

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 17, 2008

3:08 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Mark Neuman, Vice Chair
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Jay Ramras
Representative Robert L. "Bob" Buch
Representative Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 230(FIN) am
"An Act establishing the film office in the Department of
Commerce, Community, and Economic Development; creating a
transferable tax credit applicable to certain film production
expenditures incurred in the state; and providing for an
effective date."

- MOVED HCS CSSB 230(L&C) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 230

SHORT TITLE: FILM OFFICE/ FILM PRODUCTION TAX CREDIT

SPONSOR(s): SENATOR(s) ELLIS

01/16/08	(S)	READ THE FIRST TIME - REFERRALS
01/16/08	(S)	L&C, FIN
01/25/08	(S)	SPONSOR SUBSTITUTE INTRODUCED-REFERRALS
01/25/08	(S)	L&C, FIN
02/05/08	(S)	L&C AT 1:30 PM BELTZ 211
02/05/08	(S)	Heard & Held
02/05/08	(S)	MINUTE(L&C)
02/12/08	(S)	L&C AT 1:30 PM BELTZ 211
02/12/08	(S)	Heard & Held
02/12/08	(S)	MINUTE(L&C)
02/14/08	(S)	L&C AT 1:30 PM BELTZ 211

02/14/08 (S) Moved CSSB 230(L&C) Out of Committee
02/14/08 (S) MINUTE(L&C)
02/15/08 (S) L&C RPT CS 4DP 1NR SAME TITLE
02/15/08 (S) DP: ELLIS, DAVIS, STEVENS, HOFFMAN
02/15/08 (S) NR: BUNDE
02/22/08 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/22/08 (S) Heard & Held
02/22/08 (S) MINUTE(FIN)
02/28/08 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/28/08 (S) Moved CSSSB 230(FIN) Out of Committee
02/28/08 (S) MINUTE(FIN)
02/29/08 (S) FIN RPT CS 4DP 1NR NEW TITLE
02/29/08 (S) DP: STEDMAN, ELTON, THOMAS, HUGGINS
02/29/08 (S) NR: OLSON
03/05/08 (S) TRANSMITTED TO (H)
03/05/08 (S) VERSION: CSSSB 230(FIN) AM
03/10/08 (H) READ THE FIRST TIME - REFERRALS
03/10/08 (H) L&C, FIN
03/17/08 (H) L&C AT 3:00 PM BARNES 124

WITNESS REGISTER

SENATOR JOHNNY ELLIS

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions as the prime sponsor of SB 230.

MAX HENSLEY, Staff

to Senator Johnny Ellis
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 230 on behalf of the prime sponsor, Senator Johnny Ellis, and answered questions on SB 230.

BOB CROCKETT, Past President, Board Member

Alaska Film Group, Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 230.

KATE TESAR, Pro Bono lobbyist

Alaska Film Group
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 230.

MAYA FALGANER, Associate Professor

University of Alaska Fairbanks
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 230.

GORDON CARLSON
Cantwell, Alaska

POSITION STATEMENT: Testified in support of SB 230.

DAMA CHASLE, Production Executive
Los Angeles, California

POSITION STATEMENT: Testified in support of SB 230.

PAM FOREMAN
Kodiak, Alaska

POSITION STATEMENT: Testified in support of SB 230.

BRICE HABEGER
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 230.

ACTION NARRATIVE

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at [3:08:08 PM](#). Representatives Gatto, Gardner, Neuman, and Olson were present at the call to order. Representatives LeDoux, Ramras, and Buch arrived as the meeting was in progress.

SB 230-FILM OFFICE/ FILM PRODUCTION TAX CREDIT

[3:08:23 PM](#)

CHAIR OLSON announced that the only order of business would be CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 230(FIN) am, "An Act establishing the film office in the Department of Commerce, Community, and Economic Development; creating a transferable tax credit applicable to certain film production expenditures incurred in the state; and providing for an effective date."

SENATOR JOHNNY ELLIS, Alaska State Legislature, testifying as prime sponsor of SB 230 introduced his staff, Max Hensley. Senator Ellis stated that SB 230 would help provide incentives for the film industry to the benefit of Alaskans. This bill is an important step to diversify the economy, he said, noting that 45 states have active film offices, almost all with some type of incentive program. Of these, 12 states offer transferable tax credits and many others offer direct grants.

SENATOR ELLIS related some statistics that demonstrate other states' successes such as New Mexico, whose tax incentive enacted in 2001 initially spent \$1.5 million in expenditures. However, in 2007, the film industry spent \$476 million in New Mexico. Louisiana went from \$7 million in film spending in 2003 to \$350 million in 2006. These are states not normally thought of as great locations for the film industry, but with an active film office to answer the phones, to coordinate permits for this type of activity, and to assist in offering incentives, these states have been able to aid their local economies. The film industry offers communities lots of jobs and small business opportunities. Alaska has lost film opportunities in recent years such as 30 Days of Night, which was produced by Columbia Pictures and set in Barrow, but was filmed in New Zealand with a production budget of \$32 million. The Proposal produced by [Touchstone Films] features Sandra Bullock, set in Sitka, Alaska but filmed in Gloucester, Massachusetts. This film is currently in pre-production and is scheduled to be released in September 2009. He noted one upcoming film that he would hope could be filmed in Sitka is the The Yiddish Policemen's Union, written and directed by the Coen Brothers, based on a novel set in Sitka. It's a rare occasion when the film director has the authority to film in the authentic location, he noted. Sean Penn insisted on filming Into the Wild in Alaska and local people were hired and local businesses benefited, he opined. However, the producers examine their profits in the film decision making process.

