

AGENDA

Assembly Budget Subcommittee No. 4 on State Administration

Assemblymember Adrin Nazarian

Informational Hearing:
Keeping California Competitive: A Review of California's Film and Television, and Cal
Competes Tax Credits

Wednesday, October 21, 2015
10:00 am - Van Nuys City Council Chamber
14410 Sylvan Street
Van Nuys, CA 91401

I) Introductory Remarks

- Assemblymember Adrin Nazarian, Chair
- Kevin James, President, Board of Public Works, City of Los Angeles

II) Overview of California Competes and Film Tax Credit Programs

- William Koch, Deputy Director, California Competes Tax Credit Program
- Amy Lemisch, Deputy Director, California Film Commission

III) Impact of a Film Tax Credit on the Economy

- Christine Cooper, Senior Vice President, Los Angeles Economic Development Center
- Paul Audley, President, Film LA

IV) Industry Perspective on the Film Tax Credit

- Juan Camacho, Fox Entertainment Group.
- Cliff Tasner, American Federation of Musicians, Local 47
- Kirk D'Amico, Myriad Pictures

V) Public Testimony

VI) Closing Remarks

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

BACKGROUND: CALIFORNIA COMPETES TAX CREDIT PROGRAM

The California Competes Program, AB 93, (Committee on Budget, Chapter 69, Statutes of 2013), created an income tax credit available to businesses that want to locate in California or stay and grow in California. State law requires an applicant and the Governor's Office of Business and Economic Development (GO-Biz) to negotiate the tax credit agreements and requires the California Competes Tax Credit Committee to approve the agreements.

The Committee consists of the State Treasurer, the Director of the Department of Finance, the Director of GO-Biz and one appointee each by the Speaker of the Assembly and the Senate Committee on Rules. GO-Biz will provide an update on the California Competes Tax Credit program for the committee.

BACKGROUND: FILM AND TAX CREDIT PROGRAM

The 2015 Budget Act included \$1,152,000 in resources for the California Film Commission (CFC) and nine positions, to implement and administer the Film and Tax Credit Program authorized by AB 1839 (Gatto, Chapter 413, Statutes of 2014).

AB 1839 created a new Film and TV Tax Credit Program, which allows a tax credit to a qualified taxpayer for certain costs incurred in the production of a qualified motion picture. Qualified taxpayers can receive a 20 percent tax credit (some cases 25 percent) on specified qualified expenditures and wages. Productions that are eligible for the new program include the following:

- Feature Films (with a \$1 million minimum of production budget)
- New TV Series (with at least 40 minutes of running time exclusive of commercials and \$1 million minimum budget per episode)
- TV Pilots
- TV Series that Relocate to California (with a \$1 million minimum budget per episode)
- Mini-Series and Movies of the week (with a \$500,000 minimum budget)

The new Film and Tax Credit program expands on the old tax credit. The new program increases tax credit funding from \$100 million per fiscal year to \$330 million and authorizes the CFC to administer the program through 2019-2020. The old program sunsets in 2016-17, and will phase out by 2017-18. The old program had a two-person staff, which included a Tax Credit Program Director and a Program Coordinator.

The Program Director, in consultation with the Executive Director, will continue to oversee the old program while supervising the administration of the new program regulations, guidelines, application procedures, program forms and audit procedures.

NEW PROGRAM REQUIREMENTS

The new program includes several changes from the old film tax credit including:

- Requiring a more complex and labor intensive method of determining which projects will receive the tax credit based on a jobs-ratio formula. The old credit was administered under a lottery system.
- Requiring separate pots of funding for the different types of projects mentioned above and also multiple application periods per funding cycle. The old credit only had one application per funding cycle.
- Increasing call volume at the CFC and likely increasing the number of applicants the CFC reviews. The CFC anticipates the number of applications it receives to increase from 502 in 2014 to at least 1,000 in 2015.
- Including a requirement to revise and create additional audit procedures with detailed instructions for CPAs on verification of qualified expenditures.

NEW PROGRAM IMPLEMENTATION

According to the CFC's Annual report published in August 2015, the first application period for the new tax credit was conducted from May 11-17, 2015. The initial application period was open only to television projects scheduled to begin production on or after July 1. The timing was structured to capture the network notifications for TV series that will be "picked-up" and moved into active series production. A total of \$55.2 million in tax credits was made available for new series, miniseries, movies of the week (MOWs) and pilots, along with \$27.6 million reserved specifically for series relocating production to California from out-of-state.

A total of 12 projects were selected, and those projects that ranked but whom did not receive credits were placed on a waiting list. The 12 selected projects will generate an estimated \$550 million in direct in-state spending, including \$210 million in wages for below-the-line crew members.

The CFC accepted applications for projects in the Feature Film and Independent Project categories from July 13 – 25, 2015. A total of 254 applications were submitted, including 32 applications for non-independent ('studio') feature films, and 222 for independent projects. The CFC is currently reviewing those projects with the highest jobs ratios to confirm which projects are eligible and will receive a tax credit allocation. The Film Commission expects to notify the tax credit recipients by mid-August.

Consistent with the state's old tax credit Program enacted in 2009, the new tax credit awards tax credits only after selected projects: 1) complete post-production, 2) verify the creation of in- state jobs, and 3) provide all required documentation, including audited cost reports.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions related to the budget:

- Since the passage of the budget, how many positions has the CFC filled? If the positions have not been filled, what sort of challenges is the CFC facing?
- Have the resources included in the budget been adequate? Is there something else that the CFC needs in order to ensure the success of the program?
- Since the implementation of the new tax credit, can you discuss what is happening in the industry? Also discuss the advantages and disadvantages of the new credit from the old credit.
- Moving forward, how will the funding go out, television versus movie, and how under the rules do you expect it to go out?