

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

April 8, 2011

3:22 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Craig Johnson, Vice Chair  
Representative Mike Chenault  
Representative Dan Saddler  
Representative Steve Thompson  
Representative Lindsey Holmes  
Representative Bob Miller

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 23(FIN)

"An Act relating to transferable film production tax credits and film production tax credit certificates; requiring the legislative audit division to audit the Alaska film production incentive program; and providing for an effective date by amending the effective dates of secs. 3 and 4, ch. 63, SLA 2008."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 23

SHORT TITLE: FILM PRODUCTION TAX CREDIT/AUDITS

SPONSOR(s): SENATOR(s) ELLIS

01/19/11	(S)	PREFILE RELEASED 1/7/11
01/19/11	(S)	READ THE FIRST TIME - REFERRALS
01/19/11	(S)	L&C, FIN
02/17/11	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/17/11	(S)	Heard & Held
02/17/11	(S)	MINUTE(L&C)
02/22/11	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/22/11	(S)	Moved SB 23 Out of Committee
02/22/11	(S)	MINUTE(L&C)
02/23/11	(S)	L&C RPT 4DP 1NR

02/23/11 (S) DP: EGAN, DAVIS, PASKVAN, MENARD  
02/23/11 (S) NR: GIESSEL  
03/21/11 (S) FIN AT 9:00 AM SENATE FINANCE 532  
03/21/11 (S) Heard & Held  
03/21/11 (S) MINUTE(FIN)  
04/04/11 (S) FIN RPT CS 7DP NEW TITLE  
04/04/11 (S) DP: HOFFMAN, STEDMAN, THOMAS, EGAN,  
MCGUIRE, OLSON, ELLIS  
04/04/11 (S) FIN AT 9:00 AM SENATE FINANCE 532  
04/04/11 (S) Moved CSSB 23(FIN) Out of Committee  
04/04/11 (S) MINUTE(FIN)  
04/06/11 (S) TRANSMITTED TO (H)  
04/06/11 (S) VERSION: CSSB 23(FIN)  
04/07/11 (H) READ THE FIRST TIME - REFERRALS  
04/07/11 (H) L&C, FIN  
04/08/11 (H) L&C AT 3:15 PM CAPITOL 106

**WITNESS REGISTER**

SENATOR JOHNNY ELLIS

Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions as prime sponsor of SB 23.

MATTHEW MOSER, Staff

Senator Johnny Ellis  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the discussion of SB 23.

ROBIN KORNFELD, Vice President

Communication and Marketing  
NANA Development Corporation (NANA)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 23.

WANETTA AYERS, Director

Anchorage Office  
Economic Development Section  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 23 and answered questions during the discussion of SB 23.

PAT DAVIDSON, Legislative Auditor

Division of Legislative Audit

Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the discussion of SB 23.

DAVE WORRELL, Development Specialist II, Anchorage Office  
Economic Development Section  
Division of Economic Development  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified and answered questions during the discussion of SB 23.

GREG KERN, Owner  
A K Grip and Lighting  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of SB 23.

JOHNATHAN HUFF, Owner  
Alaska Universal Productions  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified during the discussion of SB 23.

CINDY DRAPER, Manager  
ABC Motor Home Rentals  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of SB 23.

#### **ACTION NARRATIVE**

[3:22:42 PM](#)

**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:22 p.m. Representatives Olson, Johnson, Saddler, Thompson, Holmes, and Miller were present at the call to order. Representative Chenault arrived as the meeting was in progress.

#### **SB 23-FILM PRODUCTION TAX CREDIT/AUDITS**

[3:23:14 PM](#)

CHAIR OLSON announced that the only order of business would be CS FOR SENATE BILL NO. 23(FIN), "An Act relating to transferable film production tax credits and film production tax credit certificates; requiring the legislative audit division to audit the Alaska film production incentive program; and providing for an effective date by amending the effective dates of secs. 3 and 4, ch. 63, SLA 2008."

