



# PROGRESS REPORT

NOVEMBER 2019

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Film and Television Tax Credit Program  
California Film Commission

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## ABOUT THE CALIFORNIA FILM COMMISSION

The California Film Commission (CFC) was created in 1984 as a state agency to enhance California's position as the premier location for all forms of media content creation.

The CFC supports film, television, and commercial productions 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 facilitate filming in-state.

The CFC supports 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 manage filming-related issues and requests. More information is available at <http://www.film.ca.gov>.



**Image 1:** Cover page photo from the set of *Bright*, feature film distributed via Netflix. (*Fog Teeth Productions*)

**Image 2:** Shooting on location for *Animal Kingdom* in San Diego. (*Warner Horizon*)

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## California Film Commission

## Film and Television Tax Credit Programs

## EXECUTIVE SUMMARY

❖ **Tax Credit Program Statistics**

The first four fiscal years of Program 2.0 produced a substantial economic impact. With an investment of \$1.1 billion in tax credit reservations, approved productions are on track to generate nearly \$8.4 billion in direct in-state spending. This includes \$3 billion in qualified wages to below-the-line crew members, \$2.6 billion in qualified vendor expenditures, and another \$2.8 billion in other expenditures which do not qualify for tax credits. Collectively, these productions are hiring more than 27,000 cast and 36,000 crew members, and 558,000 background performers (the latter figure measured in 'man-days').

❖ **Program 2.0 attracts big-budget films**

Program 2.0 expanded eligibility to include projects with budgets over \$75 million. To date, Program 2.0 has attracted 12 such big-budget feature films resulting in \$1.5 billion in direct spending in California.

❖ **Relocating TV Series**

The establishment of separate (dedicated) funding categories for different types of productions has enabled Program 2.0 to attract 16 television series to relocate to California from out-of-state. Projects have relocated from across the US (Florida, Georgia, Louisiana, Maryland, New York, North Carolina and Texas), Canada (Vancouver) and Ireland. Collectively, these projects are contributing more than \$1.6 billion in direct spending in California, including nearly \$553 million in qualified wages.

❖ **Summary of economic impact in counties outside of LA**

Program 2.0 provisions grant added incentives for projects filming outside the Los Angeles region. As a result, approved productions have spent more than \$130 million across 19 counties outside of Los Angeles. This 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**

Program 2.0 mandates that all participating projects fulfill the "Career Readiness" requirement. This report provides an

overview of the 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 third-party data reveals job and infrastructure growth**

Members of California's below-the-line unions working in film and television have experienced substantial growth in employment – including a 11.7 percent increase in hours worked in the basic craft unions in 2018 compared to 2017. SAG-AFTRA reported a significant increase in the number of in-state entertainment background performer jobs, with a 30 percent increase in 2018 compared to 2014. California is also benefiting from a surge in stage and production support space construction while sound stages are operating at near capacity.

❖ **Analysis of projects that applied to Program 2.0, but were denied due to insufficient availability of tax credits**

While the state has retained much production as a result of Program 2.0, many projects that apply are denied due to the limited supply of tax credits. The CFC tracks the fate of those projects that are subsequently produced without California tax credits. Most of these projects are shot outside California in jurisdictions where tax credits are available. From July 2015 to June 2018, such 'runaway' projects accounted for nearly \$3.4 billion in production spending outside California.

❖ **Looking ahead to Program 3.0 provisions**

In August 2018, the legislature enacted the third iteration of the California Film and Television Tax Credit Program. Dubbed Program 3.0, it is a five-year incentive that will go into effect in July 2020 when Program 2.0 expires. This report includes a comparison analysis of the changes between Program 2.0 and Program 3.0. Upcoming changes include more funding for independent productions, a new pilot skills training program that targets underserved communities, and a requirement that productions provide diversity initiatives as well as anti-harassment policies.

# INTRODUCTION

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 encouraging data that shows increased employment among major industry labor unions coinciding with implementation of Program 2.0. This report provides an overview of Program 2.0 as it begins its fifth program year – Fiscal Year 2019-2020. It includes program requirements, a project category breakdown of tax credits allocated, big-budget films, an analysis of television series that relocated to California, regional filming data, an update on the career readiness requirement, and data on the visual effects sector, sustainability and filmmaking.

As in prior years, this 2019 report provides data on runaway productions for projects that submitted an application but ultimately did not receive tax credits. Unable to secure tax credits, such film and television series leave California to film in other parts of the country, as well as globally. Data shows the demand for tax incentives has driven projects elsewhere, and there is increased competition from competing jurisdictions which have improved their infrastructure and added incentives for post-production, including visual effects.

## Employment Growth

According to a latest report by the U.S. Department of Commerce International Trade Administration, the United States media and entertainment industry makes up a third of the global industry at \$717 billion.<sup>1</sup> Moreover, the Department reports box office returns are expected to reach \$11 billion in 2019, while television and home video earnings are to reach \$96 billion in 2019. Regionally, the Greater Los Angeles Area shows a gain of 12.2% for on-location feature filming of 4,377 days in 2018.<sup>2</sup> Although an array of global and nationwide filming locations offers robust incentive packages for filmmakers, California remains the filmmaking flagship for providing a skilled workforce. The California Film Commission collects data from a variety of sources to track and better understand film and television production levels as well as employment in the entertainment sector.

- ❖ Members of California's below-the-line unions working in film and television (Teamsters, IATSE, basic crafts, and others covered under the Motion Picture Industry Pension & Health Plans) have experienced substantial growth in employment – a 15.6 percent increase in hours worked in 2017 compared to 2014 – the year before Program 2.0 began. Hours worked by the basic craft unions during 2018 increased 11.7 percent<sup>3</sup>, compared to 2017.
- ❖ California's motion picture employment increased 9.36 percent from 141,416 jobs in 2014 (the year prior to the launch of Program 2.0) to 154,658 in 2017, and increased 30.4 percent from 154,658 jobs in 2017 to 201,640 jobs in 2018.<sup>4</sup>
- ❖ SAG-AFTRA<sup>5</sup> reported a dramatic increase in the number of in-state entertainment background performer jobs since Program 2.0 launched. Employment for background actors working in scripted film and television in California increased 30 percent in 2018 compared to 2014. The number of background jobs worked by San Francisco background performers grew by 55 percent and the number of jobs worked by background performers in San Diego grew by 151 percent in 2018 compared to 2014 -- all as a result of more projects filming outside the Los Angeles area.
- ❖ According to the MPAA,<sup>6</sup> the film and television industry supported 2.6 million jobs, with 927,000 direct jobs. In 2018, \$76 billion in direct wages were attributed to wages earned by workers in the motion picture and television industry nationwide. In addition, vendors such as caterers, dry cleaners, lumber suppliers and digital equipment suppliers contributed to a total of \$177 billion in total film and TV industry wages in year 2018 alone.
- ❖ The California motion picture industry accounts for a 52% share of jobs by sector, surpassing jobs in farming, technology, computer manufacturing, social assistance, and other industries, according to the Legislative Analyst Office.<sup>7</sup>

## TAX CREDIT PROGRAM OVERVIEW

In September 2014, Governor Edmund G. Brown, Jr. signed bipartisan legislation establishing the Film & Television Tax Credit Program, known as Program 2.0. Assembly Bill 1839 created a five-year program beginning in FY 2015-2016 and running through FY 2019-2020 (*See Appendix A for Enacting Legislation*). The legislation increased program funding from \$100 million to \$330 million per fiscal year. 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 Tax Credit Program 1.0. Such projects include big-budget feature films, television pilots, and 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 television series and features films.

## ALLOCATION FUNDING

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, mini-series, movies of the week, pilots, and recurring television series already in the Program), 2) Relocating television series, 3) Independent films, 4) Non-independent (i.e., studio) films. Allocating tax credits via these categories enables applicants to compete directly against similar types of projects.

The statute distinguished between "Non-Independent" and "Independent" projects based on whether a company is publicly traded/partially owned by a publicly traded company or privately-held. Independent companies are not 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).

A "Recurring TV Series" is defined as a Television Series that received a prior allocation of tax credits.

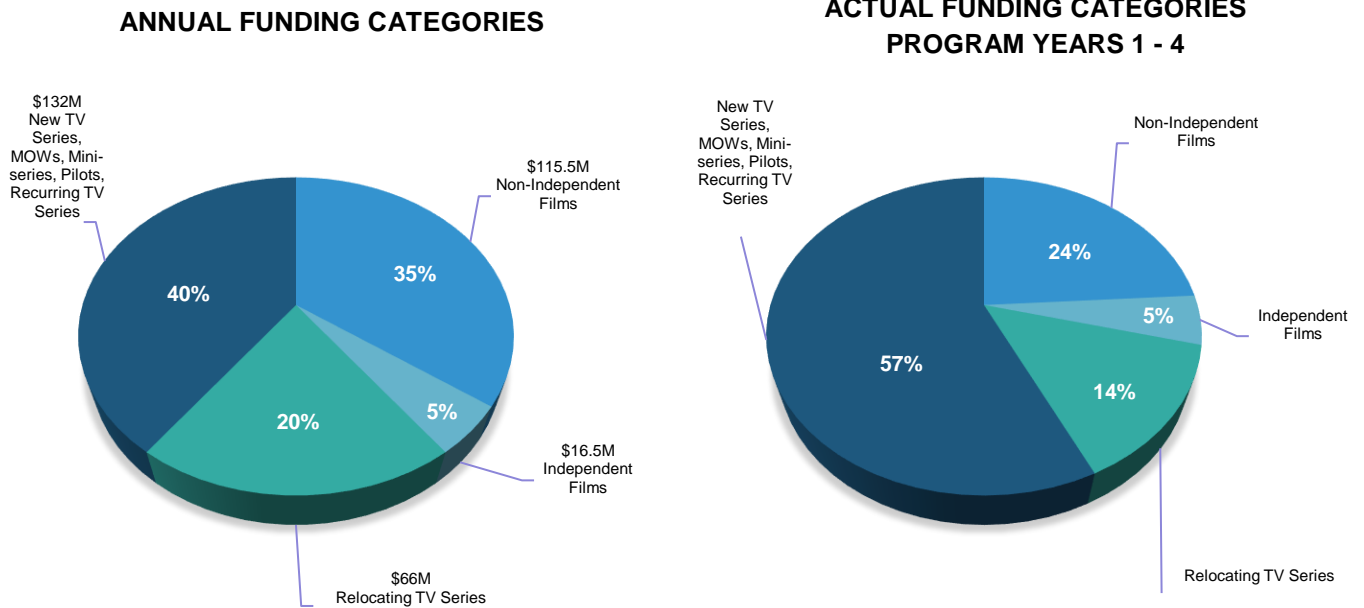


Image 3: Cast and crew photo of relocating TV series *VEEP* season 5. (HBO)

A "Relocating Television Series" is a scripted series of any episode length that filmed its most recent season (minimum six episodes) outside California. This category qualifies for a 25 percent tax credit, which is reduced to 20 percent for any successive seasons (after the first) filmed in California.

## ALLOCATION FUNDING (CONTINUED)

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, notwithstanding certain limitations. As a result of project withdrawals and high demand for specific categories, there is a variance between the annual funding categories versus actual funding for program years one to four.



NOTE: Figures include estimates and are subject to change.

## PROJECT ELIGIBILITY

An approved applicant is any corporation, partnership, limited partnership, limited liability company, or other entity or individual that is principally engaged in the production of the qualified motion picture and that controls the film or television program during preproduction, production and post-production. The applicant is the qualified taxpayer that upon final approval will receive the credit certificate. In order to be eligible, a qualified motion picture must be an independent or non-independent film, made for television movie, mini-series, television pilot, or a television series.

Additionally, the project must meet one of the following conditions:

1. A minimum of 75% of the production budget must be incurred and used for goods, services and/or wages within California.
2. A minimum of 75% of total "Principal Photography" days must occur wholly in California. Principal photography days in California do not include the filming of primarily backgrounds, "Visual Effects," action and/or crowd scenes by the second, stunt, or visual effects units.

# PROJECT ELIGIBILITY (CONTINUED)

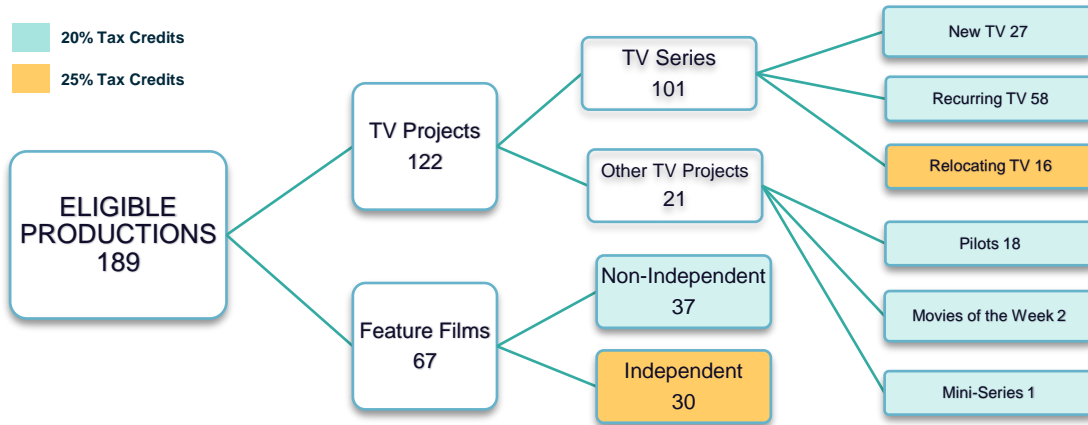
Projects eligible to receive a 25% tax credit on qualified spending include:

- ❖ 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. Credits are 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 in 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.

