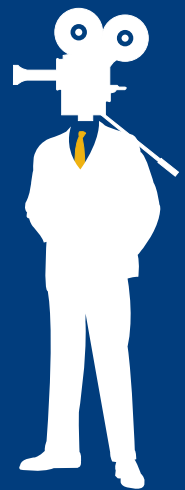




pennsylvania
DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT

Report to the General Assembly on the Film Production Tax Credit Program

June 1, 2008



> ready > set > action



Commonwealth of Pennsylvania
Edward G. Rendell, Governor
www.state.pa.us

Department of Community
& Economic Development
Dennis Yablonsky, Secretary

www.filminpa.com

the pennsylvania film production tax credit law

On July 25, 2007, Act 55 of 2007, the Film Tax Credit Law (“Act 55”) was enacted. Act 55 authorized the issuance of \$75 million in tax credits in an effort to expand the activity of film, television and other production companies in Pennsylvania. In less than a year, the film tax credit has resulted in more than \$300 million in direct economic activity in the Commonwealth – creating an estimated 4,355 jobs and generating nearly \$20 million of new tax revenue.

A brief summary of key provisions of Act 55 and, as required by law, a detailed list of projects are attached to this Report. As is expected for this type of economic activity, the large majority of projects awarded tax credits in FY2007-08 are still ongoing.



pennsylvania film production tax credit program

"BRIDGE TO NOWHERE" CREW AT WORK IN DOWNTOWN PITTSBURGH

impact of the film tax credit program across the commonwealth

Pennsylvania's film tax credit has led to increased business activity throughout the state, according to industry participants from filmmakers to equipment suppliers. For example:

- > Membership in IATSE 489, the studio mechanics union for Pittsburgh and the surrounding area, has more than doubled since July 2007
- > The film and TV industry projects have paid for an estimated 23,250 room nights in lodging establishments throughout the Commonwealth since July 2007
- > Enterprise Rent-a-Car, the top supplier of vehicles to the film and TV industry in Pennsylvania has reported that sales to the industry are at an all-time high

Moreover, the increase in industry activity has been felt throughout the Commonwealth. The following map indicates regions where film and television crews have been active since July 2007. The map also indicates locations of five new studios, either planned or under construction that are being built to accommodate the increased activity in the film and television industry.





BRAD SHAPIRO FROM LOCATION LIGHTING INC., ORELAND, PA SAYS WITH THE INCREASING IN DEMAND, HIS BUSINESS IS NOW ABLE TO EXPAND AND ADD A NEW HIGHLY SPECIALIZED EQUIPMENT TRUCK

business expansion, investment attraction and workforce retention / attraction

Act 55 has made Pennsylvania an attractive location for filmmakers, resulting in increased business activity among industry participants and suppliers, as well as other industries throughout the Commonwealth's economy.

Two of the many examples of business expansion directly attributable to industry activity spurred by Act 55 illustrate this point.

Shooters Post & Transfer, an Academy Award-nominated production company based in Philadelphia, recently announced that it will invest \$2.5 Million to upgrade the company's DIVE visual effects division as a direct result of the business activity generated by the film tax credit. Ray Carballada, the Chief Operating Officer of Shooters and DIVE recently made the following comments about Pennsylvania's tax credit program:

Since the tax incentives were broadened last summer, business with filmmakers – particularly independently produced feature films – has soared. . . . We're now working on six to eight projects here at once. [Before the incentive was passed] last year, we had about six total. Fifty percent of the business is associated with the incentives. The other half . . . has come from word of mouth, often recommendations from clients getting tax breaks . . . [and more] of the work is coming from other markets."

Philadelphia Business Journal, January 18, 2008.

Location Lighting, Inc. is another example of an established Pennsylvania company that has seen its business expand as a direct result of Act 55. The company's President, Brad Shapiro, provided the following comments to the Greater Philadelphia Film Office and the Pennsylvania Film Office:

The increase in business from features attracted by the tax credit has helped offset the impact of a tough economy. Without this new business we would have seen a decline in [sales volume] due to economic conditions.

Since the enactment [of Act 55] we have seen a 40% increase in this segment of our volume and it would have been more if we could have satisfied all requests we received, which is why we are investing in more gear and trucks.