[3:13:06 PM](#)

MAX HENSLEY, Staff to Senator Johnny Ellis, Alaska State Legislature, explained SB 230 on behalf of the prime sponsor, Senator Johnny Ellis. Mr. Hensley referred to proposed Section 1, which would authorize the Department of Commerce, Community, & Economic Development (DCCED) to cooperate with the Department of Revenue (DOR) to provide a transferable film production tax credit that must be used within 3 years of issue. He characterized the proposed Article 2, Section 2, as the bulk of the bill which outlines the duties of film office including provisions to promote Alaska as an appropriate location for film production, certify an internship program and provide an annual report to the legislature. He referred to page 3, which authorizes the film office to administer the film production incentive program, which set the minimum requirements for eligibility for productions, such that a production must spend a minimum of \$100,000 in qualified expenditures over 24 months and must receive approval by the film office. This bill disallows

news, weather, current events, internal corporate productions, local advertising, infomercials, obscene productions, and political advertisements from qualifying for the tax credits. He referred to the bottom of page 3, which outlines the qualifications for the transferable tax credit. He explained the process, including that a producer must first apply for the transferable tax credit and provide such items as the script or a synopsis of the production; must include the names of the producer, director, proposed cast, the estimated start, completion, and filming dates; and must provide other information the film office requires to determine eligibility for the transferable tax credit. If approved, the film office would issue the production company a preliminary certificate which would include an outline of the credits that the company could anticipate. He referred to page 4, to the provision that outlines the film production tax credit. He noted the transferable tax credit would consist of 30 percent of the qualified spending, plus a 10 percent bonus for expenditures for Alaskan payroll, and a 2 percent bonus for spending in rural areas, and an additional 2 percent for filming between October and May. He noted that prior to receiving any tax credit, the producer must submit to the film office a cost report that has been verified by an independent certified public accountant (CPA). He referred to pages 4-6, which lists the qualifying expenditures including preproduction, production, and postproduction spending that must be incurred in the state and on items used in the production. Some items not covered include such items as the cost for the CPA verification, cost for marketing or distribution of the film, or profit sharing costs.

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MR. HENSLEY, in response to Representative Gatto, answered that the exceptions include pornographic films so pornographic filmmakers would not qualify for the transferable tax credits.

[3:18:38 PM](#)

REPRESENTATIVE LEDOUX inquired as to what taxes would apply to a film company that was not based in Alaska, but is filmed in Alaska. In further response to Representative LeDoux, Senator Ellis answered that all the film companies set up limited liability corporations (LLCs) in order to benefit from the tax status. Several suggestions were made to amend SB 230 to initiate a tax on LLCs in order to capture revenues for the state treasury. However, he noted that initiating a tax would entail a major policy call with overarching ramifications for

future economic activity. He opined that he personally thinks that taxing LLCs would be a mistake, although the discussion could start with SB 230. The taxes that would be paid would accrue to the local areas of the state.

REPRESENTATIVE LEDOUX related her understanding that the bill would give film companies a credit to use to pay against local taxes.

MR. HENSLEY explained that the credit SB 230 would offer is a transferable tax credit, which is the most common mechanism used among the states that provide incentives for the film industry. That transferable tax credit would be applicable to corporate tax liability that could apply to a number of industries. The transferable tax credit would be issued to the film company based on its spending. In turn, the film company would sell the transferable tax credit through a broker or to a company that holds a corporate income tax liability, he offered.

REPRESENTATIVE LEDOUX inquired as to whether the film company could sell its tax credit to oil companies.

MR. HENSLEY answered it could do so or it could sell the transferable tax credit to the grocery store or a telecommunications company.

[3:22:12 PM](#)

SENATOR ELLIS pointed out that currently less than a billion dollars of corporate income tax is paid to the state treasury by a variety of corporations. He further noted his understanding that two of three major oil companies do not participate in transferable tax credits. If the concern entails some general discomfort with oil companies in Alaska, then it is helpful to know that two oil companies do not participate.

[3:22:55 PM](#)

REPRESENTATIVE RAMRAS inquired as to the process a company would use to apply for the transferable tax credit.

MR. HENSLEY pointed out that in all the other states that have introduced similar programs, brokers purchase the transferable tax credits from out of state film companies and market them to in state corporations interested in purchasing them.