## APPROVED PROJECTS PER PROJECT ELIGIBILITY TYPE: PROGRAM YEARS 1 - 4



**NOTE:** Figures include estimates and are subject to change.

In addition to the 20% tax credit, non-independent projects under Program 2.0 may receive an additional 5% tax credit (uplift) for: 1) shooting outside the Los Angeles 30-mile zone, 2) qualified expenditures for visual effects, and/or 3) performing music scoring/track recording in-state.



# RANKING AND SELECTION

The CFC conducts multiple application periods each fiscal year based on production types – television projects and feature/independent films. During the first two fiscal years, five application periods were administered by the CFC – three dedicated to television projects and two for feature films. With the growth of television streaming services it has become increasingly difficult to pinpoint optimal dates for TV project applications. Likewise, identifying the best timing for feature film applicants is challenging. By year three of the Tax Credit Program, the CFC conducted six application periods - three for television and three for feature films. Adding a third feature film application window expands opportunities for feature film applicants to apply at the most advantageous time for their productions.

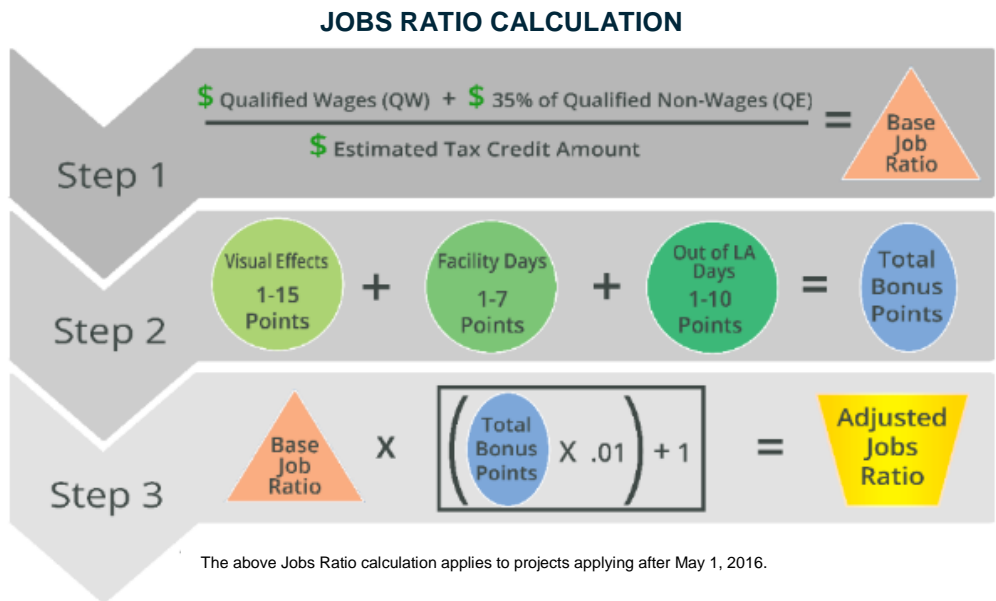
During each allocation window, the CFC uses a Jobs Ratio Ranking system to select projects for tax credits. This new ranking system replaced the random lottery process used under Program 1.0. Each project’s Jobs Ratio score is determined by the amount of qualified wages the project will generate divided 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 percent 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.

Applications are ranked from highest to lowest against comparable projects (e.g., television against television, independent film against independent film) 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 percent) 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 withdraws from the program, the next project in line on the waiting list is offered credits as they become available.

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. Waiting lists expire at the beginning of the next application period for each dedicated funding category. If a project does not receive a tax credit allocation and has not yet begun principal photography, it may reapply during any subsequent application period for the applicable category.

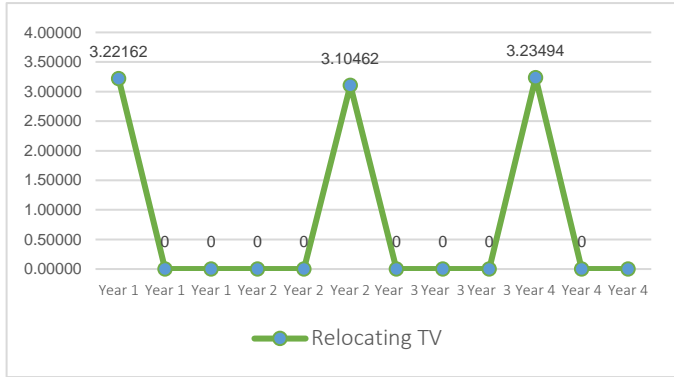
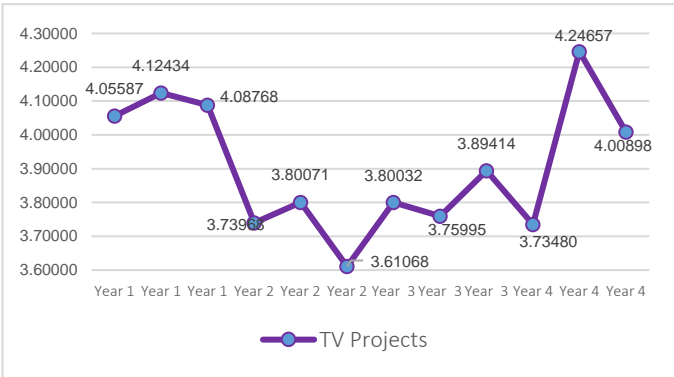


## RANKING AND SELECTION (CONTINUED)

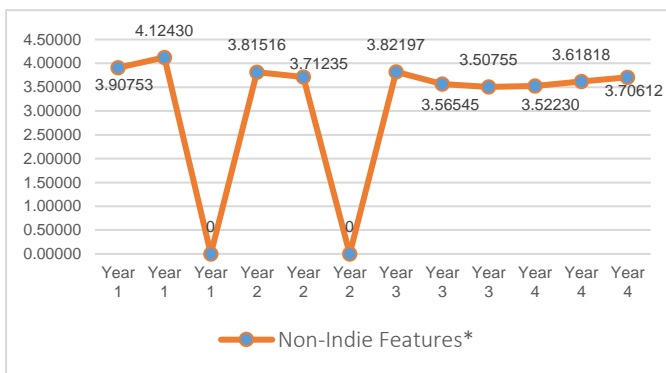
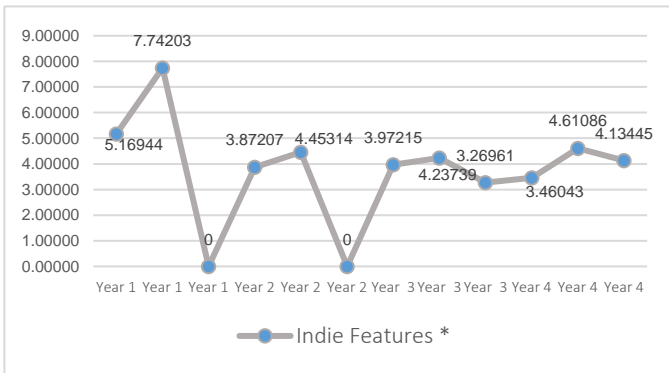
The jobs ratio ranking – calculated by adding the qualified wages and non-wages, and then adding bonus factors for visual effects, principal photography shoot days outside the Los Angeles studio zone, and filming days in approved production facilities – was revised in the beginning of fiscal year two. The spread for visual effects bonus points increased from 10 to 15 points; additionally, bonus points for shooting outside the LA zone increased to a maximum of 10 points, from eight. While the points spread increased between the bonus points factors, the maximum amount of percentage points each project may receive remains at 25 percentage points.

After the end of each allocation window, the California Film Commission tracks the lowest jobs ratios for each production category. Applicants are measured against their specific applicant pool during a specific year and allocation period. For year one, the average lowest jobs ratio for TV projects is 4.08930, while years two to five ratio averages at 3.84398 due to an adjustment in bonus point ranges after fiscal year 1. Relocating TV series jobs ratio average for years two to five is 3.16978. Features, both independents and non-independents, added a third allocation window beginning year three. The lowest jobs ratio for independent projects during years two to five averages at 4.00126, while non-independent projects average at 3.65864.

### LOWEST JOBS RATIOS PER ALLOCATION WINDOW



NOTE: The statute disallows the CFC to report any proprietary information, including distinct jobs ratios for any application windows with only one approved production.



NOTE: \* Years 1 and 2 had two allocation periods; a third allocation window was added beginning year 3.

The CFC publishes the lowest jobs ratios at the beginning of each allocation window. The jobs ratio numbers are based on applications received during prior application periods. Applicants are advised that these numbers should not be relied upon as a guaranteed jobs ratio minimum for future application periods. Since applications are ranked within each category based upon their jobs ratio score, the lowest adjusted jobs ratios for the projects that received a reservation of credits vary from one allocation window to the next.

# PROGRAM STATISTICS

California garnered a notable **\$8.4 billion** in direct expenditures by film and television projects approved during the first four fiscal years of Tax Credit Program 2.0. These expenditures include **\$3.0 billion** in qualified wages, **\$2.6 billion** in qualified vendor expenditures, and another **\$2.8 billion** in expenditures which do not qualify for tax credits. (See Appendix B Table 1 for Program 1.0 Aggregate Summary.) Qualified wages do not include compensation paid to actors, writers, producers, directors, or other above-the-line workers, as these salaries do not qualify for tax credits. Collectively, projects selected for tax credits during the first four years of Program 2.0 hired more than 27,000 cast and 36,000 crew members. Out of the 189 approved projects, 16 television series relocated from Florida, Georgia, Ireland, Louisiana, Maryland, New York, North Carolina, Texas, and Vancouver. There were 85 new and recurring television series, 37 non-independent feature films, 30 independent films, 18 pilots, two movies of the week, and one mini-series accepted during years one to four of Program 2.0. To date, the tax credits reserved and/or allocated during years one to four totals \$1.1 billion.

## PROGRAM 2.0 AGGREGATE SUMMARY

■ Total Qualified Wages    
 ■ Total Qualified Non-Wages    
 ■ Total Non-Qualified Expenditures



## \$1.1 Billion Tax Credits Allocated

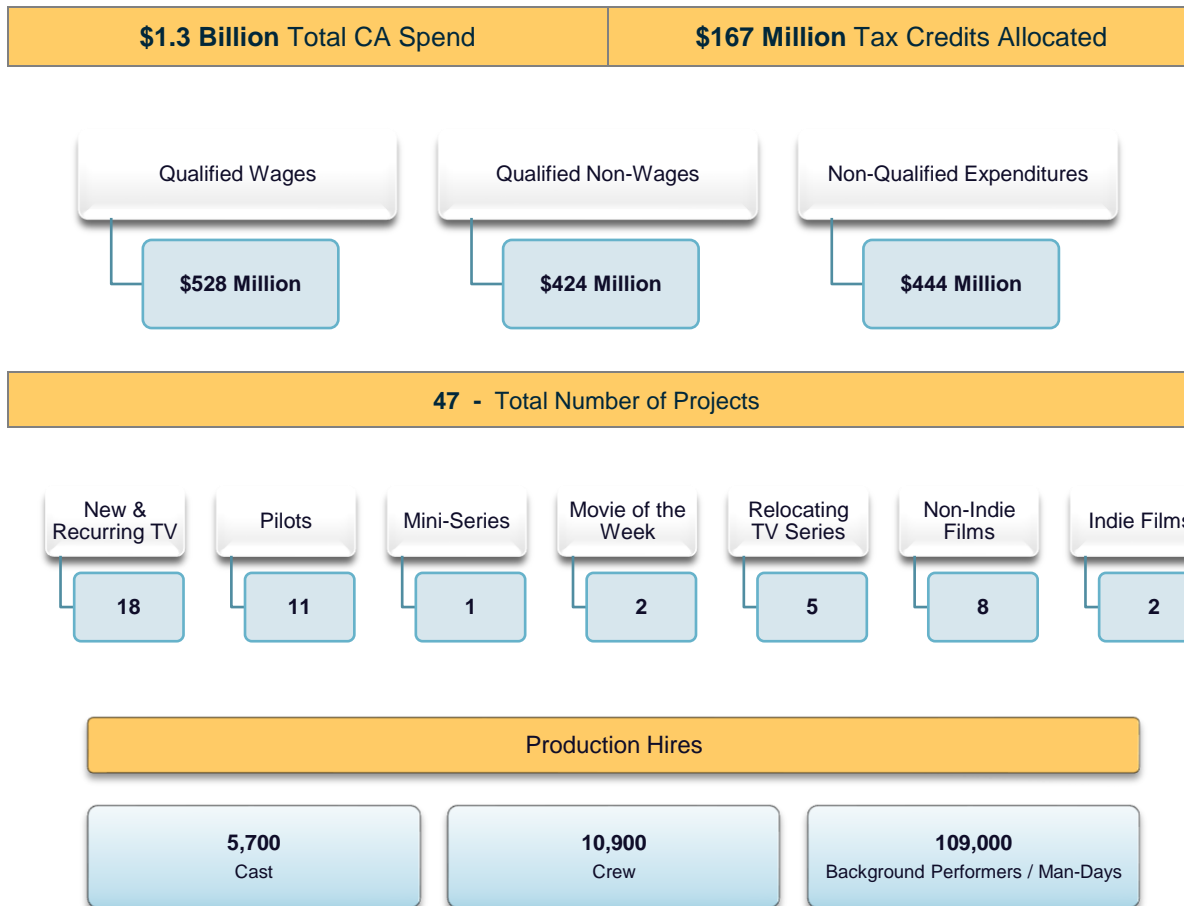


NOTE: Figures include estimates and are subject to change.