We are building a huge grip truck and I am about to bid on lighting inventory to satisfy the increasing feature film demand. Also in the planning stage is a new trailer for large productions who want a full package they can pickup using production teamsters as drivers. This is a project that is driven totally by the effect of the tax credit.

Location Lighting's order for a custom built truck required products and services from a number of manufacturing businesses in Jonestown, Leesport and Elroy, PA, as indicated in the photos.



"THE BRIDGE TO NOWHERE," FEATURING VIGGO MORTENSEN



"THE ROAD" FILMING IN A TUNNEL ON THE ABANDONED STRETCH OF THE PA TURNPIKE, SOMERSET COUNTY

Specialized infrastructure and a skilled workforce are essential to the growth and development of a strong and vibrant entertainment industry in Pennsylvania. Act 55 has played a significant role in attracting investment in industry infrastructure and expanding the skilled workforce needed to support industry growth in Pennsylvania.

A total of five new studio projects are in the works in Pennsylvania. Two new studios are being constructed in Pittsburgh to serve the expanding entertainment industry in the western part of the state and three new studio projects are in the planning stages or under construction in Southeastern Pennsylvania. The aggregate investment in these five projects is estimated at nearly \$170 Million. When fully operational, these studios will create jobs for 2,800 - 4,000 employees (these figures exclude jobs related to studio construction).

The Mogul Mind studio will include 8 soundstages, a 2 acre back lot, 4 recording studios, a screening theater/broadcast studio, mill shops, paint shops and plaster shops as well as a commissary and parking for 300 cars.

Mogul Mind will invest \$10 Million in the construction of the studio and has not received any financial support from the Commonwealth for this project.

Studio construction will begin in July 2008 and is expected to be completed by December 2008; approximately 60 union construction workers will be working on the job. Employment at the studio is expected to be 50 by year-end 2008 and is projected to increase to 175 by 2009 and 250 by 2010.



MOGUL MIND STUDIO, PITTSBURGH

Planning and construction of three new studios is also underway in Southeastern Pennsylvania. The aggregate estimated investment in those projects is over \$155 Million. These projects include two state of the art production studios and a cutting edge special visual effects production facility.

In addition to attracting investment to Pennsylvania, Act 55 has enabled local filmmakers and producers to keep film and TV projects in Pennsylvania. Currently, Aurora Films and Music, a Lancaster based production company is filming a project in Harrisburg entitled “Another Harvest Moon.”

The film will be shot entirely in Pennsylvania and will generate economic activity in excess of \$1Million in the Harrisburg area, including approximately 500 room nights in local hotels and other lodging facilities.

Both the producer and director of Another Harvest Moon are Pennsylvania natives. Bob Black, the producer of the film provided the following insight into the impact of the film tax credit on this and future projects in correspondence with the Pennsylvania Film Office:

The PA tax credit is the ONLY way we could even consider completing a film of this size with a cast of this stature in our hometown. Our goal is to produce many many feature length productions in Central PA. This tax credit is the only way Pennsylvania can be considered for big dollar productions. In order for our state to remain competitive and for companies like ours to exist and grow in Central PA, we need [the] support of the PA tax credit or all of this – including us – will go away.

Not only is Act 55 helping local filmmakers, it is bringing back talent that left the Commonwealth to pursue careers in the entertainment industry in California and elsewhere.

John Kilker, who was born and raised in the Scranton area, went to Los Angeles in 1998 to begin a career in the entertainment industry. After working as a sound designer, writer, director and producer on ten feature films and numerous other projects, he founded Water Gap Pictures, Inc.

Mr. Kilker and Robert May, a native of Dallas, PA co-produced the film “Bonneville.” The film, which featured a cast that included Jessica Lange, Kathy Bates, Joan Allen and Tom Skerritt, was released in 20 cities across the US in February 2008. John Kilker and Robert May presented Bonneville at the Pennsylvania Independent Film Festival in Pittston earlier this year.

Commenting on his recent return to Northeast Pennsylvania, Mr. Kilker provided the following insights to the Pennsylvania Film Office:

My plan is to build a film production company in Scranton so that I [can be] part of NEPA's future and contribute here over the next several decades. . . . I plan to shoot an independent film entirely in NEPA and to use it as a catalyst for establishing a fully-functioning production entity here in NEPA, though all of this is contingent on the possibility to produce independent films here in NEPA, a possibility that would go away without competitive film incentives.

conclusion

In sum, not only is Act 55 attracting filmmakers to Pennsylvania in record numbers, thereby generating economic activity and creating new jobs, it has also served as the catalyst for business expansion and investment attraction. It has also played a significant role in retention and the expansion of the skilled talent pool needed to serve the Commonwealth's growing entertainment industry.



