

Exhibit 1

# Analysis of the Film and Video Industry in Arizona

December 2004



**ARIZONA DEPARTMENT OF COMMERCE**  
*Our Job is JOBS!*

Prepared by

ESI Corporation  
300 W. Clarendon  
Suite 470  
Phoenix, AZ 85013  
[www.esicorp.net](http://www.esicorp.net)



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ESI Corporation  
300 W. Clarendon  
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(602) 265-6120  
www.esicorp.net

**Peer reviewed by the Arizona Department of Commerce Economic Research Advisory Committee:**

Dan Anderson  
Assistant Executive Director for  
Institutional Analysis  
Arizona Board of Regents

Brian Cary  
Principal Economist  
Arizona Joint Legislative Budget  
Committee

Lisa Danka  
Director, Commerce & Economic  
Development Commission  
Arizona Department of Commerce

Kent Ennis  
Economic Consultant  
CH2M Hill

Wayne Fox  
Director, Bureau of Business and  
Economic Research  
Northern Arizona University

James B. Nelson  
Economic Development Manager  
Salt River Project

William P. Patton, Ph.D.  
Director of Economic Development  
Tucson Electric Power

Elliott D. Pollack  
Elliott D. Pollack & Co.

Brad Steen  
Chief Economist  
Arizona Department of  
Transportation

Marshall Vest  
Director, Economic and Business  
Research  
Eller College of Management  
University of Arizona

Don Wehbey  
Economist  
Research Administration  
Arizona Department of Economic  
Security

Jim Wontor  
Advisor, APS Forecasting  
Arizona Public Service

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## Table of Contents

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<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
Background .....	1
Economic Impact Findings.....	1
Other Key Findings .....	3
Recommendations .....	4
<b>I. INTRODUCTION.....</b>	<b>8</b>
Purpose of This Report .....	8
Study Process and Methodology .....	8
Industry Trends .....	11
<b>II. ECONOMIC ANALYSIS OF THE FILM &amp; VIDEO INDUSTRY IN ARIZONA.....</b>	<b>15</b>
Employment and Wage Trends .....	15
Economic Impact of the Film Industry.....	19
<b>III. STRUCTURE OF THE FILM INDUSTRY IN ARIZONA .....</b>	<b>24</b>
Film Festivals .....	24
High Schools .....	25
Community Colleges/Universities .....	26
Production Companies .....	27
In-House Production .....	29
Local Film Commissions .....	29
Film Industry Suppliers .....	31
Survey Findings Summary.....	33
<b>IV. BEST PRACTICES/BENCHMARKS.....</b>	<b>34</b>
Economic Vitality .....	34
Film Commission Services .....	41
Support and Marketing .....	42
Best Practices Summary.....	44
<b>V. ARIZONA’S COMPETITIVE ADVANTAGES AND DISADVANTAGES.....</b>	<b>46</b>
Filming in Arizona .....	46
Film Commission Services .....	47
Location Factors .....	47
Researching Locations .....	47
Incentives .....	48
Local Hiring .....	48
Perception of Arizona .....	49
Competitive Advantages/Disadvantages Summary .....	49

<b>VI. FINDINGS AND RECOMMENDATIONS.....</b>	<b>51</b>
Summary of Findings .....	51
Recommendations .....	53
<b>APPENDIX A    ECONOMIC IMPACT MODEL .....</b>	<b>A-1</b>
<b>APPENDIX B    SURVEY INSTRUMENTS .....</b>	<b>B-1</b>

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## List of Tables

---

Table 1 – Definition of the Film Industry .....	1
Table 2 – Economic Impact of the Film Industry on the Arizona Economy - 2003 .....	2
Table 3 – Definition of the Film Industry .....	8
Table 4 – Survey Response Summary .....	10
Table 5 – Definition of the Film Industry .....	15
Table 6 – 2003 Average Annual Salaries for the Film Industry in Arizona .....	17
Table 7 – Film Industry Employment Distribution in Arizona - 2003 .....	17
Table 8 – Average Annual Salaries in 2003 – Film Industry in Metro Phoenix, Metro Tucson & Balance of the State .....	19
Table 9 – Economic Impact of the Film Industry on the Arizona Economy - 2003 .....	20
Table 10 – Total Economic Impact of the Film Industry on the Arizona Economy by NAICS – 2003 .....	20
Table 11 – Total Economic Impact of the Film Industry on the Arizona Economy by Region - 2003 .....	21
Table 12 – Impact of Arizona Film Festivals in 2003 .....	22
Table 13 – Top Issues by Type of Survey Respondent .....	33
Table 14 – Film Production Incentives for Selected States .....	40
Table 15 – Comparison of Budget and Staff Size for Selected States .....	45

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## List of Figures

---

Figure 1 – Average Employment and Establishments .....	16
Figure 2 – Arizona Film Industry Employment Distribution – 2000 through 2003 .....	18
Figure 3 – Arizona Film Festivals – Total Revenues and Expenses in 2003 .....	25
Figure 4 – Percentage of Respondents Who Own Various Types of Equipment .....	26
Figure 5 – Sources of Recruiting that Producers Utilize .....	28
Figure 6 – In-House Film/Video Production in 2003 .....	30
Figure 7 – Percentage of Local Film Commissions by Types of Funding .....	31
Figure 8 – Percentage of Respondents Who Supplied the Following Segments of the Film Industry .....	32
Figure 9 – Arizona Department of Commerce Film Office Budget .....	37



## EXECUTIVE SUMMARY

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### BACKGROUND

Arizona has a rich history in the film industry dating back to the early westerns, and has been the location for feature films, television series and commercials. In recent years, the amount of filming in the U.S., in general, and Arizona, in particular, has declined as production companies moved to lower cost locations, such as Canada and Mexico. The Film Industry in Arizona is important to the economy in that it brings in dollars from other states and countries to be spent here on payroll and film production services. It also has a firm basis in technology and innovation / entrepreneurship, and has both urban and rural components. While these are generally understood benefits of the industry, the Arizona Department of Commerce Film Office seeks a study that will define the film and video industry as a cluster, quantify the impacts of the industry, and analyze the industry in terms of state support programs (such as workforce development and education).

### ECONOMIC IMPACT FINDINGS

The economic analysis of the film industry begins with the development of a definition of the film industry by the North America Industrial Classification System (NAICS) Codes, which were reviewed and approved by the client. Based on analysis of NAICS industries, the Film Industry is defined as the group of three industries shown in Table 1.

Table 1 – Definition of the Film Industry	
NAICS	Name
51211	Motion Picture and Video Production
51219	Postproduction Services and Other Motion Picture and Video Industries
51212	Motion Picture and Video Distribution

The Film Industry had a significant economic impact on Arizona in 2003. With total wages of approximately \$21.9 million, the Film Industry, in and of itself, generated over \$107 million in direct economic activity (or output) throughout the State of Arizona. In addition to the 612 film industry jobs, the Film Industry is responsible for the maintenance of an additional 1,092 indirect and induced jobs in Arizona. These jobs include those occupations that supply goods and services to companies in the Film Industry as well as jobs supported by the spending of the wages from the

direct and indirect jobs. This means that for every 100 Film Industry jobs in Arizona, another 182 jobs exist to service and support the Film Industry. Overall, approximately 1,704 total direct and indirect jobs in Arizona were supported by the Film Industry during 2003. These jobs generated about \$56.6 million in total wages and \$201.5 million in total economic activity (see Table 2 below).

Table 2 – Economic Impact of the Film Industry on the Arizona Economy - 2003			
Type	Jobs	Total Wages	Output
Direct	612	\$21,885,900	\$107,345,900
Indirect	665	\$20,856,400	\$59,407,300
Induced	427	\$13,856,600	\$34,698,300
<u>Total</u>	<u>1,704</u>	<u>\$56,598,900</u>	<u>\$201,451,500</u>

Source: ESI Corporation; Arizona Department of Economic Security; IMPLAN.

Film festivals held in Arizona also contribute to the Arizona economy. In 2003, the three operating film festivals brought in \$240,000 in revenue and had \$220,000 in expenditures of which \$170,000 was spent in Arizona. The average length of each film festival was three days with total attendance at these film festivals estimated at 19,800 people for 213 films.

The Arizona Department of Commerce tracks the value of film production expenditures in the state generated from out of state production companies. The last full year in which data is available is fiscal year 2003, during which there were a total of 427 completed projects translating into an estimated economic impact of \$41.6 million being spent on wages to local crews as well as the procurement of local goods and services. While there is no way of knowing precisely how much of the Arizona film industry total impact (Table 2) can be attributed to out of state production, the survey results do reveal anywhere from 10.9% to 25.7% of revenues were derived from out of state sources.

It is evident that out of state production is important to the local economy and it helps stimulate the growth of the local film industry. Both are needed to help sustain one another. Fostering the growth of Arizona's film industry will require a two pronged approach; one that focuses on strategies for strengthening the local film industry and the other promoting Arizona to out of state production companies.

## OTHER KEY FINDINGS

- Since 2000, employment declined in Arizona's film industry by about 26.3% from 830 jobs in 2000 to 612 in 2003. By comparison, total employment in Arizona increased by 1.4% during this same period. Indeed, most of the job losses occurred in Metro Phoenix. Some 199 film industry jobs were lost in Metro Phoenix between 2000 and 2003. The balance of the state also experienced loss of jobs, as this area had 20 fewer jobs in 2003 than it did in 2000. Metro Tucson did experience growth in film industry employment, but just slightly, as Metro Tucson only gained 2 net jobs from 2000 to 2003.
- In addition to the statewide loss of film industry jobs, average salaries in the film industry declined statewide between 2000 and 2003. Average annual salaries for film industry jobs in Arizona as a whole dropped by 24.3% to \$35,773 in 2003. Metro Phoenix and the balance of the state saw declines in average salaries. From 2000 through 2003, average salaries for film industry jobs in these regions decreased by 21.5% and 41.6%, respectively. Metro Tucson, on the other hand, experienced an average salary increase of 7.6% from 2000 to 2003. The discrepancy between job losses in Metro Phoenix and the balance of the state and job gains in Metro Tucson can possibly be attributed to the qualifications of certain segments of workers. With the increased reliance on the highly technical post-production process, the demand for these workers has increased. And with a large percentage of the highly technical workers located in Metro Tucson and Metro Phoenix, it stands to reason that the change in their employment trends has an influence on the overall trends in Film Industry employment, and why the statewide differences in employment trends exist.
- Runaway production, where films to be shown in the U.S. are produced outside of the U.S., is a national phenomenon. Runaway production occurs because non-U.S. locations, such as Canada and New Zealand, are less expensive than U.S. locations. As more film productions are lured outside the U.S., the number of film productions taking place in the U.S. is dwindling. As a result, there is intense competition among the states trying to bring film productions to their state.
- In order to lure film productions, states have undertaken aggressive advertising, incentive, and marketing campaigns. These efforts have resulted in revamped websites which include photos of locations, information on permits and regulations, and directories of local technicians/crew just to name a few. Financial incentives are also being offered. These incentives include sales tax exemptions, income tax credits, and low-interest loans for film production activities. In addition, certain states have helped develop the local film technician and crew jobs as well as those companies that provide equipment to film productions. Nationwide marketing and previous filming experience has proven to be an effective means to increase "word of mouth" which appears to be one of the primary factors that producers rely on when considering a location.

- The states analyzed in this report consider the film industry as a major contributor to their economies because film production tends to bring money into the state from out-of-state sources. In Colorado, for example, about 75% of production company receipts came from out-of-state sources during 2001. By comparison, based on surveys conducted by ESI, only 21% of Arizona production company receipts came from out-of-state sources. As the number of film productions taking place in Arizona has dwindled in recent years, Arizona production and supplier companies have been forced to go where the work is. Currently, a majority of work within close proximity to Arizona is located in New Mexico.
- New Mexico is one of the more recent examples of the dramatic impact the film industry can have on an economy given a certain mix of incentives, advertising, and accessibility of information. Near the end of 2002, New Mexico enacted legislation calling for sales tax exemptions, income tax credits, and no-interest loans on film productions taking place in New Mexico. The result was a ten-fold increase in economic activity in the state. In 2002, the film industry spent about \$8 million in New Mexico. During 2003, the first year the incentives took place, film production picked up dramatically and spending reached approximately \$80 million. Indeed, if film production spending in New Mexico can go from \$8 million to \$80 million in one year, there is no reason to believe this could not happen in Arizona.
- The main concern of Arizona's resident film industry is the apparent lack of production business that is brought to Arizona. The most frequently stated reasons for the lack of production business in Arizona include lack of resources to thoroughly support and promote the state, lack of incentives, and lack of facilities and professional technicians. It was indicated that the stigma with Arizona is that the industry as a whole thinks there are not enough skilled crew in Arizona to support the needs of out-of-state productions. Compounding this problem is the lack of production projects in the state which has led to an exodus of talented professionals who have followed the business elsewhere.

## RECOMMENDATIONS

The Arizona Film and Video Industry is at a crossroads. Fierce competition from abroad and technological advances in filmmaking have had an adverse impact on employment in the state. A number of initiatives need to occur in order for Arizona to regain its competitiveness, promote technology and innovation; encourage local and independent filmmaking; and attract more out-of-state film productions that enhance local economies and create jobs statewide.

In spite of the fact that jobs in this industry have declined over the last several years, Arizona has a solid foundation to build upon, which includes its rich history in

filmmaking, the current base of film technicians/crews, equipment, and facilities, as well as diversity of filming locations and weather.

The reality of the film industry in the U.S. is that states are competing for a limited number of film productions as more and more production takes place outside the U.S. As a result, recognizing the significant impact of film production on their economies, states have enacted aggressive marketing campaigns to maintain and enhance the film industry. Indeed, if film production spending in New Mexico can go from \$8 million to \$80 million within one year, there is reason to believe that the film industry could also have such an impact on Arizona.

Fostering the growth of the film and video industry in Arizona will require a collaborative effort that includes support from private business, government as well as education. With that in mind, the following recommendations include ways Arizona can emulate or even improve on best practices in other states, approaches for promoting local filmmaking, and address identified deficiencies through a team effort.

#### *ESTABLISH COLLABORATIVE PARTNERSHIPS*

- Work to unite the disparate pieces of the film industry in the state by soliciting their involvement in the development and implementation of a “Film in Arizona” marketing campaign.
- Encourage education and private business to work together to establish mentoring, internship and apprenticeship opportunities.
- Facilitate a seamless integration of service delivery by identifying the weaknesses in the film making supply chain and work to overcome those weaknesses.

#### *FACILITATE AND PROMOTE LOCAL FILMMAKING*

- Stimulate the creation of local filmmaking by working with the local film festivals and have an annual statewide competition which would culminate at an annual film festival with prizes presented by the Governor.
- Support local nonprofit organizations that promote the development of local filmmaking, such as the newly located Blacktop Films. This support could include helping to publicize the non-profit service to providing financial assistance.
- Develop an outreach program aimed at the Arizona film industry which would promote the small business assistance programs offered by the Arizona Department of Commerce.
- Create a revolving loan fund in conjunction with lending institutions that independent filmmakers could access to help with production and distribution costs of their films.

