

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 20, 2013

3:29 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Lora Reinbold, Vice Chair
Representative Mike Chenault
Representative Charisse Millett
Representative Dan Saddler
Representative Andy Josephson

MEMBERS ABSENT

Representative Bob Herron

COMMITTEE CALENDAR

HOUSE BILL NO. 112

"An Act repealing the film production tax credit; providing for an effective date by repealing the effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

- MOVED HB 112 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 112

SHORT TITLE: REPEAL FILM PRODUCTION TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

02/11/13	(H)	READ THE FIRST TIME - REFERRALS
02/11/13	(H)	L&C, FIN
03/13/13	(H)	L&C AT 3:15 PM BARNES 124
03/13/13	(H)	Heard & Held
03/13/13	(H)	MINUTE(L&C)
03/15/13	(H)	L&C AT 3:15 PM BARNES 124
03/15/13	(H)	Heard & Held
03/15/13	(H)	MINUTE(L&C)
03/18/13	(H)	L&C AT 3:15 PM BARNES 124
03/18/13	(H)	Heard & Held
03/18/13	(H)	MINUTE(L&C)
03/20/13	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

MAYA SALGANEK

Assistant Professor

University of Alaska Fairbanks (UAF);

Administrative Director, Film Program, UAF

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 112.

SHAWN WEIXELMAN, Film Student

University of Alaska Fairbanks (UAF)

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 112.

CAREY SEWARD

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 112.

THOMAS HIGGINS

Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 112.

DANIEL GEORGE, Staff

Representative Bill Stoltze

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Answered questions on behalf of the bill sponsor, Representative Bill Stoltze, during the discussion of HB 112.

ACTION NARRATIVE

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CHAIR KURT OLSON reconvened the House Labor and Commerce Standing Committee meeting to order at 3:29 p.m. from the 3/15/13 recess. Representatives Chenault, Josephson, Millett, Reinbold, and Olson were present at the call to order. Representative Saddler arrived as the meeting was in progress.

HB 112-REPEAL FILM PRODUCTION TAX CREDIT

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CHAIR OLSON announced that the only order of business would be HOUSE BILL NO. 112, "An Act repealing the film production tax credit; providing for an effective date by repealing the

effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

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MAYA SALGANNEK, Assistant Professor, University of Alaska Fairbanks (UAF); Administrative Director, Film Program, UAF, stated HB 112 would effectively eliminate the Alaska Film Production Incentive Program (AFPIP) in Alaska. As the Administrative Director of the Film Program, she offered to describe what the tax incentive program means to UAF's students. She stated that since 2010, the film courses have seen a 60 percent enrollment increase. Student credit hours are up; summer course enrollment is up; and more students are able to stay in the state for their education since this program is in place. The UAF has been able to attract grant money to the program by partnering with scientists, engineers, and educators to create multi-media content about Alaska from a variety of perspectives. Additionally, the UAF has been involved in commercial productions, television productions, and feature films.

MS. SALGANNEK said that UAF's film program began in 2012, but has already graduated four students with Bachelor of Art's degrees in film and supports an additional 14 majors, four pre-majors, and approximately 20 minors. Even though the program is a modest program, it is growing and the UAF has more opportunities than it can currently pursue. She said that UAF filmmakers are diverse in age, race, and socio-economic background. These filmmakers are military veterans, parents, urban and rural Alaskans, as well as students from the Lower 48. All of them desire to be a part of something enriching and exciting, have stories to tell, and are working hard to not only to develop their own ideas, but to support others in bringing their stories to life through film. Film students learn by doing and are actively working in the community for local and national film productions as part of their educational career. Within the past month, seven UAF film students worked on location for four different film productions. At the same time, Fairbanks had a BBC reality television series, PBS's series from Vision Maker Media, of Growing Native; an ABC Broadcast of the Iron Dog race; and a documentary by Alma Har'el. In the past month, 50 percent of UAF's current student majors were working professionally in the film industry in Fairbanks; although the employment is not yet full-time, this work does offer students hands-on experience leading to consistent opportunities in the film and television industry. These students will go on to be the leaders in Alaska

in this business, but they are not yet ready to lead the way, she offered. Of the projects mentioned, half of them are utilizing AFPIP. The incentives are basically doubling the amount of work produced in the state and the work the incentives bring translates into more labor hours being held by Alaskans now than ever before. This is bringing new hands-on training for the students and others in the field and will lead to more Alaskans being ready to take control and direct the future of this industry for the long haul. The UAF has risen to the call for more training as was implemented through the legislative appropriation in 2011.

