$ 304,598,000	3,506	6,955	78,243
5	2014-15	$ 86,251,000	$ 697,700,000	$ 246,322,000	$ 173,950,000	$ 275,415,000	3,653	6,542	73,657
6	2015-16	$ 75,769,000	$ 551,077,000	$ 226,915,000	$ 143,458,000	$ 178,647,000	3,041	4,050	46,006
7	2016-17	$ 90,561,000	$ 674,532,000	$ 246,641,000	$ 168,006,000	$ 222,175,000	2,437	3,638	65,738
Aggregate All Years		$ 666,779,000	$ 5,350,594,000	$1,896,381,000	$1,329,017,000	$ 2,076,587,000	24,442	43,495	507,143

The chart above 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.

It is important to note that the aggregate *non-qualified* estimated spending of $2.07 billion in the chart above is direct spending that did not receive a tax credit benefit, as the program did 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 B for a detailed breakdown of allocations by type of project.

X. Program 1.0 - Relocating Television Series

California's Tax Credit Program 1.0 allowed broader eligibility criteria for television series that wished to relocate production to California from out-of-state. Like Program 2.0, these are classified as Relocating Television 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 television shows hoping to relocate. Due to the limited available funds, many applicants were not selected and therefore did not relocate. Only those that received tax credits relocated to California. Moving an established television 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 projects had received tax credits in the state or country where they originated.

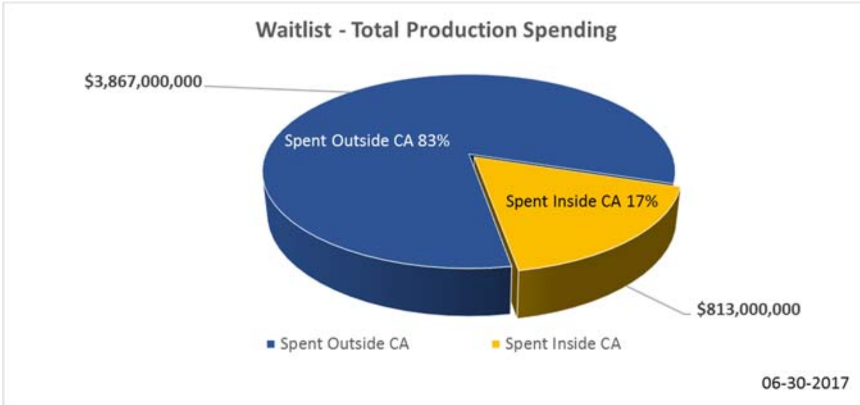
The four series that relocated to California under Program 1.0 contributed more than $328 million in direct spending including $143 million in qualified wages.

Program 1.0 - Relocating Television Series

Title	Previous Location	Seasons in CA	Qualified Wages for All Seasons in CA	Qualified Non-Wages for All Seasons in CA	Total CA Expenditures for All Seasons in CA	Total Credit Allocation for All Seasons in CA
Body of Proof	RI	2	$ 38,666,000	$ 22,760,000	$ 95,809,000	$ 16,122,000
Important Things w/ Demetri Martin	NY	1	$ 3,463,000	$ 2,104,000	$ 6,432,000	$ 1,340,000
Teen Wolf	GA	4	$ 88,470,000	$ 49,634,000	$ 191,688,000	$ 35,157,000
Torchwood	U.K.	1	$ 12,830,000	$ 9,942,000	$ 34,781,000	$ 5,700,000
		TOTAL	**$ 143,429,000**	**$ 84,440,000**	**$ 328,710,000**	**$ 58,319,000**