- Ensure the availability of future workers by encouraging the expansion of educational offerings at the high school and community college levels.
- Help Arizona's film industry stay competitive by promoting the availability of workforce development dollars to the industry.
- Inaugurate an annual filmmaking camp to foster interest among the state's youth. This could be done through a collaboration of the Arizona film industry and the colleges.

#### *ESTABLISH INCENTIVES WITH A RETURN ON INVESTMENT*

- Create an incentive program to attract out of state production companies that provides a tax rebate for utilizing Arizona talent, technicians/crews, and equipment.
- Ensure that incentives are understandable and easily obtainable. The types, amount, eligibility, and qualifications of incentives offered should be clearly documented on the Commerce's website. There should be as little administration as necessary in order to apply for incentives. Incentives are effectively useless if production companies perceive there to be too much "red tape" to be worth the effort.
- Support incentives that are geared toward smaller, resident independent film and video productions, such as loaning out equipment.

#### *MARKETING AND PROMOTION*

Based on the surveys conducted for this study, Arizona does not appear to be on the radar screen of most film production companies compared to other states. A more targeted, effective marketing strategy is needed to promote Arizona's diversity of locations, professional technicians/crews, and film festivals.

- Develop a branding and marketing plan to promote film production in Arizona. Implementation strategies should be stratified to target the various types of filming activity (feature films, commercials, television and cable, etc).
- Increase the amount of resources and marketing dollars to effectively compete for film business.
- Attend national and regional trade shows and work to establish personal relationships with production companies by scheduling regular sales calls.
- Advertise in national magazines that target the film production industry, such as *Hollywood Reporter* and *Daily Variety*.
- Promote Arizona as having more than just desert locations. Highlight places such as Flagstaff and Sedona for forested locations and Scottsdale and Tucson for urban landscapes.
- Help the film festivals secure big name signature sponsors, an example is Ralph Lauren's 20 year sponsorship of the annual Telluride Labor Day Film Festival.

- Promote local film festivals in national publications to draw larger audiences nationally and internationally.
- Provide more resources and staffing to increase the level of customer service. New Mexico was identified a number of times for their apparent willingness to help in any way they can to bring a production to their state. This higher level of customer service requires substantially more resources and staffing than currently available at the Arizona Department of Commerce Film Office.
- Develop a standardized tracking system for the State and Local Film offices to use annually in monitoring the value of out-of-state production. Information to be gathered should include revenue by project type (commercials, documentaries, films, television, videos, post-production), the number of projects, and the number of production days.

#### *FILM OFFICE WEBSITE*

Interviews with producers revealed that the website for a state's film office is one of the starting points in scouting locations for film productions. An organized, well-designed website with a wealth of information is one of the most effective means at marketing Arizona as a film destination. Following are suggestions for improvement to the current Arizona Department of Commerce website.

- Create a website link that is easy-to-use with all information available within two or three clicks. An unorganized, confusing website is a deterrent to most users.
- Include nearly all the location resources a production company could ever need to know about filming in Arizona such as the following:
  - ⇒ Online picture gallery of locations in Arizona
  - ⇒ All pictures should be downloadable
  - ⇒ Streaming video with state footage
  - ⇒ Clear description of permits for filming in Arizona
  - ⇒ Online permit applications including filing instructions
- Provide an online, searchable directory of up-to-date production resources including contact information for technicians/crews, equipment suppliers, studios, and trucking, etc.
- Supply an online directory of hotels, restaurants, entertainment venues, and any other attraction a potential production would desire while filming in Arizona.
- Include a clear discussion of the incentives available in Arizona to out of state production companies
- Create a website with an identifiable, easy-to-remember name. For example, Nevada's website is at [www.NevadaFilm.com](http://www.NevadaFilm.com) and Florida's website is at [www.FilminFlorida.com](http://www.FilminFlorida.com).



# I. INTRODUCTION

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## PURPOSE OF THIS REPORT

The purpose of this report is to determine the impact the Film Industry has on Arizona's economy. In addition to quantifying the Film Industry's economic impact on the Arizona economy, this report will assess Arizona's competitive advantages and disadvantages with respect to the desirability of filming in Arizona. Industry research, telephone interviews, and web-based surveys were conducted to help make recommendations for enhancing Arizona as a film destination.

## STUDY PROCESS AND METHODOLOGY

The study process undertaken was multi-faceted and incorporated original research through the use of surveys and telephone interviews as well as a quantitative analysis determining the economic impact of the film industry on the State's economy. To accomplish this, a number of methodologies were used to measure the impact of the Film Industry on Arizona's economy and assess the State's competitive advantages and disadvantages.

The methodology for each section of this report is summarized on the following pages.

### *CHAPTER II : ECONOMIC ANALYSIS OF THE FILM INDUSTRY*

The economic analysis of the film industry begins with the development of a definition of the film industry by NAICS Codes, which were reviewed and approved by the client. Based on analysis of NAICS industries, the Film Industry is defined as the group of three industries shown in Table 3.

Table 3 – Definition of the Film Industry	
NAICS	Name
51211	Motion Picture and Video Production
51219	Postproduction Services and Other Motion Picture and Video Industries
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Covered Employment and Wages data (formerly ES202) obtained from the Arizona Department of Economic Security was used to perform a quantitative analysis of the



industry in terms of total number of establishments, employment, and wages from 2000 through 2003 (the latest data available).

For the most current year available (2003), direct employment data was used to calculate the economic impact of the film industry in Arizona. Direct employment data from the industry was analyzed through the IMPLANPro economic impact model to document indirect and induced “multiplier” effects of the industry to the State. Refer to Appendix A for further detail.

### *CHAPTER III: STRUCTURE OF THE FILM INDUSTRY IN ARIZONA*

A variety of survey instruments were used to gather information from a number of groups with ties to the film industry. These groups included production companies, film industry suppliers, in-house production, and film commissions. Other groups include universities and colleges, school districts, and film festivals.

This set of survey analyses document the structure of the film industry, and additionally was used as one method of collecting insights from knowledgeable individuals concerning the state’s competitive advantages and disadvantages.

The Arizona Department of Commerce identified an appropriate universe (group of people to be surveyed) for each survey and provided contact information.

The surveys were web-based, and featured automatic tabulation and reporting of defined answers (i.e. specific responses to fill in the blank questions are not used to tabulate by, but are recorded in the dataset). The surveys were conducted between May 6, 2004 and June 8, 2004. A total of 113 surveys across all film industry groups were completed resulting in an overall response rate of 16.9% (see Table 4). Based on this firm’s experience in conducting surveys and the overall response rate achieved in these surveys, the results from these surveys reasonably represent the trends and opinions of all entities included in the sampled population.

Table 4 – Survey Response Summary			
Film Industry Group	Survey Size	Respondents	Response Rate
Production Companies	346	53	15.3%
Film Industry Suppliers	240	32	13.3%
In-House Production	16	8	50.0%
Film Commissions	17	7	41.2%
Universities and Colleges	17	3	17.6%
School Districts	30	7	23.3%
Film Festivals	4	3	75.0%
<b>Total</b>	<b>670</b>	<b>113</b>	<b>16.9%</b>

Source: ESI Corporation

#### *CHAPTER IV: FILM COMMISSION BEST PRACTICES FROM OTHER STATES*

In conjunction with the Arizona Department of Commerce, six other states were identified in order to obtain best practice information. These six states are regarded by the profession as having the best film programs and have been extremely successful in attracting production to their state. Phone interviews were conducted with the film and economic development departments of these states to learn about their program activities, size of staff and funding levels, incentive programs, successes and the like.

#### *CHAPTER V: ARIZONA'S COMPETITIVE ADVANTAGES AND DISADVANTAGES*

The competitive advantages and disadvantages of Arizona were addressed through interviews with knowledgeable individuals both locally and out of state. The key factors and how Arizona is rated differs for feature films as compared to commercials, for example.

In consultation with the Arizona Department of Commerce, various sub-industries were identified. The key sub-industries included commercials, industrials/corporate films, documentaries, and feature films. Other sub-industries include sports programming, television and cable, and music video.

#### *CHAPTER VI: CONCLUSIONS AND RECOMMENDATIONS*

A set of recommendations has been made based on the research performed in the previously noted sections. These recommendations include ways to emulate or even improve on best practices in other states, approaches for addressing identified deficiencies, and methods for tracking success.

## INDUSTRY TRENDS

### *FILM INDUSTRY OVERVIEW*

The film industry in the United States generates over \$20 billion in direct economic activity each year, according to a 1999 study from the Monitor Company. This study ("The Monitor Report") was commissioned by the Directors Guild of America and the Screen Actors Guild of America to quantify the economic effects of runaway production on the U.S. The film industry includes production and distribution of films, television (series and TV movies), and commercials. Between 1990 and 1998, the U.S. film industry experienced rapid growth. According to the Monitor Report, the number of productions (film, TV, and commercials) developed in the U.S. increased by about 50% from 716 productions in 1990 to 1,075 in 1998. Feature films comprise a significant portion of these productions and overall expenditures. Feature film productions in the U.S. spent an estimated \$11 billion in 1998 (the latest data available). These expenditures include payroll, rent, and supplies just to name a few. These supplies can range from hotel rentals, car rentals, and catering to freeway tolls, construction materials, and wardrobe. The ripple effect of this spending is significant. According to the Monitor Report, the \$11 billion in direct spending on feature film production in the U.S. had an estimated ripple effect of \$16 billion in 1998. This additional economic impact includes the overall economic output of those businesses supplying goods and services to feature film production and the spending of the wages of the workers in the film industry and the suppliers. Including the estimated ripple effects, feature film production contributed an estimated \$27.7 billion to the U.S. economy in 1998. Additional economic activity is generated from television and commercial production. Estimates of the economic impact of these types of productions were unavailable.

The latest data available from the U.S. Bureau of Labor Statistics indicates that in 2003 there were nearly 365,000 jobs directly involved in the U.S. film industry, which is slightly down from 2002. There are two types of jobs in the film industry: above-the-line workers and below-the-line workers. Above-the-line staff generally includes the directors, writers, producers, and primary actors. These are the major players in a production. Below-the-line workers include non-primary actors, technicians, assistant directors, artists, specialists, unit production managers, and set movers, just to name a few. These jobs are behind the scenes of the productions. According to industry experts, approximately 70% to 80% of these below-the-line workers are hired locally where the production takes place. These workers typically do not follow the production when it changes location. In addition, these below-the-line jobs are relatively high paying. According to the U.S. Bureau of Labor Statistics, the average hourly wage for these types of jobs was \$20.75. By comparison, the average hourly wage was \$13.44/hour for a typical private sector job in the U.S.

## *RUNAWAY PRODUCTION*

There are several factors that producers consider in choosing a location for a potential production. Over the past 30 years, production within the U.S. has concentrated in California, New York, Florida, North Carolina, Texas, and Illinois. Producers have generally favored these states because producers like to work where they live, and most live in the U.S. production clusters. These states are considered production clusters because they contain all the resources needed as well as financing, development, and distribution assets. According to the latest data from the U.S. Department of Commerce, these states account for 88% of the motion picture industry's revenue. They also supply 80% of the total employment and 65% of the total number of establishments in the industry. These states are typically favored because they fit the location needs of the particular production. Other states have attracted film production by promoting scenery and location attributes in their states that are not generally considered by most producers. In addition to these location attributes, the overall cost of producing in these locations, relative to the expected revenues from the project, is of primary importance. Producers are always searching for low cost locations. Over the past decade, U.S. productions have moved outside the U.S. into countries such as Canada, Australia, and New Zealand. This phenomenon is called "runaway production."

Runaway production occurs when a film that is released and developed in the U.S. is filmed in a foreign country. Most of the runaway productions occur due to cost factors. Locations in Canada, Australia, and New Zealand, for example, are sought after due to the fact that the cost of production is lower than that in the U.S. The frequency of this type of runaway production increased rapidly between 1990 and 1998. In 1990, about 100 films were produced outside the U.S., according to the Monitor Report. In 1998, the latest data available, the number of films produced outside the U.S. increased by approximately 185% to 285 films. If it were not for lower costs of production and other factors in those countries, these films would have been produced in the U.S. The foregone economic activity related to these productions is the result of the migration of film productions outside the U.S. According to the Monitor Report, the 285 films that were produced outside the U.S. in 1998 had an overall estimated economic impact of \$10.3 billion. This foregone economic impact (or output) includes \$2.8 billion in direct spending and the ripple effects of that direct spending totaled about \$5.6 billion.

## *INCENTIVES FOR RUNAWAY PRODUCTIONS*

According to film industry experts, Canada, Australia, and New Zealand are the most popular countries for runaway production. These countries have adopted production plans that draw U.S. producers typically through the use of incentives. These incentives range from tax breaks on production spending to fee and permit waivers. When the effects of exchange rates, lower production costs, and incentives are considered, total production costs for a typical film production are about 25%

lower than if the production were to take place in the U.S. A study conducted by the Directors Guild of America and the Screen Actors Guild indicated that Canadian, Australian, and U.K. currencies have all declined by 15% to 23% since 1990 relative to the U.S. dollar. When you factor in the already low wage rates in Canada and Australia the overall savings becomes very significant.

According to the Monitor Report, Canada adopted a successful strategy in drawing U.S. producers to move their productions to Canada. Canada took an integrated approach toward luring U.S. film productions. As Canada used a series of incentive programs to attract producers, they included qualifying requirements to promote local hiring. This requirement for local hiring helped give local crews in Canada the necessary experience in film production that they otherwise would not have received. These incentive programs and local hiring qualifications also resulted in the development of the local physical infrastructure needed to support future film productions. Now that Canadian crews have the necessary experience in film production and the physical infrastructure is developed, there is no difference between the quality of filmmaking in Canada versus the U.S.

Canada's incentive programs include federal and provincial tax credits of 22% to 46% of labor expenses, which yield up to a 10% decrease in total expenses. U.S. film productions taking place in Canada nearly tripled between 1990 and 1998 (the latest data available). In 1990, about 63 productions took place in Canada. By 1998, about 232 productions took place in Canada. Indeed, Canada captures an estimated 81% of the total number of U.S. runaways. Other countries, such as Australia, which capture about 10% of U.S. film production, have begun to copy this strategy to gain more of the U.S. production market.

#### *TECHNOLOGICAL ADVANCES*

Recent advances in technology have created remarkable changes in the processes of film production. Contemporary filmmakers are now able to take advantage of new technology to reduce costs, increase productivity among their staff, and better choose production locations. Many filmmakers use new post-production advances to be able to scan film onto a videotape format and store the data on computers. This creates a "box" environment where producers and specialists can collaborate on different aspects of post-production over long distances. This has decreased the dependence on large, local post-production facilities. In addition, producers can use post-production service providers from around the world as opposed to only locally. Virtual environments and sound stages have also decreased the dependence on location for film producers. They are able to reduce production costs by filming scenes in front of green screens or using computers to digitally modify the surrounding area. The latest advancement is in digital filmmaking, which enables filmmakers to instantly review their footage, cutting down on production time and cost. The digital medium requires a new type of workforce that consists of individuals with technical backgrounds.