REPRESENTATIVE RAMRAS related his understanding that brokers would earn a commission, buyers would obtain the transferable tax credit, and the private sector would enjoy the benefit from additional jobs. Representative Ramras also noted that he intends to offer an amendment later. He inquired as the allocation process when an actor, such as Sean Penn, shoot a 90 day film in Alaska, but 10 days were filmed in another location. He further inquired as to the cap on talent.

SENATOR ELLIS pointed out that SB 230 set a limitation in the bill on high paid talent at a level the other body agreed upon.

SENATOR ELLIS explained that the limitation adopted in the Senate Finance Committee capped a dollar amount on payments to the primary stars.

MR. HENSLEY referred to page 5, paragraph (10), which outlines the qualified expenditures for the total aggregate payroll for services performed in Alaska to clarify the types of allowable expenditures.

SENATOR ELLIS noted that if the limitation were removed, the primary star's salary would be subsumed into the overall payroll.

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REPRESENTATIVE RAMRAS stated he is a "big fan of this bill". He recalled the program The Deadliest Catch and inquired how the series would be handled under the bill, and whether the production cost would be allocated for a particular episode. He noted the \$30 million in production costs for a film such as Into the Wild. He further inquired that if \$5 million of \$30 million was spent in Alaska, what portion of that amount would be eligible for a tax credit.

SENATOR ELLIS asked to hold off on that specific question.

[3:29:42 PM](#)

REPRESENTATIVE NEUMAN expressed concern about the fiscal cost to state to create a tax credit when many good programs are not funded due to funding constraints.

SENATOR ELLIS agreed. He offered to work to help secure additional funding for foster children.

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REPRESENTATIVE NEUMAN inquired, with respect to the transferable tax credit, to clarify the interplay between the Department of Commerce (DCCED), Community, & Economic Development and the Department of Revenue (DOR).

SENATOR ELLIS answered that each department is responsible for different provisions of SB 230.

MR. HENSLEY explained that the film office would be created under the DCCED, which would evaluate and administer the incentive program. Once credits were issued, the transferable tax credit would be redeemed through DOR, and overall the departments would work in cooperation with one another.

SENATOR ELLIS, in response to Representative Neuman, answered that the Legislative Budget and Audit Committee (LB&A) would perform any audits. This bill also provides for a review of the incentive program in 5 years. He noted that either agency could audit its own internal functions, but that LB&A would audit the entire film office.

MR. HENSLEY added that the film office will provide the legislature with an annual report to inform it of the amount of transferable tax credits issued.

REPRESENTATIVE NEUMAN inquired as to what assurance there is that the departments would work together. He further inquired as to how the film office will promote film production in Alaska.

SENATOR ELLIS explained that the film office previously promoted filmmaking in Alaska prior to budget cuts. Currently the film office consists of a quarter time position. Thus, the film office would conduct its promotion through a variety of methods including responding to e-mails, answering the phone, developing or updating collateral materials, and conducting general promotion activity that most states perform.

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SENATOR ELLIS, in response to Representative Neuman, answered that under SB 230, he anticipates that the film office would perform outreach to people who scout locations and write scripts to entice film companies to produce films in Alaska. Opportunities exist to reach out to studios, primarily to

cinematographers, which is necessary since the state competes at a national or global level. Before anyone gets too concerned about the state subsidizing the film industry, he pointed out that the state subsidizes almost all major industries, which represents a state and private industry partnership to maximize the benefits to Alaskans.

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REPRESENTATIVE NEUMAN stressed that he would like to see the state expand its current industries. He noted the floundering dairy and wood industries in Alaska. He asked if local companies such as hotels could qualify for transferable tax credits. He further inquired why infomercials are disallowed.

MR. HENSLEY referred to page 3, lines 18-19, which disallows any advertisement infomercial, or any production that solicits funds, except for a commercial television advertisement produced for national distribution. In further response to Representative Neuman, Mr. Hensley answered that in order to qualify for national distribution, the advertisements would need to be shown nationwide, and advertising in one state other than Alaska would not likely qualify.

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REPRESENTATIVE NEUMAN referred to page 5, proposed paragraph (17), and stated the "other similar production expenditures" seems too broad.

SENATOR ELLIS answered that on page 5, proposed paragraph (17) is intended to capture all expenditures that the film office determines qualifies, or that should qualify, for the transferable tax credit. He said that he anticipates that the technology in the industry would continue to progress.

MR. HENSLEY further clarified that five years ago digital film editing did not occur. Thus, the language on page 3, proposed paragraph (17) would also encompass new technology.

SENATOR ELLIS offered that his approach has been aggressive, but reasonable with the goal of refining the bill to produce the best product in SB 230.

REPRESENTATIVE GATTO related his understanding that SB 230 would allow transferable tax credits that include an initial 30 percent transferable tax credit, with an additional 10 percent

for Alaskan wages paid, plus 2 percent credit for off season filming, and an additional 2 percent for rural hire. He asked if this ratio is competitive.