# PROGRAM STATISTICS (CONTINUED)

During the first year of the Program 2.0 (fiscal year 2015-2016), the CFC received a total of 537 applications. While a total of \$230 million was available for Year 1, the CFC allocated just \$167 million as some projects initially accepted in the tax credit program withdrew; the remaining tax credits were rolled over into program funding for the next fiscal year. The CFC ultimately allocated credits to 47 film and television projects. Two independent films and eight non-independents were accepted in the program. A total of 37 television series were approved during the first year – five relocating series, six recurring series, two movies-of-the-week, 11 pilots, 12 new series and one mini-series. These 47 projects were estimated to generate \$1.3 billion in direct in-state spending, including \$528 million in qualified wages and \$424 million in vendor expenditures.

## FISCAL YEAR 2015-2016: ALLOCATION YEAR 1

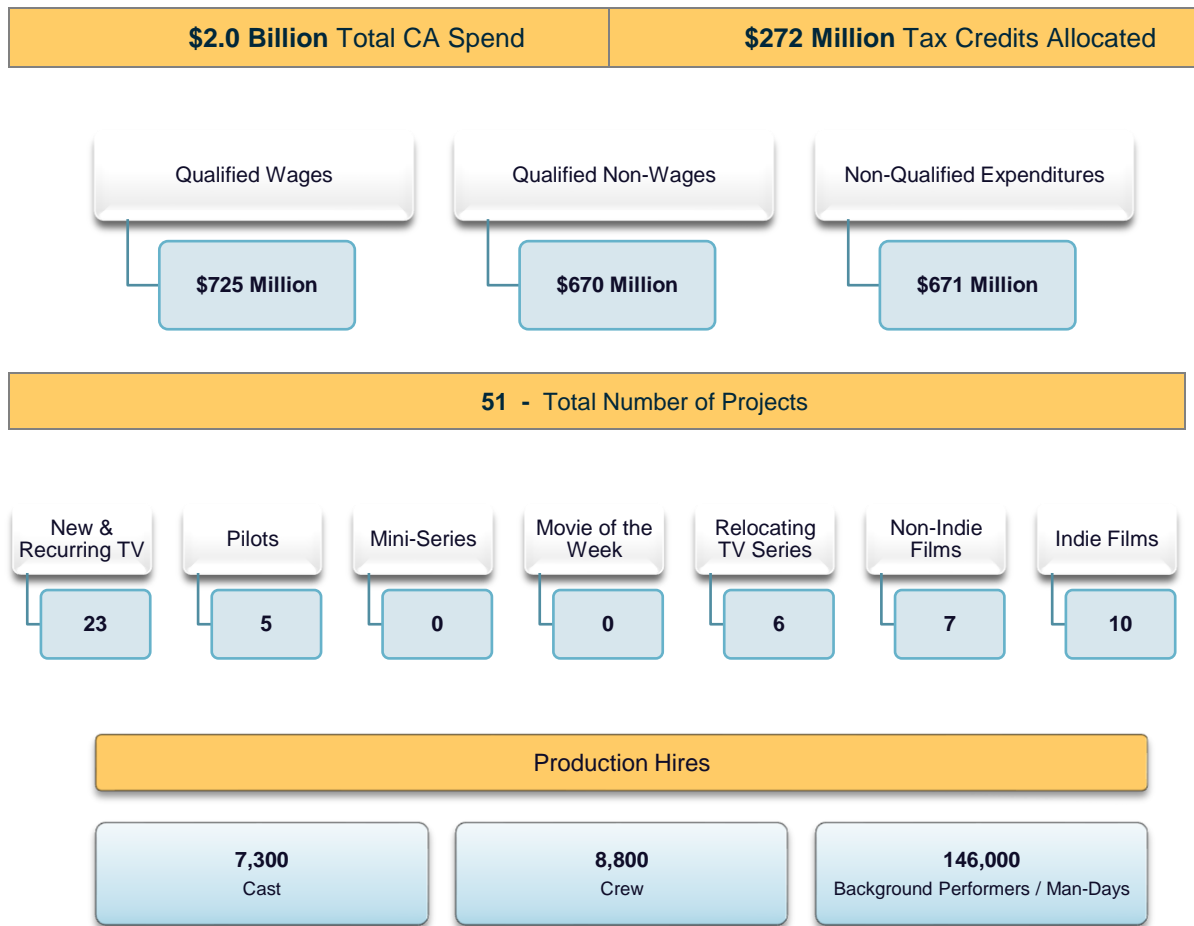


NOTE: Figures include estimates and are subject to change.

## PROGRAM STATISTICS (CONTINUED)

In fiscal year 2016-2017, over 16,000 cast and crew were hired by 51 approved projects. Of the 235 applications received, seven new television series were accepted, with five pilots, and 16 recurring series remaining in the program. Additionally, 10 independent films and seven non-independent films were approved. Six television series relocated from New York, Vancouver, and Texas. All of these projects generated \$2 billion in-state spending for \$272 million of tax credits allocated. The total in-state spend was comprised of \$725 million in qualified wages, \$670 million non-wage expenditures, and approximately \$671 in non-qualified expenditures.

### FISCAL YEAR 2016-2017: ALLOCATION YEAR 2

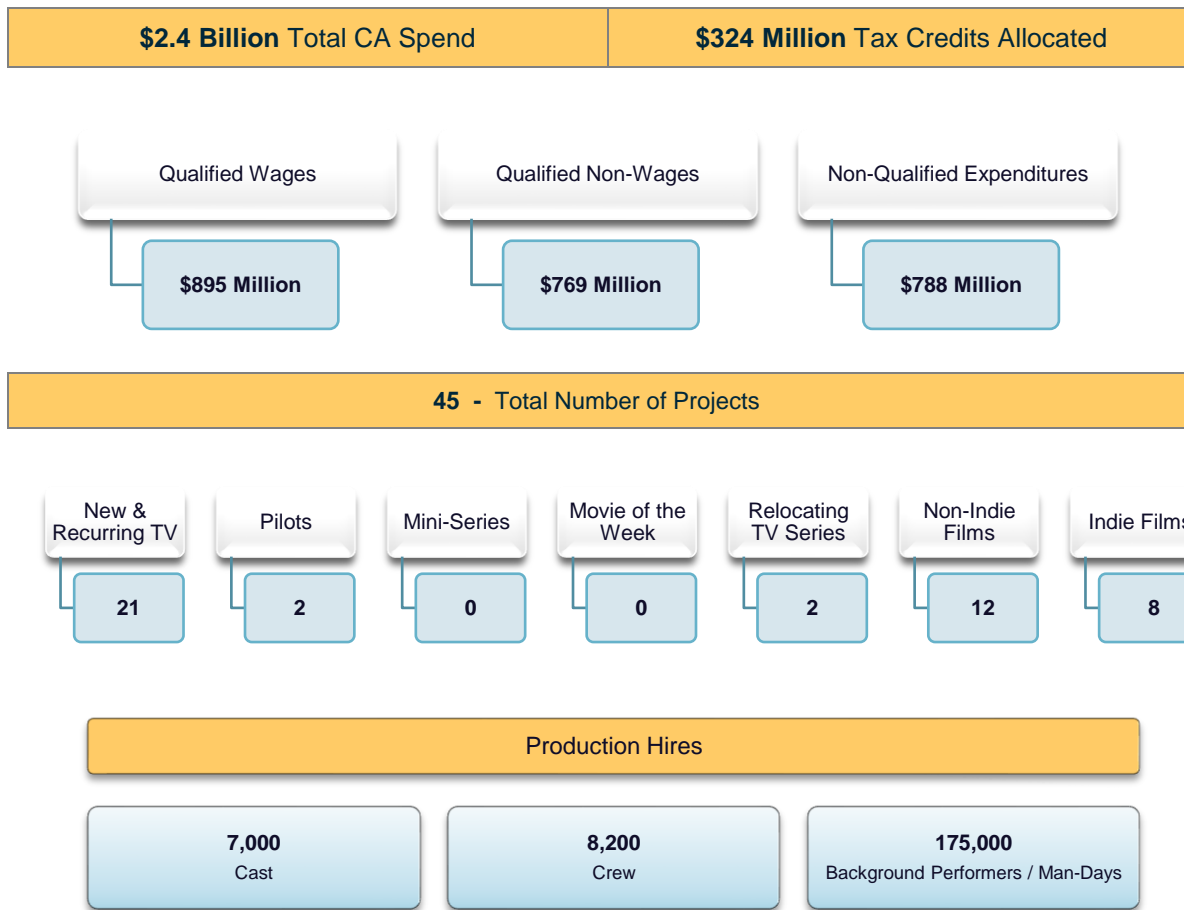


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# PROGRAM STATISTICS (CONTINUED)

In fiscal year three, two additional relocating series were added to the program, *Sneaky Pete* – which moved from New York, and *Timeless* which relocated from Vancouver, Canada. In addition, 21 new and recurring television series, two pilots, eight independent films, and 12 non-indie features films made up the 45 approved projects for fiscal year 2017-2018. A total of 220 applications were received for program year three. Since unused tax credits from previous years were rolled over to the subsequent year, the total tax credit allocation for year three was \$324 million. In return, the approved projects had an aggregate in-state spend of \$2.4 billion, with \$895 million for qualified wages, \$769 for vendor expenditures, and \$788 million for non-qualified spend. Additionally, 7,000 cast, 8,200 crew, and 175,000 background performers (the latter measured in man-days) were hired.

## FISCAL YEAR 2017-2018: ALLOCATION YEAR 3

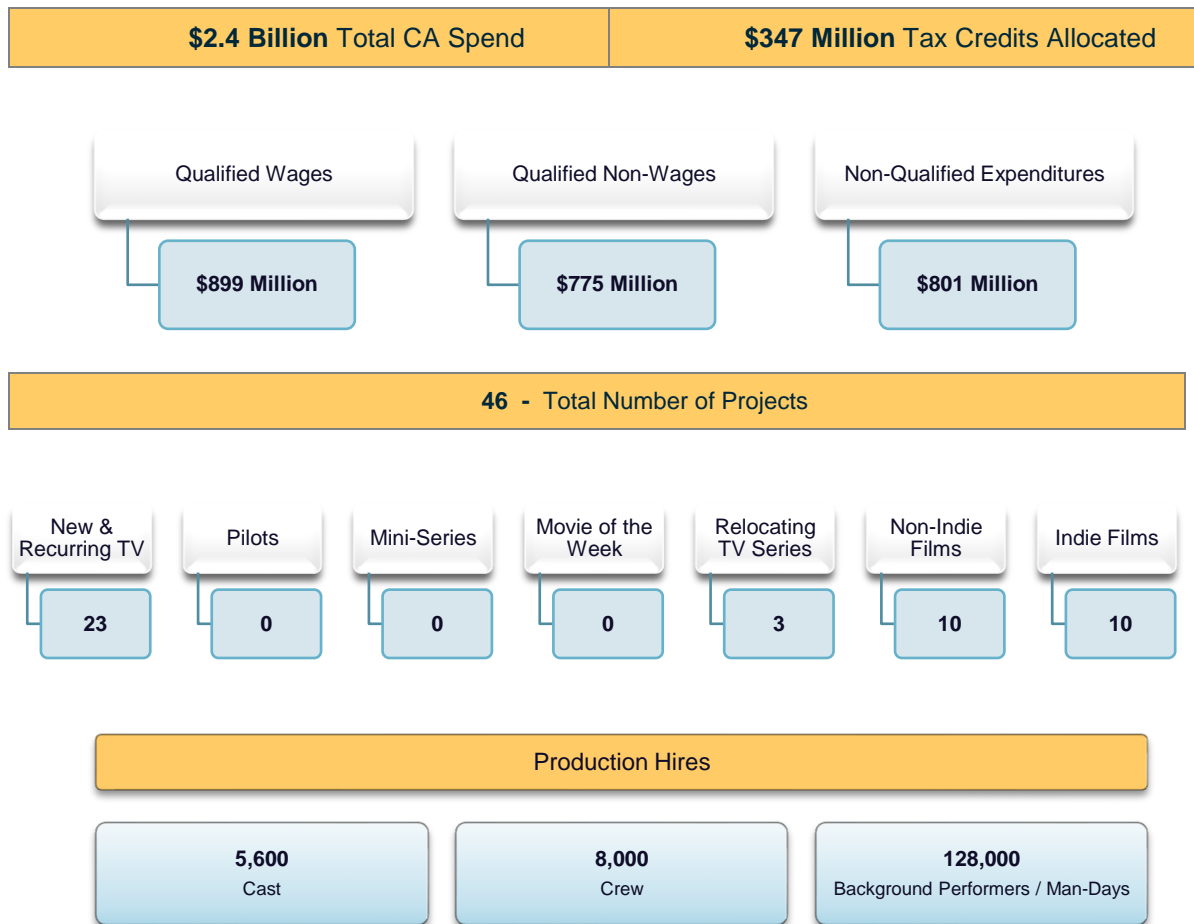


NOTE: Figures include estimates and are subject to change.

