

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM
February 10, 2011
10:15 a.m.

MEMBERS PRESENT

Representative Bob Herron, Chair
Representative Neal Foster
Representative Wes Keller
Representative Cathy Engstrom Munoz
Representative Steve Thompson
Representative Berta Gardner
Representative Chris Tuck

MEMBERS ABSENT

Representative Kurt Olson, Vice Chair
Representative Peggy Wilson

OTHER LEGISLATORS PRESENT

Representative Kyle Johansen

COMMITTEE CALENDAR

HOUSE BILL NO. 67

"An Act relating to transferable film production tax credits; and providing for an effective date by amending the effective dates of secs. 3 and 4, ch. 63, SLA 2008."

- OVERVIEW: ALASKA FILM OFFICE BY WANETTA AYERS, DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT

- PRESENTATION(S): ALASKA FILM TAX INCENTIVE - CASE STUDY

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 67

SHORT TITLE: FILM PRODUCTION TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) TUCK, HERRON

01/18/11 (H) PREFILE RELEASED 1/7/11
01/18/11 (H) READ THE FIRST TIME - REFERRALS

01/18/11 (H) L&C, FIN
01/26/11 (H) EDT REFERRAL ADDED BEFORE L&C
02/10/11 (H) EDT AT 10:15 AM BARNES 124

WITNESS REGISTER

ROB EARL, Staff
Representative Bob Herron
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided background information and a sectional analysis of HB 67 on behalf of Representative Herron, co-prime sponsor.

Wanettta Ayers, Director
Anchorage Office
Division of Economic Development
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the Alaska Film Office (AFO) and its activities.

CURTIS THAYER, Deputy Commissioner
Office of the Commissioner
Department of Commerce, Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Answered questions during the overview of the Alaska Film Office (AFO).

RALPH SAMUELS, Vice-President
Government & Community Relations
Holland America Line
Anchorage, Alaska

POSITION STATEMENT: As a guest of the committee, spoke on his experience as a legislator and on the subject of tourism.

ACTION NARRATIVE

10:15:25 AM

CHAIR BOB HERRON called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 10:15 a.m. Present at the call to order were Representatives Herron and Gardner. Representatives Munoz, Foster, Thompson, Tuck, and Keller arrived as the meeting was in progress. Representative Johansen was also present.

[10:15:32 AM](#)

CO-CHAIR HERRON recessed the meeting.

[Although not previously stated, the meeting was recessed to a call of the chair.]

[10:15:46 AM](#)

CO-CHAIR HERRON brought the meeting back to order at 10:17 a.m. Present at the call back to order were Representatives Herron, Foster, Thompson, Gardner, Tuck, and Keller.

HB 67-FILM PRODUCTION TAX CREDIT
**OVERVIEW(s): ALASKA FILM OFFICE; ALASKA FILM TAX INCENTIVE -
CASE STUDY**

[10:18:14 AM](#)

CHAIR HERRON announced that the first order of business would be HOUSE BILL NO. 67, "An Act relating to transferable film production tax credits; and providing for an effective date by amending the effective dates of secs. 3 and 4, ch. 63, SLA 2008."

[10:18:30 AM](#)

CO-CHAIR HERRON noted that the bill's co-prime sponsors are Representative Tuck and himself, and that the intent of the chair is to move the bill out of committee on 2/17/11.

[10:20:27 AM](#)

REPRESENTATIVE CHRIS TUCK, Alaska State Legislature, Juneau, Alaska, introduced proposed HB 67, as co-prime sponsor. He informed the committee the bill extends tax incentive credits for the film industry. The film industry is an important step in the diversification of Alaska's economy, and the Alaska Film Incentive Program enacted in 2008, is largely responsible for the recent growth of this industry. The bill will extend the tax credits that have played a major role in the success of Alaska's film industry and continuing interest in filming large-scale productions in Alaska brings opportunities to Alaska businesses and workers. From the time of the first tax credits in 2008, 15 productions have received tax credits and 910 film production days in Alaska resulted in a total "Alaska spend" of \$14,910,810. As of January 2011, there are 28 film productions

prequalified for the Alaska Film Incentive Program; the projected Alaska spend for these productions totals \$83,805,000, which brings the total projected boost to Alaska's economy to over \$100,000,000. Representative Tuck concluded that proposed HB 67 will extend the sunset on this program for an additional 10 years, and assure the film industry that Alaska is open for business.