In this technologically advanced environment, skilled workers and a technical infrastructure are necessary for a viable production market to exist. Locations that have these resources are attractive to producers who are filling their crew locally. These resources commonly develop into production clusters, which contain all of the resources required. These resources include access to financing, development, and distribution resources. Production clusters are an advantage to producers and typically result in lower overall costs of production.

#### *SHIFT IN TELEVISION PROGRAMMING*

A noticeable trend in recent years has been a shift in programming from movie of the week to reality based television shows. One reason for the movement toward reality-based programming is due to changes in the audience. People are demanding more unpredictability in their television shows as opposed to the conventional linear programming, and reality shows provide this. In addition, many reality shows provide the audience a degree of control in the final outcome of the program. Shows such as *Big Brother* and *American Idol* allow audience voting and participation in determining the eventual winner of these shows. Consequently, advertisers and sponsoring partnerships have become increasingly eager to align themselves with these types of programs. The increased revenue opportunities from advertisers have subsequently led to the creation of more and more reality shows.

In addition to increased advertising revenue, reality television shows have also proven to be less expensive to produce than more conventional forms of programming. A typical one-hour drama on a commercial television network costs around \$2 million an episode. Studios will often lose money on the first airing of an episode, but recoup that cost by selling the show for syndication. Reality TV shows, however, can be produced for considerably less. Many of these shows cost only around \$1 million per one-hour episode. The reasons for this cost disparity are simple: such shows have no regular cast to pay and often have a minimal writing staff. They can also sometimes save on other production costs by using preexisting homes or other similar means to avoid expensive set construction and labor costs.<sup>1</sup>

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<sup>1</sup>Day, Dwayne. "The Space Review" [www.thespacereview.com/article/165/1](http://www.thespacereview.com/article/165/1).

## II. ECONOMIC ANALYSIS OF THE FILM & VIDEO INDUSTRY IN ARIZONA

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### EMPLOYMENT AND WAGE TRENDS

#### *FILM INDUSTRY DEFINITION*

The Arizona Department of Economic Security (DES) collects employment and wage data through its quarterly Covered Employment and Wage (formerly ES-202) survey. This data pertains to workers covered by Arizona unemployment insurance laws and Federal civilian workers covered by Unemployment Compensation for Federal Employees program. Employment and wage data is collected from establishments in all 15 counties in Arizona and categorized by industry using the North American Industry Classification System or NAICS. The data includes average number of establishments, average employment, and total quarterly payroll (or wages).

DES reports employment and wage data by NAICS from the year 2000 through the present. Historical data prior to 2000 is reported by SIC code (the classification system that NAICS replaced). Due to the fact that there is no perfect conversion of SIC to NAICS data, the time series is discontinuous. For purposes of this analysis, covered employment and wage data from 2000 through third quarter 2003 (the latest data available) will be used.

Based on analysis of NAICS industries, the Film Industry is defined as the group of three industries shown in Table 5.

Table 5 – Definition of the Film Industry	
NAICS	Name
51211	Motion Picture and Video Production
51219	Postproduction Services and Other Motion Picture and Video Industries
51212	Motion Picture and Video Distribution

Due to data disclosure requirements, data on industries 51211, 51219, and 51212 are combined into industry 512-- throughout this report.

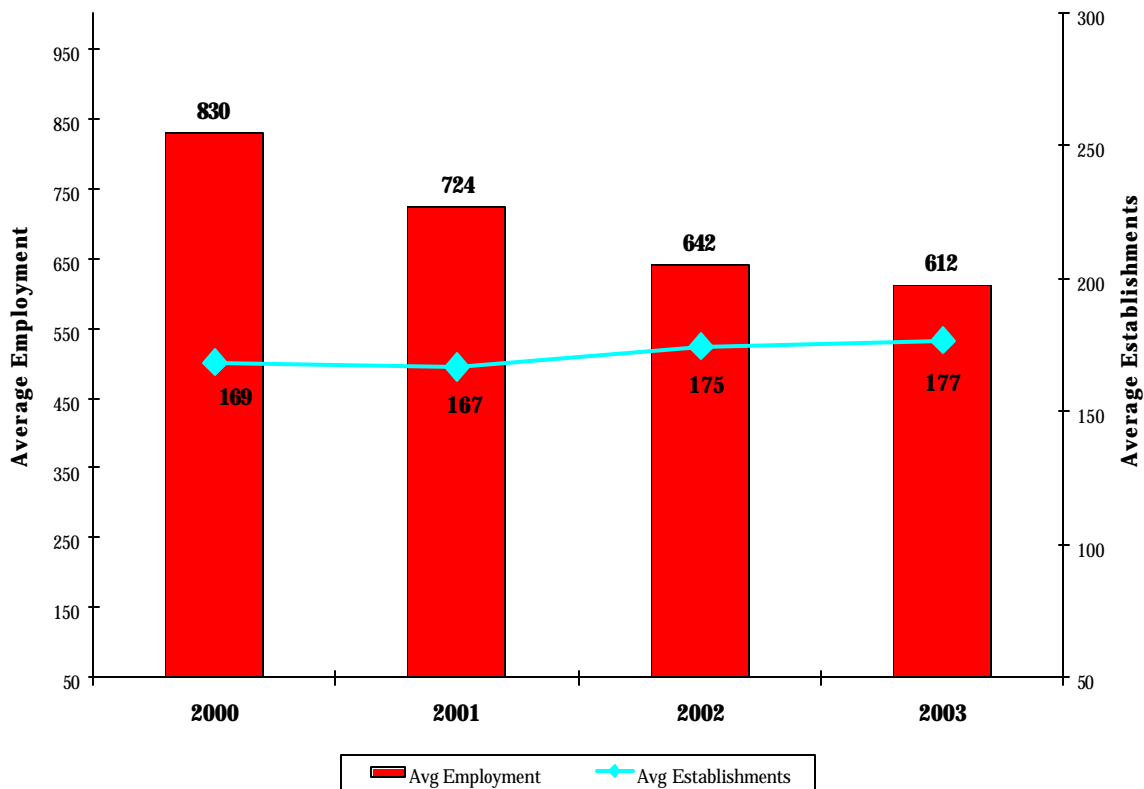


## STATE OF ARIZONA

In 2003, there was an average of 612 jobs within 177 establishments in the Film Industry in Arizona. Figure 1 shows the average number of jobs and establishments in the film industry in Arizona from 2000 to 2003.<sup>2</sup> Since 2000, average employment in the Film industry declined in Arizona. Average employment decreased by 26.3% from 830 jobs in 2000 to 612 jobs in 2003.<sup>3</sup> By comparison, total employment in Arizona increased 1.4% during this period.

While overall Film Industry employment declined between 2000 and 2003, the number of Film Industry establishments in Arizona increased, albeit just slightly. In 2000, there was an average of 169 establishments in the Film Industry in Arizona, according to Arizona Department of Economic Security (DES). In 2003, however, there was an average of 177 Film Industry establishments in Arizona.

**Figure 1 - Average Employment and Establishments  
Film Industry in Arizona**



<sup>2</sup> This data does not reflect those who are self-employed within the Film Industry and therefore understates the number of people who make their living in the film and video business.

<sup>3</sup> This decline could be attributed to, in part, the closing of the Fox Animation Studio.



Overall between 2000 and 2003 the Film Industry lost approximately 218 jobs or 26% of total jobs. During this timeframe the average annual salaries also declined (Table 6). According to DES the average annual salary declined by 24.3% from just over \$47,252 in 2000, to \$35,773 in 2003. Runaway production can in part be blamed for the decline in jobs, but other factors include local production talent leaving the state due to lack of work in Arizona, and inadequate resources to effectively market the state to promote production business.

Table 6 – 2003 Average Annual Salaries for the Film Industry in Arizona			
NAICS	Industry Name	2003 Average Annual Salary	% chg from 2000 to 2003
512--	Motion Picture & Video Production and Distribution	\$35,773	-24.3%

Source: Arizona Department of Economic Security.

#### *METRO PHOENIX, METRO TUCSON, AND BALANCE OF THE STATE*

The Arizona Department of Economic Security reports employment and wage data by county. Film Industry employment and wage data was aggregated by three regions of the state including Metro Phoenix (Maricopa and Pinal counties), Metro Tucson (Pima County), and the Balance of the State (all counties except Maricopa, Pinal, and Pima). Due to data disclosure requirements, all 12 rural counties in Arizona are combined into the Balance of the State.

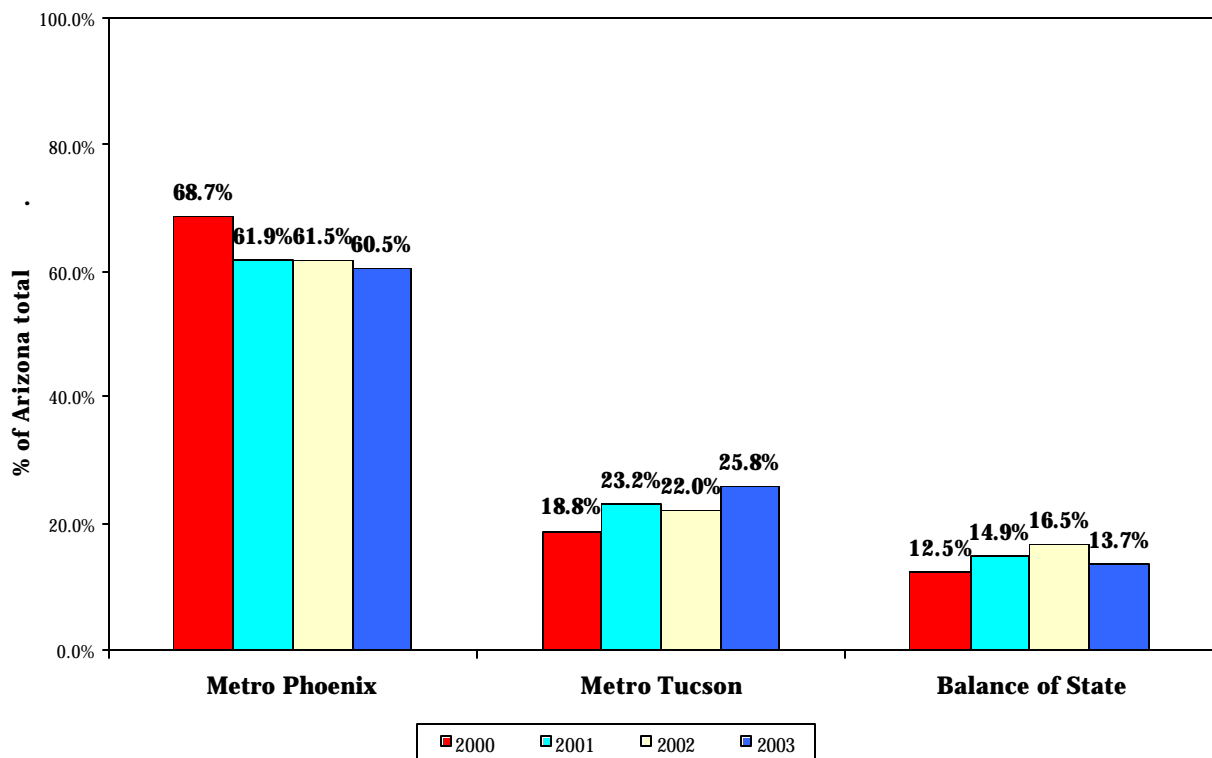
Table 7 shows the distribution of Film Industry employment in Arizona as of 2003. There were about 370 Film Industry jobs (or 60.5% of total) in Metro Phoenix. Another 158 jobs (or 25.8% of total) were located in Metro Tucson and 84 jobs (or 13.7% of total) in the Balance of the State.

Table 7 – Film Industry Employment Distribution in Arizona - 2003		
Area	Average Employment	% of Total
Metro Phoenix	370	60.5%
Metro Tucson	158	25.8%
Balance of State	84	13.7%
Arizona Total	612	100.0%

Source: Arizona Department of Economic Security.

Between 2000 and 2003, Arizona Film Industry jobs shifted out of Metro Phoenix to Metro Tucson and the Balance of the State (Figure 2). The percentage of Arizona Film Industry employment located in Metro Phoenix dropped from 68.7% in 2000 to 60.5% in 2003. During this period, about 199 Film Industry jobs were lost in Metro Phoenix. On the other hand, the percentage of Arizona Film Industry jobs located in Metro Tucson increased between 2000 and 2003. Metro Tucson's share of Arizona Film Industry employment increased from 18.8% in 2000 to 25.8% in 2003. During this period, Film Industry employment in Metro Tucson grew, but only by 2 jobs. The Balance of the State has also captured a greater share of Film Industry jobs in Arizona. However, the Balance of the State actually lost 20 jobs between 2000 and 2003, while the actual percentage of Arizona's Film Industry employment located in the Balance of the State increased, from 12.5% in 2000 to 13.7% during 2003.

**Figure 2 - Arizona Film Industry Employment Distribution  
2000 through 2003**



Source: Arizona Department of Economic Security

Average annual salaries in the Film Industry in Metro Tucson and the Balance of the State were between 48% and 55% of the average salary in Metro Phoenix (Table 8). In 2003, the average annual salary for Film Industry jobs in Metro Phoenix was \$44,001. By comparison, the average annual salary was \$24,222 in

Metro Tucson and \$21,172 in the Balance of the State. Indeed, overall average salaries in the Film Industry declined between 2000 and 2003 in all areas of the State. During this period, while average salaries increased by 7.6% in Metro Tucson, the decline in average salaries was 21.5% in Metro Phoenix and 41.6% in the Balance of the State.

<b>Table 8 – Average Annual Salaries in 2003 – Film Industry in Metro Phoenix, Metro Tucson &amp; Balance of the State</b>		
<b>Region</b>	<b>2003 Average Annual Salary</b>	<b>% chg from 2000 to 2003</b>
Metro Phoenix	\$44,001	-21.5%
Metro Tucson	\$24,222	7.6%
Balance of State	\$21,172	-41.6%
Arizona	\$35,773	-24.3%

Source: Arizona Department of Economic Security.

## ECONOMIC IMPACT OF THE FILM INDUSTRY

The 2003 employment and wage data noted in the previous section was used to calculate the economic impact of the Film Industry in Arizona. Direct employment data from the industry was analyzed through the IMPLANPro economic impact model to document indirect and induced “multiplier” effects of the industry to the State. For a more detailed discussion of how the IMPLANPro model works, refer to Appendix A.

As shown on Table 9 the Film Industry employed about 612 direct jobs in Arizona in 2003, on average. With total wages of about \$21.9 million, the Film Industry, in and of itself, generated over \$107 million in direct economic activity (or output) through the State of Arizona in 2003.