# PROGRAM STATISTICS (CONTINUED)

During fiscal year 2018-2019, \$347 million was allocated to 46 film and television projects out of 180 projects that applied. Due to high demand from recurring television series applicants which had priority to receive tax credits, only one out of three allocation periods was open to new TV series, pilots, movies of the week, and mini-series. New and recurring television series accounted for 23 out of 46 approved projects; while three relocating TV series, 10 indie films and 10 non-indie films were also accepted. With a total in-state spend of \$2.4 billion, these productions employed 5,600 cast and 8,000 crew members to generate \$889 million in qualified spending for wages. Non-wage/vendor expenditures totaled \$775 million, with an additional \$801 million in non-qualified in-state spending.

## FISCAL YEAR 2018-2019: ALLOCATION YEAR 4



NOTE: Figures include estimates and are subject to change.

## BIG-BUDGET FEATURES

Program 2.0 expanded project eligibility by eliminating the maximum budget cap for feature films. While productions of any size may now apply, the tax credit applies only to the first \$100 million in qualified spending for non-independent films and the first \$10 million for independent films. Under the prior Tax Credit Program 1.0, films with budgets exceeding \$75 million for non-independents and \$10 million qualified expenditures for independents were not eligible to apply.

### BIG-BUDGET FEATURE FILMS

Project Title	Qualified Wages	Total CA Expenditures	Tax Credits
<i>A Wrinkle in Time</i>	\$ 40,480,000	\$ 120,971,000	\$ 17,217,000
<i>Ad Astra</i>	\$ 28,765,000	\$ 89,975,000	\$ 2,500,000
<i>Birds of Prey</i>	\$ 33,113,000	\$ 97,145,000	\$ 12,614,000
<i>Bright</i>	\$ 37,406,000	\$ 113,449,000	\$ 7,233,000
<i>Bumblebee</i>	\$ 46,883,000	\$ 152,992,000	\$ 21,818,000
<i>Call of the Wild</i>	\$ 42,193,000	\$ 109,004,000	\$ 17,093,000
<i>Captain Marvel aka Open World</i>	\$ 61,448,000	\$ 137,032,000	\$ 20,755,000
<i>Ford v. Ferrari</i>	\$ 38,908,000	\$ 114,536,000	\$ 16,956,000
<i>Island Plaza</i>	\$ 50,913,000	\$ 173,588,000	\$ 21,491,000
<i>Little Shop of Horrors</i>	\$ 25,084,000	\$ 122,423,000	\$ 9,644,000
<i>Once Upon A Time In Hollywood</i>	\$ 48,455,000	\$ 108,933,000	\$ 18,019,000
<i>Space Jam 2</i>	\$ 43,158,000	\$ 183,717,000	\$ 21,804,000

NOTE: Figures include estimates and are subject to change.

To date, 12 big-budget films with budgets over \$75 million have been accepted into Program 2.0 resulting in \$1.5 billion in direct spending in California. These projects include, *A Wrinkle in Time*, *Ad Astra*, *Birds of Prey*, *Bright*, *Bumblebee*, *Call of the Wild*, *Captain Marvel*, *Ford v. Ferrari*, *Island Plaza*, *Little Shop of Horrors*, *Once Upon a Time in Hollywood*, and *Space Jam 2*. However, other states and countries that offer uncapped incentives including above-the-line wages continue to attract a large percentage of big-budget films.



Image 4: Filming of *Bumblebee* at the Golden Gate Bridge. (Paramount Pictures)



## RELOCATING TV SERIES

The dedicated funding category for Relocating Television Series gives those applicants considering a move to California much greater certainty that tax credits will be available. During the first four years of Program 2.0, 13 such series were selected under the Relocating Television Series category. During the first application period of Program Year 4, California gained two additional relocating projects, *Good Girls* which moved from Atlanta, and *You* from New York. To date, a total of 16 television series have moved to California under Program 2.0.

### RELOCATING TV SERIES

Title	# of Seasons in California	Previous Location	Qualified Wages for all Seasons in CA	Expenditures for all Seasons in CA	Tax Credit Allocation for all Seasons in CA
ABC American Crime	●	Texas	\$ 12,202,000	\$ 31,432,000	\$ 5,011,000
American Horror Story	● ● ● ● ●	Louisiana	\$ 104,458,000	\$ 281,085,000	\$ 38,121,000
Ballers	● ● ●	Florida	\$ 46,874,000	\$ 170,940,000	\$ 20,039,000
Good Girls	● ●	Georgia	\$ 20,091,000	\$ 52,026,000	\$ 18,056,000
Legion	● ●	Vancouver	\$ 42,763,000	\$ 128,360,000	\$ 19,941,000
Lucifer	● ●	Vancouver	\$ 51,933,000	\$ 185,522,000	\$ 22,531,000
Mistresses	●	Vancouver	\$ 13,404,000	\$ 21,903,000	\$ 5,474,000
Penny Dreadful	●	Ireland	\$ 58,953,000	\$ 133,219,000	\$ 24,745,000
Scream Queens	●	Louisiana	\$ 17,970,000	\$ 46,099,000	\$ 7,907,000
Secrets and Lies	●	North Carolina	\$ 13,322,000	\$ 36,273,000	\$ 5,735,000
Sneaky Pete	●	New York	\$ 22,067,000	\$ 53,292,000	\$ 9,204,000
The Affair	● ●	New York	\$ 38,521,000	\$ 106,332,000	\$ 15,106,000
The OA	●	New York	\$ 17,977,000	\$ 45,164,000	\$ 8,203,000
Timeless	●	Vancouver	\$ 26,243,000	\$ 66,646,000	\$ 11,790,000
Veep	● ● ●	Maryland	\$ 49,477,000	\$ 175,260,000	\$ 20,116,000
You	●	New York	\$ 14,591,000	\$ 34,116,000	\$ 6,062,000

NOTE: Figures include estimates and are subject to change.

Program 2.0 has attracted relocating TV projects from across North America – Florida, Georgia, Louisiana, Maryland, New York, North Carolina, Texas, as well as four series from Vancouver, Canada, and one from Dublin, Ireland. Collectively, for program years 1-4, these projects are contributing more than \$1.6 billion in direct spending in California. These 16 projects are generating roughly \$550 million in qualified wages, employing 5,521 cast, 5,147 crew and more than 101,900 background performers (the latter measured in man-days). (See *Appendix B Table 2 for Program 1.0 Relocating TV Summary*.)

## CAREER READINESS REQUIREMENT

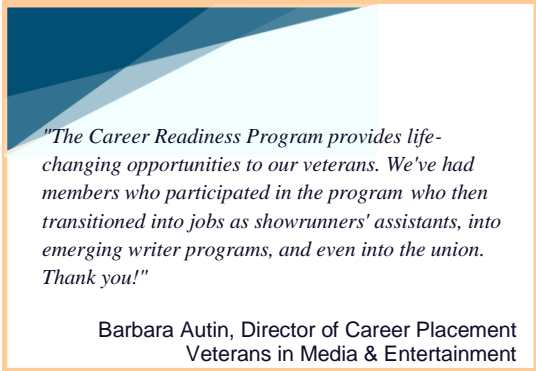
Program 2.0 created the “Career Readiness” requirement which mandates all applicants that receive a tax credit reservation to participate in career-based learning and training programs for California students. The CFC developed the structure for participation based on extensive collaboration with the California Department of Education and the California Community Colleges Chancellor’s Office.

# CAREER READINESS REQUIREMENT (CONTINUED)

The CFC is also engaged with non-profits and other organizations involved in career-pathway opportunities for high school and post-high school students, such as Hire LA's Youth, Manifest Works, JVS SoCal, Film2Future, Streetlights L.A., Ghetto Film School and Veterans in Media and Entertainment.

To satisfy the Career Readiness requirement, applicants must choose one of the following methods of participation:

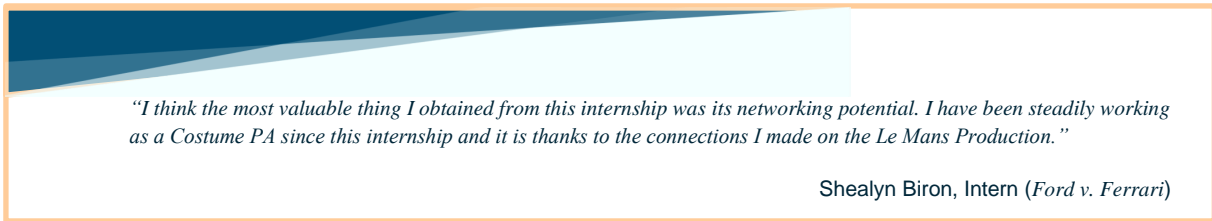
- ❖ **Paid Internship:** Provide students enrolled in an accredited high school, community college or approved career-based learning program three paid internship positions for a minimum of 75 hours each, or a combination of internships with a minimum of 75 hours per student to total 225 hours.
- ❖ **Classroom 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 include 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 professional skills tours, which may include guided visits of sets and various departments, such as set construction, wardrobe, art, or editorial.
- ❖ **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 minimum contribution for independent and non-independent productions is 0.25 percent of the estimated tax credit, with a minimum of \$5,000 and a maximum of \$12,000.



## PARTICIPATION PER CAREER READINESS OPTION



To date, 10 productions have participated in Classroom Workshop/Panels, while 27 conducted Professional Skills Tours. Nineteen projects chose Faculty Externships, enabling 31 educators from Los Angeles, Orange, San Diego and San Francisco counties to immerse themselves on film sets. A total of 74 productions have hired 166 students as paid Interns who gained exposure to various departments including art, camera, grip, electric, wardrobe, and the production office.



## CAREER READINESS REQUIREMENT (CONTINUED)

Sixty-nine interns were from career-based workforce programs, 79 from Los Angeles area Community Colleges or high schools, and 18 from schools in Sonoma, Ventura, or Santa Clara counties. Responding to a survey on their experiences, 100 percent of the interns said they would recommend this program to their peers.

### # OF PARTICIPANTS PER CAREER READINESS OPTION



Fifty-nine productions made Financial Contributions to either the high school or community college funds. California Department of Education (CDE) donations provided 87 scholarships to underserved California students for summer sessions at the California State Summer School for the Arts (CSSSA), which provides training to students who wish to pursue careers in the arts and entertainment industries in California. Contributions to the CDE also provided 52 stipends helping students attend the Arts Education event, *Student Voices*, in Los Angeles and Oakland. Community college donations provided paid internships for arts/media/entertainment students outside of Program 2.0.

*"This program is terrific. It creates opportunity for those that are not aware of what this industry looks like or how it functions. One of the students who is now in film school mentioned that now he feels less anxious about what he is learning because he saw how it is being executed in a professional set in real time. We are also incorporating some of what we saw into our work in the classroom. Thank you."*

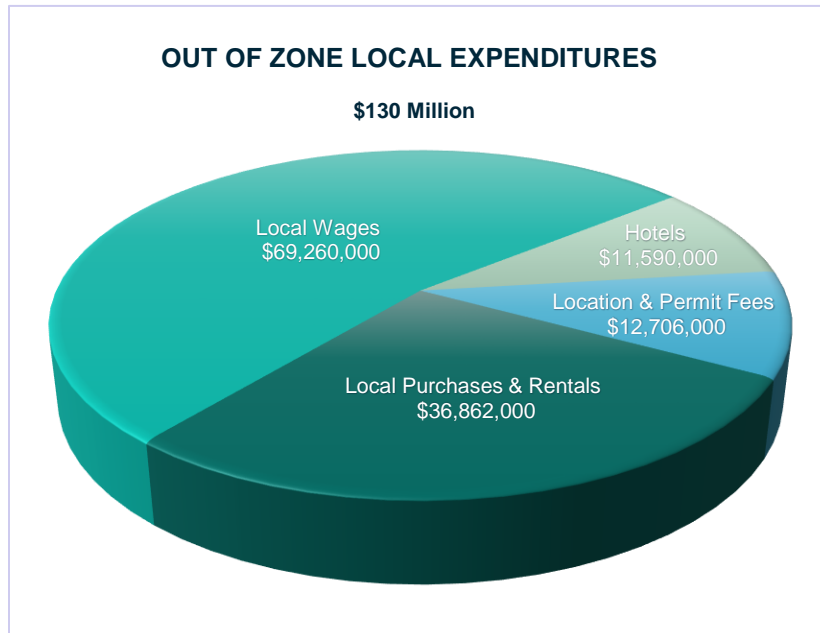
Polo Munoz, Co-Founder, CCO of Creating Creators, Professional Skills Tour  
*Why Women Kill*