10:23:16 AM

ROB EARL, staff, Representative Bob Herron, Alaska State Legislature, said that with support from Alaska businesses, the legislature created the Alaska Film Office and the Alaska Film Production Incentive Program in 2008 to encourage growth of the film industry in Alaska. Credits are structured to encourage film productions all across the state, and to put Alaskans to work year-around. Mr. Earl explained that the existing program contains a sunset after five years, or after \$100 million in credits are issued. Currently, the program offers a transferrable tax credit of 30 percent of qualified spending, an additional 10 percent for Alaska-hire, 2 percent for shooting in rural Alaska, and 2 percent for working during the winter months. Furthermore, eligible productions can sell tax credits to any company with a corporate tax liability, thereby offering tax relief. Tax credits are issued only after filming is complete and an independently-owned Alaska-certified public accountant (CPA) has verified Alaska expenditures. Mr. Earl restated the tax credit schedule and pointed out that the average tax credit was about 32.5 percent, and the highest was about 37.5 percent. The bill proposes to extend the tax credits for ten years past the existing sunset date of 7/1/13, to 7/1/23, and to continue the funding level at \$100 million for each five-year period. He then highlighted portions of the sectional analysis: Section 1 authorizes \$200 million in tax credits over ten years, limiting the amount of tax credits in the first five years to \$100,000, to ensure that \$100,000 will be available in each five-year period; Section 2 changes the qualifying period from 24 months to 36 months, in order to accommodate larger productions; Section 3 sets in statute protection of a production company's commercially valuable information; Section 4 adds the transfer of digital media to tape or film to the list of qualifying expenditures; Section 5 updates statutory references to match the program extension date; Section 6 requires the commissioner of revenue to report tax credits equal to \$200 million; Section 7 extends the program for 10 years past the scheduled sunset date, unless the ceiling

is reached before then; Section 8 updates the audit and recovery language in the bill.

[10:29:09 AM](#)

REPRESENTATIVE MUNOZ asked how the tax credits are brokered to prospective companies.

[10:29:33 AM](#)

REPRESENTATIVE TUCK advised that most are brokered through financial institutions, although some are pre-sold and others are matched up with companies that have a high corporate tax liability with the state. In further response to Representative Munoz, he said Alaska is pretty competitive with other states such as Louisiana, which has a similar program except that it guarantees the sale of the tax credits.

[10:30:49 AM](#)

REPRESENTATIVE GARDNER asked how close the program is to the current limit of \$100,000, and for a timeline of the claims.

[10:31:12 AM](#)

REPRESENTATIVE TUCK advised qualified tax credits of about \$15 million, plus the projected amount of \$83 million, puts the program very close to its limit.

[10:31:43 AM](#)

CO-CHAIR HERRON observed Southcentral is a very desirable location for film production. He questioned whether a 2 percent tax credit for filming in rural locations is "the best we can do."

[10:32:24 AM](#)

REPRESENTATIVE TUCK warned about the public's perception of granting "such a huge tax break." However, because of the high cost of fuel, transportation, and other challenges to filming in rural areas, he agreed that 2 percent may not be enough. He discussed two movie productions that were filmed in Barrow.

[10:33:30 AM](#)

REPRESENTATIVE GARDNER recalled that the list of qualified expenses allowed by the original legislation limited film stars' salaries. She asked whether there are in-state expenses that are not deductible.

[10:34:02 AM](#)

REPRESENTATIVE TUCK noted that the industry divides costs "above the line and below the line." He explained that below the line expenses are for production people and actors, and above the line expenses are for producers, writers, and directors. The state grants tax credits for salaries above and below the line, with an additional 10 percent for Alaska hire. He deferred to the film office for more specifics.

[10:34:42 AM](#)

REPRESENTATIVE GARDNER surmised any money spent in Alaska is a qualified expense with the possible exception of a portion of salaries for "big stars."

[10:35:01 AM](#)

REPRESENTATIVE TUCK said correct. He added that an Alaska-based CPA firm must verify the expenses.

[10:35:07 AM](#)

REPRESENTATIVE FOSTER observed the 2 percent added tax credit for film production in a rural area is a good incentive, and could be expanded. The production of a film would have a positive impact on jobs in villages that are at the poverty line.