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SENATOR JOHNNY ELLIS, Alaska State Legislature, related that the Governor has indicated he would like to work together to get this bill for the film industry extended. He related he has been working diligently with the executive branch to bring forth a team effort with this bill. He said that something exciting is happening. Some film production has happened in the past but nothing like what is currently happening. He did not characterize it as a "stampede" but indicated people with multi-million dollar budgets are poised to help Alaska's future. Elected officials dream of diversifying the economy. He related that Alaska is starting to see some of that happening now. He pointed out that cable television and reality television has washed over Alaska. The scenery has been beautiful. The tie in to Alaska's seafood has been amazing. Alaska could not have purchased the promotion in its marketing programs. The latest program is called Mounted in Alaska. If you are a fan of hunting or taxidermy as many Alaskans are the ratings are good. The family, located on Arctic Boulevard, has a hit on their hands. He related that multiple feature films are being filmed in Alaska. Many Alaskans knew about Everybody Loves Whales. This production recruited actors and extras from all over the state. He commended the casting and the breadth of the production throughout the state. This resulted in room rentals for over 12,000 nights at the Hotel Captain Cook in the off season and positively affected construction companies, engineers, car and recreational vehicle rentals, as well as jobs for security guards, caterers, and truck drivers, electricians, and more. When people think of films, many people think about what is in front of the camera but it is really about what is behind the camera that is exciting.

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SENATOR ELLIS related when he visited the set for Everybody Loves Whales that he was most interested in the people working behind the scenes. He said these folks thanked him for their jobs. Thus, the "blue collar" tint to this is "very exciting." The business opportunities for small business were also exciting. He turned to the incentives in SB 23 and related that these new productions must occur in Alaska and must invest in Alaska. All debts must be satisfied prior to any incentive being offered. The qualified expenses must be audited by an Alaskan certified public accountant. He stated that several

fail safe mechanisms are in place to ensure the state benefits retrospectively.

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SENATOR ELLIS related that sometimes other state's losses are our gains. Many of you know that some states are "broke" and are reducing or eliminating their programs. The film business is a multi-million dollar business in Louisiana yet some people are attracted to Alaska because "we are open for business." The cable television series and feature films provide great advertising for Alaska which far exceeds any advertising Alaska could afford with its advertising budget. He reported he has received suggested changes to the bill and has incorporated them, including additional reporting and improved reporting to assess the benefits of these film production incentives. The bill improves oversight and better balances the public's need for information and enhances a positive business climate. Some people would like to "open up the tax records of corporations," he said. He pointed out Alaska does not do so with the oil industry and will not do so with the film industry either. While he recognized that people would like to examine tax records of corporations that to go beyond what is currently being done would create an unfriendly business climate. He said he strives for a balance between the public's "need to know" and to foster a "friendly business climate" for Alaska's corporate partners. The bill would add additional protection for Alaskan workers and businesses by requiring that all debts must be paid prior to applying any tax credits to corporations.

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SENATOR ELLIS related that for some SB 23 is about keeping the momentum of success going and enhance confidence and predictability to private sector investors who want to finance sound stages and other new equipment. He said his goal is to have equipment from Alaskan businesses available for film productions. He added that corporations do not want to pay per diem and transportation costs from Pasadena or Vancouver for equipment and personnel so provisions in the bill provide alignment of economic interests with the film production companies. Besides the sound stage, he envisioned Alaskan companies would make small to medium incremental capital infrastructure investments to strengthen our economy. We all benefit. He predicted that the future looks bright for Alaska's film industry. He emphasized that everyone involved in the business of supporting film and television production would

appreciate your support. He reported that people have been in Kodiak scouting for a major production and Jeff Bridges has signed to do an Iditarod movie. He expressed surprise that the 1925 diphtheria serum run to Nome could be so exciting, but saving children's lives, using sled dogs, combined with Alaska's scenery is enticing. He predicted this film will be great for Alaska. "It's a happy ending. The children survive," he said.

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SENATOR ELLIS referred to members' packets and to other potential productions including that Leonardo DiCaprio's company has been scouting in Nome to potentially film Firecracker Boys, which is based on a book by Dan Oneill about the proposed nuclear explosion to build a deep water port. In response to Chair Olson's comments, he affirmed the collaboration between their offices will create better legislation.

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REPRESENTATIVE CHENAULT acknowledged that he watches some shows, including Swamp People. He said he was unsure how that film would play into an Alaska theme.

SENATOR ELLIS remarked that he loves Swamp People. He related that Louisiana is open for business and while they have had budget problems, the film industry represents a billion dollar industry for Louisiana. He pointed out that the U.S. Coast Guard rescue film that depicts a rescue in Alaska was filmed in Louisiana. He reported while some shots were made in Kodiak the bulk of the film took place in Louisiana. He also reported that this film was a multi-million dollar movie. He said, "We're out to change that kind of scenario."

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REPRESENTATIVE MILLER asked whether this production will be called the "Jeff Bridges to Nowhere."