Image 5: A *Wrinkle in Time* Director Ava DuVernay with Crenshaw High School Students. (Disney)

# REGIONAL FILMING IMPACT

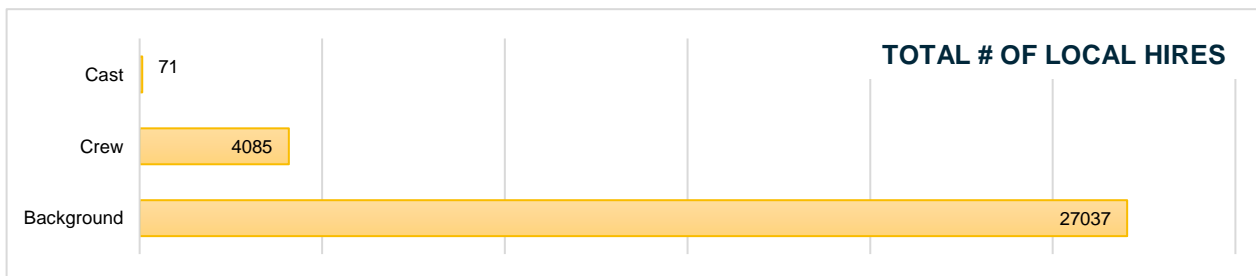
Program 2.0 encourages productions to use locations throughout California. Non-independent projects that film outside the Los Angeles 30-mile zone are eligible to receive an additional five percent tax credit for related prep/shoot/strike costs incurred during the applicable period. (See Appendix B Table 4 for Program 1.0 Regional Filming.) The Los Angeles 30-mile zone encompasses the greater Los Angeles area, where most filming typically occurs. The additional incentive for out-of-zone production applies only to *non*-independent films, as independents already receive the maximum 25 percent tax credit. Projects may also receive up to 10 bonus points to raise their Jobs Ratio score and increase their chance of being selected based on the percentage of filming days outside the Los Angeles 30-mile zone. When productions film on location outside the Los Angeles area, data reflects that they typically spend \$50,000 - \$150,000 *per day* in the local region.



NOTE: Figures include estimates and are subject to change.

To date, more than two dozen feature films and television series spent an estimated \$130 million outside the Los Angeles zone. These expenditures include \$69 million for local wages, \$36 million in local purchases and rentals, \$11 million for local hotels, and \$12 million for location and permit fees. 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 via payments made to local police and fire departments, as well as revenue from local permit fees. Local expenditures increased 23% from year one to two, 59% from years two to three, and 64% from years three to four, evidencing the increasing use of local resources by tax credit projects.

Twenty-seven projects that filmed outside the LA zone employed 71 cast, 4,085 crew, and 27,037 background players (the latter measured in man days).



NOTE: Figures include estimates and are subject to change.

## OUT OF ZONE SPEND OUTSIDE THE 30-MILE ZONE

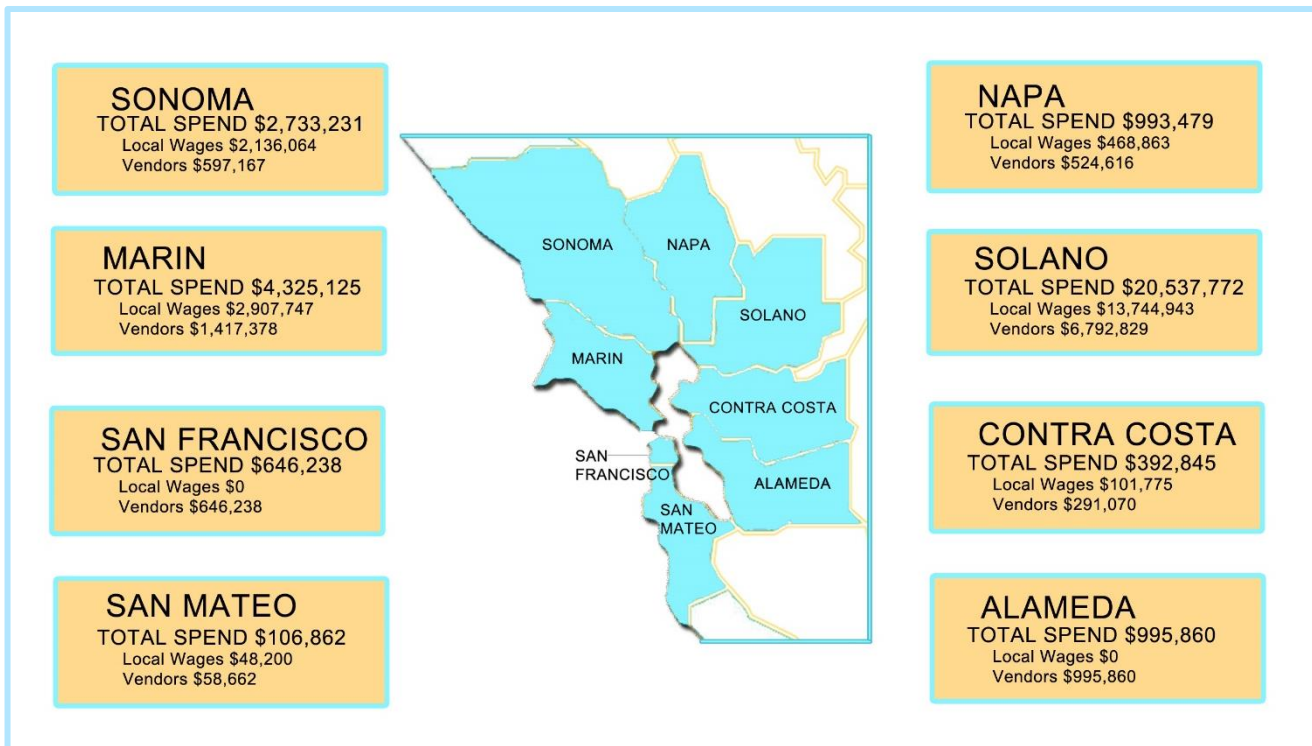


# REGIONAL FILMING IMPACT (CONTINUED)

## CASE STUDY: Recurring Television Series

Produced by Paramount Pictures for distribution through Netflix, *13 Reasons Why* filmed the entire series in Northern California. Set in the Bay Area, the series filmed and/or spent expenditures in the following counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Solano, and Sonoma counties. During its first three seasons, the Netflix-original series spent more than \$89 million in the Bay Area on local wages, hotel rooms, location and permit fees, and local purchases and rentals such as wardrobe, gas, office space, craft services, transportation, and construction. Collectively, over 7,000 local cast, crew, and background hires from eight Northern California counties earned aggregate total wages of \$19 million.

### 13 Reasons Why Season 3 Local Community Spend



NOTE: Figures include estimates and are subject to change.

In addition to the local economic impact, the production of *13 Reasons Why* also made a strong impact in the local community, particularly Analy High School located in Sebastopol, California. As part of the Career Readiness Requirement, *13 Reasons Why* selected the paid internship option hiring a total of nine interns for three seasons. These interns, age 18-year old and over, had varied areas of study - film and digital media, props, audio-visual, etc. To date, the interns completed more than 800 hours of work in the camera, props, and art departments.

## REGIONAL FILMING IMPACT (CONTINUED)

### CASE STUDY: Feature Film

A CBS Films Inc. production, *Jexi* filmed its entire production in San Francisco and Alameda counties. With a total of 29 filming days in the Bay Area, the feature film spent close to \$8 million in local expenditures - \$4.3 million in local wages and 3.7 in non-wage / vendor expenditures. The production hired 45 local cast members, 487 crew, and 806 local background performers.

#### *Jexi* Local Community Spend



NOTE: Figures include estimates and are subject to change.

Along with San Francisco, other locales throughout California offer local incentives to promote regional filming. Productions of all sizes take advantage of waived permit fees on city- or county-owned properties, cash rebates, and / or refunds for basic permit fees. (See *Appendix C for Local Statewide Film Incentives.*)

## INFRASTRUCTURE USAGE & GROWTH

The CFC defines a Production Facility as any facility in compliance with Title 24, Chapter 48 of the California Fire Code and used by the entertainment industry for the purpose of film, television, commercial or digital production. A facility may also be a building or ranch that is used primarily for film, television, commercial or digital production. Applicants are able to increase their bonus points by filming at an approved facility, verified by the CFC prior to the start of principal photography. In order to receive facility days bonus points, the project's first unit crew must utilize a production facility for six hours or more for a principal photography day. If the first unit crew is utilizing a studio backlot location, it may also be noted as a production facility day. To date, approved productions have logged a total of 5,941 film days at approved production facilities.

FilmL.A.<sup>8</sup> – the not-for-profit official film office of the City and County of Los Angeles – tracks sound stage production days in a bi-annual report, analyzing the region's certified sound stages. FilmL.A. reports that the region is seeing the greatest growth in sound stage supply since the late 1990s, attesting to the increased need for facilities. Additionally, FilmL.A. and the City and County of Los Angeles are identifying warehouses or other properties that can be converted into temporary sound stages.

Office space is also in demand, with the streaming services expanding their footprint in Southern California: Amazon is planning on occupying 530,000 square feet at Culver Studios, which intends to grow the existing campus from 358,000 to over nearly 721,000 square feet; Apple reports it will build a new studio home in Culver City, creating 128,000 sq. feet of offices and support space; Netflix plans to occupy 1.6 million sq. feet of non-contiguous space in Hollywood.

# INFRASTRUCTURE USAGE & GROWTH (CONTINUED)

## LOCAL SOUNDSTAGE GROWTH IN CALIFORNIA

### Allied Studios

- Stage A, located in Simi Valley, opened in October with 10,000 square feet.
- Stage B under construction with 6,000 square feet and projected opening of Summer 2020.

### Crimson Studios

- Studio 1, located in Culver City, opened Spring 2019 with 15,000 square feet.
- Eight to 12 new stages with 300,000 - 400,000 square feet by end of 2020.

### LA North Studios

- Santa Clarita
- Adaptive reuse of warehouses with three stages totaling 72,810 square feet, with plans for two additional stages that will add another 52,000 square feet of stage space.

### Line 204

- Planning to break ground by the end of 2019 with new contractor.
- Opening a 240,000 square foot facility including office and support space in Sun Valley in summer 2021.

### NBC Universal

- In 2018, opened four additional soundstages of 18,000 square feet housing *The Voice* and *Will and Grace*.
- Evaluating construction of a new broadcasting center for the 2028 Olympics

### Occidental Studios

- Have added 2 soundstages (19,600 sq feet) at Radford; total stages occupy 145,940 square feet
- In full capacity.

### Quixote Studios

- North Valley / Pacoima Area
- The facility has five soundstages totaling 75,000 square feet of office space.

### Santa Clarita

- Santa Clarita Studios
- Leased in January 2019 for 109,000 square feet of industrial space in Valencia.

### Warner Bros.

- Now open - 36th stage.
- Converting an older building to offices and an additional 10,000 square foot soundstage by early 2020.

In Northern California, near Vallejo, Film Mare Island<sup>9</sup> operates stages and equipment rentals at a former Navy ship building property. The studio opened in 2015 and has three stages totaling 150,000 square feet. The studio is continuing to expand as it finalizes an agreement for Hanger 3 -- a 110,000 square foot facility at Treasure Island -- with intentions to add purpose-built sound stages. The studio is also breaking ground on three state-of-the-art sound stages in close proximity to Mare Island.



Image 6: Mare Island is located at the confluence of the Napa River and San Francisco Bay. (Film Mare Island)



## SUSTAINABILITY & FILMMAKING

The California Film Commission website offers a Green Resource Guide designed to help productions minimize environmental impact. Adapted from the Producer's Guild of America's guide, the resource includes information on environmental guidelines and best practices, catering and craft services resources, contact information for recycling services, set construction upcycling, and wardrobe donation opportunities.

While the motion picture and television industry can produce a large carbon footprint, numerous programs within the industry are in place to reduce the statewide and global environmental impact. California's in-state vendors are striving to be more environmentally-friendly. During CFC's November 2018 Board Meeting, a representative from *Hollywood Trucks* discussed the company's more sustainable transportation equipment and services for the entertainment industry. *Hollywood Trucks* operates Eco luxe, the world's first 100% clean energy, eco-luxury line of entertainment transportation vehicles.<sup>10</sup>

Several films and TV shows accepted into California's Film and TV Tax Credit Program 2.0 demonstrate sustainability measures to promote green filmmaking throughout their productions. Noah Hawley's FX drama, *Legion*, relocated from British Columbia to California for its second season in 2017. Early on, 20<sup>th</sup> Century Fox (TCF) and the producers of *Legion* adapted best practices to promote sustainability strategies. Moreover, TCF utilized the same strategy in the production of *American Crime Story: The Assassination of Gianni Versace*. In the feature films division, similar sustainability efforts were practiced for *Call of the Wild*, a film based on the Jack London novel. Keeping pace with TCF, NBC Universal worked with the production team of *Us*, directed by Academy-Award Winner Jordan Peele, to reduce environmental impact while filming in both Los Angeles and Santa Cruz counties. These sustainable efforts include:

### ***Legion***<sup>11</sup> (20<sup>th</sup> Century Fox)

- ❖ *Solar On Set* provided portable WIFI systems combined with solar charging stations for mobile devices.
- ❖ Post-consumer recycled material made up 30% of all paper used on set.
- ❖ Eliminated the use 26,320 single-use plastic bottles by providing refillable bottles.
- ❖ Donated 2,800 pounds of leftover food to the Greater West Hollywood Food Coalition over the 5-month shoot.

