

HOURS AND HOURS
OF MAGIC LIGHT

UP TO 44% IN
PRODUCTION INCENTIVES

AMAZING LOCATIONS &
UNFORGETTABLE PEOPLE



The Alaska Film Office 2013 Report to the 28th Legislature

February 12, 2013

Alaska Film Production Incentive Program

The Alaska Film Production Incentive Program (Program) was created by the 25th Alaska State Legislature through Senate Bill 230 and signed into law on June 4, 2008. The enabling legislation (AS 44.33.231 – AS 44.33.239) authorized the program to issue up to \$100 million in Alaska Film Industry Tax Credits (tax credits) by June 30, 2013 and instructed the Alaska Department of Commerce, Community, and Economic Development (DCCED) to establish an Alaska Film Office (AFO) to:

- 1) cooperate with organizations in the private sector for the expansion and development of the film industry in the state;
- 2) promote Alaska as a location for film production;
- 3) provide production assistance by connecting filmmakers with Alaska contractors, suppliers, and workers;
- 4) certify Alaska film production internship training programs and promote the employment of interns by eligible productions; and
- 5) in cooperation with the Department of Revenue, administer the Program.

During the 2012 legislative session, SB 23 reauthorized the tax credit program and provided an additional \$200 million for tax credits to be issued from July 1, 2013 through June 30, 2023. The legislation also moved administrative functions to the Department of Revenue on July 1, 2013, but leaves the marketing and promotional responsibilities with DCCED (<http://www.film.alaska.gov/incentives/Compare.html>).

Additionally, the legislation established a Film Incentive Review Commission (Commission) within the Department of Revenue and includes the commissioners of DCCED, Natural Resources, Revenue, and Labor and Workforce Development. The Commission will review and approve qualification and tax credit applications. DCCED will continue to promote the film industry through tasks one through four above. DCCED has been working with the Department of Revenue to transition the program on July 1, 2013.

Current Status of the Alaska Film Production Incentive

The Program creates a tax credit incentive for companies to incur qualified film production expenses in Alaska. The incentive ranges from 30 to 44 percent of qualified expenses and is issued as a transferrable tax credit. In practice, a production company sells the tax credit to a business with an Alaska corporate income tax liability in order to reduce the tax liability.

The AFO is required by statute to track and report the number of applications received, final applications approved, and the number and amount of tax credits disbursed (AS 44.33.231(b)).

1. ***Applications received*** – As of December 31, 2012, the AFO received a total of 121 prequalification forms. Of these companies, three applications were denied, seven expired without a production, and five companies withdrew. Based on the remaining 106 qualified productions, the estimated tax credit encumbrance is \$80,364,390.65. This includes completed productions with approved tax credits. Table 1 summarizes applications received from Program inception. See the AFO website (<http://www.film.alaska.gov/reports>) for a detailed list of qualified projects and status.

**Table 1: Qualified Production Applications
FY2009 – FY2013***

	FY2009	FY2010	FY2011	FY2012	FY2013*	Total
Commercial	0	1	0	2	4	7
Documentary	1	5	4	7	2	19
Feature Film	1	7	11	7	0	26
TV-Nonfiction	3	5	15	22	9	54
TV-Drama	0	0	0	0	0	0
Subtotal	5	18	30	38	15	106
DEW**	1	7	3	4	0	15
Total	6	25	33	42	15	121

*FY2013 data presented is year-to-date as of December 31, 2012.

**Applications denied, expired prior to production, or withdrawn.

2. **Applications approved** – As December 31, 2012, the AFO approved 55 final applications for tax credits. The total amount prequalified was \$41,774,699.00, and the AFO approved \$35,101,827.07. Table 2 summarizes approved tax credits since Program inception. See the AFO website (<http://www.film.alaska.gov/reports>) for a list of the approved tax credits by production.
3. **Applications disbursed** – As of December 31, 2012, the Department of Revenue issued 55 tax credit certificates to approved productions for \$35,101,827.07. In 2011 and 2012, three productions received two tax credits each due to appeals.

**Table 2: Approved Final Applications and Tax Credits
FY2010 – FY2013***

Qualified Production Expenses	FY2010	FY2011	FY2012	FY2013*	Total
Other Qualified Vendor Payments	\$326,201	\$6,271,064	\$17,546,255	\$13,346,412	\$37,489,934
Resident Wages	\$134,540	\$1,992,584	\$5,713,981	\$2,562,327	\$10,403,432
Nonresident Wages	\$284,212	\$10,789,238	\$34,130,224	\$14,620,345	\$59,824,019
Total Production Expenses	\$744,954	\$19,052,886	\$57,390,460	\$30,529,084	\$107,717,385
Tax Credit Approved	\$244,547	\$6,263,267	\$18,615,847.14	\$9,978,166.02	\$35,101,827.07
Average % Tax Credit	32.8%	32.9%	32.4%	32.7%	32.6%

*FY2013 data presented is year-to-date as of December 31, 2012.