In addition to the 612 direct jobs, the Film Industry is responsible for maintaining another 1,092 indirect and induced jobs in Arizona in 2003. These jobs include those jobs that supply goods and services to those companies in the Film Industry as well as those jobs supported by the spending of the wages from the direct and indirect jobs. This means that for every 100 Film Industry jobs in Arizona, another 182 jobs

are needed to service and support the Film Industry. Overall, approximately 1,704 total jobs in Arizona were supported by the Film Industry during 2003.

These 1,704 direct and indirect jobs attributed to the Film Industry in Arizona generated nearly \$56.6 million in wages and \$201.5 million in total economic activity.

Table 9 – Economic Impact of the Film Industry on the Arizona Economy - 2003			
Type	Jobs	Total Wages	Output
Direct	612	\$21,885,900	\$107,345,900
Indirect	665	\$20,856,400	\$59,407,300
Induced	427	\$13,856,600	\$34,698,300
Total	1,704	\$56,598,900	\$201,451,500

Source: ESI Corporation; Arizona Department of Economic Security; IMPLAN.

Table 10 illustrates the total economic impact of the Film Industry. Overall, NAICS 512-- (Motion Picture & Video Production and Distribution) provided a substantial economic impact (in terms of total output) during 2003. Total economic activity (or output) for this industry is estimated at \$201.4 million. Approximately 1,704 total jobs in Arizona were supported by this industry with total wages exceeding \$56 million.

Table 10 – Total Economic Impact of the Film Industry on the Arizona Economy by NAICS – 2003				
NAICS	Industry Name	Total Jobs	Total Wages	Total Output
512--	Motion Picture & Video Production and Distribution	1,704	\$56,598,900	\$201,451,500

Source: ESI Corporation; Arizona Department of Economic Security; IMPLAN.

Table 11 shows the estimated total economic impact of the Film Industry by the three regions of the State. These regions include Metro Phoenix (Maricopa and

Pinal counties), Metro Tucson (Pima County), and the balance of the state (all counties excluding Maricopa, Pinal, and Pima).

Approximately 67.8% of all jobs (or 1,155) supported by the Film Industry in Arizona were located in Metro Phoenix. Metro Tucson captured about 23.4% of all jobs (or 399) affected by the Film Industry in Arizona. Also, some 149 jobs, or 8.7% of all Film Industry jobs in Arizona, were situated in the Balance of the state. The Balance of the state includes those counties not located in Metro Phoenix and Metro Tucson.

The jobs affected by the Film Industry in Metro Phoenix generated over \$43 million in total wages and over \$152 million in total economic activity. In addition, total wages amounted to approximately \$9.9 million in Metro Tucson and \$3.3 million in the Balance of the state. Total economic activity is estimated at \$37.0 million and \$12.4 million in Metro Tucson and the balance of the state, respectively.

**Table 11 – Total Economic Impact of the Film Industry on the Arizona Economy by Region - 2003**

<b>Area</b>	<b>Total Jobs</b>	<b>Total Wages</b>	<b>Total Output</b>
Metro Phoenix	1,155	\$43,359,700	\$152,051,200
Metro Tucson	399	\$9,889,400	\$36,997,200
Balance of the State	149	\$3,349,800	\$12,403,100
<u>Total</u>	<u>1,704</u>	<u>\$56,598,900</u>	<u>\$201,451,500</u>

Source: ESI Corporation; Arizona Department of Economic Security; IMPLAN.

#### *FILM FESTIVAL IMPACT*

A separate analysis was performed for the most recent year of each the large film festivals in Arizona. These film festivals include the Phoenix Film Festival, Scottsdale International Film Festival, Sedona International Film Festival, and Arizona International Film Festival. A web-based survey was used to obtain information on these film festivals. This information ranged from attendance and gross revenue to number of volunteers and number of films shown during 2003. Only three of the four festivals participated in the survey.

During 2003, attendance at the three film festivals was estimated at 19,800 people. These festivals lasted about 18 days and showed 213 films. These film festivals are mostly operated by volunteers. With only eight full time employees, about 230 volunteers ran the film festivals. According to the film festivals that responded to this survey, in 2003 total gross revenue was approximately \$240,000 with expenses of \$220,000 of which 76% was spent on goods and services in Arizona.

Approximately 7 percent of the film festival attendees were from out of town and stayed an average of three nights resulting in \$441,829 in direct spending.<sup>4</sup> By comparison, film festivals had a much greater impact on the Colorado economy. During 2001, the latest data available, Colorado film festivals had attendance of 87,000 and generated about \$12.6 million in spending. Some 60 full time employees and 1,800 volunteers worked at these festivals.

Table 12 – Impact of Arizona Film Festivals in 2003	
Total attendance	19,800
Percent from out of town	7%
Films shown	213
Days of festival	18
Full time employees	8
Volunteers	230
Gross revenue	\$240,000
Total expenses	\$220,000
% of expenses spent in Arizona	76.6%

Source: ESI Corporation

#### *OUT OF STATE PRODUCTION IMPACT*

The Arizona Department of Commerce tracks the value of film production expenditures in the state generated from out of state production companies. The last full year in which data is available is fiscal year 2003, during which there were a total of 427 completed projects translating into an estimated economic impact of \$41.6 million being spent on wages to local crews as well as the procurement of local

<sup>4</sup> Direct spending of overnight visitors is based on \$106.26 spending per person per day. Data supplied from the "Arizona Tourism Statistical Report 2003," Arizona Office of Tourism and D.K. Shifflet and Associates.

goods and services. While there is no way of knowing precisely how much of the Arizona film industry total impact (Table 11) can be attributed to out of state production, the survey results do reveal anywhere from 10.9% to 25.7% of revenues were derived from out of state sources suggesting that there is a basic (export) component to the industry.

It is evident that out of state production is important to the local economy and it helps stimulate the growth of the local film industry. Both are needed to help sustain one another. Fostering the growth of Arizona's film industry will require a two pronged approach; one that focuses on strategies for strengthening the local film industry and the other promoting Arizona to out of state production companies.

### III. STRUCTURE OF THE FILM INDUSTRY IN ARIZONA

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A set of surveys was conducted to gather information on the structure of the film industry and to collect insights from knowledgeable individuals concerning the state's competitive advantages and disadvantages. The surveyed groups include the following.

- Film Festivals
- High Schools
- Community Colleges/Universities
- Production Companies
- In-house Production
- Local Film Commissions
- Film Industry Suppliers

Following are summaries of the surveys conducted.

#### FILM FESTIVALS

An email survey was distributed to contacts of four Arizona film festivals. Three of the four surveys were received yielding a 75% response rate.

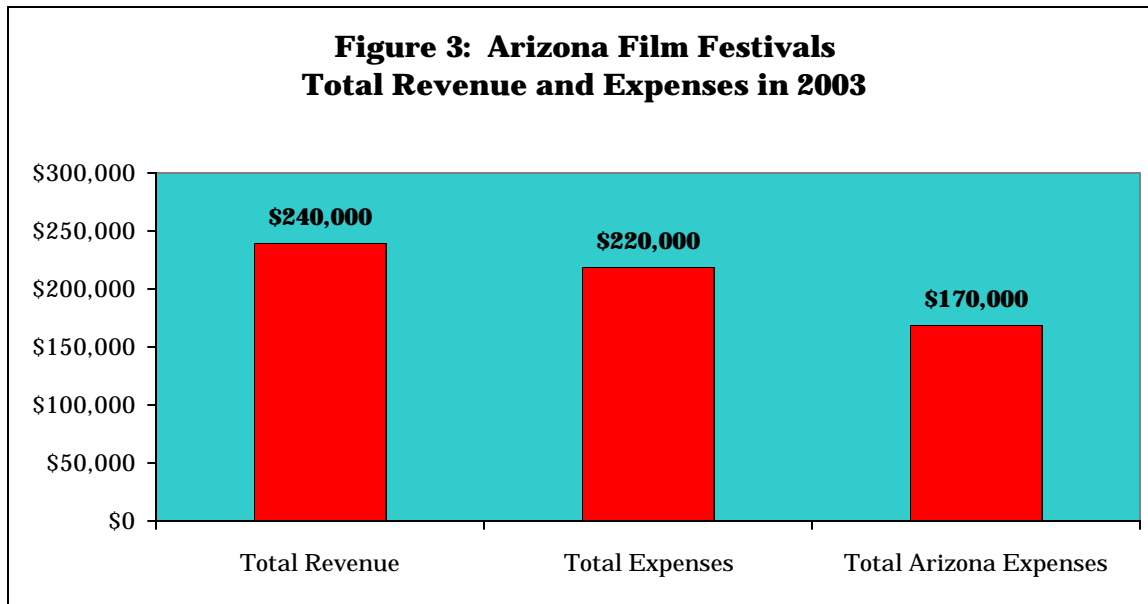
Film festival directors throughout the state were asked questions regarding their festival events, which included questions about budgets, formats, employees, and attendees. In the attempt to measure growth of these film festivals, some survey questions focused on the first year and most recent year (2003) of the festival.

The oldest Arizona film festival began in 1990, and was a lone event until two more festivals began in 2001. The film festivals have a small number of full time employees. These festivals more heavily rely on volunteers. In 2003, the festivals employed about 8 full time employees and utilized some 230 volunteers. According to the film festivals that responded to the survey, about 7% of all festival attendees are from out-of-town with the remaining 93% Arizona residents. The out-of-town attendees typically used a hotel room for about 3.3 nights, on average. Attendance for all film festivals has grown 164% since their inception.



In 2003, the three festivals that responded to the survey took in approximately \$240,000 in gross revenue in 2003. In addition, the film festivals spent about \$170,000 (or 76% of total expenses) on goods and services in Arizona. See Figure 3.

The festivals were asked questions regarding the films shown and their relationship to the state of Arizona in the year 2003. According to the respondents, an average of 29% of all films shown at the film festivals was shot either partially or entirely in Arizona. Also, of all films shown during 2003, about 22% were produced by Arizona producers.

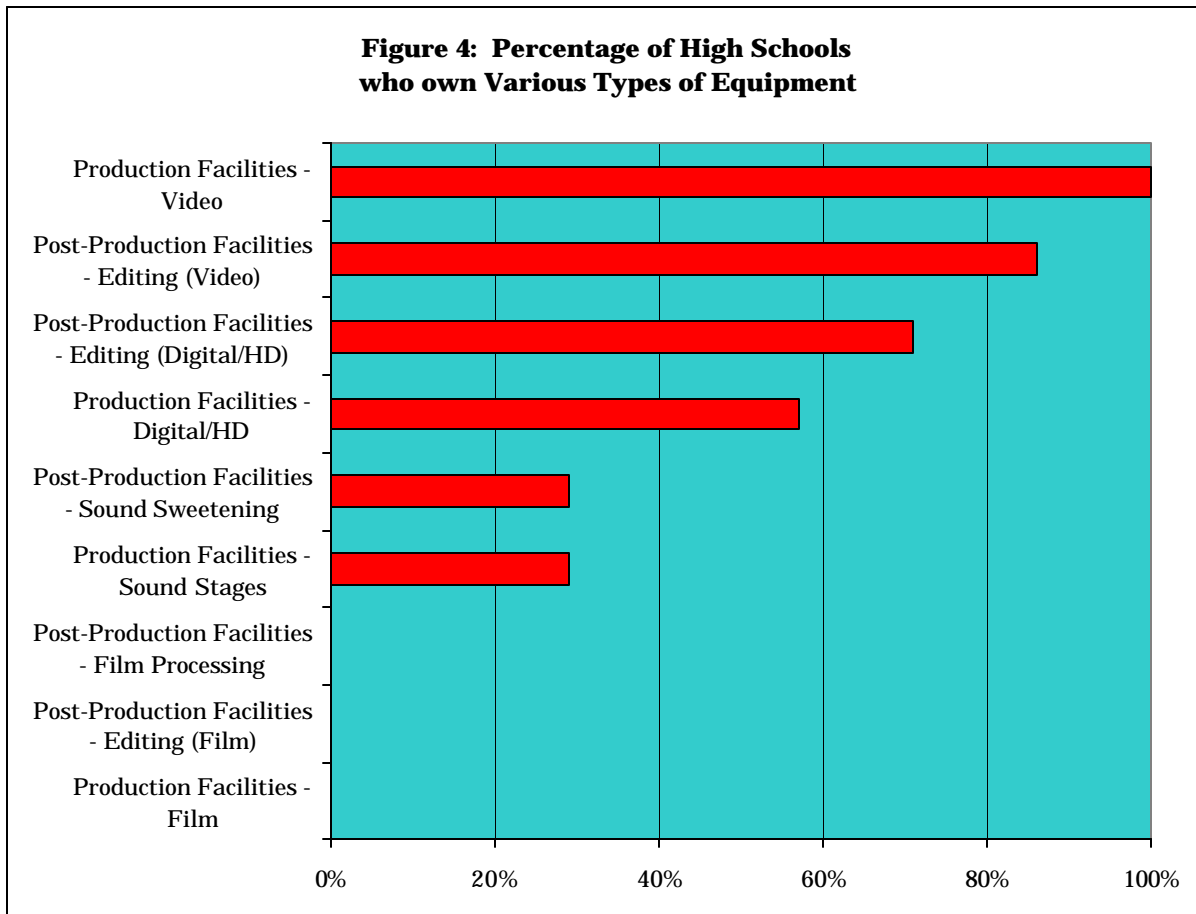


## HIGH SCHOOLS

A survey was emailed to 30 school districts, most of which were located in the Phoenix metro area, to ascertain the curriculum and facilities in place to prepare the workforce in the field of film production. A total of 7 surveys were completed yielding a response rate of 23.3%. High schools were asked questions regarding their film/video/digital programs, facilities, and students. The respondents indicated enrollment ranging from 1,100 to 2,800 students. Of the schools surveyed, all respondents offered camera operation programs and 71% offered film editing programs. Film processing and animation were the least offered programs with 14% and 29%, respectively, of respondents. (See Figure 4).

Out of the seven schools surveyed, six schools maintained a production facility. Of those schools that maintained production facilities, all had video production equipment and 86% had post-production equipment for video. Other film related skills offered in some of the high schools surveyed were DVD production, multimedia

authoring, graphics, broadcast production, multi-camera broadcast, and non-linear editing.



## COMMUNITY COLLEGES/UNIVERSITIES

Seventeen universities and community colleges received surveys via email. Three surveys were returned from community colleges (none from the universities) for a response rate of 17.6%. These surveys included questions regarding program, facilities, faculty, and students as they apply to the film/video/digital industry. The survey respondents were a part of programs that started as early as 1975 and as late as 1985.

The respondents each offered a different focus in their programs ranging from cinema history and editing/broadcasting/film/screenwriting to hands-on production skills for video and media. The respondents offered degrees such as Associate in Arts, Associate of Applied Science, and Video Production Technology. In addition,

two-thirds of respondents offered production-specific skill sets including Film/TV studies, Broadcast Journalism, Telecommunications, and Media.