“BOTTLEWORLD” CAST - (LEFT-RIGHT) PTOLEMY SLOCUM, LAUREN KARL, CHRISTOPHER DENHAM, JOSH CARAS, SHANE MCRAE, PETER APPEL, ANNA CAMP, MYA HARRISON AND SCOTT WILSON



appendices

ON THE SET OF "THE ROAD"

appendix 1

Act 55 provides for a maximum of \$75 Million in tax credits to encourage film and television production activity in Pennsylvania. Act 55 provides that tax credits are available only to projects intended for a national audience in which at least 60% of the total production expenses are incurred in Pennsylvania. The tax credit award is limited to 25% of qualified film production expenses.

DCED is tasked with the responsibility of issuing guidelines and regulations under Act 55 and reviewing tax credit applications.

As contemplated by Act 55, DCED enters into contracts with tax credit applicants based on projected qualified film production expenses rather than actual expenses. However, tax credits are issued only if the 60% minimum spending limit has been met by actual qualified film production expenses incurred, as verified by an independent audit. Therefore, if an applicant incurred less than the projected amount of qualified film production expenses specified in the contract, the tax credit will be equal to 25% of the actual amount of qualified film production expenses. If an applicant incurs more than the projected amount of qualified film production expenses specified in the contract, the tax credit will be limited to the original projected amount.

Film tax credits can be applied against the Pennsylvania Corporate Net Income Tax, the Personal Income Tax and the Capital Stock and Franchise Tax, and can be carried forward by the taxpayer to which they are issued for up to three years. A transferee of a film tax credit must use the tax credit in the year in which it is issued (it cannot be carried back or forward; nor can any excess be refunded) and can only be used to offset a maximum of 50% of the transferee's tax liability.

**FY 2007-08 FILM TAX CREDIT PROGRAM SUMMARY
TOTAL AND REGIONAL BREAKDOWN**

	Tax Credits Issued	PA Production Spending	Jobs Created	State Revenue Generated
TOTAL	\$74,921,749	\$300,359,326	4,355	\$ 18,346,548

BREAKDOWN BY REGION

Project Title	Entity Name	Tax Credit Issued	PA Production Spending	Jobs Created	State Revenue Generated
<i>Dutch Country Roads Subtotal</i>		\$454,292	\$1,817,167	26	\$ 110,996
Another Harvest Moon	Another Harvest Moon LLC	\$146,248	\$584,992	8	\$ 35,732
No Sanctuary	No Sanctuary Production Co. LLC	\$2,522	\$10,088	0	\$ 616
RV2008	Nancy Glass Productions	\$27,290	\$109,159	2	\$ 6,668
Lebanon	Lebanon Productions LLC	\$ 278,232	\$ 1,112,928	16	\$ 67,980
<i>Lehigh Valley Subtotal</i>		\$1,856,200	\$7,425,000	108	\$ 453,534
Malevolence 2 LP	Crimson Films LP	\$731,200	\$2,925,000	42	\$ 178,665
Matter of Honor	Matter of Honor LLC	\$1,125,000	\$4,500,000	65	\$ 274,869
<i>Pennsylvania Wilds Subtotal</i>		\$1,100,600	\$4,402,400	64	\$ 268,907
Little Chicago	Little Chicago LLC	\$1,100,600	\$4,402,400	64	\$ 268,907
<i>Philadelphia and its Countryside</i>		\$34,724,004	\$137,382,218	1,992	\$ 8,391,581
A Wynn in the Off Season	Banyan Productions	\$33,586	\$134,344	2	\$ 8,206
Alone	International Artist Studio	\$64,500	\$258,000	4	\$ 15,759
Annual Cruise Guide	Banyan Productions Inc	\$450,439	\$1,801,757	26	\$ 110,055
Battle for the Barnes	Barnestorm Pictures LLC	\$54,984	\$219,936	3	\$ 13,434
Battle of Big Timber Creek	International Artist Studio	\$103,000	\$412,000	6	\$ 25,166
Beyond the Surface: Women and Pop Art	The University of the Arts	\$89,750	\$359,000	5	\$ 21,928
Bottleworld	Bottleworld LLC	\$251,292	\$1,093,152	16	\$ 66,772
Buddy Golstein Live name changed to Buddy Gilbert Comes per email 4/21/08	Neo Art & Logic Inc.	\$251,611	\$1,006,444	15	\$ 61,476
Buy This House	Banyan Productions Inc	\$22,392	\$89,569	1	\$ 5,471
Dare	Dare Productions, LLC c/o Gigantic Pictures	\$301,073	\$1,204,291	17	\$ 73,561
Deliver Me (Season 1)	Banyan Productions Inc	\$128,657	\$514,626	7	\$ 31,434
Dinner Impossible Season #1	SSIP LLC	\$524,798	\$2,099,193	30	\$ 128,223