Summary of Alaska Production Incentive Process

Qualification Process

Production companies are required to apply for qualification for the production incentive. To determine if a production meets qualification requirements, a committee reviews the estimated Alaska budget, the script or a synopsis, projected salaries and work history of producers, directors and actors, and the distribution plan. In addition to the qualification form and documentation, the committee evaluates any anticipated indirect benefits of the production.

A production that completes the process is issued a qualification notice. The notice establishes the two-year period for production and a tax credit estimate. It also states the amount of an approved tax credit may vary based on actual qualified expenditures.

Final Application Process

After a production completes its Alaska operations, a final application and supporting information are submitted for review, verification, and calculation of the tax credit. In addition to the final application, productions must submit an expense report verified by an independent Alaska Certified Public Accountant (CPA), a rough assembly of the production, and a sworn certification that the producer followed the laws of Alaska and AFO procedures.

The CPA verification must follow Agreed Upon Procedures (AUP) established by the AFO. The AUP became mandatory in February 2012, and the AFO offered AUP training in January 2012; 38 attendees from eight Alaska accounting firms participated.

A DCCED committee of at least three people reviews the final application and determines tax credit amounts. Since the Program began, 84 percent of prequalified tax credits have been awarded. After committee approval, the AFO notifies the production company and the Department of Revenue of the tax credit award.

Tax Credit Issuance and Transfer

The Department of Revenue issues tax credit certificates to producers and manages subsequent credit transfers. The tax credit may be used by producers or transferees as a credit against corporate income taxes within three years of the original date of issuance. The Department of Revenue typically issues both tax credit and transfer requests within five business days. A tax credit certificate is assigned a unique number when issued. Transfers are made to taxpayers using a form provided by the Department of Revenue. As directed by the transferor, replacement certificates are either returned to the transferor or sent directly to the transferee.

The Department of Revenue interprets “redeemed” to mean the date the tax return was filed, not the payment due date. The tax due can be reduced by the amount of the credit. The amounts shown in Table 3 represent the fiscal year in which a credit was claimed on a return filed with the Department of Revenue. The administrative duties of the Program consume approximately 22 percent of a full-time auditor position.

**Table 3: Tax Credits Redeemed by Fiscal Year
FY2011 – FY2013***

FY2011	\$(193,765)
FY2012	\$(2,684,836)
FY2013*	\$(5,548,671)

*FY2013 data presented is year-to-date as of December 31, 2012.

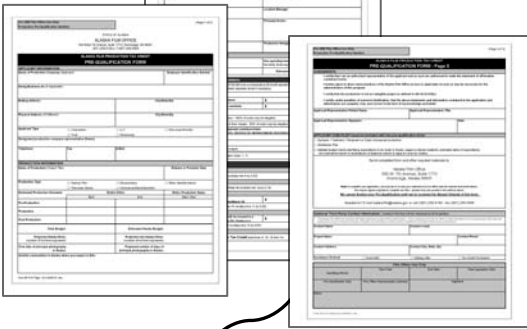
Regulations

DCCED regulations for the program became effective on June 18, 2009. The Department of Revenue regulations governing the tax credit became effective on December 22, 2010 and were amended effective March 4, 2011. Copies of the current regulations can be found at <http://www.film.alaska.gov/incentives>.

Figure 1: Alaska Film Office Tax Incentive Process



Step 1: Contact the Alaska Film Office (AFO) for a Pre-qualification form.
www.film.alaska.gov



Step 2: Submit Pre-qualification packet:
 1.) pre-qualification form with estimated qualifying expenditures over 24-months
 2.) detailed budget
 3.) distribution plan, and
 4.) script or synopsis of the project.



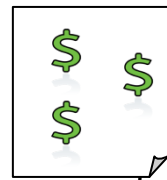
Once the completed pre-qualification packet is received, the AFO review process typically takes a week or two



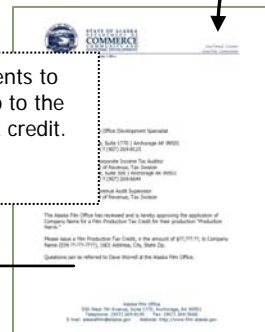
Step 3: Receive a Qualification Notice for the project. (Minimum, of \$100,000 must be spent in AK to qualify)

Step 4: Once production has wrapped, submit the final application complete with the actual budget for the production and the actual Alaska expenditures audited by an Alaska licensed CPA. The final application materials must also include a Sworn Certification of Compliance (3 ACC 188.050(e)), final budget and a rough cut of the production.