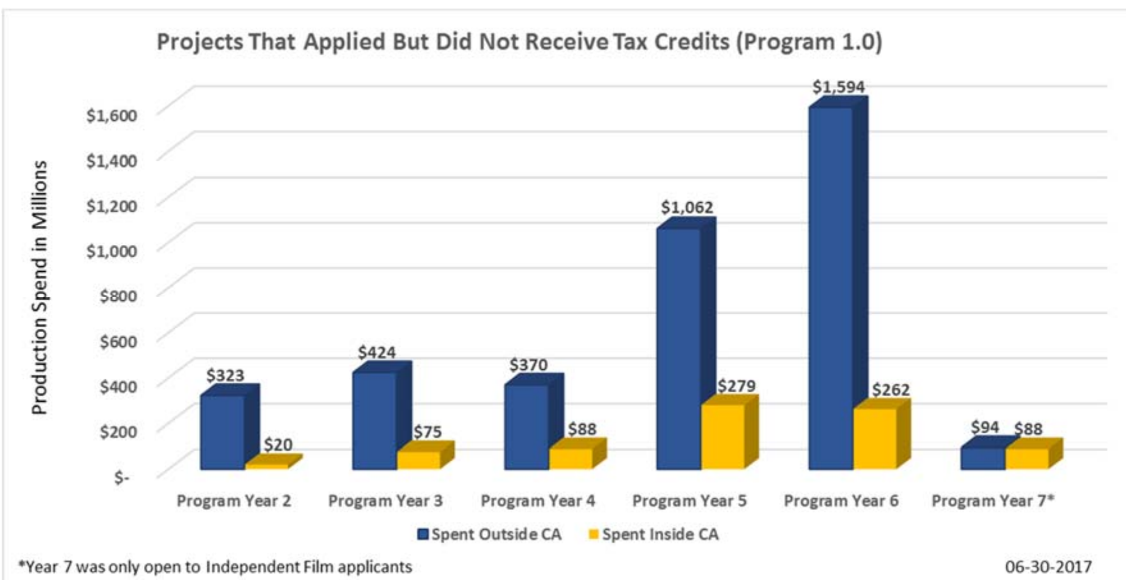
XI. Program 1.0 Waitlist Analysis – Projects That Did Not Receive Credits

Data suggests that the tax credit has an impact on encouraging film and television projects to film in California. While the state has retained much production as a result of the first-generation Program 1.0, 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 7 (FY 2010-11 through FY 2016-17).



The majority of wait listed projects left California to produce out-of-state. In fact, the state lost 83-percent of production spending by projects that applied, but did not receive a tax credit.

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 did not. From FY 2010 – 2017, these 'runaway' projects accounted for $3.86 billion in production spending <u>outside</u> California - a loss to the state's below-the-line production workers and the businesses that rely on the film/ television production industry. Year 7 on the chart below includes only independent film projects as the final application period for that year was held exclusively for independent applicants.



Notably, of the 169 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 television tax credits or that are ineligible.

XII. 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.

Program 1.0 Local Spend Outside Los Angeles 30-Mile Zone		
County	**Project Titles**	**Total Local Spend**
Alameda	*Hemingway & Gellhorn, Moneyball*	$4,447,000
Humboldt	*Swiss Army Man, Woodshock*	$855,000
Imperial	*American Sniper, Last Days in the Desert*	$817,000
Kern	*The Congress, Faster, Justified, In Your Pocket, Priest*	$327,000
Nevada	*Her*	$16,000
Orange	*J. Edgar, Jackass, Look of Love, Saving Mr. Banks*	$190,000
Placer	*Jackass*	$65,000
Riverside	*Behind the Candelabra, Billion Dollar Movie, The Gambler, Knight of Cups*	$621,000
San Bernardino	*American Sniper, Argo, Her, Hirokin, Hit the Floor, Jackass, Priest*	$1,500,000
San Diego	*Indwelling: Return of the Saint, Last Days in the Desert, Paranormal Activity: The Marked Ones, Terriers*	$19,000,000
San Francisco	*Hemingway & Gellhorn, Knife Fight, Murder in the First, Nine Lives of Chloe King, Please Stand By*	$16,000,000
San Luis Obispo	*Jackass*	$68,000
San Mateo	*Chasing Mavericks, Swiss Army Man*	$1,800,000
Santa Barbara	*No Strings Attached, Rites of Passage*	$410,000
Ventura	*Jackass, Justified, Super 8, Water for Elephants, We Bought a Zoo*	$6,500,000
Total Out-of-Zone Spend		$52,616,000

XIII. Global Competition for California's Motion Picture Industry

Today's business model for feature film and scripted television production continues to rely heavily on tax incentives to manage production costs. Although there are films and television projects produced without the benefit of tax credits, the availability of incentives is a key factor when it comes to where projects are filmed. 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. Non-independent (studio) productions heavily factor in tax incentives 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 United Kingdom (U.K.), and most European Union 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, please visit: https://www.epfinancialsolutions.com/

Out-of-State Competitors Maintain Growth

California's top competitors seem committed to growing their foothold as top-notch film and television production centers. Once incentives take root in other states and countries, those locales, in turn, 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 built impressive multi-studio facilities over the past few years. Many of these regions have instituted job training programs as well.