SENATOR ELLIS promised the committee it would not use that title.

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REPRESENTATIVE SADDLER asked whether this program is based on another state's model.

SENATOR ELLIS provided a brief history of Alaska's film history noting that many years ago the Alaska Film Office existed but was dismantled. He explained that the film incentive bill he introduced several years ago passed. He said his goal has been to bring back the Alaska Film Office. The goal is to join the multi-billion dollar international industry and provide transferable tax credits to reduce the tax burden. Alaska has been one of the last states to join in. Alaska has been slow in starting but has gained momentum in part based on the information it has garnered from other locales.

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REPRESENTATIVE SADDLER asked how Alaska's system is different and what mistakes to avoid.

SENATOR ELLIS answered that many other states have permanent programs. Alaska decided to try a five-year experiment and this bill would propose a 10-year extension to the program. A ten-year timeframe represents the shortest timeframe necessary for business decisions and amortization of investments in commitment. He offered his belief that this bill is not politically motivated but rather is "business oriented." He reported that Iowa had problems when one person was bribed to approve film tax credits in Iowa so this bill was crafted to provide three layers of redundancy in the Department of Commerce, Community & Economic Development (DCCED) to avoid the types of issues that Iowa experienced.

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REPRESENTATIVE SADDLER recalled reading about benefits to the state from the program. He inquired as to whether any direct benefits have resulted from the current program.

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SENATOR ELLIS answered yes. He reported that Anchorage's Mayor Sullivan is a big fan of the program. Although Anchorage does not have a sales tax it does have a bed tax so the MOA benefits from people staying at hotels. He stated that Alaska does not have a state sales tax so it doesn't have the direct benefit some states receive, but any municipality with a sales tax would benefit. He remarked that he is proud of the fact that Alaska does not have a personal income tax or state sales tax. This is the same for all private companies and individuals in Alaska.

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REPRESENTATIVE SADDLER asked whether this bill would encourage additional short term or long-term jobs in Alaska.

SENATOR ELLIS answered that by their nature the film industry jobs are temporary jobs, but the goal is to create and enhance the film industry in Alaska. He envisioned that people would work on one production for two to six months and then work on the next production. He indicated that Representative Saddler has precisely identified the reason to extend the program so that some businesses could make investments while others could train the workforce so people will be able to qualify for the jobs. He acknowledged that some technical people will always be imported, including jobs such as skilled cinematographers. However, the goal is to build the industry to allow for successive jobs.

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REPRESENTATIVE SADDLER inquired as to the amount of the tax credits and whether this bill would increase it to 10 percent or 50 percent.

SENATOR ELLIS prefaced his response by stating that hundreds of millions and possibly \$3 to \$4 billion in tax credits have been offered to the oil industry. This bill would offer up to \$100 million over five years. He offered his belief that the first five years for revamping Alaska's film office has paid off. This bill would propose two additional five-year increments with an audit in between for an overall ten year extension.

CHAIR OLSON pointed out that the Legislative Budget and Audit (LB&A) would also conduct audits in addition to the CPA audits.

SENATOR ELLIS agreed. He acknowledged that \$100 million is real money but is small compared to how Alaska has incentivized other industries.

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CHAIR OLSON offered his belief a comparable amount has been invested in Cook Inlet drilling.

SENATOR ELLIS agreed the state has made a sizeable investment.

CHAIR OLSON reiterated that this proposal is not anywhere close to oil and gas incentives the state has provided.

SENATOR ELLIS agreed the magnitude is different.

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REPRESENTATIVE MILLER asked for a comparison of the amount of tax incentive credits currently offered as compared to the film production spending in Alaska including bed tax, rentals, and other costs.

SENATOR ELLIS responded that he does not have the direct figures but the Department of Commerce, Community & Economic Development (DCCED) should be able to provide the information. He advised that the reporting requirements have been enhanced.

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MATTHEW MOSER, Staff, Senator Johnny Ellis, Alaska State Legislature, on behalf of Senator Ellis, stated that the legislature created the Alaska Film Office and film production incentives in 2008 to encourage economic growth and film production growth. The film production credits are structured to put Alaskans to work. The 2008 program contained a sunset provision triggered after five years or \$100 million. The program currently offers a transferable credit of 30 percent for qualified Alaska spending, with an additional 10 percent for Alaska hire. The program also offers an additional two percent for film production work performed in rural Alaska and an additional two percent for any work done during the offseason winter months. Eligible productions can sell the credit to any company with a corporate income tax liability to offer tax relief to companies as varied as commercial fishing, mining, and oil. Tax credits would be issued only after the film production has finished filming and an Alaska certified public accountant (CPA) has verified the expenditures. It is worth noting that thus far the average credit has been about 32 to 33 percent with the highest at 38 percent of the 44 percent incentive cap. He explained that SB 23 proposes extending the tax incentives for ten years with \$100 million in funding for each five year period. [Before the committee was the CSSB 23(FIN). This bill represents the sponsor's efforts to address concerns from the public and the committee process.