Once a production is qualified, Alaska expenses incurred during the 24-month qualification period are eligible for a tax credit of up to 44 percent under 3 ACC 188.020.



Step 5: After verification that the production meets eligibility requirements to receive a tax credit under the program, the AFO will send a credit memo to the Alaska Department of Revenue (DOR) indicating approval to award a tax credit. Tax credit approval and issuance usually takes 3-6 weeks.
No additional review is required by DOR



Step 6: The production sells the tax credit to any company that has an Alaskan corporate income tax liability.



Step 7: Alaskan company uses the Tax Credit Certificate to pay their Alaska Corporate Income Tax.

Other Alaska Film Office Activities

Print ads are placed in leading industry magazines and directories. These include *P3 Update* – a technical production magazine, *Produced By* – the quarterly magazine of the Producers Guild, *DGA Quarterly* and *DGA Monthly* – the magazines of the Directors Guild, and *Locations Magazine* – the annual publication of the Association of Film Commissioners International (AFCI).

The AFO utilizes internet promotion in several ways. In addition to ongoing updates of the website, the AFO is listed in film industry directories, trade publications, and web sites. Web ads are also negotiated as part of the AFO's print ad placements. A Google Ad Words account also generates text ads when phrases related to Alaska film are searched.

While print and web advertising are important to keep filmmakers aware of Alaska opportunities, personal contact is the most important tool to market Alaska as a film location. The AFO is contacted daily by filmmakers about Alaska and the Program. Filmmakers want to know how the Program makes Alaska a cost-competitive option, how locations and local expertise add value to their productions, and how to find local talent, suppliers, and crew.

The AFO staff attends film industry trade shows and events such as the annual AFCI Locations Trade Show in Los Angeles. Plans are underway through a Request for Proposals procurement effort to contract with a firm to represent Alaska's interests among the film industry and assist the film office in promoting Alaska as a film destination among production companies, independent filmmakers, and studios.

Connecting Filmmakers with Alaska Resources

The AFO website is the primary tool to connect filmmakers with Alaska businesses and individuals in the following areas:

- The *Incentive Program* page provides information on the Program (including a summary of Program changes adopted in the 2012 legislative session that become effective July 1, 2013) and the required forms available for download.
- The *Filming in Alaska* page provides useful information on Alaska's regions, transportation, permits, rules, and regulations.
- The *Crew and Service Provider* page is a fully searchable database maintained by the "listees" and approved by the AFO. Listings are free to Alaska individuals and businesses. There are currently 380 crew listings ranging from makeup artists to videographers, 525 support services ranging from accommodations to video post-production studios, and 194 Alaska actors.
- The *Alaska Locations* page provides a database of 695 images of Alaska communities, locations, and buildings.

The AFO created a "Make it Authentic" web page to link producers to Made in Alaska products and the Alaska Product Preference program. Continued cross-promotion will result in additional product placements in productions, as well as the hiring of artists, craftsmen, technicians, and experts to ensure accuracy in the portrayal of Alaska Native cultures, occupations, resources, and other subject matter.

Private Sector Cooperation

The AFO fosters a cooperative relationship with the Alaska film industry, allied non-profit trade associations, and the business community at large.

Ongoing outreach and involvement with the Alaska film industry helps build the crew and service provider database and promote the program. The service provider database provides filmmakers with a wide variety of indirect services such as transportation, food and lodging, accounting, construction, legal, telecommunications, insurance, and more.

Development of the film industry gives Alaska businesses an opportunity to provide goods and services such as production equipment, office space, sound stages, and other facilities. Business opportunities will continue to expand as Alaska becomes a preferred location for filming.

Businesses with corporate income tax liabilities can learn about the opportunity to buy tax credits on the AFO web page *For Alaska Business* (<http://www.film.alaska.gov/business>). These businesses typically receive a savings of 10 to 20 percent on their tax obligations depending on their negotiations.

Certifying Internship and Training Programs

Although the AFO offers the crew and service provider listings as its primary resource for filmmakers to fill jobs, there remains a need to increase the numbers of qualified crew through film industry training. In the 2012 capital budget, the legislature appropriated \$486,000 to the Department of Labor and Workforce Development's Alaska Workforce Investment Board (AWIB) in partnership with DCCED, to provide crew and cast training grants through June 30, 2015. The AFO worked with AWIB on program design in 2011 and program implementation in 2012.

Through the Alaska Crew and Cast Advancement Program (AKCCAP), developed by DCCED and AWIB, the first round of competitive grants were made in 2012 to training providers for career and technical education to prepare Alaskans for demands, opportunities, and success in the film and television industry. Table 4 (found on the next page) provides a list of training providers and the training programs that received grant funding.