### ***American Crime Story: The Assassination of Gianni Versace***<sup>12</sup> (20<sup>th</sup> Century Fox)

- ❖ Donated \$15,000 worth of furniture, building materials, and appliances to Habitat for Humanity of Greater Los Angeles.
- ❖ Many furnishings with Gianni Versace's signature style were donated to ReStores, a non-profit home improvement center that sells items for a fraction of the price to benefit Habitat LA.
- ❖ Items donated included living room furniture, outdoor patio furniture, desks, dining room tables, kitchen appliances, curtains, glassware, bookcases, coffee tables, chandeliers, mirrors, and floor lamps.

*"Fox dedicated to keeping as many reusable items out of the landfill as possible so we decided to donate much of it to Habitat for Humanity of Greater Los Angeles ReStores. It's reassuring to know these set pieces will be given a second life and support a greater cause. "*

Lisa Day, 20<sup>th</sup> Century Fox  
*American Crime Story, Call of the Wild*

## SUSTAINABILITY & FILMMAKING (CONTINUED)

### **Call of the Wild**<sup>13</sup> (20<sup>th</sup> Century Fox)

- ❖ The production worked with non-profit Earth's Ocean organization to recover 4.75 tons of used plastics from set.
- ❖ Long-term solar-powered generators were installed at Santa Clarita's Sable Ranch.
- ❖ Craft services served locally-sourced food and assisted in composting more than 30,000 pounds of biodegradable products.
- ❖ Production office followed environmental policy using 100% recycled paper to save more than 1,044 pounds of greenhouse gas emissions.

### **Us**<sup>14</sup> (Monkey paw Productions / Universal Pictures)

- ❖ The props department donated \$7,500 worth of toys from beach and boardwalk scenes in Santa Cruz to Turning Point Foundation.
- ❖ Craft services donated 405 pounds of excess food to Rock and Wrap It Up! – providing 337 meals served to the hungry.
- ❖ The sound department used rechargeable batteries in headsets and microphones to reduce disposable waste.
- ❖ The production office used LED lighting and maintained a recycling and composting program to eliminate paper waste.

According to the MPA,<sup>15</sup> its member studios collectively prevented tons of studio sets and other solid waste from entering landfills. Additionally, Disney, NBC Universal, Paramount, Sony Pictures Entertainment, Twentieth Century Fox, and Warner Bros. Entertainment instituted numerous campaigns to help raise awareness about water conservation and reduce CO2 emissions.

### MPAA MEMBER COMPANY GREEN EFFORTS

Disney	NBC Universal	Paramount	Sony Pictures Entertainment	Twentieth Century Fox	Warner Bros. Entertainment
<ul style="list-style-type: none"> <li>• Disney Conservation Fund (DCF) has contributed \$70M in grants to non-profit organizations for more than 60 years.</li> <li>• DCF supported efforts to establish 40,000 acres of marine protected areas in The Bahamas.</li> <li>• Donated more than 2,100 items from Freeform, Disney Channel, and ABC Studios.</li> </ul>	<ul style="list-style-type: none"> <li>• Switching to a new digital system for crew paperwork has saved about 60 trees, onboarding about 10,000 employees.</li> <li>• NBCUniversal released a new line of LED set lights, LightBlade, which uses up to 70% less power.</li> <li>• Committed to planting 25,000 trees via "Green is Universal" campaign.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees took part in a <i>Baywatch</i>-themed beach clean up day with Heal the Bay and collected 250 lbs. of trash.</li> <li>• Upgraded a mill and all 29 stages with LED lighting.</li> <li>• Paramount Green Team hosted an electric vehicle fair for employees.</li> </ul>	<ul style="list-style-type: none"> <li>• Certified ISO14001 headquarters for SPE's Global Environmental Management Systems.</li> <li>• <i>Spider-Man: Homecoming</i> used Ecoluxe clean energy wardrobe and camera trailers.</li> <li>• Reached 177 countries with "Picture This" campaign supporting environmental protection and preservation.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed three new solar installations, adding over 1 megawatt of clean, renewable energy to the Studio's solar generation.</li> <li>• Saved \$150,000 for season 11 of <i>The X-Files</i> when they diverted 68% of waste from landfill.</li> <li>• Donated more than 2,500 meals during production of <i>The Post</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Donated more than 20,000 items to Habitat for Humanity, Valley Food Bank, and the LA Ronald McDonald House.</li> <li>• WB lot currently has 68 charging ports available for electric vehicles.</li> <li>• Partnered with <i>Rock and Wrap It Up</i> and donated more than 30,000 meals to local non-profits across North America.</li> </ul>

All approved productions in the California film and television tax credit program attend an orientation meeting in which CFC outlines program requirements along with helpful resources to reduce greenhouse gases. Following environmental regulations as set forth by California Environmental Protection Agency, the CFC will continue to encourage and monitor sustainability efforts and campaigns by tax credit projects and the motion picture/television industry in general.

# TAX CREDIT ISSUANCE

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

The CFC periodically conducts seminars for CPA firms interested in performing the Agreed Upon Procedures (AUP) for tax credit program applicants. A CPA firm is eligible to perform the AUP after it completes the orientation and has an acceptable peer review rating from its state board of review. Program 2.0’s rigorous AUP has served as the model for several other states seeking to design their own audit procedures.

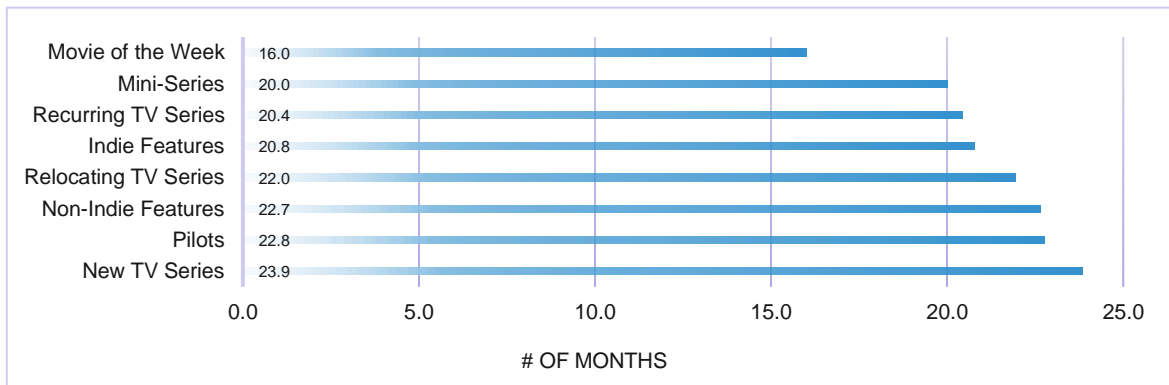
## GENERAL TIMELINE FOR CERTIFICATE ISSUANCE



During the AUP process, the CPA recalculates each project’s Jobs Ratio score and compares it to the approved application Jobs Ratio score. 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 an applicant’s final documentation. A typical movie of the week project approved for the tax credit program receives final certification as early as [average] 16 months from the date of approval, while receipt of the final tax credit certificate for a new TV series falls at 23.9 months, on average.

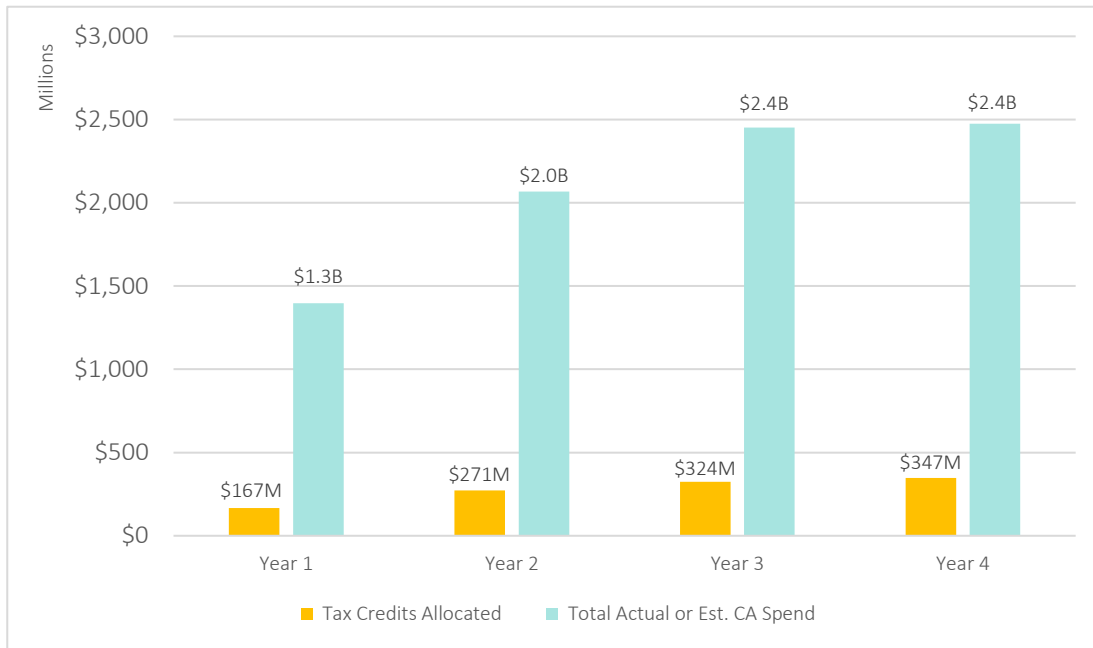
## CERTIFICATE ISSUANCE TIMELINE: PROGRAM YEARS 1 - 4



# TAX CREDIT ISSUANCE (CONTINUED)

The chart below indicates the amount of tax credits allocated and the actualized or estimated amount of direct state spend generated by projects for program years 1-4.

**TAX CREDITS ALLOCATED VS. TOTAL CALIFORNIA ACTUAL OR ESTIMATED SPEND PROGRAM YEARS 1 - 4**



Qualified taxpayers participating in California's Film & TV Tax Credit Program 2.0, or their affiliates, are allowed a credit against their "net tax" liability in the amount specified on the Tax Credit Certificate. Tax Credits are governed by the year the credit certificate is issued. Once a taxpayer receives a Credit Certificate, they can claim it on their tax return beginning with the year the Certificate was issued. Tax credits may be assigned to one or more affiliates.

Qualified Taxpayers may elect to split the credits and apply a portion to their income tax liability and a portion to their sales & use, however, only one Credit Certificate will be issued to the taxpayer. Only qualified taxpayers who receive credits attributable to an "Independent Film" may sell their credits to an unrelated party. To date, the Franchise Tax Board (FTB) reports a total of \$42.7 million credits claimed by corporations, with \$7,300 claimed by personal income tax filers. The California Department of Tax and Fee Administration (CDTFA) received a total \$18.9 million in claims against sales or use tax by corporations. These totals account for approved film and television projects' tax filings for years 2016 to 2018.

### TAX CREDITS CLAIMED

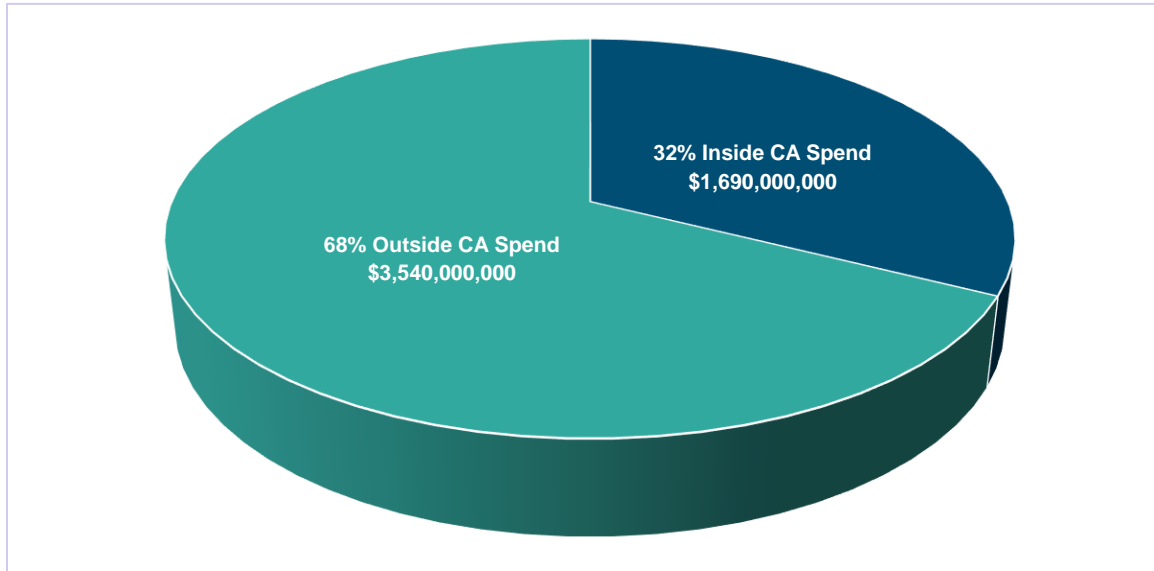
- \$42.7 Million**  
• Total Credit Claimed by Corporations
- \$18.9 Million**  
• Total Claims Against Sales or Use Tax
- \$7,300**  
• Total Credit Claimed by Personal Income Tax Filers

Sources: FTB and CDTFA

# LOST PRODUCTIONS

Data supports that the tax credit has an impact on retaining and attracting in-state film/TV production. The CFC has tracked the fate of those projects that applied for tax credits but were denied and subsequently produced. (See Appendix B Table 3 for Program 1.0 Lost Productions Data.)