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 helps 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.

Despite the success of California's film and television tax credit programs, the state lost productions as 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 $2.02 billion in direct production spending in FY 2016, according to the Georgia Department of Economic Development. Georgia realized a 1500% 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 $893 million in 2016 -- a 1010% 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. Despite some modifications to their program in 2016, Louisiana continues to attract productions gaining year over year increases in production spending.

- Last year, New York benefitted from $3.27 billion in direct production spending, a 134% increase compared to 2010. 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.

- Production of features and television in the U.K. continues to grow. In 2016, total spend on film production in the U.K. was more than $2.01 billion, up 13% from the previous year and the highest since measurement began in 1994, according to figures released by the British Film Institute. Some recent projects filmed in the U.K. include: "Star Wars: The Last Jedi," "The Mummy," "Ready Player One," "Beauty and the Beast" and "Transformers: The Last Knight."

  This followed their government's implementation of increased tax credits for bigger-budget films, television production, and visual effects in 2013. For more information, please visit:
  http://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/bfi-film-and-other-screen-sectors-production-in-the-uk-2016.pdf

- During the 2015-16 fiscal year, 297 productions attracted to British Columbia, Canada by their tax credits and favorable exchange rates, spent $1.9 billion, a 14.9 % increase over the prior fiscal year. According to the Ontario Media Development Corp, in FY 2015-16 Ontario's film and television industry celebrated its best year ever in 2015, contributing $1.5 billion to the province's economy up from $1.3 billion the previous year. For more information, please visit:
  http://www.omdc.on.ca/Assets/Communications/Year+in+Review/OMDC+Year+in+Review+2015-16.pdf

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 feature film 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 to build elaborate sets.

In 2016, 31 big-budget feature films with budgets over $75 million were released. Only one of these films shot primarily in California – *Jungle Book* filmed their live-action green screen work in Los Angeles, however, the majority of their production budget was spent on visual effects work in the U.K. and New Zealand. Seven features filmed partially in California. By contrast nine of these big-budget films shot in the U.K., three filmed in Georgia, and five in Canada.

Program 2.0 legislation attempted to correct this trend by no longer restricting eligibility to projects under $75 million. It expanded eligibility to attract any size feature film, but restricted 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. With the expanded Program 2.0, California may have turned the tide. To date, California has attracted six big-budget feature films (budgets over $75 million) – *Ad Astra, Captain Marvel, Island Plaza, Midway, Untitled Paramount Project,* and *Wrinkle in Time.*

The relatively modest number of large-budget applicants is likely due to the credit cap and the availability of more generous tax credits out of state.

In a May 2017 report, FilmL.A. analyzed the top 100 feature films released at the domestic box office in 2016. California ranked fourth as a primary shooting location behind Georgia, U.K. and Canada. For more information, please visit:
https://www.filmla.com/filml-a-issues-fourth-annual-feature-film-study-california-in-fourth-place-among-international-competitors-for-feature-film-projects/

California's Visual Effects Industry Suffers Due to Out-of-State Competition

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 and Quebec, Canada each provide a 16% credit on visual effects work produced in these provinces - both of which are in addition to their provincial (28% and 20% respectively) and federal tax breaks of 16%. In turn, many visual effects companies of all sizes have relocated to Vancouver, Canada - 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 2016 and found that the U.K. and Canada have usurped California as global centers for this specialized work. The report notes "this is a concern for California because big-budget features spend much of their production budgets on post and VFX."

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 in California. Applicants also accrue Jobs Ratio bonus points based on their total visual effects spending in California.