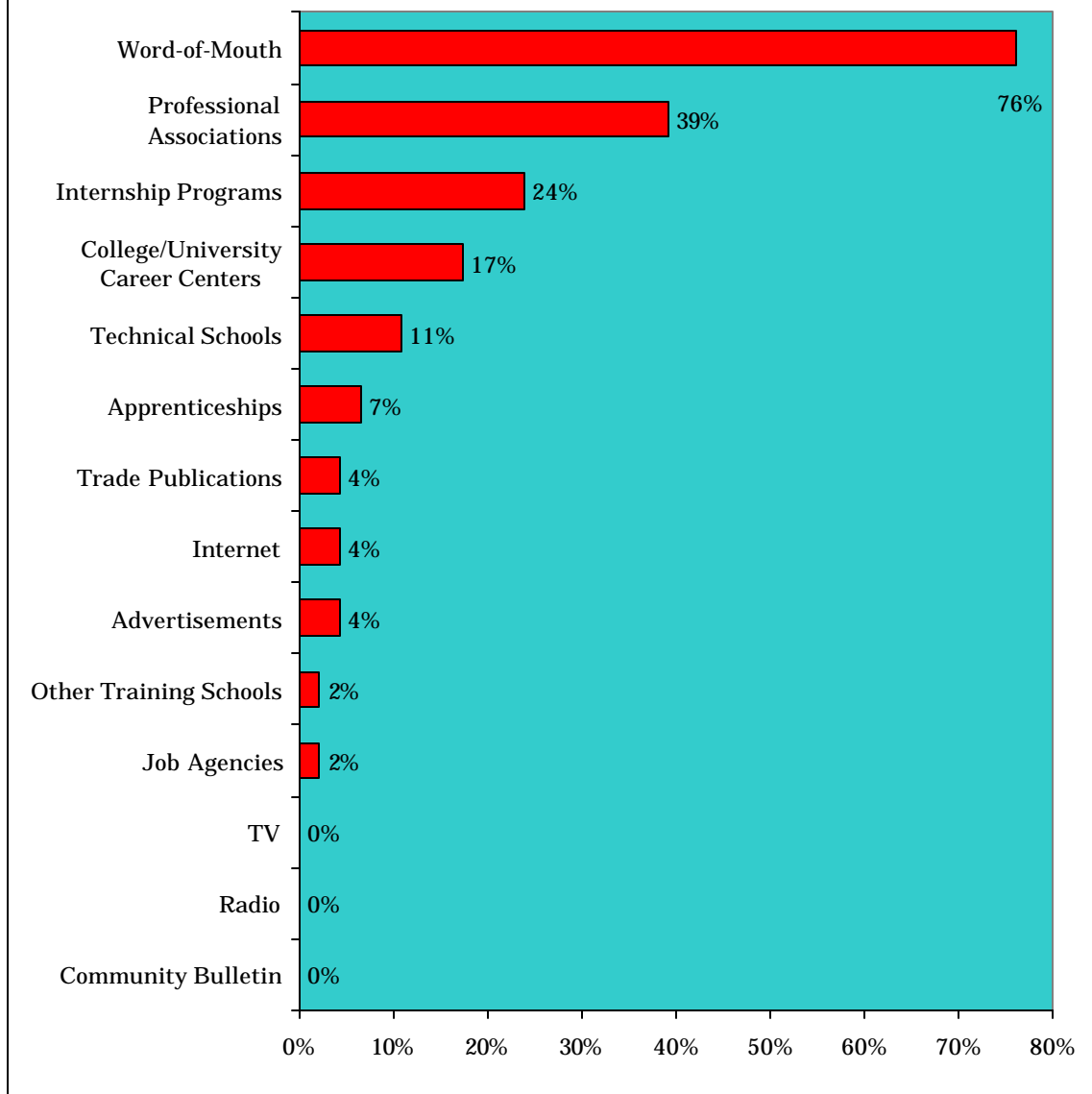
## **PRODUCTION COMPANIES**

An email survey was distributed to 346 production companies within the state. A total of 46 surveys were returned, which yielded a response rate of 15.3%. These surveys included questions regarding size, specialty, financial inputs/outputs, production output, and hiring practices. Nearly 50% of the production companies that responded were started between 1990 and 2000. In addition, approximately 32% of the production companies were started between 1980 and 1990, 11% began after 2000, and the remainder (7%) was created prior to 1980. Of the 46 companies surveyed, 39 strictly produce, 6 companies both produce and distribute, and one company declined to answer.

Nearly 80% of all respondents took part in commercial and industrial/corporate film production and/or distribution. In 2003, the respondents indicated they took part in 550 projects spanning the industry from feature films to internet productions.

The production companies surveyed were primarily small businesses and had anywhere between one and 28 full time employees with an average of approximately three full time employees. The primary sources for employee recruitment included word-of-mouth (76% of all respondents), professional associations (39%), and internships (24%). See Figure 5. The revenues of all production activities in 2003 met with varied responses. Of the production companies surveyed, only 39 provided revenue detail. Among this group of 39 respondents, revenue during 2003 totaled approximately \$10.1 million with a top revenue estimate of \$3.25 million. An average of 25.7% of this gross revenue was derived from out-of-state sources.

**Figure 5: Sources Used by Producers for Recruiting Workforce**



## IN-HOUSE PRODUCTION

Email surveys were distributed throughout the state to 16 non-film related organizations, public and private, with in-house production capabilities. In-House production refers to an organization that has its own production facility and produces its own media without having to contract out-of-house for services. A 50% response rate was achieved for this survey. The in-house production survey included questions regarding their facilities, equipment, production types, and costs.

In 2003, 75% of the in-house production was of industrial/corporate films and training videos (See Figure 6). The estimated fixed cost including payroll for these companies and organizations in 2003 ranged from \$10,000 to \$1,000,000 with an average of \$230,000. Outsourced production for the same year ranged from \$0 to \$200,000 with an average of approximately \$53,000. Of the outsourced production, roughly 43% was outsourced to companies within the State of Arizona.

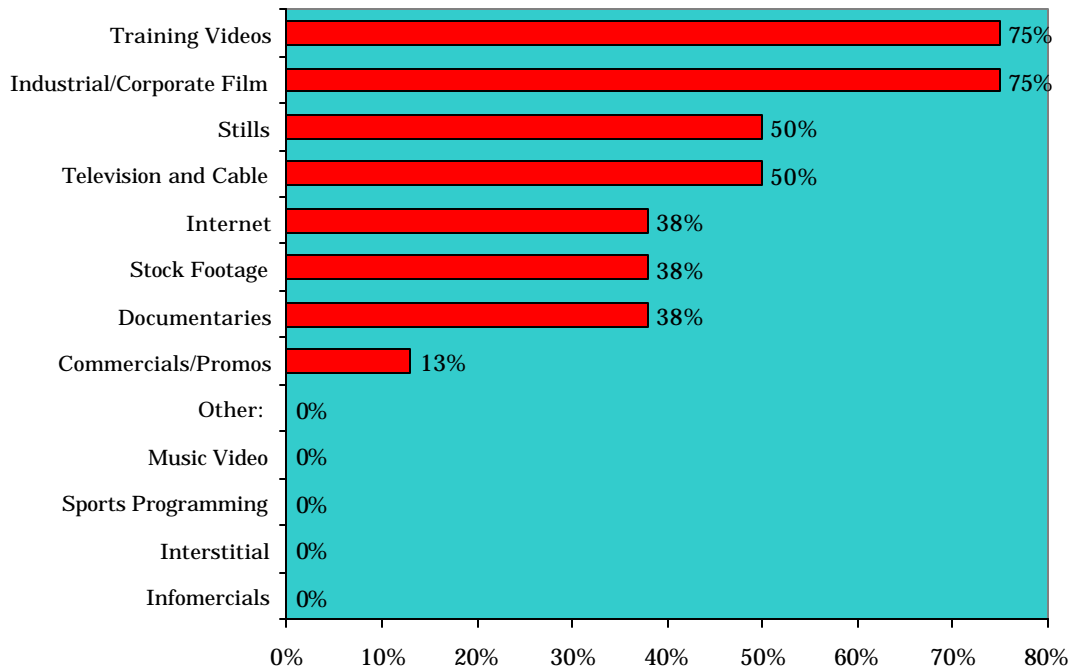
Most of the in-house production facilities surveyed were formed during the late-1980s. There was an average of five full time employees per production facility surveyed. About 63% of the respondents owned production facilities that were less than 5,000 square feet, 13% had 5,000 to 10,000 square feet, and 25% owned between 10,000 and 15,000 square feet. Every company and organization surveyed described their production facility equipment as video based while one respondent also had digital/HD equipment.

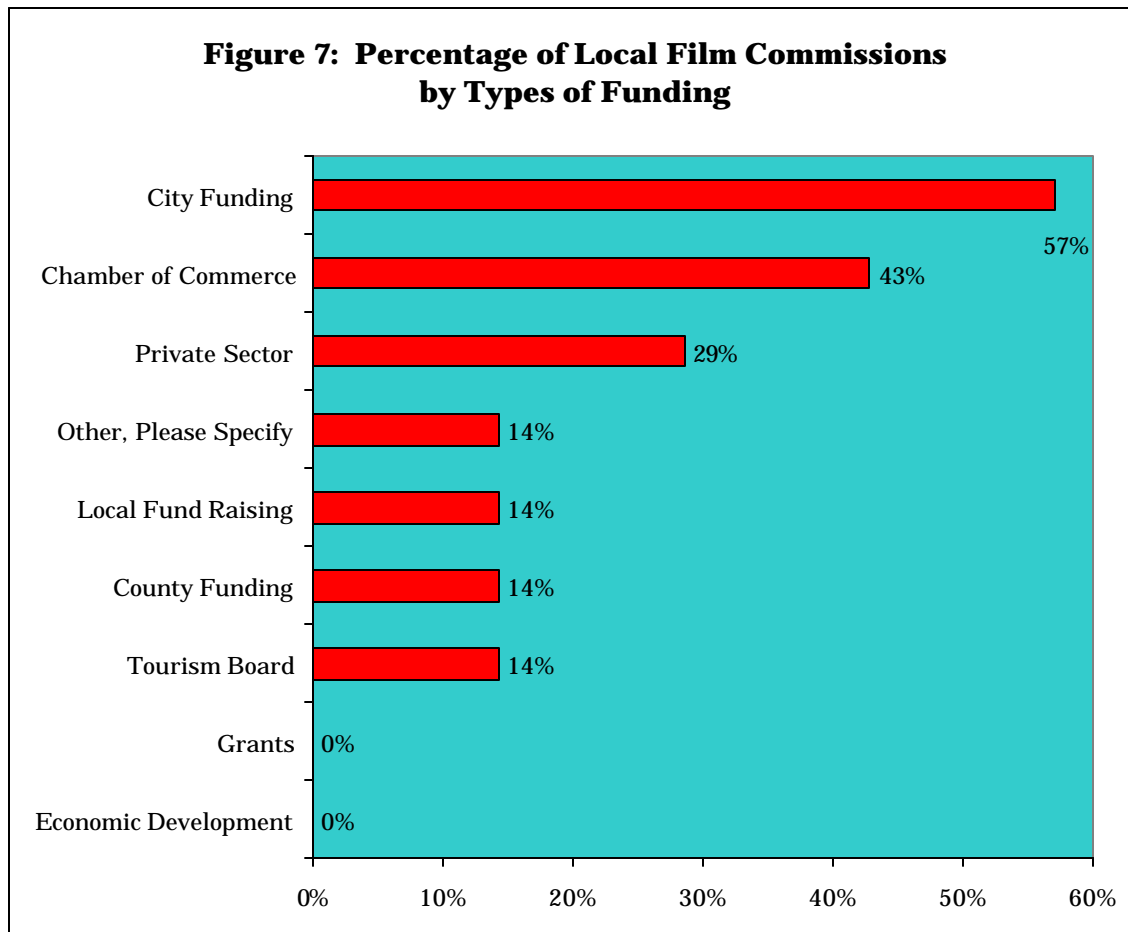
## LOCAL FILM COMMISSIONS

An email survey was transmitted to 17 Film Commissions within the State of Arizona. A total of 7 surveys were gathered yielding a 41.2% response rate. Film Commissions throughout the state were asked questions regarding their employees, financial inputs/outputs, and latest projects. The Film Commissions surveyed started operations between 1974 and 1996. Over half (57%) were started during the 1980s, 14% in the 1970s, and 29% in the 1990s. The funding for the film commissions or primary contact positions were funding by various sources (Figure 7).

The Commissions were asked questions regarding their 2003 budget. Six reported budget figures ranging from \$1,000 to \$200,000. The Film Commissions surveyed had about two full time employees, on average, and focused on film projects. Three Film Commissions revealed that commercials produced and/or post-produced in Arizona had a total budget of over \$30 million in addition to just over \$31 million for feature films in the state.

**Figure 6: In-House Film/Video Production in 2003**



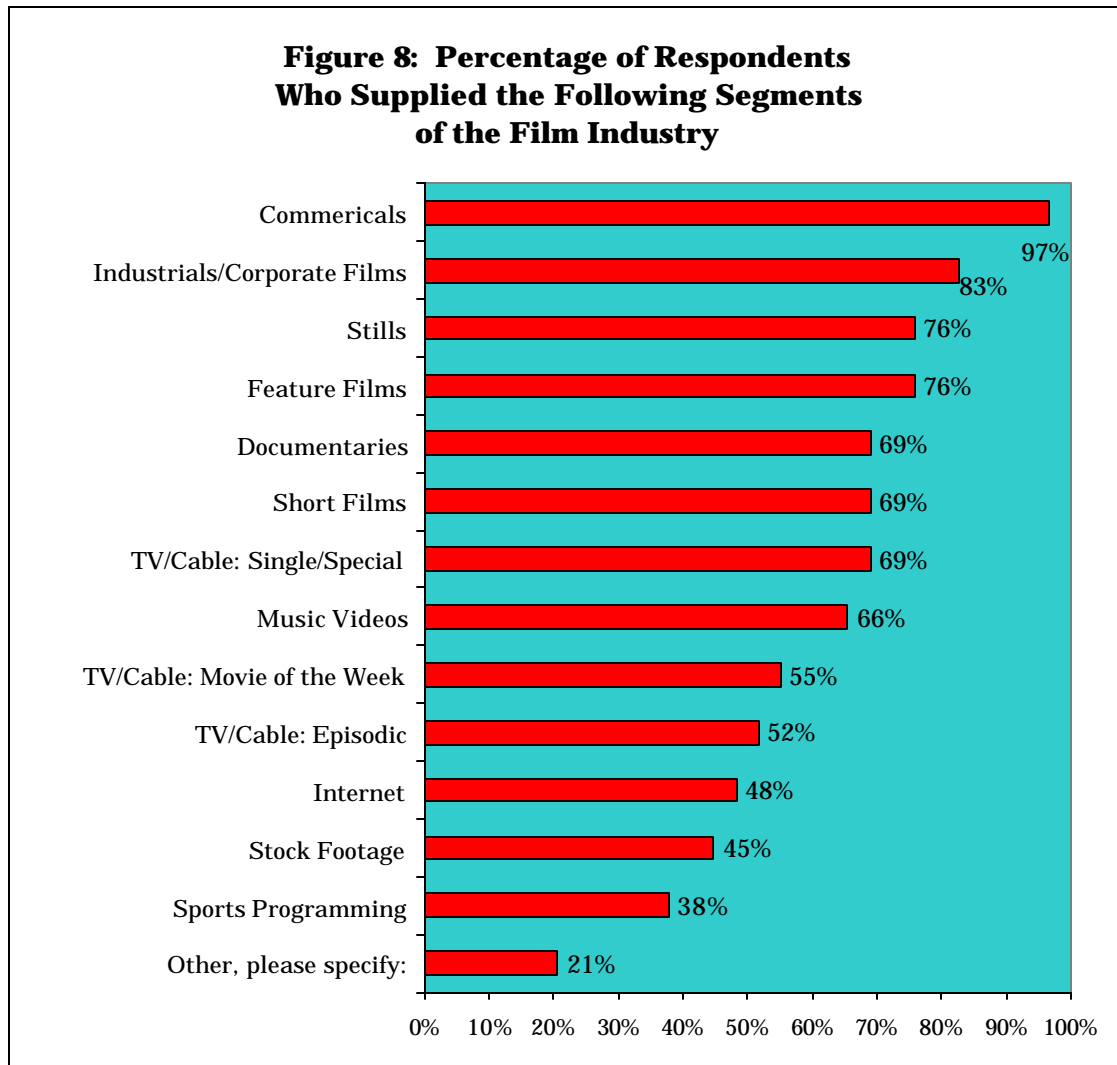


## FILM INDUSTRY SUPPLIERS

A survey was emailed to 240 supply companies that primarily serve the film/video/digital industry. A 13.3% response rate was achieved with 32 completed surveys. Industry supply companies were asked questions regarding their services, employees, and financial inputs/outputs.