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MR. MOSER provided a section-by-section analysis of SB 23. He referred to Section 1 of the bill which would amend AS 24.20.271 to require LBA to conduct audits in three five-year periods, ending June 20, 2013, 2018, and 2023.

MR. MOSER related that Section 2 would amend the existing film production incentives to require the Department of Revenue (DOR) to provide a certificate for a film production tax credit.

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MR. MOSER explained that Sections 3, 4, and 5 of SB 23 would update the statutes to reference the certificate. It would also change the period that the tax credit can be used from three to six years. This would add value for the corporate income taxpayers who could use the credit over additional tax years.

MR. MOSER referred to Section 6 which would add an additional \$200 million in incentives, with the \$100 million for each of two five-year periods.

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MR. MOSER related that Section 7 would create two new subsections to add a cap for the tax credit for any single production at 44 percent.

MR. MOSER stated that Section 8 of SB 23 would authorize pooling of tax credits. This would clarify in statute that an entity could pool multiple credits and authorize the DOR to combine credits or divide a single credit into multiple credits. In response to Representative Saddler, he referred to page 7, line 29 of Section 19 to the definition of rural Alaska which would update the definition of rural. He also referred to page 6, line 2, which is the reference to the citation for his earlier comment.

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MR. MOSER referred page 4 line 19, to Section 8, which adds additional reporting requirements to the legislature. The DCCED would report the total amount of expenditures paid to Alaska businesses and to Alaska residents as wages. He reported that the Department of Labor & Workforce Development (DLWD) will be able model the indirect spending using the same model used by the McDowell Group for its analysis.

MR. MOSER referred to page 4, lines 21-24, to Section 9 of SB 23, which would add to the duties of the film office to design a logo. He referred to page 6, line 13, of Section 17 which requires the logo.

MR. MOSER referred to page 4, line 28 to Section 10 of SB 23, which would amend the timeframe to allow qualified expenditures from 24 months to 36 months to recognize the post-production work.

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MR. MOSER referred to page 5, line 11, to Section 11 of SB 23, which includes natural resource development as a consideration when determining whether a production is in the best interests of the state. Currently, the film must consider employment of Alaska residents and the economy.

SENATOR ELLIS clarified that suggestion came from Representative Dick, which was shared by other legislators.

CHAIR OLSON acknowledged the sponsor's responsiveness to his staff as well as the LBA's staff.

SENATOR ELLIS offered his belief that some tweaking may be necessary in the timing of the audits.

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MR. MOSER referred to page 5, lines 12-15, to Section 12 of SB 23 which sets into statute current film office policy to protect commercially valuable information within a production company's prequalification documentation. He related that Section 13 would add a reference to AS 44.33.235(i), previously mentioned.

MR. MOSER referred to page 5, lines 22-26, to Section 14, of SB 23 which would amend the base amount of a tax credit available to reality television programs. Many of the programs would come to Alaska so this would reduce the base credit from 30 to 20 percent. He offered his belief that the credit is still generous.

SENATOR ELLIS clarified that Alaska was not making enough money off reality television, that the industry would still operate, but the program would target films.

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REPRESENTATIVE MILLER inquired as to whether he could define what would constitute qualified expenditures.

MR. MOSER explained that qualified expenditures must be directly related to the production, incurred in the state, reasonable, not in excess of fair market value. He outlined that expenditures can be real or tangible property, fees, services, and state and municipal taxes. The audit by an Alaska CPA is not included as a qualified expenditure. Additionally, the film office works with film productions to compute the depreciation value of capital equipment using the Internal Revenue Service (IRS) code.

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REPRESENTATIVE MILLER inquired as to whether credits for the full cost of rental equipment could be used once Alaska businesses expand to provide those services.

MR. MOSER answered that is correct. The Alaska Film Office and the production companies have currently been working with some small Alaska businesses who lease equipment.