Additionally, Alaskans can apply to receive matching funds for individual training accounts (ITA) through the Alaska Job Center Network, which can be used for an individual certified training program.

The AFO continues to support the efforts of local school districts, the University, labor unions, private employers, and other private training providers to expand film industry training in Alaska.

Table 4: Alaska Crew and Cast Advancement Program Training Providers

Training Provider	Program
Talking Circle Media	Crew Academy of Alaska offers training on live sets, locations, and studio sound stages of film and television productions. Participants receive career counseling and job placement resources.
Alaska Crew Training (ACT I)	Production Boot Camp 101: Cast and Crew Training is a production overview for entry-level and mid-level positions through classroom and hands-on intensive crew trainings in rural and urban communities.
Alaska Crew Training (ACT I)	ACT I Week Intensive Level I and II Programs will prepare participants for entry-level, on-set opportunities in film and video production, including examining the knowledge and skills expected of a production assistant and teaching attendees to hold entry-level positions in the grip or electric departments.
IATSE Local 918 (International Alliance of Theatrical Stage Employees)	Professional film technician training including classes taught in Anchorage and Fairbanks with video streaming accessible to rural Alaska through the University of Alaska Anchorage. Classes will include fundamentals of filming, grip, electrics, safety, and set etiquette.
Affinityfilms, Inc.	Advanced training for script supervising for crew with experience in the film industry. Training focuses on film and commercial shoots in Alaska.
KPU Telecommunications (Ketchikan Public Utilities)	Southeast Alaska Film Training Consortium provides a web-based class for students to learn video production concepts. Emphasis will be on pre-production, camera operation, recording procedures, electronic field production, lighting, and audio.
University of Alaska Fairbanks, Film Program	Film Reel Alaska Mentoring Experience Phase II - Production & Post-Production provides three tiers of training to applicants in pre-production, production, and post-production using live film shoots to mentor students in all departments and positions on a small film set.

Legislative Audit

In 2012, the Division of Legislative Audit conducted an assessment of the program and delivered findings and recommendations in August 2012. Recommendations included:

- Strengthen qualified expenditure documentation requirements to ensure that tax credit calculations are adequately supported.
- Amend Program regulations to more clearly define Alaska residency and provide CPAs a more effective method of verifying expenditures claimed as resident wages.
- Strengthen procedures for collecting and reporting Alaska employment data to ensure reliable information is available for program evaluation.
- Develop film production training program certification procedures.

Public Record Requests

The program garners a significant level of public and media attention. The AFO works with the Department of Law (Law) to respond to Public Records Requests (PRR) from the media and private citizens.

Applications submitted to the AFO are subject to the Alaska Public Records Act. However, applicants may assert privacy or trade secret rights by labeling submitted information as confidential and providing a written justification for the claim. If an application falls under a PRR, these claims are considered by Law but may not preclude the records being released. Applicants will be notified prior to any public disclosure and they can seek other legal means to prevent the application from being made public. Applicants assert privacy or trade secret rights over disclosure of creative content prior to a production release, production budgets, information that places production companies at a competitive disadvantage in negotiating salaries, vendor payments and other fees, and production efficiencies that could be copied by competitors.

The AFO makes a standardized set of information available online. In addition to the Annual Report to the Legislature, all qualification applications, and final applications are available on the AFO public information page. The listings are updated when new projects are qualified or approved.

Alaska Film Office Personnel

The AFO is staffed by a development specialist who serves as Program lead and an administrative assistant for program support. The AFO is supported by the division director and development manager in pre-qualification reviews and in all other program work. Two other division employees, a development specialist and an accountant, assist in the final application review process. There is additional assistance from all of these individuals, Administrative Services, Procurement, and the Commissioner's Office.

The Department of Revenue assigns an auditor as lead for the Program. Additional staff resources are available to ensure continuity of service, if necessary.

Conclusion

Fiscal Year 2012 saw a continued maturation of the film industry and state's film incentive program.

- With the premier of Big Miracle on January 25 in Washington DC, January 29 in Anchorage, and February 3 nationwide, the State of Alaska and Alaskans had the first significant exposure of the impact of the film production incentive.
- DCCED made strides to improve its oversight of the tax credit review process, including adding rigorous CPA verification standards.
- The legislature created program certainty by establishing the tax credit incentive through 2023. The Legislature also created greater regulatory control and established the Film Review Commission presided over by four department commissioners.
- Workforce development progressed through the implementation of state grants that created or expanded seven training opportunities and availed funds for individual training.
- Promotion of Alaska as film production location continued with Alaska partners through media print, web services, and trade show participation.