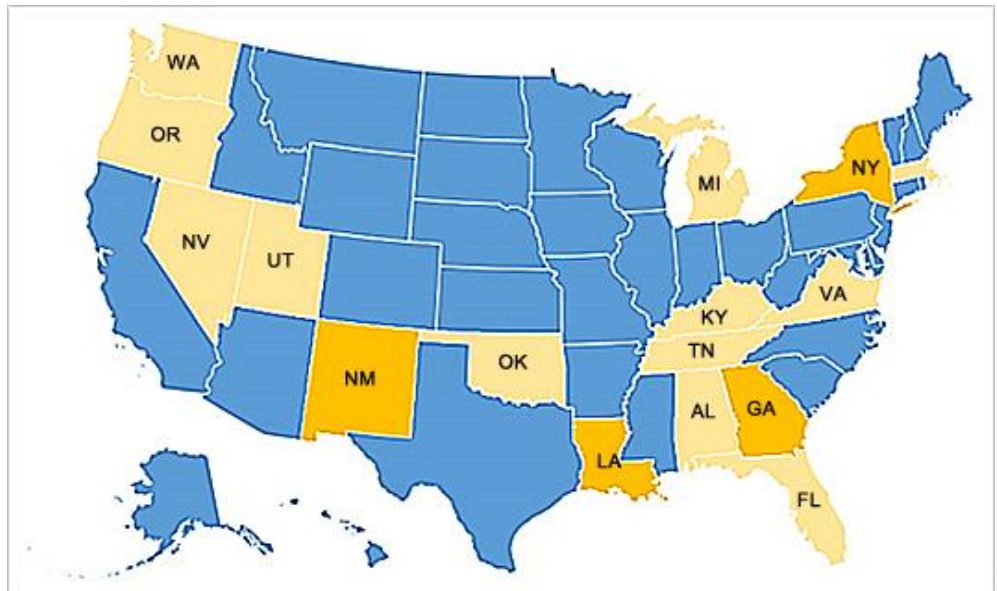
## EXPENDITURES OF LOST PRODUCTIONS: PROGRAM YEARS 1 - 4



The majority of projects that did not receive a tax credit left California to be produced out-of-state. In fact, the state lost 68 percent of production spending by those projects that applied for but did not receive a California tax credit. These runaway projects accounted for \$3.55 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 and television production industry.

## RUNAWAY PRODUCTIONS FILMED ACROSS U.S.

This report shows only data collected from projects that applied to the tax credit program. The CFC is unable to track projects that do not apply for California's film and television tax credits or that are ineligible; thus, total runaway production losses are presumed to be much higher.



## LOST PRODUCTIONS (CONTINUED)

Significantly, productions that did not receive tax credits left California to generate estimated expenditures of \$1.8 billion in the following states: Washington, Oregon, Nevada, Utah, New Mexico, Oklahoma, Louisiana, Florida, Georgia, Alabama, Tennessee, Kentucky, Virginia, New York, Massachusetts, and Michigan. Between 2015-2018, productions that were denied tax credits and subsequently left California spent \$876 million in Georgia, \$308 million in New Mexico, \$130 million in the state of New York, and \$110 million in Louisiana.

### RUNAWAY PRODUCTIONS FILMED ACROSS INTERNATIONAL LOCALES



Additionally, productions left the Golden State to shoot in international locales such as London, Belgium, South Africa, Australia, New Zealand and Canada, with California losing \$1.75 billion in runaway production expenditures. In order of highest production spend, productions selected Vancouver, United Kingdom, Montreal, Toronto, and Quebec to take advantage of tax credits.

# GLOBAL COMPETITION

Today's business model for feature film and scripted television production continues to rely heavily on tax incentives to manage production costs. Although some projects are produced without the benefit of tax credits, the availability of incentives is one of the primary factors when it comes to determining where most projects are filmed. Independent production companies incorporate the monetization of tax credits (selling tax credits to third parties) as a key part of their financing structure. Non-independent (studio) productions routinely factor in competing tax incentives when considering where to base their projects. Nearly 40 U.S. states offer financial incentives to lure jobs and spending away from California, as do Canada, Australia, the United Kingdom, most European Union nations and Abu Dhabi – to name just a few. Visit the Entertainment Partners<sup>16</sup> website for a comprehensive listing of film and television tax credits available in the U.S. and around the world.

## Out of State Competitors Maintain Growth

California's primary competitors have committed to growing their foothold as world-class film and television production centers. Once incentives took root outside of California, other locales evolved their own infrastructures with stage construction, post-production facilities, and importantly, a skilled local workforce. Incentive-rich jurisdictions such as New York, Louisiana, Massachusetts, Georgia, Canada, the U.K., and Hungary have built impressive multi-stage facilities and instituted job training programs as well. There are now almost 100 jurisdictions worldwide offering automatic incentives.

### OUT OF STATE COMPETITION



#### GEORGIA<sup>17</sup>

- Generated \$9.2 billion in wages - including indirect and induced jobs and wages supported by the industry, such as caterers, lumber yards and restaurants – supporting over 159,000 jobs, in 2018..
- Film and TV companies paid \$695 million to 10,185 vendors in 2018.
- Nearly 3,040 motion picture and television businesses, with 2,214 production companies.



#### LOUISIANA<sup>18</sup>

- In 2018, the state's tax credit programs generated \$946 million in total new spending.
- New local tax revenue in 2018 was over \$25 million due to the State's tax credits, with 7,464 jobs.



#### NEW YORK<sup>19</sup>

- TV and film companies spent \$2 billion to 19,991 vendors in 2018.
- Generated \$26.4 billion in wages, supporting over 295,900 motion picture and television jobs.
- In 2018, 144 features and 132 television series filmed in New York.
- Steiner Studios, located in the Brooklyn Navy Yard offers 30 soundstages, with over 760,000 sqft.



#### NEW MEXICO

- New Mexico reported \$234 million in direct spend in the 2018 fiscal year.
- Netflix plans to spend over \$1 billion on production over the next 10 years.<sup>20</sup>
- NBCUniversal expects to spend \$500 million over the next decade, creating 330 jobs and generating \$1 billion in economic development.<sup>21</sup>



#### UNITED KINGDOM<sup>22</sup>

- From June 2018-June 2019, 357 films received final certification from productions totalling £3.7 billion.
- The Walt Disney Co. signed a long-term deal with Pinewood Studios, located outside London, to occupy production stages and backlots beginning year 2020.
- Netflix signed a deal with Pinewood's Shepperton Studios to occupy 14 stages with an estimated spend of £13 billion.



#### CANADA<sup>23</sup>

- Film and TV production spending jumped by 5.9% to an all-time high of CAD \$8.9 billion in fiscal year 2017-18.
- An 18.7% increase in productions by foreign producers – more than CAD \$5.6 billion – the highest level the country has seen.
- Every province involved with foreign-based productions saw an increase over last year.

## GLOBAL COMPETITION (CONTINUED)

While production companies will often relocate 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, electricians, make-up artists, prop masters, drivers) from California are hired due to the additional expense for travel and housing. The few skilled California crew members who are transported to work on-location end up, in practice, training the local workforce. This process helps create a growing pool of local crews across the country and around the world, making it less likely that California crew members will be needed to work out-of-state on subsequent projects. In a further economic hit to California, crew members who work out-of-state pay income taxes in the *work* state; California receives only the differential in taxes owed. Despite the success of California’s film and television tax credit programs, the state has lost significant production as competing incentive-offering locales have achieved dramatic growth in production spending.

### Competing Infrastructure

While Los Angeles has, by far, the largest infrastructure for filmmakers in North America, competitors in other jurisdictions (e.g., New York, Georgia, Louisiana) and in Canada have built sound stages to accommodate projects attracted by tax incentives.

- ❖ Georgia currently has more than 1.1 million square feet of purpose-built soundstage space and over 1.2 million square feet of retrofitted sound stage space, up from 40,000 square feet of purpose-built soundstages available before 2010. Production facilities include Pinewood Studios with 18 soundstages, and Tyler Perry Studios with 11 soundstages.<sup>24</sup>
- ❖ In New York, Wildflower Studios intends to build a nearly 600,000 square foot facility for movies and television shows in Queens. Kaufman Astoria Studios, also in Queens, is adding two more sound stages for a total of 12. Netflix is creating a production hub in Brooklyn, including sound stages for its productions.<sup>25</sup>
- ❖ Louisiana Celtic Media Centre in Baton Rouge is the largest design-built studio in the U.S., handling such productions as *Fantastic Four*, *Twilight: Breaking Dawn* and *Oblivion*. Second Line Studios in the heart of New Orleans is the first independent, LEED-certified film studio in the U.S. Additionally, Starlight Studios announced in January 2019 plans to build new purpose-built sound stages on its campus in New Orleans.<sup>26</sup>
- ❖ In Canada, six studio soundstages with over 150,000 square feet are planned for Hamilton, Ontario, an hour from Toronto. The proposed studio is to include around 50,000 square feet for production offices, crafts, set building and other ancillary services. CBS Television Studios is expanding in Canada as it gets set to open a 260,000-square-foot studio with six soundstages in Toronto before the end of the year. Netflix is set to open its latest global production hub in Toronto, taking long-term leases on eight soundstages at Pinewood Toronto Studios and Cinespace Films Studios. Pinewood Toronto Studios, which currently has around 325,000 square feet of soundstages, has plans to build another 200,000 square feet of production space.<sup>27</sup>
- ❖ In New Mexico, Netflix is purchasing ABQ Studios in Albuquerque, where it plans to spend over \$1 billion on production over the next 10 years. The studio facility, which opened in 2007, houses eight soundstages, production offices, and a backlot. NBCUniversal is also planning to build a studio in Albuquerque and expects to spend \$500 million over the next 10 years, creating 330 jobs and generating an estimated \$1 billion in economic development.<sup>21</sup>



# GLOBAL COMPETITION (CONTINUED)

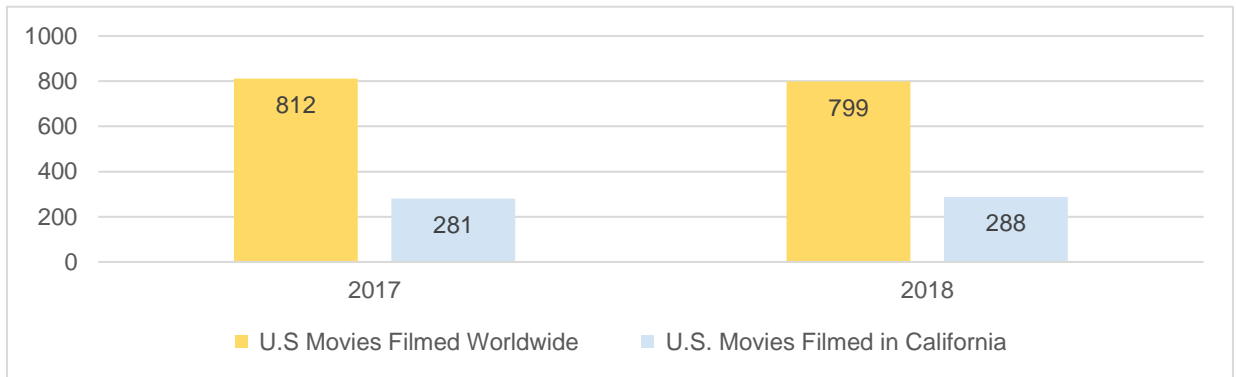
## Loss of Large-Scale Feature Film Production

The loss of big-budget feature films may have had the most detrimental effect on California's production industry. Each such project can employ thousands of workers and generate business for more than a thousand suppliers. They often require use of multiple large-scale sound stages to accommodate elaborate sets and equipment.

Program 2.0 legislation expanded eligibility to film projects with budgets over \$75 million to attract big-budget feature films. Since Program 2.0 has been in effect, California has attracted 12 big-budget feature films.

While the overall number of U.S. movies filmed in California increased from 281 in 2017 to 288 in 2018, the figure continues to represent a small percentage of the 799 U.S. movies filmed worldwide in 2018.