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MR. MOSER referred page 6, line 2, to Section 15, which would increase the percentage of qualified expenditures in rural Alaska from two to six percent but the total qualified expenditures are capped at 44 percent. As previously mentioned Section 16 would require that all outstanding balances must be confirmed by the auditor and paid before the credit can be awarded.

MR. MOSER referred to page 6, lines 13-22, to Section 17, of SB 23 which requires that the film office logo and acknowledgment text be included in a qualified film or a short Alaska promotional video or advertisement must be included in a DVD or other media.

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MR. MOSER explained that Section 18, page 7, line 8, would add a qualified expenditure for the cost of transfer of digital media to film or tape. He related that this can be done in the state but had been omitted from the initial legislation.

MR. MOSER referred to page 7, line 29, of Section 19, of SB 23 which changes the definition of rural as a community not connected to the road system and increases the population from 5,500 to 10,000.

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REPRESENTATIVE SADDLER asked which communities are affected by the change from a population of 5,500 to 10,000.

MR. MOSER related his understanding that Kodiak, Bethel, and Sitka are all communities whose population falls in that range. He offered to confirm this in writing.

SENATOR ELLIS commented that Representative Herron "was a big fan" of that language change.

CHAIR OLSON also recalled the change.

MR. MOSER referred to page 7, line 31 and to page 8, line 8, of Section 20 which updates the statutes references to match the program extension.

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MR. MOSER referred to page 8, lines 9-16, to Section 21 of SB 23 which changes the trigger point when the DOR's Commissioner must report the aggregate tax credits reach \$200 million. Currently the commissioner must report to the legislature when the tax credits and estimated tax credits equal an aggregate \$100 million.

MR. MOSER referred to page 8, line 17, of Section 22, which extends the sunset date for the transferable film tax credit program to July 1, 2023 and establishes the amount of the tax credits awarded under the program to \$200 million.

MR. MOSER referred to page 8, line 14, to Section 23, which updates the audit. The film office has one year after the sunset date or after the total qualifications have been reached to address any outstanding claims or issues.

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REPRESENTATIVE MILLER referred to page 6, line 3, to Section 16 of SB 23, which read, "a rural area." He asked whether this

should be changed to add "Alaska" to signify that the rural area must be in the state.

MR. MOSER answered that it a good suggestion. He stated that the definition of rural area refers to a community 1,500 or less or one not connected by road or rail to Anchorage or Fairbanks.

REPRESENTATIVE MILLER recalled films that are filmed in exotic location often have post production in other places. He wanted to ensure that the program would not subsidize other states' post production.

CHAIR OLSON offered his belief that the bill drafters would address that type of issue.

[4:08:27 PM](#)

ROBIN KORNFELD, Vice President, Communication and Marketing, NANA Development Corporation (NANA), read from a prepared statements. She stated that NANA supports SB 23 since this bill helps create something new in Alaska: a developing industry that is a renewable resource which is "making movies." NANA also supports the film tax credit since it will lead to a wide array of private sector jobs. Some jobs will be new, at a time when diversifying the economy is important if not crucial. The bill will divert money that would otherwise be paid in taxes but the diversion creates a flow back to the state's private economy. NANA developed Red Dog mine and in doing so created opportunities for thousands of Alaskans, but cannot rest and must look for the next opportunity. Economies are built on decade-long cycles and resource extraction cannot do it all. Alaska must keep its eyes on the future. The corporation began to review the film industry two years ago when Mike Devlin opened a studio in Alaska called Evergreen Films. This company moved to Alaska due to the state's special social and physical attributes. Initially, NANA thought that the business was for other people. However, upon closer examination, NANA discovered that this business holds interesting economic possibilities. It holds some similarities to natural resources as it is a platform industry that creates primary products including films, series, and programs. The industry requires support services similar to what NANA currently provides such as construction, food services, hospitality, and security services. The industry also creates specialized job opportunities that are not yet widespread in Alaska.

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MS. KORNFIELD continued. She pointed out that the whole state can be involved. The film industry goes beyond making whale movies. Although the big productions get attention, the television industry consists of hundreds of cable channels trying to fill 24 hours of programming each day with documentaries, reality television shows. She reported that the industry has been moving from film to digital formatting and technological solutions. She offered her belief that this is the way of the future and Alaska can participate since digital images travel over the Internet to global markets. She suggested that Alaska may be able to retain some of its graduates instead of having them move to California to participate in the film industry.