SENATOR ELLIS opined that the amount of the transferable tax credit is "right at his tolerance level," but he said he believes it is competitive. He offered that he initially thought that 20 to 25 percent seemed like enough, but after listening to other state's film offices throughout the country that 30 percent transferable tax credits to be competitive. He pointed out that SB 230 represents a competitive rate based on recommendations from industry analysts that cannot benefit from SB 230. He highlighted that the transferable tax credits are only provided if the economic benefit actually occurs.

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REPRESENTATIVE GATTO opined that a strategy to start high and reduce the rate if "five film companies are tripping over one another" seemed like a good strategy.

SENATOR ELLIS reiterated that the effectiveness of the film office would be reviewed.

REPRESENTATIVE GATTO posed a scenario in which a film is highly successful. He inquired as to whether the state would tax the profit.

SENATOR ELLIS answered that SB 230 does not contemplate a windfall profits tax, or a piece of the profit sharing with the industry. He pointed out that filming in Alaska would provide a means to show the national world the beauty of Alaska to enhance tourism, economic opportunities, and the many reasons that Alaskans live here. He surmised that it would probably not be well received by industry to institute a profit sharing tax and might be the tipping point against filming in Alaska.

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REPRESENTATIVE GATTO offered his encouragement for benefits to Alaska from SB 230. He pointed out that the program The Deadliest Catch showcased Alaska's fishermen and other series, such as one that highlights the toughest jobs could also demonstrate the effectiveness of the oil industry regulation in Alaska.

MR. HENSLEY referred to a news article, titled "TV show heats up king crab market" [by Margaret Bauman], Alaska Journal of Commerce, that credits a 17 percent increase in king crab sales to the program The Deadliest Catch. In fact, one major restaurant chain will add the name of the vessel, the "Time Bandit," to its menu. However, he noted that decisions are made annually to determine whether a program will continue to be aired.

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REPRESENTATIVE GARDNER referred to page 4, line 17, which read, "(3) an additional two percent of qualified expenditure made in the state between October 1 and March 30." She inquired as to the rationale for offering an incentive when often winter is a saleable commodity for Alaska.

SENATOR ELLIS answered that SB 230 attempts to offer incentives at a time when many communities go into economic slowdown. He also pointed out that many of the winter scenes can be filmed in British Columbia so an incentive is offered in order to be competitive.

REPRESENTATIVE GARDNER referred to proposed Section 44.33.232, and inquired as to the timing and clarification of the appropriations.

MR. HENSLEY explained that this section refers to appropriations to the DCCED for operating funds for administering the film office. He referred to the fiscal note of approximately \$300,000.

[3:52:31 PM](#)

REPRESENTATIVE BUCH, in response to an earlier question, noted that Article 2A refers to the duties of the film office, which includes directing the DCCED and DOR to work in cooperation with one another. He highlighted that the letters of reciprocation currently exist and that a letter of conveyance could foster the desired cooperation.

SENATOR ELLIS responded that the two departments have a history of working together so if more specificity is necessary, that it can be facilitated.

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REPRESENTATIVE LEDOUX inquired as to the reason that SB 230 would eliminate some productions from eligibility for the transferable tax credit listed in proposed Section 44.33.233 (b), such as those productions produced primarily for industrial, corporate, or institutional purposes, and advertisement infomercials.

MR. HENSLEY answered that some productions are excluded since programs such as news or weather cannot be filmed outside the state. Other programs that are for internal use are not paid for by the production companies. Instead, these programs are paid for by sponsors so an incentive is not needed. He highlighted that infomercials are paid by the companies that advertise the "extra sharp knife" to pay for the infomercial and that the advertising is not paid by the producer.

3:55:18 PM

REPRESENTATIVE LEDOUX inquired as to whether the distinction should be made to limit the type of filming. She suggested that another approach would be to offer incentives to anyone who came to Alaska to produce a film.

SENATOR ELLIS explained that the industry made a compelling argument during prior committee hearings in the Senate. He offered a willingness to consider changing the list of eligible productions and noted that SB 230 could be "tweaked."

MR. HENSLEY, in response to Representative LeDoux, explained that the bill excludes small productions so as not to inundate the film office since it will administer the applications. Thus, SB 230 limits eligibility to those projects that have \$100,000 or more in qualified expenditures. The limits help to discourage people from filming, "my Alaskan vacation." This bill's intent is to focus on incentives for worthwhile film projects in Alaska.

SENATOR ELLIS further emphasized that the small film office would not have time to spend on lots of applications. Thus, the minimum application amount tends to curb the projects that require time to process, but produce little economic benefit to the state.

MR. HENSLEY noted that the various costs of production will be highlighted in the upcoming presentation.

REPRESENTATIVE LEDOUX referred to page 3, paragraph (5), which excludes sexually explicit conduct. She noted that most regular programs advertise sexually explicit products and asked for clarification.

SENATOR ELLIS answered that SB 230 uses the national standard "as defined by 18 U.S.C. 2256." He further noted that this is the method used by other states to limit incentives to the pornographic film industry.

MR. HENSLEY offered to furnish a copy of the national standard to committee members.