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MS. SALGANNEK said the UAF has spent this past year developing a training program specifically designed to fill the film industry's needs. If the incentive program were to disappear this year, the tax dollars wasted will include the time and energy spent in developing, creating, and preparing for the growth of this industry. It would include the wasted resource of trained Alaskans ready to work in this business and as a program would lose momentum gained in creating new jobs. When the jobs go away so will those who are eager to work in this dynamic industry. She predicted the brain drain will resume. Alaska has material and immaterial assets. The material assets can be bought and sold, but the immaterial assets - the stories, the adventures, the history and beauty of Alaska can be packaged and sold in 90-minute films - over and over again. Every great state has a film industry for a reason: to promote and protect the image of the state. She offered her belief that the image of Alaska should be protected, which is done by developing Alaska's own capacity to tell Alaska stories by Alaskans in the most compelling media possible, which is film. She said that building capacity takes, time, investment, and vision. She asked members to trust these vision makers of Alaska to work with outside film producers for now in developing a stronger and clearer image of Alaska to share with the world in the future, particularly since all of the tax incentives will sunset in 10 years. She urged the committee to provide room for an industry with infinite assets. Once Alaska's infrastructure is built through AFPIP, then Alaskans will be able to take over and move forward.

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SHAWN WEIXELMAN, Film Student, University of Alaska Fairbanks (UAF), stated his wife, Annette Pearson, is also a film student

at UAF. They both returned to college to pursue a film career based on the AFPIP so their future livelihood depends to a great extent on the tax incentives. He suggested that the way to grow tourism and population growth is through film and television by keeping a perpetual interest in Alaska. He said that people will come to Alaska to vacation and live here; however, Alaska must be a persistent presence in the minds of the American population, which can't be done without film and television, he said.

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CAREY SEWARD said she is affiliated with arts groups in Fairbanks. She attended UAF as a theatre major since there wasn't a film program at the time, but a film minor, which was mostly film studies, but not the production of film. Now that a film program exists, she has been working as an independent contractor. She described her experience as being really wonderful. It's important for people like Mr. Weixelman and many others with dreams of making [film] content about Alaska to have the opportunities and ability in Alaska. She offered her belief that the image of Alaska will be controlled by the Hollywood film industry if Alaska does not have control over content. Further, the film incentive program is the key to building that industry so more Alaskans can live in Alaska and make films. She concluded by saying that the film incentive program gives her opportunities to work and is one of the reasons she wants to stay in Alaska whereas five years ago she was ready to move to the Lower 48 and never return to Alaska.

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THOMAS HIGGINS, speaking as a film maker, actor, and a non-officer member of the International Alliance of Theatrical Stage Employees Local 918 (IATSE), related his support for a stronger economy. He recalled the bill sponsor testifying that the film industry does not pay corporate taxes, which is true. However, the AFPIP allows corporations such as mining and oil to buy the credits as an incentive to create jobs. He pointed out that changes to the AFPIP require more local hire and less imported workers plus less money to Hollywood stars. Unfortunately, that change may have stymied the film industry from growing in Alaska and perhaps should be reconsidered. The film industry's expenditures are infused into Alaska's economy immediately, while the tax credits can be held for many years and not used for corporate offsets. He highlighted that this leaves the money spent in Alaska working for Alaskans until the credits are

used. Certainly, the film expenditures and wages would not otherwise come to Alaska, but the state's economy is more diversified and more stable with the tax incentives.

MR. HIGGINS said the film expenditures support businesses and industry throughout the state, including supply transporters, hotel and housing rentals, as well as car, truck and equipment rentals of all types. Additionally, the film expenditures affect food service, restaurant - retail and wholesale - hardware and lumber stores, paint suppliers, furniture stores, Alaskan gifts and crafts, and more. Of course, the Alaskan gifts and crafts advertise Alaska when the film workers leave Alaska. The locally owned movie support companies can grow over time and keep industry in Alaska. The IATSE provides health care insurance opportunities to film workers and their families, which essentially spreads the financial benefits into the health care industry, too. He concluded that more jobs going to Alaskans means less hotels used by less imported workers. Thus he supported expanding filming throughout the summer, which allows for more light to shoot films and gives Alaskans good paying jobs.

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MR. HIGGINS, recalling the sponsor's comment that film jobs are not permanent, pointed out that fishing and tourism are seasonal, too, yet these industries are part of vibrant communities and provide income for Alaskans, their families, and the state's economy, in general. Not only has the film incentive program been good for Alaska, it should be expanded to provide year round opportunities. In fact, the AFPIP is not a handout, but creates good jobs for Alaskans, he said. He emphasized that this industry is not about creating stars and handouts to Hollywood, but is about creating good job opportunities for Alaskans. He urged members not to pass the bill out of committee and to allow the changes to the [AFPIP] program to go into effect.

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CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 112.

REPRESENTATIVE MILLETT asked whether the film office should be completely removed since the bill removes the [AFPIP] program. She pointed out the legislature frequently discusses allowing oil taxes to take effect. Since changes to the AFPIP program

will go into effect this year, it seemed confusing to remove the tax credit incentives [at this point.]

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DANIEL GEORGE, Staff, Representative Bill Stoltze, Alaska State Legislature, on behalf of Representative Bill Stoltze, sponsor of HB 112, responded that this bill would allow the Department of Revenue (DOR) to recoup damages to the state for up to six years. Thus if the program is terminated it is important to the state to recover any damages discovered after the AFPIP's termination, which could potentially save the state some money. In response to keeping the film office in place, he related that many states have film offices and it's important to show the [industry] that Alaska is still open for business and can coordinate with individuals looking for locations. Granted, providing tax credits is one thing, but having an office to direct people, share past experiences, and show that filming in Alaska is welcome is another.