MS. KORNFIELD stated that NANA began as skeptics but ended up investing in Evergreen Films. She related that NANA is willing to invest in people through training and in infrastructure such as sound stages and specialized equipment. She pointed out that investments in training and facilities require risk and are not eligible for tax credits. She stressed that NANA needs the tax credits to bring the film business to Alaska, as well as a ten year timeframe to make it worthwhile. The film credit program is set to expire in two years. As with any business, a long-term investment decision requires some level of certainty. The rapid increase in Alaska's film and television productions proves that the current film production tax credit program is working. This bill would help Alaska build for the long term.

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MS. KORNFIELD concluded by offering NANA's support for SB 23 since it wants to make a long-term commitment to film production in Alaska. The 10-year extension would provide assurances that the future is solid. She stated that NANA is a conservative company. It researched the film industry prior to any investment. Films about Alaska should be made in Alaska, she said. Alaska is a wonderful global brand and with the right catalyst the state can be long term participant in this industry.

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REPRESENTATIVE SADDLER recalled that some Native Corporations have invested outside Alaska and asked whether NANA has considered investing in other states that have a film industry and tax credit programs, such as in Louisiana.

MS. KORNFELD answered that it has not. She related that NANA is driven by job opportunities for its shareholders.

REPRESENTATIVE SADDLER asked whether NANA would have made its investments absent any tax credits. He further asked whether the industry solely justify the investment or if it depends on the tax credits.

MS. KORNFELD answered that NANA has made a significant investment in Evergreen Films. She related that the film tax credit program was in place, that Evergreen Films was attracting films to Alaska. She said she hoped that NANA would be able to build a sound stage but that level of investment requires some level of certainty prior to making the investment.

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REPRESENTATIVE MILLER asked for clarification on longer term plans to perpetuate the industry. He inquired as to the current staffing and any plans NANA has to further train Alaskans to handle the specialized jobs in the film industry.

MS. KORNFELD responded that NANA created a film support company, Piksik LLC, to provide services to any film production. In fact, 15 NANA shareholders are attending a session today conducted by Alaska Crew Training, which is a nonprofit put in place to train people to be prepared to serve the industry. Tomorrow, NANA plans on sending 10 more people to attend the training. She remarked that NANA plans on being active to create the workforce to be ready to enter the industry.

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REPRESENTATIVE MILLER inquired as to whether NANA has created any connections to the university systems in the state. He recalled from his personal work in television news that people in the industry often wished more educational programs were available in Alaska so they could remain in Alaska.

MS. KORNFELD characterized the process being on the "ground floor" at NANA. She reported that the University of Alaska Fairbanks (UAF) has just approved a film program that she thinks will be useful for everyone. She stated that one of NANA's more successful efforts with the film industry has been through the engineering companies so opportunities exist for students in computer technology, graphics and other areas. This industry is

so new to Alaska that the possibilities are unknown. NANA has a company that provides surveying and it turns out surveying technology has become a tool that will reduce the production time for an animated film Evergreen Films is currently producing by a year. She offered her belief that many possibilities still exist and NANA has attempted to use as many services as possible. She anticipated that NANA will continue to learn about the film industry.

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WANETTA AYERS, Director, Anchorage Office, Economic Development Section, Department of Commerce, Community & Economic Development (DCCED), stated that the DCCED provided comments to the sponsor and committees on SB 23 to refine the bill and incorporate technical corrections to the bill. The Alaska Film Office administers the Film Production Incentive Program within the DCCED. The basic provisions of would extend the program until 2023 and would maintain a ceiling of \$100 million in available tax credits over two five-year periods. The department believes this would be a good addition to the program. The bill could help provide certainty to the local film providers service providers, support businesses, and skilled and talented Alaskan workers to realize the economic benefits of increasing film production in Alaska. Some 35 communities in Alaska have been venues for film production activities to date. Additionally, an extension of the program would provide some degree of certainty that could encourage the type of private sector investment from corporations such as NANA. The development of additional film industry infrastructure and investment in equipment and other capital investments are a necessity for the next evolution in the film industry in Alaska. The DCCED also believes that SB 23 provides increased utility and flexibility in the tax credit program that would be helpful in administering the program and incentivizing its use. The additional reporting and transparency requirements for audits would also help strengthen the program. She recapped that the DCCED finds the provisions in SB 23 enhance the Film Production Incentive Program and serve as a timely signal of the state's commitment to developing the film industry in Alaska to encourage ongoing and future investment. In further response to Chair Olson, she answered that the administration supports SB 23.