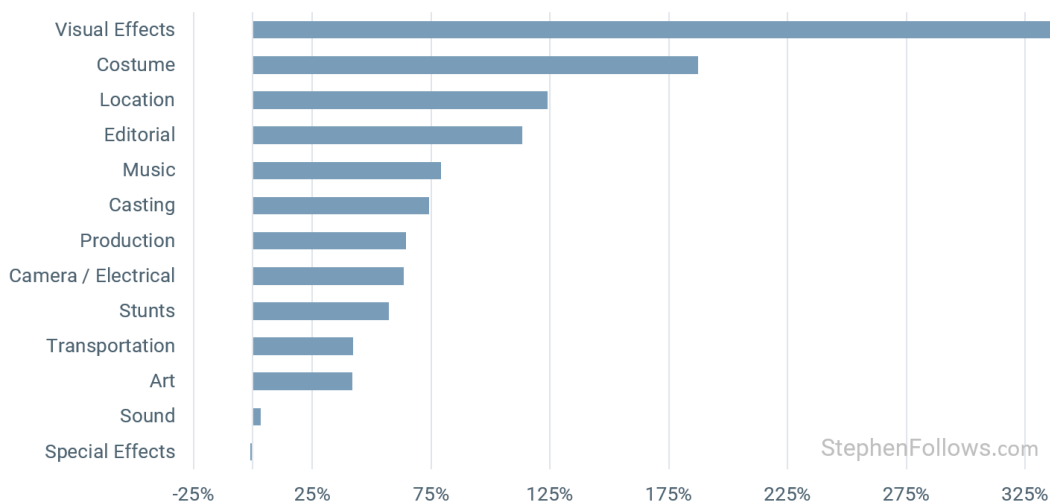
**U.S. & CALIFORNIA FILM PRODUCTION**



## Visual Effects and Out-of-State Competition

A study conducted by Stephen Follows<sup>28</sup> reports that the top 200 U.S.-grossing films from 1997 to 2016 generated a 325% increase in visual effects department employment. As a result, many jurisdictions - nationally and globally - provide stimulus packages such as tax incentives specifically targeting the visual effects sector.

**Growth in the average number of crew within major departments on top-200 grossing movies between 1997 and 2016**



StephenFollows.com

## GLOBAL COMPETITION (CONTINUED)

The California VFX industry has been severely impacted by the effect of worldwide tax incentives which have lured away business and talent. The following statistics speak to the state of the California VFX industry and the competition which is siphoning away this sector of the entertainment industry:

- ❖ Competition has grown across the globe. Vancouver was an early destination, but the number of locations has expanded exponentially. One large market, Australia, has a 30% federal rebate on qualifying gross spend, with various state incentives that can be added on top. Incentives can be combined to create a 40% rebate on most VFX spend – and as high as 50% on an Australian project.<sup>29</sup> British Columbia and Quebec, Canada each provide a standalone 16 percent credit on visual effects work produced in the provinces, in addition to their provincial (28 percent and 20 percent respectively) and federal tax breaks of 16 percent.



- ❖ New York State offers a 30 percent tax credit for visual effects and post production work.
- ❖ In 2014, Sony Pictures Imageworks moved its headquarters from Culver City, CA to Vancouver, Canada. ILM opened a division in the U.K. in the same year.<sup>30</sup> Many other visual effects companies have relocated to Canada – as well as the U.K. and Australia - taking high-wage jobs with them.
- ❖ Launched in 1999, Method Studios is a visual effects company based in Los Angeles with satellite offices in New York, Atlanta, Vancouver, San Francisco, Melbourne, and Montreal. Method Studios President, Ed Ulbrich stated in *VFXV Magazine*, "The California visual effects industry is completely different than it was 10 years ago. Two decades of slow, steady globalization eliminated the core business."<sup>29</sup>
- ❖ From 2003-2013, 21 companies throughout California, employing thousands of people, have closed or filed for bankruptcy because of the pricing pressure from global incentives.<sup>31</sup>

The 2017 Film L.A. Feature Film Study<sup>32</sup> found that Canada and the U.K. have surpassed the U.S. in visual effects industry output. The report also notes that many big-budget films spend more than half their budgets on visual effects.

Program 2.0 was designed to motivate companies to do more of their visual effects work in California by providing an additional 5 percent tax credit for projects that spend either 75 percent of their total visual effects budget or at least \$10 million on visual effects in-state. Applicants also accrue Jobs Ratio bonus points based on their total visual effects spending in California, which can increase their Jobs Ratio score

In the first two fiscal years of Program 2.0, the percentage of visual effects work in California vs. outside California has increased from 54% to 57%, an indication that the incentives are not large enough to keep the work in the state. Data from completed projects for years three and four is still being gathered.

## 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 that are highly vulnerable to runaway production (e.g., big-budget feature films and television series). Building on its success, lawmakers created Program 3.0, which makes additional program improvements and continues funding through 2025. *(See Appendix D for details on Program 3.0.)*

During its first four years, Program 2.0 has attracted film and television projects that will collectively contribute \$8.4 billion in direct spending to California. Among the approved productions are 27 new television series, 18 pilots, one mini-series, two movies of the week, 58 recurring TV series, 16 relocating television series, 37 non-independent feature films, and 30 independent features films. In all, the 189 productions will generate an estimated \$3 billion in qualified wages and employ more than 60,000 cast and crew members.

Program provisions that offer added incentives for projects filming outside the Los Angeles region are having the desired effect. Approved productions have spent more than \$130 million across 20 counties outside of Los Angeles.

High demand for studio space, with L.A. sound stages operating at near capacity, is spurring substantial growth in new stage and infrastructure construction. For California to remain competitive, infrastructure must continue to grow to fulfill the demand created by tax credit projects and growth of new streaming services. Other key requirements for success include public transportation to meet California's sustainability goals and enable people to travel efficiently to and from locations, as well as affordable housing for the growing number of skilled production industry workers. The growth in visual effects employment on productions points to a need to address this sector of the industry and further incentivize productions to keep their visual effects work in the state.

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

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## APPENDIX A | ENACTING LEGISLATION

- ❖ SB 871 (Senate Committee on the Budget and Fiscal Review), was enacted in June 2018 creating an extension to the Film and Television Tax Credit Program for five years beginning July 1, 2020. Authorized funding of \$330 million per fiscal year.
- ❖ 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 restricted credits to the first \$100 million in qualified expenditures), and television pilots.
- ❖ 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.
- ❖ 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.
- ❖ 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.
- ❖ 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.

# APPENDIX B | PROGRAM 1.0 SUMMARY

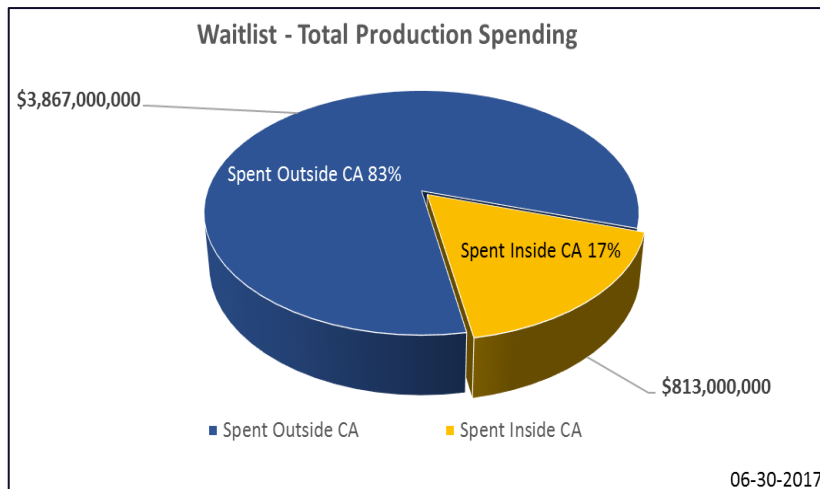
Table 1. Aggregate Summary

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	\$ 96,582,000	\$ 770,545,000	\$ 264,638,000	\$ 188,977,000	\$ 312,775,000	3,528	7,039	77,236
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	\$ 74,701,000	\$ 534,845,000	\$ 225,550,000	\$ 141,460,000	\$ 167,601,000	2,993	3,957	45,014
7	2016-17	\$ 70,838,000	\$ 547,600,000	\$ 201,372,000	\$ 124,366,000	\$ 197,546,000	2,480	3,101	51,439
Aggregate All Years		\$ 645,919,000	\$ 5,213,950,000	\$ 1,850,739,000	\$ 1,283,359,000	\$ 2,049,089,000	24,459	42,949	490,845

Table 2. Program 1.0 Relocating TV Series

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	\$ 41,728,000	\$ 22,760,000	\$ 95,809,000	\$ 16,122,000
Important Things w/ Demetri Martin	NY	1	\$ 3,476,000	\$ 2,104,000	\$ 6,432,000	\$ 1,340,000
Teen Wolf	GA	4	\$ 93,144,000	\$ 48,776,000	\$ 197,597,000	\$ 35,157,000
Torchwood	U.K.	1	\$ 13,745,000	\$ 9,942,000	\$ 34,781,000	\$ 5,700,000
<b>TOTAL</b>			<b>\$ 152,093,000</b>	<b>\$ 83,582,000</b>	<b>\$ 334,619,000</b>	<b>\$ 58,319,000</b>

Table 3. Program 1.0 Lost Productions Data



## APPENDIX B | PROGRAM 1.0 SUMMARY (CONTINUED)

**Table 4. Program 1.0 Regional Filming Impact**

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

## APPENDIX C | LOCAL CALIFORNIA FILM INCENTIVES

Many jurisdictions 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.
- ❖ Reduced Business Tax Rates for Entertainment Productions
- ❖ Special Tax Breaks for Entertainment Creative Talent

More Info: <http://ewddlacity.com/index.php/filming#tax>

### 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.

More Info: <http://www.rcfilmtv.org/Incentives.aspx>

### 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, 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, street closure fees, and more.
- ❖ San Francisco also has a Vendor Discount Program, offering 10-30 percent off hotels, restaurants, production services, car rentals, and a 5 percent discount on Virgin America, and a 5-13 percent discount on United Airlines.

More Info: <https://filmsf.org/incentives>

### Santa Barbara County

- ❖ Media Production Incentive Program provides a cash rebate for permit fees and 50 percent of affiliated CHP, Sheriff, or PD costs to qualified still photo campaigns, commercials, unscripted and scripted television, and feature film production. Program is capped at \$50,000.

More Info: <https://santabarbaraca.com/film-commission/media-production-incentives-program/>

### 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).

More Info: <http://filmsantaclarita.com/for-filmmakers/film-incentive-program/>

### Shasta County

- ❖ Shasta County is dedicated to serving the film industry. Qualifying productions can receive up to \$50,000 through the local incentive program.
- ❖ The local incentive program is aimed at retaining and increasing feature and television production in Shasta County by subsidizing permit fees, offering hotel rebates and direct spend incentives.

More Info: <http://filmshasta.com/for-filmmakers/>



# APPENDIX D | SENATE BILL 871 - PROGRAM 3.0

## PROGRAM 3.0 HIGHLIGHTS

<b>Effective Date</b>	July 1, 2020 – June 30, 2025.
<b>Funding</b>	\$330 Million per year.
<b>Funding Categories</b>	40% TV Series, Pilots, Mini-Series, 35% Non-independent Films, 17% Relocating TV Series, 8% Independent Films - Independent film funding split between projects with budgets under \$10m and over \$10m.
<b>Tax Credit Allocation</b>	25% Indies and Relocating TV, 20% Non-Indies. Additional 5% "Uplift" for filming outside 30-mile Zone, visual effects expenditures, eliminates 5% for music scoring / recording, adds 5% additional for local hire workers from out of zone.
<b>Application Selection</b>	Jobs ratio ranking within specific categories; allows 70% of qualified visual effects expenditures paid to third-party vendors shall be treated as wages.
<b>Career Training</b>	Career readiness requirement; establishes pilot skills training for individuals from underserved communities to prepare for jobs in the industry; fee paid by applicants to fund training. Training fund to be administered by a non-profit fiscal agent; CFC to engage labor/management jointly administered training programs with skills training focused on entertainment industry jobs.
<b>Start of Principal Photography Deadline</b>	180-day Rule: Productions must begin filming within 180 days of credit allocation letter; for projects with budgets over \$100M, must begin filming within 240 days.
<b>Penalty for Overstatement of Jobs Ratio</b>	Same penalty for Non-Independent and Independents.
<b>Reallocation of Funds Between Categories</b>	Any surplus must go to general TV pot at the end of the fiscal year, except Independent Film surplus stays within same category.
<b>Carry Forward</b>	Taxpayer may carry forward tax credit for 8 years.
<b>Relocating TV Eligibility</b>	Must have filmed at least 75% of most recent season outside of CA.
<b>Movies-of-the-Week</b>	Movie-of-the-Week ineligible; this production type may apply as feature film category.
<b>Bonus Points</b>	Eliminate facility usage as bonus point factor; add music scoring as bonus point factor.
<b>Unallocated Credits</b>	CFC may allocate unused credits from Programs 1.0 and 2.0. After sunset date of program 3.0, CFC may continue to allocate unused credits from all 3 programs
<b>Anti-Harassment Provision</b>	Requires approved applicants to provide their written policy against unlawful harassment which includes procedures for reporting and investigating harassment claims. Applicants shall indicate how policy will be distributed to employees and include education training resources and remedies available.
<b>Diversity Reporting</b>	Requires approved applicants to provide a copy of their initiatives and programs to increase the representation of minorities and women in job classifications that are excluded from qualified wages - directors, producers, writers, actors. Requires applicants to include a description of what the program is designed to accomplish and to provide statistics on the gender, racial, and ethnic status of individuals whose wages qualified and are not qualified.