Approximately 44% of respondents provided equipment, camera, or lighting/grip. Some 33% of respondents indicated they provide trucks/mobile equipment, and 11% of respondents described sound stage/studio with another 11% listing film/tape post-production as their core business. The companies surveyed provide a wide range of services to many parts of the film/video/digital industry. The majority of respondents, about 97%, primarily served the segment of the film industry that creates commercials. (See Figure 8).

The surveyed companies had between one and 400 full time employees. The average number of employees per company was 17. The estimated total revenue in 2003 was almost \$5.1 million. An average of 10.9% of this gross revenue was derived from out-of-state sources.





## SURVEY FINDINGS SUMMARY

Overall, the respondents of these surveys agreed that Arizona's assets for a film production could be more effectively promoted. When asked about the top issues facing the state film industry, the main concern of the respondents was the apparent lack of production business that is brought to Arizona. This lack of business has manifested into intense competition for the limited number of productions that take place in Arizona. As a result, budget undercutting and substantially low budgets have effectively priced certain firms out of the market. The most frequently stated reasons for the lack of production business in Arizona specifically include lack of support and promotion from the State, lack of incentives, and lack of a directory of facilities, locations, and professional technicians.

A majority of the respondents perceived that there is a lack of support at the state level in the form of promotion and advertisement of Arizona's locations and professional technicians. It was indicated that the stigma with Arizona is the industry as a whole thinks there are not enough skilled people in Arizona. Compounding this problem is the lack of production projects in the state which has led to an exodus of talented professionals who have followed the business elsewhere. The following Table 13 highlights the top responses by respondent type. Clearly the number one issue mentioned was the perceived absence of support or importance placed upon film industry, followed by the lack of marketing, and the lack of incentives.

**Table 13 – Top Issues by Type of Survey Respondent**

<b>Issues</b>	<b>Film Festivals</b>	<b>High Schools</b>	<b>Comm. Colleges</b>	<b>Prod. Co's</b>	<b>In-House Prod.</b>	<b>Local Film Commissions</b>	<b>Industry Suppliers</b>
Lack of Marketing	X			X	X	X	X
Negative Image				X			
Lack of Incentives				X	X	X	X
Permits					X		X
Regulations					X		X
Lack of Business Directory				X		X	X
Lack of Location Directory				X		X	X
Lack of Projects				X	X	X	X
Lack of Funding			X	X		X	
Competition				X	X	X	X
Support/Importance	X	X	X	X		X	

Source: Surveys conducted by ESI

## IV. BEST PRACTICES/BENCHMARKS

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In order to benchmark Arizona's Film Office in terms of the services it offers and its related economic impact to the state, a group of states, who are primary U.S. competitors to Arizona was targeted, to reveal their successes at luring film production. Based on feedback from the Arizona Department of Commerce and the industry, telephone interviews were conducted with film commission offices in Texas, Utah, Nevada, New Mexico, Florida, and Colorado. They were asked questions regarding the economic impact of the film industry, financial incentive plans used in their state, services that the film commission offers, and details on their staff, budget and marketing plans.

### ECONOMIC VITALITY

Similar to Arizona, the film industry has significant economic impacts to the economies of the following states.

#### *TEXAS*

In Texas, the film industry generated approximately \$165 million in direct spending in 2003, according to the Texas Film Commission. This spending is higher than previous years and is generally attributed to the growth of local film technician and equipment jobs. As a result, hiring of local crews typically accounts for 80% of the total crew working on productions in Texas. According to the Texas Film Commission, approximately 45 to 55 productions take place in Texas each year. Indeed, according to the Texas Film Commission, this level of production is anticipated to remain unchanged during 2004. To measure the economic impact that a production has on the state, the Texas Film Commission speaks directly with the producers to obtain the production budget information. They do not use multipliers in their estimates.

#### *UTAH*

In 2003, about 135 productions took place in the State of Utah. These productions generated about \$80 million in revenue. Over the past decade, the film industry in Utah generated approximately \$1 billion in revenue. During 2004, revenue from film productions is expected to be half of that experienced in 2003, according to the Utah Film Commission. They attributed the decline to the Screen Actors Guild strike, runaway production, and the increase in reality-based television. The movies-of-the-week segment of the film industry, historically a major component of Utah's film industry, declined over the past few years due to the increasing amount of reality television shows. This situation is expected to adversely affect film

production activity in Utah in 2004. Another component of the film industry in Utah is its strong crew base. According to the Utah Film Commission, the availability of local crews attracts a significant number of productions to Utah. Indeed, local hiring accounts for as much as 90% of all hiring on a production. To determine the economic impact, the Utah Film Commission communicates directly with the producers and uses a worksheet that details the amount of money spent inside the state. They do not use multipliers in their economic impact estimates.

#### *NEVADA*

The film industry in Nevada generated about \$100 million in revenue in 2003. Annual revenue from the film industry nearly doubled during the past four years. The Nevada Film Commission revealed that heavy marketing and promoting by its staff was a major contributing factor to the increase in revenue from film production. This marketing resulted in about 500 film productions in Nevada each year. The film industry significantly impacts tourism in Nevada. According to the Nevada Film Commission, tourism in Nevada (particularly in Las Vegas), improved due to the production of movies such as *Ocean's 11* and TV shows like MTV's *The Real World*. These productions are essentially free publicity. When calculating the economic impact, the Nevada Film Commission supplies producers with a form explaining the information they need. If this information is not available from the production company, the Film Commission uses a formula provided by the Association of Film Commissioners International (AFCI) which is based on the type of picture being produced. They do not use multipliers to determine the complete economic impact estimate.

#### *NEW MEXICO*

In New Mexico, the economic impact of film production increased ten-fold between 2002 and 2003. According to the New Mexico Film Commission, the economic impact in 2003 was \$80 million compared to \$8 million in 2002. The substantial jump in economic activity from the film industry was primarily attributed to the new aggressive incentive plan enacted in 2001. This plan incorporates sales tax breaks and a no-fee incentive when filming at any state site. The New Mexico Film Commission obtains economic impact information directly from the production companies. They do use multipliers in their impact estimates, but during a telephone interview declined to define them specifically.

#### *COLORADO*

According to the Colorado Film Commission, the film industry had an economic impact of approximately \$30.4 million in 2002. Over the past two decades, the film industry in Colorado was unstable, but experienced a noticeable growth of production between 1985 and 1990. Recently, the general television industry switch from production of movies-of-the-week to reality-based television shows also had a

negative impact on the Colorado economy. Reality television shows typically have lower production costs and generate less money into the state economy than do movies-of-the-week. In 2001, approximately \$205.5 million in wages and 3,933 jobs were generated from film and video production, freelance crews, and suppliers. It is estimated that 90% of total crew costs are paid to in-state workers, which positively impacts the Colorado economy. According to the Colorado Film Commission, the state experienced production in almost every part of the state. Indeed, 40 out of the 64 counties were locations for production in 2002. To estimate the economic impact the Colorado Film Commission uses follow up phone calls to obtain all relevant information from the production companies. They do not use any multipliers in their analysis.

#### *FLORIDA*

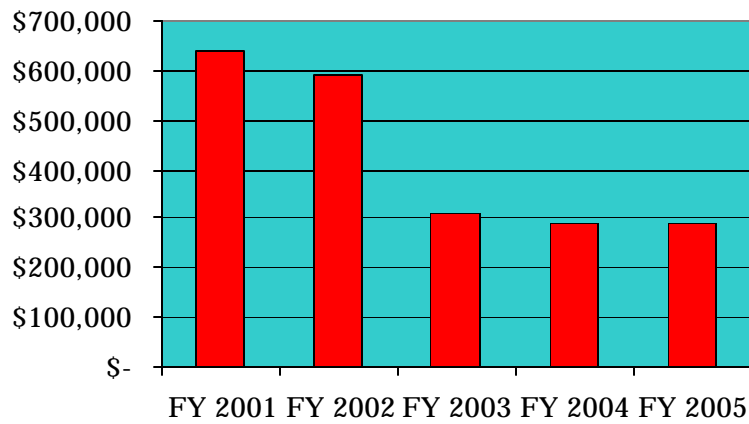
In Florida, film industry employment nearly doubled between 1995 and 2001. The years 2001 and 2002 were difficult due to the anticipation of the SAG and DAG strike, 9/11, the dot.com bust and slowing of the national economy. Unfortunately, staff at the Florida Film Commission was reluctant to be interviewed.

#### *ARIZONA*

The Arizona Department of Commerce tracks the value of film production expenditures in the state. The last full year in which data is available is fiscal year 2003. During 2003 the estimated value of production expenditures was \$41.6 million, attributed to 427 film productions. This figure is conservative in that it includes only those expenditures reported to the Department by the production companies. The trend in production in Arizona is down from 2001, in which \$63.6 million of filming was conducted. A partial list of the types of productions in 2001 includes seven feature films, one telefeature, episodes from four television series, and one television special.

The decline in production in Arizona can be attributed to several things. First, the migration of producing movies-of-the-week to reality based television, runaway production, and lastly dramatic budget cuts and staff turnover of the Film Office within the Arizona Department of Commerce. The budget for film promotion has decreased by more than 45% since fiscal year 2001 as can be seen in Figure 9.

**Figure 9 - Arizona Department of  
Commerce Film Office Budget**



## INCENTIVES

Financial incentives have a substantial impact on drawing production, according to film commission directors. In an effort to lure production, most states interviewed adopted legislation that incentivizes production companies mainly in the form of tax breaks. Following is a discussion of the incentives offered by the group of states included in the interviews. Table 14 includes a summary of these incentives.

### *TEXAS*

The incentive plan in Texas includes an on-the-spot 100% sales tax exemption from state and local taxes. It also includes a hotel occupancy waiver when film crews stay for 30 or more consecutive days. Producers can also receive a refund on fuel used in generators, boats, and other unlicensed vehicles.

### *UTAH*

Utah offers a sales and use tax exemption, in the form of a 10% rebate on dollars left in the state, and up to 12% if the story line is set in Utah. The rebates are typically administered at the end of a production. This is new legislation in Utah. After one week of being enacted, the number of film applications increased dramatically.

### *NEVADA*

According to the Nevada Film Commission, Nevada currently does not offer any financial incentives for filmmakers. This is due to a lack of funding and legislation to support an aggressive incentive plan. The Film Commission is currently researching the types of incentives that would most benefit their state.

### *NEW MEXICO*

Based on interviews and research conducted by ESI, New Mexico has one of the most well known and most aggressive incentive plans. Two types of tax incentives are offered.

- A gross receipts tax deduction between 5% and 7% is taken at the point of sale.
- A 15% film production tax credit. This is a fully refundable credit of 15% of eligible direct production costs against the filmmaker's income tax.
- A no-fee incentive when filming at any state site. For independent productions they offer no-interest loans of up to \$7.5 million for qualifying time.

### *COLORADO*

Colorado hotels are allowed to offer rebates on the hotel sales tax beyond a 31-day stay. This rebate is at the discretion of the hotel owner and can vary in

amount/percentage rebated. No other incentives are offered by the State of Colorado.

#### *FLORIDA*

Florida offers two types of incentives for film production. A sales and use tax exemption is provided for qualified film production expenses. This exemption is taken at the point of sale for those productions that are registered and certified with the Florida Film Commission prior to production taking place. In addition, Florida offers a reimbursement of a percentage of qualified expenses for productions companies, digital media effects entities, and relocation entities. Production companies are eligible for reimbursement of 15% of total qualified expenses. This reimbursement applies to a minimum of \$850,000 in qualified expenses. The maximum reimbursement ranges from \$15,000 for Industrial or Education Films to \$2 million for movies. Digital effects media entities are eligible for a rebate of the lesser of 5% of gross revenues or \$100,000. Relocation entities are eligible for a rebate of the lesser of 5% of gross revenues or \$200,000.

#### *ARIZONA*

Arizona offers a 50% transaction privilege (sales) tax rebate to qualifying production companies for motion picture/television/video, and commercial advertising productions filmed in Arizona. The hotel occupancy tax is also waived if the stay is over 30 days. In addition vehicles entering Arizona for the sole purpose of production are exempt from the state fuel tax. Arizona also does not require the withholding taxes of nonresident wages.

In discussions with the production companies and local film commission staff, very few companies have taken advantage of Arizona's incentives due to the difficulty in complying with the administrative rules established by the Arizona Department of Revenue.