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REPRESENTATIVE SADDLER inquired as to whether \$20 million per year was the right amount to invest in the industry.

MS. AYERS answered that the department feels based on its experience thus far that the amount is correct. She related that this amount as the program matures seems to be the correct amount. The DCCED has observed increased interest in the program. She provided figures to date which indicates that the "ground-spend" has exceeded \$19 million and the program approved tax credits of nearly \$6.3 million. The average amount for tax credits has equaled 33 percent tax credits for the Alaska "ground-spend." She remarked that the DCCED experienced an increased level of pre-qualifications which has accelerated as the industry continues to mature in Alaska. Thus far, the state has prequalified over 50 productions of which 36 are active applications. In response to Representative Saddler, she explained that "ground-spend" represents the qualified expenditures expended in Alaska.

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REPRESENTATIVE SADDLER inquired as to whether conducting an audit once every five years will be adequate.

MS. AYERS suggested that an audit needs to be conducted after five years. She offered her belief that the DCCED and DOR concur that five-year increments are sufficient since enough productions and a variety of film activity will have occurred.

[4:24:50 PM](#)

REPRESENTATIVE SADDLER recalled that the reporting requirement to the legislature is triggered when tax credits reach \$200 million. He asked whether it would be beneficial to have a shorter frequency of reporting.

MS. AYERS answered that the DCCED currently provides an annual report to the legislature on the program which should be sufficient to give the legislature insight into what is occurring in the film industry in Alaska between the audit periods. She stated that if the cap is reached earlier it would be noted in the report. In further response to Representative Saddler, she answered that the information on tax credits is included in the report which is provided electronically and is also available on the Internet at [film.alaska.gov](http://film.alaska.gov).

[4:26:03 PM](#)

REPRESENTATIVE THOMPSON recalled reading that other states have placed on cap on the actual wages that can be paid to superstars. He asked whether that is something the state should be considering, too.

CHAIR OLSON responded that his office is working on language to that effect.

[4:26:33 PM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, responded to the question on whether five years between audits is adequate. She indicated that the current program is set to terminate in 2013 and the bill would extend the program until 2023. She related that it makes good business sense not to wait until the last minute to conduct an audit, but the current audit requirements raise questions. Under the bill audits would be conducted in 2018 and 2023 with the program set to terminate in 2023. However, it may result in the legislature considering in 2021 whether to extend the program based on an audit that is two or three years old. She suggested that due to the legislative process, the committee may wish to consider whether it would need more current information when making the decision on whether to extend the program. She acknowledged that she has a better idea why the audits were scheduled for every five years but she maintained that the committee may wish to consider different dates. She pointed out any legislator could request an audit through the Legislative Budget and Audit Committee at any time. Thus, the mechanism to obtain an earlier audit would still exist. She reiterated that the committee may wish to examine the dates in SB 23 and decide if the dates match up to the legislature's needs.

CHAIR OLSON agreed that the dates needed review. He offered to do so for inclusion in a potential committee substitute for SB 23.

[4:29:27 PM](#)

REPRESENTATIVE SADDLER asked whether it would be better to report the film tax credits in \$50 million increments or wait until the qualified tax credits approached \$200 million.

MS. DAVIDSON responded that she has considered this issue and from a process perspective the bill would move through the

process several years prior to the program's sunset. She suggested the legislature may prefer to consider the program at the \$150 million mark. She pointed out that the annual report to the legislature would contain any pre-qualified films so considerable information would be available for members to review.

CHAIR OLSON offered his belief that if Alaska becomes the "Hollywood of the North" that it would be investing more money in the film program. He acknowledged that the legislature would be receiving annual reports.

[4:31:18 PM](#)

DAVE WORRELL, Development Specialist II, Anchorage Office, Economic Development Section, Division of Economic Development, Department of Commerce, Community & Economic Development (DCCED), introduced himself as the manager of the film office.

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REPRESENTATIVE MILLER inquired as to the cost of a proposed sound stage and the personnel needed to run one.

MR. WORRELL responded that question lies beyond his expertise. He related from his discussions with producers their desire is to have places to shoot out of the weather in the 20,000 to 40,000 square-foot range. He stated that such a facility would have 40-foot ceilings and no internal supports. He characterized the proposed space as a very large warehouse space. Currently, Alaska does not have a surplus of that type of real estate so it would mean building something from the ground up. He related his understanding that NANA Services has been considering the economics of building such a facility. Additionally, a facility in Palmer has recently become available that would be suitable for smaller independent film use. He emphasized the importance of allowing the private sector to drive the need for any sound facilities.