The committee took an at-ease from 4:00 p.m. to 4:01 p.m.

[4:01:21 PM](#)

BOB CROCKETT, Past President; Board Member, Alaska Film Group, began his PowerPoint presentation by stating that the Alaska Film Group is a non-profit trade association with a diverse membership base that was formed in 1992 as a voice for the film and video industry of Alaska. The Alaska Film Group (AFG) advocates for the film industry in order to create economic opportunities and jobs for its members and Alaska's businesses. He opined that the State of Alaska's goals and the AFG's goals are the same - progress, productivity, and putting Alaskans to work.

KATE TESAR, Pro bono lobbyist, Alaska Film Group, stated that she is filling in today for someone who was unable to attend the hearing. She noted the packet contains letters of support from around the state. She assisted in highlighting SB 230 in the PowerPoint presentation. She read slide 3, labeled Senate Bill 230, and stated that SB 230 creates diversification of our economy, new private sector jobs, new training programs, jobs for interns, crew, and native Alaskans, along with an infusion of construction dollars - millions of dollars worth of [public relations], - opportunities in rural Alaska, and tax credits for corporations.

MS TESAR highlighted that SB 230 has drawn components from other states' programs such as Louisiana and New Mexico. She referred to the slide, "Who Benefits?" and read that films benefit wage earners, air service providers, catering companies, hotels, retailers, freight companies, maintenance firms, rental companies, security companies, and tourism businesses.

4:05:01 PM

MS. TESAR opined that Alaska is missing out since it is not competitive in the global film industry. She highlighted that 45 states currently have a film incentive program. She noted that film companies inquire first about any incentives that are and if there are none, the company is no longer interested in filming in Alaska. A film industry can impact all communities across Alaska and many will leave infrastructure behind such as sound studios, sound stages, and movie sets. She noted that the set for White Fang, filmed in Haines, Alaska continues to be a tourist attraction 10 years after production.

MR. CROCKETT explained that tax credit incentives process such that the production company applies for the transferable tax credit, the film office approves production, issues a preliminary certificate with estimated tax credit amounts, and the movie is filmed. The production company submits a spending report, verified by the DCCED and an independent certified public accountant (CPA). The film office and the DOR issue the transferable tax credit. The producer sells the credit to an Alaska corporate taxpayer, generally through a broker and the taxpayer redeems the transferable credit to offset corporate tax liability, which must be used within a 3 year timeframe.

MR. CROCKETT referred to page 4, labeled "Economic Impacts." He opined that Northern Exposure put Roslyn, Washington on the map. Early network promotions showed a sign that read, "Cicely, Alaska, population 839. The number was an inside joke that referred to the \$839,000 allotted for each episode, even though it was a low budget series, he offered. It cost over \$92 million to produce over its 4-year run. At an estimated "ground spend" of 75 percent, that put over \$69 million into Washington's economy.

4:06:55 PM

MS. TESAR offered that Canada has been Alaska's biggest competitor for film production locations. From 2001-2005, 142 features were produced in Canada. Canada has built an infrastructure around the film industry and at times has so many films booked for production that not enough crew can meet the demand, she opined. She noted that Canada is currently reviewing and considering increasing its tax incentives, since so many states compete for films. She offered examples of some films set in Alaska, such as The Guardian, that was set in Kodiak, was filmed for one week in Alaska, but the rest of the

film was shot in Louisiana and South Carolina due to the incentive program offered in Louisiana. In two years time, film jobs in Louisiana went from approximately 5,400 jobs to 13,445 jobs due to the increase in film expenditures, while film production rose from \$7 million to \$343 million. In 2007, she highlighted that Louisiana had 3 television series and 34 feature films filming in its state.

[4:08:26 PM](#)

MR. CROCKETT mentioned that The Deadliest Catch is currently in its third season and has a crew of 30, of which only 2 are Alaskans. The per season "ground spend" is \$3.7 million. He opined that Alaska missed out on Men in Trees with a "ground spend" of \$20 million per season but is currently shot in Vancouver, British Columbia. Another project that is upcoming series is America's Toughest Jobs, which is an NBC sponsored series. Features have the highest "ground spend" equating to approximately 75 percent of a film's total budget, he said. A recent feature Alaska lost was Thirty Days of Night, previously mentioned, set in Barrow, but shot in New Zealand with an estimated "ground spend" of \$37.5 million. He offered that these are the types of projects that SB 230 would target.

MS. TESAR referred to a slide labeled, "Welcome to Sitka, Massachusetts". She opined that without incentives, rebates, or tax credits that Alaska lost the filming of the Walt Disney Pictures film produced by Touchstone Pictures, The Proposal starring Sandra Bullock to Gloucester, Massachusetts. She highlighted that Massachusetts offers incentives, rebates, and tax credits, plus a coastline that resembles Alaska.

MR. CROCKETT referred to a slide called "Show Me the Money" which lists the economic impact per shooting day ranging from \$35,000 per day for low-end budget motion pictures to \$100,000 per day for high-end budget motion pictures. He said, "Feature films pay high union rates and commercials pay even higher."