**Table 14 – Film Production Incentives for Selected States**

<b>Incentives</b>	<b>Texas</b>	<b>Utah</b>	<b>Nevada</b>	<b>New Mexico</b>	<b>Colorado</b>	<b>Florida</b>	<b>Arizona</b>
<b>Sales/use tax exemption</b>	100% off (state & local taxes)	10% to 12% off	n/a	100% off (state tax rate of 6%)	n/a	100% off (qualified & certified expenses)	50% rebate on sales tax (if spending is over \$1m)
<b>Hotel occupancy tax</b>	100% off (if stay is over 30 days)	n/a	n/a	n/a	Some rebate (if stay is over 30 days)	n/a	100% off (if stay is over 30 days)
<b>Fuel tax</b>	Full refund	n/a	n/a	n/a	n/a	n/a	Exemption for production vehicles
<b>Income tax credit</b>	n/a	n/a	n/a	Credit equal to 15% of total production costs	n/a	n/a	n/a
<b>Low-interest loans</b>	n/a	n/a	n/a	Available for Ind. productions	n/a	n/a	n/a
<b>Other rebates / exemptions</b>	n/a	n/a	n/a	n/a	n/a	5% to 15% of qualified production expenses <sup>1</sup>	No withholding tax of nonresident wages
<b>Total production spending in 2003</b>	<b>\$165m</b>	<b>\$80m</b>	<b>\$100m</b>	<b>\$80m</b>	<b>\$30.4m</b>	<b>n/a</b>	<b>\$42m</b>

**Notes**

<sup>1</sup> Florida offers a rebate of 15% of qualified expenses for production companies and 5% of expenses for either digital media effects companies or relocation companies. The production company rebate requires minimum expenses of \$850,000 and limits the rebate to \$15,000 to \$2 million depending on the type of production. The rebate for digital media effects companies is maxed at \$100,000. The maximum rebate for relocation companies is \$200,000.

Source: ESI Corporation; Arizona Department of Commerce and Various Film Offices.



## FILM COMMISSION SERVICES

Film commissions offer a number of services aimed at reducing the time and money producers spend on scouting and securing locations for productions. Most of the services are found on each state's website and are summarized below.

*TEXAS FILM COMMISSION* ([WWW.GOVERNOR.STATE.TX.US/FILM](http://WWW.GOVERNOR.STATE.TX.US/FILM))

Texas offers a large diversity of locations to meet the needs of producers. These locations are displayed through an online location library of pictures found on the Texas Film Commission's website. This website also includes information on weather, state laws, links to regional film commissions, permanent set descriptions, and a FAQs page. Texas has an online production manual that provides contacts for local crews and production companies around the state.

*UTAH FILM COMMISSION* ([WWW.FILM.UTAH.GOV](http://WWW.FILM.UTAH.GOV))

Utah also offers an extensive location library online; many locations can be viewed through their website. The crew base in Utah is heavily promoted and information is provided through a resource guide that can link production companies to local crews. The state film commission also provides an online application of the required state permits.

*NEVADA FILM COMMISSION* ([WWW.NEVADAFILM.COM](http://WWW.NEVADAFILM.COM))

The Nevada Film Commission website includes a location library and provides links to local crews and production companies. Permit information and links to the permit applications are also provided. Many vendors and businesses, ranging from hotels to production-related businesses, are listed on the website. Interviews with the Nevada Film Commission revealed that they attend trade shows and make sales trips across the country to attract producers to their state.

*NEW MEXICO FILM COMMISSION* ([WWW.EDD.STATE.NM.US/FILM](http://WWW.EDD.STATE.NM.US/FILM))

New Mexico provides an online location library, weather and elevation facts, crew and equipment links, and links to local film offices on the Commission's website. They also provide samples, applications, and Internet links to state and city land permits on their website.

*COLORADO FILM COMMISSION* ([WWW.COLORADOFILM.ORG](http://WWW.COLORADOFILM.ORG))

Colorado presents an online photo library online and production guide. The production guide includes information on local crews, production, and post-production resources. The Colorado Film Commission website includes contact information and procedures on how to obtain the various city, state, and federal land

permits that are required for filming in Colorado. Information on labor laws, weather, roads, locations, and guilds and unions is also available.

*FLORIDA FILM COMMISSION ([WWW.FILMINFLORIDA.COM](http://WWW.FILMINFLORIDA.COM))*

Florida offers a photo library and links to local production crews, local film commissions, and permit applications. In helping to find locations for films, the website contains a detailed location form to be filled out by producers. The Florida Film Commission uses this form to match the producer's requests to relevant locations in Florida. Florida has an extensive discounts and deals section which consists of production companies, hotels, and other businesses in Florida that offer discounts on film-related business.

*ARIZONA FILM COMMISSION ([WWW.AZCOMMERCE.COM/FILM](http://WWW.AZCOMMERCE.COM/FILM))*

Arizona offers online permit information and applications for various permits required to film in the State. The Arizona Department of Commerce Film Office provides an online, searchable production guide. This production guide includes contact names, phone numbers, and information on local technicians/crews, equipment, and facilities. A breakdown of financial incentives is described on the website. Links to current weather, as well as local film offices and festivals are offered.

## **SUPPORT AND MARKETING**

State and local film commissions generally employ a small number of people and use varying marketing methods to promote locations within their state. Details about each state film commission staff is listed below.

### *TEXAS*

The Texas Film Commission employs eight people with an operating budget of \$500,000. Only a small percentage of the budget is used on marketing. The Commission relies heavily on their website and does not participate in direct mail or print media. The Texas Film Commission coordinates with local film offices during their annual marketing trip to an event they host in Los Angeles. This event is sponsored by the Texas Film Commission and targets producers, directors, and studio executives. This event has proven to be a very effective strategy in promoting Texas as a film location. The main challenge of the Texas Film Commission is the lack of incentives to compete with other states which stems from the difficulty of passing incentive legislation through their state government.

## *UTAH*

The Utah Film Commission employs six people and has a budget of \$626,000. Approximately \$60,000 of the budget is spent on marketing per year. The Utah Film Commission primarily relies on their website for most of its marketing. They also attend trade shows and send out direct mail. The Utah Film Commission coordinates with the local film offices to update the location library, host production groups, and employ marketing at trade shows. Currently, the Film Commission's main challenge is obtaining more incentive legislation to attract production.

## *NEVADA*

The Nevada Film Commission has a staff of seven people and a budget of \$800,000. About \$130,000 is set-aside for marketing. Their office finds trade shows to be an effective marketing tool. The effectiveness of direct mail was questioned. The website of the Nevada Film Commission is their main marketing tool and has proven to be successful in offering information to producers. There are no local film offices in the State of Nevada.

## *NEW MEXICO*

The New Mexico Film Commission staff is comprised of eight employees. Since the New Mexico Film Commission would not participate in a telephone interview, information on budget and marketing is not available.

## *COLORADO*

The Colorado Film Commission's staff was eliminated in 2003. The functions of the Film Commission office were transferred to the Department of Tourism. In the past, they have found a combination of direct mail, trade shows, and media advertising to be a highly effective marketing strategy. Overall, their website is considered the most important marketing tool. The Colorado Film Commission constantly communicates with the local film offices and uses broadcast email to the local offices to help locate potential film locations across the state.

## *FLORIDA*

Staff of the Florida Film Commission was not available to participate in a telephone interview or email questionnaire. As a result, information on the number of staff, budget, and marketing is not available.

## *ARIZONA*

The Arizona Department of Commerce Film Office employs two people and has a budget of \$291,100, of which 15% is spent on marketing. The size of the staff is down from seven people during the year 2001.

## BEST PRACTICES SUMMARY

The film industry has a significant economic impact on the states interviewed and/or researched by ESI, including Texas, Utah, Nevada, New Mexico, Colorado, and Florida. These states recognize that the film industry brings money from outside the state and creates relatively high-paying jobs that support the film industry which otherwise would not exist. These states have become aggressive in their pursuit of film production because of the limited number of film productions in the U.S. due to runaway production outside the country. Incentive programs, production and scouting services (website, database of local crews, location pictures), and promotion (trade shows, direct marketing) have been undertaken in order to maintain and enhance the presence of the film industry in their state. New Mexico is the most prominent example of the significant results that are possible with an aggressive film industry campaign. Upon enacting a series of sales tax exemptions, income tax credits, and no-interest loans effective in 2003, the economic impact of the film industry in New Mexico went from \$8 million in 2002 to \$80 million in 2003. With the right mix of incentives and marketing, there is no reason to believe that the film industry could not have such a substantial impact in Arizona.

### *HOW DOES ARIZONA COMPARE*

Arizona offers a few incentives for film production. A rebate is offered in the amount of 50% of sales taxes paid on the purchase or lease of personal property to qualifying production companies. This rebate is available for purchases over \$1 million. All hotel occupancy taxes are waived for stays over 30 days and vehicles entering Arizona for the sole purpose of production are exempt from the state fuel tax. In addition, withholding tax of nonresident wages is not required. Due to the Department of Revenue's administrative procedures, we are told that very few companies take advantage of these incentives.

The current budget of the Arizona Department of Commerce Film Office is \$291,100 with a staff of two. About 15% is spent on marketing and promotion. A summary table highlighting the budget and staff size for each of the benchmarked states is provided in Table 15.

**Table 15 – Comparison of Budget and Staff Size for Selected States**

<b>State</b>	<b>Total Budget</b>	<b>Marketing Budget</b>	<b>Size of Staff</b>
Texas	\$500,000	Small percentage	8
Utah	\$626,000	\$60,000	6
Nevada	\$800,000	\$130,000	7
New Mexico <sup>1</sup>	n/a	n/a	8
Colorado <sup>2</sup>	n/a	n/a	n/a
Florida <sup>3</sup>	n/a	n/a	n/a
Arizona	\$291,100	\$43,650	2

Notes

1 The State of New Mexico Film Office refused to provide requested information.

2 The State of Colorado Film Office was eliminated in 2003.

3 The State of Florida Film Commission staff was not available to participate in a telephone interview.

Source: Arizona Department of Commerce and interviews conducted with the various Film Offices

## V. ARIZONA'S COMPETITIVE ADVANTAGES AND DISADVANTAGES

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Phone interviews were conducted with 23 out-of-state producers in eight segments of the film industry during the month of June 2004. The segments of the film industry include commercials, TV series, features, telefeatures, industrial, music videos, documentaries, TV specials, and stills. A total of 95 producers were contacted (on several occasions) resulting in 23 completed interviews. The producers were asked questions regarding film production in Arizona as well as their perception and experience in film office's practices, marketing, incentives, and the hiring of crews.

### FILMING IN ARIZONA

The producers were asked questions on production in Arizona, including when they filmed, why Arizona was chosen, their likes and dislikes about filming in the state, and how the Film Commission's services were used.

- 20 out of the 23 producers (87%) interviewed had previously filmed in Arizona. Of the 3 that had not previously filmed in the state, two producers indicated their plans to film in Arizona in the future.
- The primarily reasons for filming in Arizona included the unique scenery, consistent weather, and diversity of locations. Many productions have been brought to Arizona because of the need for both a winter look (such as Flagstaff) and a desert look. Arizona was also mentioned as a film-friendly environment in that residents and local governments were very helpful.
- All of the interviewed producers that had previously filmed in Arizona would consider Arizona as a location for future productions.
- When asked what they liked about filming in Arizona, most producers simply said that it was an easy shoot. There was not a lot of red tape and the local municipalities were helpful. The consistently sunny weather and reasonable location fees also contributed to the ease of shooting.
- Common dislikes of filming in Arizona included the lack of studios, crew, and equipment. While many producers agree that Arizona has a strong talent base, they have also noticed a large percent of the workforce moving to surrounding states to work. Other problems include the difficulty in working with the Native American tribes.

- Out of the 20 producers that filmed in Arizona before, 75% reported using the services provided by the state or local film commissions, 10% used the Arizona Department of Commerce Film Office but had encountered problems, and 15% did not contact the Arizona Film Office at all. The Arizona Department of Commerce Film Office services that were most used by the producers included scouting locations through pictures and in-person, help and advice in dealing with the different required filming permits around the state, and helping them to locate additional crew and equipment. Of the two producers that had problems with the film commission, the main problems were lack of communication and difficulty with the website.

## FILM COMMISSION SERVICES

The producers were asked to identify some of the most beneficial services that film commissions can offer. These answers did necessarily pertain specifically to the Arizona Department of Commerce Film Office.

- The most common service utilized by producers is online location pictures, which can be downloaded or emailed to the producers and their clients. Another useful film commission service is help with locating additional crew and equipment as well as helping to facilitate the film permitting process. Producers also use the state and local film commissions to coordinate with different organizations and governments, especially in negotiations with state Native American tribes.
- 61% of producers mentioned location scouting and online pictures as a tremendous asset from the film commissions. About 48% of respondents mentioned help and advice with obtaining permits required to film on federal, state, city and tribal land.

## LOCATION FACTORS

Producers were asked which factors help them choose a location for a production.

- 87% of the respondents determine the location of their production based on the location and scenery needs of the client or director.
- 22% said that money is a primary factor in the decision making process.
- Other factors mentioned are how film-friendly a state is, lodging accessibility for crew, and relations with union, guilds, and crews in the area.

## RESEARCHING LOCATIONS

Producers were asked the means they use to obtain information on potential locations. The producers were specifically asked how often they attended trade shows, visited local and state websites, used brochures and other information pieces,

relied on word-of-mouth and previous experience, or contacted the local or state film offices.

- About 22% of the producers interviewed attended tradeshows at least some of the time but usually only attended the Show Biz Expo in Los Angeles.
- 91% of the producers interviewed reported that the film commission's website is the main tool used for obtaining information. The website was perceived to be the quickest and easiest means of information gathering.
- 39% of the interviewed producers look at brochures and other printed materials.
- 18 of the 23 (78%) producers gather information through word-of-mouth.
- 17 out of 23 (74%) producers consider previous experiences filming in the state.
- 22 of the 23 producers contact the local or state film commissions by telephone or mail to gather information on locations.

## INCENTIVES

The producers were asked questions regarding if, to what extent, and what type of incentives affect their choice for a production location. The findings of this survey are summarized below.

- 35% of the producers interviewed revealed that financial incentives are a consideration in choosing a production location. However, it appears that the financial incentives are most meaningful when multiple locations are being considered.
- Only 8% of producers interviewed indicated that financial incentives were the top priority in their choice of a production location.
- Producers agreed that financial incentives only play a role in large budget productions such as feature films and TV series.
- The main financial incentives that would be attractive to production were sales tax breaks and tax credit rebates. Other financial factors include filming permit fee waivers, lodging and hotel discounts, and discounts from production vendors. Non-financial incentives such as streamlining the permit process to save time were mentioned.

## LOCAL HIRING

Producers were asked about local hiring of production and post-production crew. The results of these questions, focusing on the training and employment of local crew, are summarized below.



- 87% of producers interviewed do not use any local post-production services. Most take their film back to Los Angeles or New York for post-production.
- About 13% of the interviewed producers utilize some local post-production, such as film processing.
- 87% of the interviewed producers use local crews and rent equipment locally. Indeed, most hire about 50% of their crews locally, some hire as much as 90% locally.
- 87% of producers interviewed view having previous experience related to the position they are hiring for as the primary hiring consideration.

## PERCEPTION OF ARIZONA

Producers were asked about their overall perception of filming in Arizona and what they thought could be done to attract more production to the state.

- All of the interviewed producers held a favorable view of Arizona as a potential film location.
- A common suggestion for improvement was making all information easy to access. It was recommended that this could be solved by having an in-depth website that covered all information producers could possibly require.
- It was also recommended that the state build on its studio and crew foundation, as this is a tremendous draw of production.
- Nearly all producers mentioned promoting the unique scenery of Arizona more aggressively to draw more attention.