[4:34:16 PM](#)

REPRESENTATIVE MILLER asked whether training is available for Alaskans to operate the facilities or if Alaskan businesses would provide the building and equipment and out of state personnel would operate the facility.

MR. WORRELL responded it would likely be a combination of both. He offered his belief that any director would likely specify certain production personnel on the set, including any chief camera personnel. However, second level personnel could be Alaskans and as more Alaskans become trained more jobs would likely go to Alaskans. He pointed out that the DCCED is working with the DLWD to institute a variety of apprenticeship programs. Additionally, the DCCED has been working with the University of Alaska system in Anchorage and Fairbanks for students to participate in internships and on the job training in addition to the academic setting. He said he is delighted that NANA is interested in training opportunities for its shareholders. He concluded that a variety of activities are concurrently happening.

MS. AYERS interjected that the sound stage development is largely a real estate development. She reported that in other jurisdictions the sound stage has been a "stand-alone" facility or has been developed as a campus. She explained that the standard services available are typically of the type any industrial business park provides, including building management, site management, security, and food services. She characterized the services as "camp services" and noted that many Alaska businesses have already developed this type of expertise. She pointed out that corporations such as Doyon and NANA currently have this expertise and would like to apply it to the film industry.

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REPRESENTATIVE SADDLER recalled that states such as New Jersey and New York lost out to Southern California in the early part of the century due to sunlight. Thus, Hollywood has become the nexus of movie making in America. He expressed concern about the cyclical nature of public taste. He inquired as to whether any case study has been done that could identify the film industry trends outside Hollywood.

MR. WORRELL answered that New Mexico and Louisiana are examples of viable industries. He advised that 43 states have active incentive programs and some additional states have passive incentive programs. He pointed out that the best example for a model would likely be Canada, in particular, British Columbia and Vancouver. He pointed out that 20 years ago no one had even heard of Vancouver as a place to make films. Now it is considered "Hollywood North" due to Canada's aggressive incentive and workforce development programs. He related his

understanding that the British Columbia film industry increased from \$1 million to \$19 billion annually over the course of the last few years.

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REPRESENTATIVE SADDLER answered one plausible reason for Vancouver's popularity is that it can be made to look like New York City. He asked whether Vancouver has withdrawn some of its incentives as its film business has grown or if the incentives are necessary as part of the economy.

MR. WORRELL responded that he thought incentives were an integral part of the industry. He further thought British Columbia conducts ongoing assessments of its program. He offered his belief that the British Columbia program is directed more towards "workforce" support versus "ground-spend" support. He pointed out that the Canadians also provide a federal incentive program as well as provincial programs.

[4:39:48 PM](#)

GREG KERN, Owner, A K Grip and Lighting, stated that his business is Alaska's largest grip and lighting house in Alaska. He stated that over the past 20 years he has been able to ply his trade in Alaska, which he said is no small feat considering the small marketplace. He related that some of his peers have had to go Outside to work but he has been able to hone his skills in Alaska. He attributed his past success with the film tax incentive program has allowed him to consider hiring more people and bolster his inventory of equipment to support these projects.

[4:41:18 PM](#)

JOHNATHAN HUFF, Owner, Alaska Universal Productions, stated that his company is also a grip company. He has benefited from the film program by working on projects, such as shooting a Chevrolet commercial in Valdez, the Everybody Loves Whales film, and Ice Road Truckers. He said he has recently invested in a significant amount of film, grip, and hardware equipment including film lighting and a film dolly. He is considering purchasing more equipment to meet the film industry expansion. He predicted that the 10-year extension of the program would result in additional film work in Alaska which will benefit his company and other similar support businesses. He said the University of Alaska Fairbanks (UAF) is now offering a four-year

film degree program that should help expand the program. He reported that he just came from the set of a feature film, AlaskaLand which is being filmed in Fairbanks. He related that a director of photography, Dave Selle, and other professionals working on that project would have liked to testify today but were busy working on the feature film.

CHAIR OLSON welcomed their testimony at other hearings.

[4:43:59 PM](#)

CINDY DRAPER, Manager, ABC Motor Home Rentals, stated that Everybody Loves Whales allowed her company to keep employees on staff through the winter and improve the company's economic status at a time when it normally would not be earning money since they typically provide services during the summer.

[SB 23 was held over.]

[4:45:55 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:45 p.m.