XIV. Conclusion

Recognizing the need to compete more effectively for entertainment production jobs on a global scale, state lawmakers and Governor Brown created the expanded Program 2.0, which more than tripled Program 1.0 funding and added key provisions to attract additional types of projects (e.g., big-budget feature films and television series) that are highly vulnerable to runaway production. During its first two years, the new Program 2.0 attracted film and television projects that will collectively contribute $3.7 billion in direct spending in California. Among those projects are twelve television series that have relocated to California after being accepted into the program. All of these series had received tax credits in the state where they originated. These twelve series are already on track to spend more than $891 million collectively in state. Over multiple seasons, their spending impact will be even more significant.

California's modest first-generation tax credit program enacted in 2009, achieved its goal of retaining certain targeted projects most susceptible to runaway production. 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.

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 television series production empowers our state to retain and grow its share of jobs and economic development generated by this uniquely California industry.

XV. About the California Film Commission

The California Film Commission (CFC) was created in 1984 to enhance California's position as the premier location for motion picture production.

The CFC supports film, television, 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 vs. Program 2.0 - Comparison

	Program 1.0	Program 2.0
Funding	$100M per Fiscal Year	$330M per Fiscal Year ($230M in Year 1)
Funding Categories	10% Reserved for Independent Productions 90% Unspecified	40% – TV Series, Pilots, Mini-series, Movies of the Week 35% – Non-independent Films 20% – Relocating TV Series 5% – Independent Films
Eligibility	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)	Expands eligibility to include Feature Films without budget limit, 1-hr TV Series (for any distribution outlet) and TV Pilots.
Budget Caps	$75M production budget cap (for non-indie films) or $10M qualified expenditure budget cap (for independent films)	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).
Application Selection	Lottery	"Jobs Ratio" Ranking within Specific Categories
Allocation Periods	Once per fiscal year	Multiple allocation periods each fiscal year
Tax Credit Allocation	Indies – 25% Non-Indies – 20%	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

Breakdown by Project Type

Program Year	Project Type						% of Credit Allocation per Project Type					
	Feature Film	MOW	TV Series	Relocating TV	Mini-Series	Total Projects	Feature Film	MOW	TV Series	Relocating TV	Mini-Series	Total
1	46	13	6	1	1	67	84.5%	3.6%	10.3%	0.9%	0.7%	100%
2	21	12	11	2	0	46	42.4%	6.2%	38.2%	13.2%	0.0%	100%
3	25	12	8	1	0	46	47.4%	8.1%	41.8%	2.6%	0.0%	100%
4	25	14	9	2	1	51	38.6%	5.7%	37.8%	17.9%	0.1%	100%
5	19	11	9	1	0	40	38.0%	3.9%	52.3%	5.8%	0.0%	100%
6	10	10	11	1	0	32	12.4%	4.2%	70.1%	13.2%	0.0%	100%
7	7	5	11	1	0	24	8.3%	1.8%	78.4%	11.4%	0.0%	100%
Aggregate All Years	153	77	65	9	2	306	43.5%	4.6%	43.0%	8.7%	0.2%	100%

Indie/Non-Indie Analysis

Program Year	# of Projects		% of Total Credit Allocation	
	Indie	Non-Indie	Indie	Non-Indie
1	30	37	10.4%	89.6%
2	25	21	11.0%	89.0%
3	31	15	32.4%	67.6%
4	28	23	15.7%	84.3%
5	24	16	16.2%	83.8%
6	19	13	14.2%	85.8%
7	12	12	10.2%	89.8%
Aggregate All Years	169	137	14.7%	85.3%

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 outlet (network, premium cable, internet, TV, etc.), big-budget feature films (but restrict credits to the first $100 million in qualified expenditures), and television pilots.

Appendix D | California Tax Credit Program Supplemental Reports

Several studies have reported on California's Film and Television Tax Credit Program. A listing 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

Southern California Association of Governments (SCAG)

In March 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

Milken Institute

A Milken Institute report released in February 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

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 Program 1.0, to date. 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 titled, *There's No Place Like Home, Bringing Film & Television Production Back to California,* (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.

City of 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 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.

City of 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.

City of 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).

Appendix F | California's Motion Picture Industry

- The motion picture industry is an essential source of economic activity, tax revenue, jobs, and tourism in California. Annually, it contributes $19 billion in wages while supporting 190,000 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)

- Movies and television shows are one of America's greatest exports, generating $17.8 billion in exports from filmed entertainment distributed to more than 140 countries. (Source: MPAA)