Dinner Impossible Season #2	SSIP LLC	\$559,182	\$2,396,727	35	\$	146,397
Disney Toy Spots	SSIP LLC	\$54,944	\$219,755	3	\$	13,423
Explicit Ills	Explicit Ills LLC	\$499,634	\$1,998,539	29	\$	122,075
First Love (Sleeping with the Fishes)	International Artist Studio	\$245,625	\$982,500	14	\$	60,013
Happy Tears	Susceptible, LLC (changed from Happy Tears Holdings, LLC)	\$1,684,469	\$6,737,874	98	\$	411,563
Have a Heart	International Artist Studio	\$189,000	\$756,000	11	\$	46,178
Holiday Chaser	International Artist Studio	\$6,250	\$25,000	0	\$	1,527
Homecoming	Animus Films LLC name changed to Paperstreet Films, LLC	\$590,508	\$2,362,033	34	\$	144,278
If You Could Say It In Words	A Chip & A Chair Films	\$14,269	\$57,074	1	\$	3,486
My Dog Tulip	The My Dog Tulip Company, LLC	\$127,625	\$510,500	7	\$	31,182
Our Lady of Victory	Our Lady of Victory LLC	\$2,059,820	\$6,479,520	94	\$	395,782
Rip & Renew	Nancy Glass Productions	\$175,662	\$702,648	10	\$	42,919
Save My Bath (Series 5)	Nancy Glass Productions	\$193,619	\$774,478	11	\$	47,307
Spice up My Kitchen	Nancy Glass Productions	\$400,127	\$1,600,509	23	\$	97,762
Spring is for Lovers	International Artist Studio	\$473,750	\$1,895,000	27	\$	115,750
The Big Move	Banyan Productions	\$113,452	\$453,808	7	\$	27,720
The Happening	Twentieth Century Fox Film Corporation	\$12,053,359	\$48,213,438	699	\$	2,944,973
The Lovely Bones	DreamWorks Productions LLC	\$8,507,585	\$34,030,338	493	\$	2,078,641
The Schuylkill Navy	Shirley Road Productions	\$50,078.75	\$200,315	3	\$	12,236
The Verdict (Pilot)	The Verdict Productions 1, Inc.	\$1,134,076	\$4,536,303	66	\$	277,086
Trading Spaces (Season 7)	Banyan Productions	\$314,309	\$1,257,237	18	\$	76,795
Why Me	International Artist Studio	\$7,750	\$31,000	0	\$	1,894
Remorse	Remorse, LLC	\$463,528	\$1,854,110	27	\$	113,253
Tenure	Tenure Productions	\$1,249,015	\$4,994,060	72	\$	305,047
The Dream of the Romans	Roman Dreams LLC	\$1,131,746	\$4,526,984	66	\$	276,517
The Nail	The Nail LLC	\$148,539	\$594,156	9	\$	36,292