[10:35:53 AM](#)

CHAIR HERRON opined it is important to think of workforce development in this industry, and strive to supply Alaskan workers at all technical levels.

[10:36:17 AM](#)

REPRESENTATIVE TUCK also encouraged local and rural communities to use this opportunity to develop their own productions about their communities. He then pointed out the qualified expenditures are listed in section 4 of the proposed bill, and in regulations.

10:37:06 AM

WANETTITA AYERS, Director, Anchorage Office, Division of Economic Development, Department of Commerce, Community & Economic Development (DCCED), informed the committee the Alaska Film Office (AFO) is located in the Anchorage office of the Division of Economic Development, DCCED. She stated that the 2008 statutory authority establishing AFO tasked the office with the following five actions: co-administer the Alaska Film Production Incentive Program with the Department of Revenue (DOR); cooperate with the private sector in the development of the film industry; promote Alaska as a film location; provide assistance to the private sector during filming activities; address workforce development issues. Currently, some of AFO's activities are: collaboration with the private sector through its website, www.film.alaska.gov, which contains information on the incentive program, details on filming in Alaska, and links to specialized databases; engagement with industry organizations, trade associations, and allied groups in the film industry; promotion of Alaska as a film location through speaking engagements, exchanging ideas with targeted contacts, and fielding daily inquiries. Ms. Ayers provided an example of display advertising that was a brochure placed in industry magazines and directories such as *Director's Guild of America Quarterly* and *Monthly, Produced By*, and *Locations Magazine*. Although the website is the primary vehicle for the promotion of Alaska as a filming location, the film office also makes contacts through trade shows and other marketplaces by providing information, conducting follow-up activities, and providing a "leave-behind" piece on filming in Alaska. In terms of providing assistance, Ms. Ayers stated that AFO and DCCED staff respond to inquiries about filming in Alaska on a daily basis; conduct follow-up and outreach after the initial contact is made; meet regularly with producers and provide introductions to state and local contacts; explain the incentive program and assist producers with the application process; provide alternatives and creative solutions to production challenges; work with Alaska businesses, community representatives, and other stakeholders about how to serve the industry.

10:43:24 AM

MS. AYERS turned attention to workforce development and relayed in order to develop a skilled film industry workforce AFO is working with a variety of organizations including: the Department of Labor & Workforce Development (DLWFD) on

apprenticeships for technical careers in the film industry; the University of Alaska (UA) on academic programs that are recognized by the film industry; private sector businesses on ways to provide on-the-job training; youth training programs through school districts; rural outreach efforts to support productions filmed in rural areas; skilled trade union training on industry standards.

[10:44:18 AM](#)

REPRESENTATIVE GARDNER asked about the source of funding for the workforce development programs.

[10:44:24 AM](#)

MS. AYERS responded that the programs are in the very early stages of development; in fact, some may begin with existing funding from the agencies and institutions that are involved. She acknowledged that these programs would not be funded through AFO, but noted that related agencies in other states regard workforce development as an important aspect of attracting the film industry.

[10:45:35 AM](#)

REPRESENTATIVE FOSTER asked for examples of applicable apprenticeships.

[10:46:15 AM](#)

MS. AYERS said the best example is that the film industry requires skilled electricians who understand the specific needs of the film industry; further examples are forthcoming from DLWFD. She then provided a slide that illustrated the process to pre-qualify for the Alaska Film Production Incentive Program. The pre-qualification process involves: evaluation; pre-qualification approval; production phase; audit of production costs; application for tax credits; review and approval of tax credits; movement of approved applications to DOR; issuance of the tax credit certificate. Over the last three fiscal years forty-five applications for pre-qualification have been submitted and forty-four were approved. There have been fourteen tax credit applications and all have been approved. The total for pre-qualified tax credit applications at this date is approximately \$34.5 million, and the total for approved tax credits is \$4.8 million. Ms. Ayers turned attention to staffing and budget, and stated that AFO is staffed by 1.5 full-time

positions with additional support from DCCED officials. The operating budget for Fiscal Year 2011 (FY 11) is \$283,000 in direct program costs, additional support costs of an undetermined amount, and unallocated overhead costs of \$27,800, for a total of \$310,800.

[10:50:53 AM](#)

CHAIR HERRON asked how often the website is refreshed.