[4:10:55 PM](#)

MS. TESAR stated that incentives attract films, which affect markets, which help build local infrastructure that employs Alaska's labor forces. She opined that affects the level of projects that would be attracted to film in the state. Alaska offers mystique, backdrops, and the basic crew, but Alaska does not have the incentives to bring in film productions. Alaska

receives calls from film producers that would like to film in Alaska, scripts are written, awaiting incentives.

[4:11:38 PM](#)

MR. CROCKETT referred to the slide labeled, "Passage of SSSB 230" and stated that this bill would create jobs, diversify the economy, stimulate tourism, build infrastructure and support services, provide opportunities for rural Alaska, develop educational and internship programs, and would also provide transferable tax credits for Alaska's corporations.

MS. TESAR concluded with remarks that goals shared by AFG and the state include progress, productivity, and putting Alaskans to work. She opined that SB 230 will do that. She urged committee member's support for SB 230.

[4:12:13 PM](#)

REPRESENTATIVE LEDOUX offered her support for SB 230. She related her understanding that the film, The Guardian was weathered out in Kodiak, and that the film moved not due just to a lack of a tax incentive.

MR. CROCKETT agreed that there were weather problems. However, he noted that he met with the Vice-President of physical production who stated that if a Alaska had tax incentives, he would have fought to have the film continue filming in Alaska.

[4:14:15 PM](#)

MR. CROCKETT, in response to Representative LeDoux, answered that only two technical crew members participate in filming The Deadliest Catch. In further response to Representative LeDoux answered that this bill would offer incentives for local hire.

[4:16:36 PM](#)

The committee took an at-ease from 4:16 p.m. to 4:18 p.m.

[4:18:17 PM](#)

REPRESENTATIVE NEUMAN made a motion to adopt Amendment 1 as follows:

Page 4, line 21, following "accountant":
Insert "selected by the film office"

REPRESENTATIVE NEUMAN explained that since the expenditures would be verified by an independent certified public accountant (CPA) under the bill, Amendment 1 would add more credibility as the CPA firm would be selected by the film office instead of the film producers.

[4:18:54 PM](#)

SENATOR ELLIS offered his support for Amendment 1.

REPRESENTATIVE GATTO inquired as to whether the sponsor had a preference for "approved" over "selected."

SENATOR ELLIS offered his neutrality, but suggested he could consult with legislative bill drafter and Alaska Film Group to see which term would be best. He offered that the intent is positive.

[4:19:55 PM](#)

CHAIR OLSON asked if there were any objections to adopt Amendment 1.

REPRESENTATIVE GATTO objected.

Representative Gatto made a motion to conceptually amend Amendment 1, as follows:

On page 4, line 21, following "accountant":
Delete "selected"
Insert "approved"

[4:20:28 PM](#)

CHAIR OLSON stated that the Conceptual Amendment to Amendment 1 would appear to limit the film office.

REPRESENTATIVE GARDNER noted that adding "approved" does not preclude selection, so she offered that adding "approved" would expand and not limit the film office's decisions.

REPRESENTATIVE LEDOUX opined that adding the approval process suggests that the film office must have some reason to support its decision, which she thought would limit the film office's discretion, whereas if the selection is made by the film office, it would have total discretion in the matter.

REPRESENTATIVE NEUMAN if the film office [approves] the accounting firm instead of selecting it, the film producer could select the firm, whereas the film office represents the state and should have control over the firm selected.

REPRESENTATIVE RAMRAS inquired as to whether the amendment to the amendment is before the committee.

[4:23:12 PM](#)

A roll call vote was taken. Representatives Gatto and Gardner voted in favor of the amendment to Amendment 1. Representatives Neuman, LeDoux, Ramras, Buch, and Olson voted against it. Therefore, the amendment to Amendment 1 failed by a vote of 2-5.

CHAIR OLSON announced that the amendment to Amendment 1 failed. Amendment 1 is now before the committee.

There being no objection, Amendment 1 was adopted.

[4:23:32 PM](#)

The committee took an at-ease from 4:23 p.m. to 4:24 p.m.

[4:24:15 PM](#)

REPRESENTATIVE RAMRAS prefaced his motion to adopt Amendment 2, with a comment that he has a modest conflict of interest since Fairbanks has hosted film actor Sean Penn and has participated in the economic cycle described.

REPRESENTATIVE RAMRAS made a motion to adopt Amendment 2, which read:

Page 6, line 10:
Delete ";"
Insert "."

Page 6, lines 11 - 12:
Delete all material.

[4:25:09 PM](#)

REPRESENTATIVE GARDNER objected.

[4:25:15 PM](#)

REPRESENTATIVE RAMRAS cautioned that the film office might take all the steps described, but could find that a significant amount of credit was excluded since the payroll costs for stars would not be included. He asked for clarification. He noted that in the travel industry the most valuable words uttered are, "I've been there." Many movie and television productions echo that since people see series like Men in Trees and say, "I'm going there." He expressed his interest in moving forward with SB 230.