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REPRESENTATIVE MILLETT pointed out that 37 states have film incentive credits. She agreed that Alaska had a film production office in Alaska prior to the film incentive credits; however, there wasn't a lot of activity prior to the film tax incentive credit. She predicted that if the AFPIP is dissolved, the office would field calls from few people. She asked why these film productions would come to Alaska to do business when they could go to New Mexico since that state has tax credits or to Canada, who is Alaska's competition. She said, "I'm a little concerned that we're throwing the baby out with the bath water and I would like to see this program continue." She also said she wouldn't hold up the bill from being moved out of committee, but she is sure disappointed to start and end a program so quickly. She offered her belief that the state looks schizophrenic when it starts a program and reverses course the next session.

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CHAIR OLSON offered his perspective for members. He stated that this committee spent several weeks on the incentive program and worked on local hire issues. The finance subcommittee worked on the bill over the interim and finished its work last year. He related his understanding that many people weren't happy with the outcome but there was little time at the end of session. He

suggested moving the bill to the House Finance Committee to allow further work to be done, perhaps by some of the same people who worked on the subcommittee. He offered his belief that the program is salvageable, but it likely needs to happen in the House Finance Committee. He encouraged members to vote how they want to vote. He said he could argue either way. He acknowledged that last year the committee wasn't completely happy with the bill that passed. However, moving HB 112 from committee isn't the death of [AFPIP], but will allow further work to happen to [the program.]

REPRESENTATIVE MILLETT said she attended the House Finance subcommittee hearings and offered her belief that the House Finance Committee could make changes and keep the film tax credit in place, but perhaps not at such a discount. She didn't disagree with the concerns, but expressed concern that moving the bill could kill the program and she would hate to see that happen.

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REPRESENTATIVE JOSEPHSON said he fundamentally understands some of the criticism about the AFPIP, but the program creates lots of jobs and generates more than it costs, by about \$12-\$15 million. He agreed with Representative Millett that the House Finance subcommittee process was conducted; however, the interim process speaks more to him than one taken during session since fewer distractions occur. In fact, millions of dollars are spent on tourism and seafood marketing, which he did not begrudge, since these expenditures are good expenditures. To a great extent, the film credit is similar since it helps to diversify the economy and it generates creative jobs. He said, "I think it's good for the state."

CHAIR OLSON suggested he read the Legislative Budget & Audit (LB&A) report that was just released.

REPRESENTATIVE JOSEPHSON responded that the comments in the LB&A's audit were mixed comments. He pointed out that since the audit was issued in August 2012 and the bill was revised in May, he was unsure as to whether the LB&A's audit time line speaks to the new bill.

CHAIR OLSON answered that the LB&A audit reflected some tax credits had been taken which were not documented, which highlighted some of the problem.

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REPRESENTATIVE SADDLER said he is not especially entranced with Hollywood. He also said he doesn't go to many movies or share a lot of the values he sees on the screen. He acknowledged that some Alaskans receive business and have small businesses that stem from the film industry. However, many businesses could be supported by a 42 percent [subsidy]. In fact, \$300 million would certainly attract some interest and attention. Furthermore, he was taken aback by some testimony that said without the film tax credit the industry would die, which questions the basis for the industry if it requires this type of subsidy to survive. There aren't any guarantees the industry will survive after the tax incentives. In fact, Alaska did have a film office and some films and commercials were shot in Alaska prior to the credits. He surmised that keeping the film office operating would be a means to encourage things to happen without the subsidy. He also suspected that continuing the audit process would allow the LB&A to continue to audit the credits for the future. He understood this issue is a big issue and lots of people have opinions. He said he would respect the will of the body when it comes to that point.

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REPRESENTATIVE REINBOLD said she is a cosponsor and supports moving the bill. She further said she was unsure the film credit is doing a lot of good for development of the state's resources. She has seen a number of the films and is alarmed at some of the films that are produced. She pointed out that the Senate is considering the repeal of tax credits for the oil industry. She indicated it is alarming to her that the state would want to fund an industry for which the largest investment was \$12 million, while the oil companies bring in over 90 percent of the funds to the general fund, yet the legislature is repealing those taxes. She concluded that she is happy to move HB 112 from committee and that the legislature is tightening its belt because the state should be cautious where credits are given and where the state makes its investments.

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REPRESENTATIVE CHENAULT said most of the comments have been made. He offered that the legislature added to last year's bill, which accomplished some other good things for Alaska.

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REPRESENTATIVE REINBOLD moved to report HB 112 out of committee with individual recommendations and the accompanying fiscal notes.

REPRESENTATIVE JOSEPHSON objected.

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A roll call vote was taken. Representatives Reinbold, Saddler, Chenault, and Olson voted in favor of moving HB 112 out of the House Labor and Commerce Standing Committee. Representatives Josephson and Millett voted against it. Therefore, HB 112 was reported out of the House Labor and Commerce Standing Committee by a vote of 4-2.

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ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 3:58 p.m.