[10:51:07 AM](#)

MS. AYERS assured the committee the website is updated regularly by a skilled website manager; in fact, the website will migrate to the new state website development program soon.

[10:51:55 AM](#)

CHAIR HERRON asked to be notified of that change. He then asked whether television productions qualify.

[10:52:29 AM](#)

MS. AYERS said television productions qualify for the incentive program, however, a television production may not achieve the "minimum spend." In further response to Chair Herron, she said the website includes guidelines for television productions.

[10:52:36 AM](#)

CHAIR HERRON asked for a description of AFO's outreach methods.

[10:53:24 AM](#)

CURTIS THAYER, Deputy Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development, said he consulted with the commissioner of DCCED and they determined that the film office is one of the department's programs worthy of emphasis. Mr. Thayer noted that AFO is growing, and has potential for more growth; in fact, representatives from the commissioner's office have met on a regular basis with production companies in Anchorage, and have traveled to Los Angeles on an outreach trip to contact producers looking at filming in Alaska. He described past movie productions in Anchorage and Barrow and said there are three productions currently considering filming in Alaska because of the tax incentive program and its longevity. Although Alaska's lack a

sound stage limits some filming, there is a possibility that the private sector will build a sound stage in Southcentral, even though that project will not qualify for tax credit incentives. Mr. Thayer concluded that outreach by the film office includes meeting with production companies, but not "wining and dining."

[10:55:42 AM](#)

CHAIR HERRON asked whether the film industry collaborates with other industries.

[10:56:02 AM](#)

MR. THAYER indicated yes. He explained that DCCED wants to see AFO working with the Alaska Travel Industry Association (ATIA), and the Alaska Seafood Marketing Institute (ASMI). For example, the film office is providing to film scouts scenic footage of Alaska locations produced from advertising funded by the legislature through ATIA. He said, "Where the state has spent money in one hand, supporting tourism, we have been able to utilize that and turn that into site locations for the film office, at no additional cost to the state."

[10:56:57 AM](#)

MS. AYERS recognized the residual benefits of the images of Alaska that are broadcast in film and television, thereby holding value for other industries such as tourism and fishing. In response to Chair Herron, she opined AFO will not exceed the proposed \$200 million funding limit; furthermore, proposed HB 67 provides a level of certainty that will stimulate the needed private sector investment in order to strengthen the industry's infrastructure in Alaska, and to provide a trained workforce.

[10:58:20 AM](#)

REPRESENTATIVE TUCK corrected his response to Representative Gardner and said that \$4.9 million in tax credits have been granted thus far, and it is projected that an additional \$10 million will be granted. Therefore the program is not close to reaching its limit of \$100 million on the amount of tax credits allowed, but almost \$100 million has been spent in Alaska.

[10:58:57 AM](#)

REPRESENTATIVE FOSTER re-stated that the construction of a sound stage would not be a qualified expenditure, and asked whether the committee should examine how to spur this type of activity.

[10:59:31 AM](#)

MS. AYERS observed that there are other states that have included the construction of a sound stage into their film development program. She opined that the extensions and modifications in proposed HB 67 will assure the private sector that an investment in film industry infrastructure is worth making.

[11:00:12 AM](#)

REPRESENTATIVE FOSTER requested information on other states' actions "to incentivize infrastructure."

[11:00:42 AM](#)

MR. THAYER cautioned that a sound stage is a unique structure of 10,000-15,000 square feet, requiring 40-foot ceilings, with no posts, and sited on 10 acres of land. He advised that there are no existing buildings like that in Alaska.

[11:01:42 AM](#)

CHAIR HERRON inquired as to whether the administration supports the proposed legislation.

[11:02:07 AM](#)

MR. THAYER said the governor introduced the legislation in its original form. In further response to Chair Herron, he confirmed that the governor supports the legislation in its current form on 2/10/11.

[HB 67 was heard and held.]

[11:02:52 AM](#)

CHAIR HERRON introduced former legislator Ralph Samuels.

[11:03:56 AM](#)

RALPH SAMUELS, Vice-President, Government & Community Relations, Holland America Line, recalled that his six years as a legislator "was the experience of a lifetime." He advised members of the committee to take a long-term economic view on matters of state policy.

[11:07:03 AM](#)

CHAIR HERRON asked for a preview of Mr. Samuels's presentation at the "Lunch and Learn."