SENATOR ELLIS noted that the limitation on tax incentive on high wage talent was language adopted by the Senate Finance Committee. He agreed with Ramras that without the limitation, that the state would be more competitive. He suggested that he would be amenable to the committee's decision on whether to limit the incentives on high wage talent.

REPRESENTATIVE NEUMAN expressed concern that the state could be liable for 30 percent of the wages for stars such as Sean Penn, including future royalties.

MS. TESAR answered that Representative Neuman is partially correct, that the transferable tax credit would apply to the portion of the salary paid while the talent is in production in Alaska. She noted that illustrates the importance of the process with the CPA firm to closely monitor the Alaskan portion.

MR. CROCKETT, in response to Representative Neuman, agreed that the transferable tax credit for a production would be prorated and no future royalties are paid. In further response to Representative Neuman, Mr. Crockett answered that the cap is set at \$2 million.

[4:31:40 PM](#)

REPRESENTATIVE RAMRAS explained Amendment 2 is being offered to maximize the potential of attracting feature films that have big name actors since the feature film production costs are sometimes in the \$100 million range, while some series have production costs much lower such as The Deadliest Catch, which cost \$3.7 million for the total production. Thus, the state would benefit more if it can attract films featuring actors such as Kevin Costner.

MS. TESAR related that after SB 230 passed the Senate that feedback from the industry was that the amendment capping the compensation and wages in excess of \$2,000,000 per actor created a large problem with the legislation. Other states that are competitive do not have a cap considering the types of films the state wants to attract. Since SB 230 would create more jobs and a new industry in the state, Ms. Tesar argued against the restriction. She further noted that SB 230 requires an annual report to the legislature with a 5 year sunset on the bill.

[4:34:18 PM](#)

REPRESENTATIVE GARDNER removed her objection.

There being no further objection, Amendment 2 was adopted.

REPRESENTATIVE NEUMAN referred to the fiscal note number [3], and read that "Alaska's credit will therefore be one of the most generous in the nation in terms of the percent of qualified production expenditures."

[4:36:05 PM](#)

SENATOR ELLIS, in response to Representative LeDoux, answered that LLCs are not subject to state taxes.

REPRESENTATIVE RAMRAS clarified that he holds several corporations for his businesses that are not subject to state income tax. He further explained that "C" Corporations enjoy certain benefits through the federal tax code. He offered that his company does pay a fee to organize the corporation.

SENATOR ELLIS noted that the cruise ships are organized elsewhere.

[4:37:36 PM](#)

MAYA FALGANEK, Associate Professor, University of Alaska Fairbanks, stated that she is a professor of film studies and media. She also stated that she is the chair of the Digital Cinema Curriculum Committee. She related that she helps to guide upcoming directors, cinematographers, and animators towards their vision and future career in the entertainment industry. She noted that most of her students are talented Alaskans who prefer to work in Alaska. She offered that she has observed first hand how the film industry impacted her home town and the rural communities during 5 years as a native of New

Mexico. She mentioned that during the past two weeks she has been contacted by the United Nations, interested in filming in rural Alaska; by the Discovery Channel, interested in filming a statewide series called Alaska Week, and by an international crew at the World Ice Art Championships. She also has been offered an opportunity to co-produce a feature film which would feature the World Eskimo Indian-Olympics in a fictitious comedy. She explained that she has received the telephone calls since her name is listed on film office in Alaska. She opined that people first contact the film office for information. While she realizes that the productions she mentions are small productions ranging from \$500,000 to \$1 million, she argued that considering the small cost of funding the film office would be repaid with one film. She further opined that SB 230 would be the key to unlock larger productions with multi million dollar budgets. She related that Alaska's beauty is an export commodity, which is a commodity Alaska can share with the world through its films. She said she thinks that it is necessary to facilitate the industry's growth and provide local training. She related that UAF has a committed group of faculty and staff ready to provide training opportunities to students to help ensure the jobs will be given to Alaskans.

[4:41:04 PM](#)

GORDON CARLSON stated he and his wife, Rachel, reside in Cantwell, Alaska and own a small construction company, CLI Construction located in the Denali Borough. He encourages the committee to vote in support of SB 230. Many movies made outside Alaska and Alaska needs to compete. This bill would boost the state's economy and would offer a visual education of what Alaska really looks like. Alaska tourism industry would benefit greatly from this. His experience is that the film Into the Wild brought \$3 to \$4 million in ground spend to the Denali Borough, let alone the little community of Cantwell. The film affected his small construction company, businesses, hotels, restaurants, carpenters, and laborers, as well as car rental agencies in Anchorage and Fairbanks. He noted that the timing of the April filming offered a boost to the start of the construction and tourism industry. He also opined that films shot in Alaska will encourage visitors to the state to see the film's location. He said that "passage of SB 230 would be an asset to our state."