Pittsburgh and its Countryside Subtotal		\$36,541,582	\$148,352,258	2,151	\$	9,061,653
Adventureland	Hats Off to Larry Productions Inc	\$2,475,000	\$9,900,000	144	\$	604,712
Hollywood & Whine	6 Nations Studios LLC	\$1,044,103	\$4,176,411	61	\$	255,104
Kill Point (Episodes 2-8)	Kill Pit Productions Inc.	\$3,821,693	\$17,472,707	253	\$	1,067,268
My Bloody Valentine	Cupid Productions Inc	\$4,528,688	\$18,114,751	263	\$	1,106,485
Shannon's Rainbow	Shannon's Rainbow, LLC	\$1,151,442	\$4,605,770	67	\$	281,330
She's Out of My League	DreamWorks Productions LLC	\$3,944,085	\$15,776,338	229	\$	963,650
Shelter	Shelter Productions LLC	\$5,808,452	\$23,233,809	337	\$	1,419,168
Smart People	Smart People, Inc.	\$1,508,454	\$6,033,816	87	\$	368,558
The Bridge to Nowhere	Smithfield Street Productions	\$412,561	\$1,650,244	24	\$	100,800
The Road	The Road Productions, LLC	\$6,086,566.75	\$24,346,267	353	\$	1,487,119
Trapped	Winter Morning Pictures LLC	\$40,440	\$161,758	2	\$	9,881
Zack and Miri	Blue Askew Inc.	\$5,720,097	\$22,880,387	332	\$	1,397,580
Poconos Subtotal		\$245,071	\$980,283	14	\$	59,878
Jagged	R Life Entertainment Group	\$198,071	\$792,283	11	\$	48,394
VAMP	Bravo Sierra Motion Pictures	\$47,000	\$188,000	3	\$	11,483

**SUMMARY OF ACT 55 FILM TAX CREDIT TRANSFERS
FY 2007-2008**

Tax Credit Transfers

Applicant	Project	Tax Credit Requested	Tax Credit Issued	Transferee	Amount Transferred
Our Lady Of Victory LLC	Our Lady of Victory	\$2,059,820	\$2,059,820	Synthes North America Inc.	\$ 1,059,820
				Syth Inc.	\$ 1,000,000
Smithfield Street Productions Inc.	The Bridge to Nowhere	\$ 306,579	\$ 306,579	Syth Inc.	\$ 306,579
<i>Subtotal Transfers Completed</i>					\$ 2,366,399
Paperstreet LLC	Homecoming	\$590,508	\$590,508	Pending	
Smart People	Smart People	\$1,508,454	\$1,508,454	Pending	
<i>Subtotal Transfers Pending</i>					\$ 2,098,962
<i>Total Transfers Pending or Completed</i>					\$ 4,465,361

appendix 3

note on employment and revenue estimates

In both the public and the private sector two economic impact models, IMPLAN and RIMS, are widely recognized and consistently used to estimate economic impact and job creation. Both models are based upon information generated by the US Department of Commerce Bureau of Economic Analysis. Both IMPLAN and RIMS have specific modules can be used to analyze economic impact of projects and programs in the film and television industry and while the underlying mechanics of the models are different, the job multipliers for both models are virtually identical and would generate nearly identical results.

The Pennsylvania Department of Labor and Industry has consistently used IMPLAN to estimate job creation in the Commonwealth. DCED selected the IMPLAN economic model to estimate job creation and revenue generated to promote consistency in reporting among Commonwealth agencies and to leverage the resources available through the Department of Labor and Industry and the expertise of its staff in the use of IMPLAN.

Using the IMPLAN model, DCED estimates that a total of 4,355 permanent jobs will be created as a result of economic activity generated by film and television projects that have entered into contracts with DCED under Act 55.

The IMPLAN model estimates that for each \$1 Million in spending by the Film Industry in Pennsylvania, 14.5 permanent jobs are created (FTEs). These jobs are spread across 40 industry segments and include jobs created throughout the Commonwealth due to the economic activity generated by that spending, whether the job was created as a direct, indirect or induced impact of the spending.

Act 55 requires that job creation be reported on a geographic basis, and this is shown in the Attachment to this Report. Because the data was developed based on the primary location of the project, caution should be applied in its interpretation. The economic activity and job creation, particularly indirect and induced job creation, spreads far beyond the primary location of the project.

For example, for the film project “The Road” all economic activity will be reported as Pittsburgh, the location of the production company’s base in Pennsylvania, although portions of the film were shot at Presque Isle State Park and on the Pennsylvania Turnpike, resulting in significant activity in and around Erie and Breezewood. Similarly, spending on restaurants, catering and food for all projects will be reflected as economic activity in each production’s primary location despite the fact that it will be drawn from suppliers and distributors across the Commonwealth.

The IMPLAN model also estimates that for each \$1 Million in spending by the film industry \$61,000 in state tax revenues are generated. Utilizing this model, DCED estimates that total state revenue generated by the projects that have entered into contracts with DCED under the Act will be \$18.3 Million.