[11:07:15 AM](#)

MR. SAMUELS said his presentation will focus on tourism as a whole, and how the various facets of tourism fit together in Alaska. He displayed a map of the most common cruise routes from Seattle to Seward, and explained that there are two separate cruise markets: "gulf sailings" and Southeast. Sailings along the Southeast corridor are primarily from Seattle or Vancouver and there is vigorous competition between the cruise agencies for customers interested in this route. The gulf sailings cross the Gulf of Alaska to Seward or Whittier, and bring in tourists who support the visitor industry in Anchorage, Kenai, Fairbanks, and Denali. The demographics and offerings are different for each of these itineraries, and transferring a cruise ship to another area means "taking it from somebody else." He pointed out that cruise ship passengers have many options to choose from if they are not pleased with a trip or a destination. In Southeast, residents are more aware of the presence of cruise ships than are Anchorage residents; however, 60 percent of the visitors to Alaska began their trip on a cruise ship and 25 percent of independent travelers previously visited on a cruise. This adds up to 70 percent of visitors associated with the cruise industry. Mr. Samuels noted that "everybody flies" to Hawaii, and cruise visitors represent only 4-5 percent of the tourism industry. In Alaska, however, the return of one ship for the 2012 season will be equal to three full planeloads of tourists per day for 100 days; in fact, there is no other way to bring in the volume of tourists needed to support the tourism industry.

[11:13:44 AM](#)

CHAIR HERRON asked whether proposed HB 67, through its support for reality television shows and other media, helps the cruise business.

[11:14:00 AM](#)

MR. SAMUELS expressed no opinion on the bill, but acknowledged that Alaska's repeated exposure to the American public is good. He stressed, however, that media exposure does not take the place of a sustained marketing campaign, even though all businesses profit from media productions in the state. He spoke of the impact of television and radio marketing competition from other states and destinations. Mr. Samuels then displayed a list of the cruise lines that left the Alaska market in 2010 and which indicated a total loss of 142,000 passengers. He explained the loss of 12,000 passengers by Holland America Line was due to a change of route. The business perspective of a decision by the cruise line to make a change of route is based upon the passenger's cost of the cruise.

[11:20:17 AM](#)

REPRESENTATIVE KELLER asked whether the Alaska Railroad was affected.

[11:20:32 AM](#)

MR. SAMUELS stated that railroad passenger numbers dropped with the loss of cruise passengers. He opined the loss impacted many entities.

[11:21:43 AM](#)

REPRESENTATIVE GARDNER observed that hotel stays and restaurants were also affected because the change in route caused passengers to stay on the ship.

[11:22:02 AM](#)

MR. SAMUELS agreed that local taxes and hotel revenue are affected by cruise passengers because some spend one night before or after a one-way cruise. He then displayed a chart that indicated that cruise lines leaving the market in 2011 resulted in a total loss of 35,454 passengers leaving, and a loss of 14,995 passengers due to itinerary changes. Additions to the market for 2011 are 58,510 passengers for a total gain of 7,061 cruise passengers. For the 2012 season, the projection is for 90,000 passengers below the 2008 season, although not all itineraries have been published, and Princess Cruises and Holland America Line have announced additions to their schedules. He provided an example of a marketing

publication prepared by businesses of the Florida-Caribbean Cruise Association that encourages ships to come to a specific region, and noted that the Alaska Cruise Association can do the same. Mr. Samuels concluded that there is now more "conversation" between the government and the cruise industry than there was after the Alaska Cruise Ship Initiative of 2006 was enacted.

[11:27:07 AM](#)

REPRESENTATIVE FOSTER opined the cruise industry is good for rural Alaska when visitors begin to explore other parts of the state.

[11:28:19 AM](#)

MR. SAMUELS agreed and expressed his hope that the Bush caucus will meet with Holland America Line staff on how to open the door to the Western Alaska area.

[11:29:27 AM](#)

REPRESENTATIVE JOHANSEN referred to ports in the Caribbean that compete against each other for cruise industry business and cautioned that Southeast Alaska ports cannot compete against each other. He surmised that the state and the cruise industry must market all of Alaska as one package for the benefit of everybody.

[11:30:18 AM](#)

MR. SAMUELS agreed. In further response to Representative Johansen, he said that the reason ships cannot increase cruise ship port time in Ketchikan is because of the geography of the route.

[11:32:33 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 11:32 a.m.