[4:42:50 PM](#)

DAMA CHASLE, Production Executive, stated that she is a production executive in Los Angeles who has also been an advisor on film legislation in other states. She related that most of the films that depict Alaska have been shot in Canada. She explained that when the business of film lands in a state it is a job incubator. She noted that one of the by products of large films like The Guardian are the "leave behinds" which in this instance went to Shreveport, Louisiana such as a wave tank. She noted that Mr. Costner bought a home in Louisiana, which goes beyond, "I've been there" to "I'll stay there". She noted that "hustle and bustle" happens when actors and major motion picture stars are in a town. She asked, "Who doesn't want to sit on the bench where Forrest Gump sat?" She suggested that SB 230 not be limited by talent cap, at least until the industry becomes a sustainable industry. She pointed out that local businesses benefit such as lumberyards, hotels, apartments, casting agencies, equipment rental, banks, and real estate offices fill up when a production comes to town. She noted that cast and crew spend their salary and per diem where they make it. She said she has seen success stories such as Shreveport, Louisiana becoming multi-million dollar leaders for the state. Louisiana is now number 3 in film production behind California, and New York, followed by New Mexico. Alaska has a chance to be part of the industry. She offered that the state could have digital companies to provide year round training, to help prevent youth from migrating to the Lower-48. She surmised that the state would not just have one or two small reality shows, but the real Men in Trees, or the project that the Coen brothers would like to make in Alaska. She offered that if it is economically prudent for the studios, who are ultimately the decision makers for film or series location. In response to earlier testimony, Ms. Chasle cautioned against being involved in profit and loss sharing with producers, since the state would also share in any losses the producer experienced. She also highlighted that the production companies would be eligible for the transferable tax credits. But that the talent, the expensive leads, are not eligible for transferable tax credits. She said, "I will end on this note, from a favorite movie of mine Field of Dreams, a little change, if you build it they will come, my sense is, if you build this business in Alaska, they will stay."

[4:48:46 PM](#)

PAM FOREMAN stated that she would like to speak in favor of SB 230. This bill would allow Alaska an opportunity to participate in this multi-million dollar film industry. She surmised that currently the film industry in Alaska is severely hampered by

the lack of a program. She offered that from 1988 to 2007 she served as the director of the Kodiak Island Convention and Visitor's Bureau. With the lack of a state film office, the local convention and visitor's bureaus often stepped in to act as a community's film office. In 2003, she worked with John Markel, who is a location scout located in Girdwood, Alaska. She offered that Mr. Markel was scouting for a location for The Guardian and Kodiak was being considered since the film was about a rescue swimmer stationed at a U.S. Coast Guard station in Kodiak. The majority of the film was shot in Shreveport, Louisiana and Elizabeth City, North Carolina. She explained by the time Kodiak had weather problems, the majority of the film had moved to Shreveport due to the lack of tax incentive program. She urged support of SB 230.

[4:51:17 PM](#)

BRICE HABEGER stated he is a resident of Alaska, but has spent the last five years in Chicago in a film studies program. He graduated in December with a degree in film studies. He offered that he can shoot, edit, and perform most production tasks. He surmised that Alaskans are qualified. He hopes that his future in film industry will be in Southeast Alaska. He surmised that the tax incentive program could create jobs for people like him.

[4:52:46 PM](#)

REPRESENTATIVE BUCH inquired as to whether Mr. Habeger could have studied film in Alaska.

MR. Habeger answered that the UAF offers a digital studies program, which is a small scale program compared to the Chicago program, which also offered opportunities and access to film productions being shot on location in Chicago, studio equipment, cameras, professionally run sets. He opined that it was a personal choice that best suited his needs.

[4:53:49 PM](#)

REPRESENTATIVE RAMRAS offered that this bill offers the opportunity to get young people involved in Alaska and to showcase the state.

[4:55:54 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on SB 230.

[4:56:09 PM](#)

SENATOR ELLIS, in response to Representative Neuman, answered that the film industry would cover the costs of the independent audit.

REPRESENTATIVE GATTO posed a scenario in which a person could become an independent filmmaker just to earn the transferable tax credit, even though the person simply took a vacation in Alaska. The person would create a film and apply for the transferable tax credit to cover costs of his/her vacation.

MR. HENSLEY referred to page 3, and noted that the eligibility section establishes that the film office would approve productions and would not approve an incentive for the type of film mentioned in the scenario.

MR. HENSLEY, in response to Representative Neuman, referred to page 6, paragraph 2, excludes postproduction expenditures for marketing and distribution the transferable tax credit.

[4:59:43 PM](#)

REPRESENTATIVE RAMRAS expressed his support for SB 230. He related that several stars from the film, Ice Age, even though it was animated film, visited Fairbanks, Alaska. This represented an opportunity to showcase winter tourism in Alaska while promoting a high budget film, he noted.

[5:02:02 PM](#)

REPRESENTATIVE GARDNER moved to report CSSSSB 230(FIN) am, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HCS CSSB 230(L&C) was reported from the House Labor and Commerce Standing Committee.

[5:02:35 PM](#)

ADJOURNMENT

There being no further business before the committee, the meeting was adjourned at 5:02 p.m.