## COMPETITIVE ADVANTAGES/DISADVANTAGES SUMMARY

Arizona has both competitive advantages and disadvantages with respect to the film industry compared to other states. Despite the competitive disadvantages noted below, Arizona has a growing pool of industry leaders and, if properly tapped, this new blood of leadership can help facilitate the growth of the film industry in Arizona.

### *COMPETITIVE ADVANTAGES*

Arizona has a number of competitive advantages with respect to film production.

- The infrastructure to attract a robust film industry already exists in Arizona, and includes a base of local talent, film technicians, available film production equipment, and facilities (i.e. soundstages).

- Most of the producers interviewed for this study indicated that Arizona is an easy location to shoot a film. Compared to other states, Arizona is perceived to be less bureaucratic when arranging a film production.
- In addition, producers look favorably on Arizona due to labor environment and cost. Since Arizona is a right-to-work state, producers do not have to deal with local unions or guilds.

#### *COMPETITIVE DISADVANTAGES*

Arizona also has some competitive disadvantages with respect to film production. These disadvantages could certainly be overcome.

- Arizona has a perceived lack of available workforce, technicians/crews, equipment, and facilities.
- There is a lack of awareness among the film industry, in general, about Arizona as a potential shooting location.
- Compared to other states, Arizona lacks the financial resources, marketing, and staffing to effectively compete for film productions taking place in the U.S. every year.

## VI. FINDINGS AND RECOMMENDATIONS

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### SUMMARY OF FINDINGS

- Since 2000, employment declined in Arizona's film industry by about 26.3% from 830 jobs in 2000 to 612 in 2003. By comparison, total employment in Arizona increased by 1.4% during this same period. Indeed, most of the job losses occurred in Metro Phoenix. Some 199 film industry jobs were lost in Metro Phoenix between 2000 and 2003. The balance of the state also experienced loss of jobs, as this area had 20 fewer jobs in 2003 than it did in 2000. Metro Tucson did experience growth in film industry employment, but just slightly, as Metro Tucson only gained 2 net jobs from 2000 to 2003.
- In addition to the statewide loss of film industry jobs, average salaries in the film industry declined statewide between 2000 and 2003. Average annual salaries for film industry jobs in Arizona as a whole dropped by 24.3% to \$35,773 in 2003. Metro Phoenix and the balance of the state saw declines in average salaries. From 2000 through 2003, average salaries for film industry jobs in these regions decreased by 21.5% and 41.6%, respectively. Metro Tucson, on the other hand, experienced an average salary increase of 7.6% from 2000 to 2003. The discrepancy between job losses in Metro Phoenix and the balance of the state and job gains in Metro Tucson can possibly be attributed to the qualifications of certain segments of workers. With the increased reliance on the highly technical post-production process, the demand for these workers has increased. And with a large percentage of the highly technical workers located in Metro Tucson and Metro Phoenix, it stands to reason that the change in their employment trends has an influence on the overall trends in Film Industry employment, and why the statewide differences in employment trends exist.
- In 2003, the film industry generated over \$201 million in economic activity and nearly \$57 million in wages in Arizona.
- Film festivals held in Arizona also contribute to the Arizona economy. In 2003, the three operating film festivals brought in approximately \$240,000 in revenue and spent about \$170,000 in the Arizona economy. Total attendance at these film festivals was estimated at 19,800 for 213 films. These festivals reported a total of eight full time jobs and 230 volunteers.
- Runaway production, where films to be shown in the U.S. are produced outside of the U.S., is a national phenomenon. Runaway production occurs because non-U.S. locations, such as Canada and New Zealand, are less expensive than U.S. locations. As more film productions are lured outside the U.S., the number of film productions taking place in the U.S. is dwindling. As a result, there is intense competition among the states trying to bring film productions to their state.

- In order to lure film productions, states have undertaken aggressive advertising, incentive, and marketing campaigns. These efforts have resulted in revamped websites which include photos of locations, information on permits and regulations, and directories of local technicians/crew just to name a few. Financial incentives are also being offered. These incentives include sales tax exemptions, income tax credits, and low-interest loans for film production activities. In addition, certain states have helped develop the local film technician and crew jobs as well as those companies that provide equipment to film productions. Nationwide marketing and previous filming experience has proven to be an effective means to increase “word of mouth” which appears to be one of the primary factors that producers rely on when considering a location.
- The states analyzed in this report consider the film industry as a major contributor to their economies because film production tends to bring money into the state from out-of-state sources. In Colorado, for example, about 75% of production company receipts came from out-of-state sources during 2001. By comparison, based on surveys conducted by ESI, only 21% of Arizona production company receipts came from out-of-state sources. As the number of film productions taking place in Arizona has dwindled in recent years, Arizona production and supplier companies have been forced to go where the work is. Currently, a majority of work within close proximity to Arizona is located in New Mexico.
- New Mexico is one of the more recent examples of the dramatic impact the film industry can have on an economy given a certain mix of incentives, advertising, and accessibility of information. Near the end of 2002, New Mexico enacted legislation calling for sales tax exemptions, income tax credits, and no-interest loans on film productions taking place in New Mexico. The result was a ten-fold increase in economic activity in the state. In 2002, the film industry spent about \$8 million in New Mexico. During 2003, the first year the incentives took place, film production picked up dramatically and spending reached approximately \$80 million. Indeed, if film production spending in New Mexico can go from \$8 million to \$80 million in one year, there is no reason to believe this could not happen in Arizona.
- The main concern of Arizona’s resident film industry is the apparent lack of production business that is brought to Arizona. The most frequently stated reasons for the lack of production business in Arizona include lack of resources to thoroughly support and promote the state, lack of incentives, and lack of facilities and professional technicians. It was indicated that the stigma with Arizona is that the industry as a whole thinks there are not enough skilled crew in Arizona to support the needs of out-of-state productions. Compounding this problem is the lack of production projects in the state which has led to an exodus of talented professionals who have followed the business elsewhere.

## RECOMMENDATIONS

The Arizona Film and Video Industry is at a crossroads. Fierce competition from abroad and technological advances in filmmaking have had an adverse impact on employment in the state. A number of initiatives need to occur in order for Arizona to regain its competitiveness, promote technology and innovation; encourage local and independent filmmaking; and attract more out-of-state film productions that enhance local economies and create jobs statewide.

In spite of the fact that jobs in this industry have declined over the last several years, Arizona has a solid foundation to build upon, which includes its rich history in filmmaking, the current base of film technicians/crews, equipment, and facilities, as well as diversity of filming locations and weather.

The reality of the film industry in the U.S. is that states are competing for a limited number of film productions as more and more production takes place outside the U.S. As a result, recognizing the significant impact of film production on their economies, states have enacted aggressive marketing campaigns to maintain and enhance the film industry. Indeed, if film production spending in New Mexico can go from \$8 million to \$80 million within one year, there is reason to believe that the film industry could also have such an impact on Arizona.

Fostering the growth of the film and video industry in Arizona will require a collaborative effort that includes support from private business, government as well as education. With that in mind, the following recommendations include ways Arizona can emulate or even improve on best practices in other states, approaches for promoting local filmmaking, and address identified deficiencies through a team effort.

### *ESTABLISH COLLABORATIVE PARTNERSHIPS*

- Work to unite the disparate pieces of the film industry in the state by soliciting their involvement in the development and implementation of a “Film in Arizona” marketing campaign.
- Encourage education and private business to work together to establish mentoring, internship and apprenticeship opportunities.
- Facilitate a seamless integration of service delivery by identifying the weaknesses in the film making supply chain and work to overcome those weaknesses.

### *FACILITATE AND PROMOTE LOCAL FILMMAKING*

- Stimulate the creation of local filmmaking by working with the local film festivals and have an annual statewide competition which would culminate at an annual film festival with prizes presented by the Governor.

- Support local nonprofit organizations that promote the development of local filmmaking, such as the newly located Blacktop Films. This support could include helping to publicize the non-profit service to providing financial assistance.
- Develop an outreach program aimed at the Arizona film industry which would promote the small business assistance programs offered by the Arizona Department of Commerce.
- Create a revolving loan fund in conjunction with lending institutions that independent filmmakers could access to help with production and distribution costs of their films.
- Ensure the availability of future workers by encouraging the expansion of educational offerings at the high school and community college levels.
- Help Arizona's film industry stay competitive by promoting the availability of workforce development dollars to the industry.
- Inaugurate an annual filmmaking camp to foster interest among the state's youth. This could be done through a collaboration of the Arizona film industry and the colleges.

#### *ESTABLISH INCENTIVES WITH A RETURN ON INVESTMENT*

- Create an incentive program to attract out of state production companies that provides a tax rebate for utilizing Arizona talent, technicians/crews, and equipment.
- Ensure that incentives are understandable and easily obtainable. The types, amount, eligibility, and qualifications of incentives offered should be clearly documented on the Commerce's website. There should be as little administration as necessary in order to apply for incentives. Incentives are effectively useless if production companies perceive there to be too much "red tape" to be worth the effort.
- Support incentives that are geared toward smaller, resident independent film and video productions, such as loaning out equipment.

#### *MARKETING AND PROMOTION*

Based on the surveys conducted for this study, Arizona does not appear to be on the radar screen of most film production companies compared to other states. A more targeted, effective marketing strategy is needed to promote Arizona's diversity of locations, professional technicians/crews, and film festivals.

- Develop a branding and marketing plan to promote film production in Arizona. Implementation strategies should be stratified to target the various types of filming activity (feature films, commercials, television and cable, etc).

- Increase the amount of resources and marketing dollars to effectively compete for film business.
- Attend national and regional trade shows and work to establish personal relationships with production companies by scheduling regular sales calls.
- Advertise in national magazines that target the film production industry, such as *Hollywood Reporter* and *Daily Variety*.
- Promote Arizona as having more than just desert locations. Highlight places such as Flagstaff and Sedona for forested locations and Scottsdale and Tucson for urban landscapes.
- Help the film festivals secure big name signature sponsors, an example is Ralph Lauren's 20 year sponsorship of the annual Telluride Labor Day Film Festival.
- Promote local film festivals in national publications to draw larger audiences nationally and internationally.
- Provide more resources and staffing to increase the level of customer service. New Mexico was identified a number of times for their apparent willingness to help in any way they can to bring a production to their state. This higher level of customer service requires substantially more resources and staffing than currently available at the Arizona Department of Commerce Film Office.
- Develop a standardized tracking system for the State and Local Film offices to use annually in monitoring the value of out-of-state production. Information to be gathered should include revenue by project type (commercials, documentaries, films, television, videos, post-production), the number of projects, and the number of production days.

#### *FILM OFFICE WEBSITE*

Interviews with producers revealed that the website for a state's film office is one of the starting points in scouting locations for film productions. An organized, well-designed website with a wealth of information is one of the most effective means at marketing Arizona as a film destination. Following are suggestions for improvement to the current Arizona Department of Commerce website.

- Create a website link that is easy-to-use with all information available within two or three clicks. An unorganized, confusing website is a deterrent to most users.
- Include nearly all the location resources a production company could ever need to know about filming in Arizona such as the following:
  - ⇒ Online picture gallery of locations in Arizona
  - ⇒ All pictures should be downloadable
  - ⇒ Streaming video with state footage
  - ⇒ Clear description of permits for filming in Arizona
  - ⇒ Online permit applications including filing instructions

- Provide an online, searchable directory of up-to-date production resources including contact information for technicians/crews, equipment suppliers, studios, and trucking, etc.
- Supply an online directory of hotels, restaurants, entertainment venues, and any other attraction a potential production would desire while filming in Arizona.
- Include a clear discussion of the incentives available in Arizona to out of state production companies
- Create a website with an identifiable, easy-to-remember name. For example, Nevada's website is at [www.NevadaFilm.com](http://www.NevadaFilm.com) and Florida's website is at [www.FilminFlorida.com](http://www.FilminFlorida.com).



## APPENDIX A ECONOMIC IMPACT MODEL

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### ECONOMIC IMPACT MODEL BACKGROUND

ESI Corp utilized IMPLAN Pro software to conduct an economic impact analysis of Arizona's Film industry. IMPLAN Pro software was created by the Minnesota Implan Group (MIG) as a tool for impact analysis. Analysis of economic impacts depends on inputs to the analyzed activities available in the analyzed region. The "multiplier" effect occurs as spending is recirculated throughout the economy within the study area. For example, when a factor creates 10 new jobs paying \$20,000 per year, the resultant \$200,000 in income paid to those workers and the increased output of the factory manifest into new economic activity. This new economic activity has three types: direct; indirect; and induced.

- The *direct* impact is the additional activity itself (i.e. 10 direct jobs).
- *Indirect* impacts consider the interactions among industries (backward buyer-supplier linkages) to quantify the additional activity in other industries caused by the increase in activity in the factory. Indirect activity is that economic activity created by businesses that provide goods and services essential to the operation of the project. Examples range from firms who make goods (i.e. manufacturers) to firms who deliver goods (wholesalers) to firms who clean buildings (i.e. janitors).
- *Induced* impacts include the economic activity created from the spending of the wages and salaries of the direct and indirect employees on items such as food, housing, and transportation.

The portion of the spending which accrues to local businesses and employees is recirculated to the extent defined by the input-output relationships specific to the region (derived from U.S. Bureau of Economic Analysis data). The model reiterates until all of the spending is "leaked" outside of the regional economy.

The model uses actual input and output information for each county in the United States and is therefore tailor made for the study region. Study areas are generally single counties, multi-county regions, multi-zip code regions, one or more states, or national. Generally speaking, impacts are greater the larger the study area chosen, since they are based on the amount of recirculation of spending which is done before the impact of each dollar is fully "leaked" out of the study area. Impacts *can* be equal or smaller for larger areas in special cases, since the average productivity of workers in each industry and other industries in its supply chain will vary by geographic region. This is also determined through the use of input-output data at the county level.

## **ASSUMPTIONS, LIMITING CONDITIONS AND DATA METHODOLOGY**

The economic impact analysis included in this report is subject to the following assumptions, limiting conditions, and general methodology considerations.

- The latest employment and wage data from the Arizona Department of Economic Security is available through third quarter 2003. Average employment and average wages for the Film Industry in Arizona for the first three quarters of 2003 will be used as inputs to the economic impact analysis. These figures are discussed in Section 3 of this report.
- The IMPLAN model was selected due to its frequent use in economic impact analysis within Arizona in conjunction with its development independent of local influences. The Minnesota IMPLAN Group produces IMPLAN econometric models for regions throughout the United States and the IMPLAN Model is generally recognized as one of the leading economic multiplier models within the country.
- The latest available set of IMPLAN multipliers is as of the year 2001. It is assumed that the multiplier relationships in 2003 are similar to those in 2001. No adjustments to the 2001 multipliers were made.
- The employment and wage data for the Film Industry in Arizona is broken down by three regions. These regions include Metro Phoenix (Maricopa and Pinal counties), Metro Tucson (Pima County), and the Balance of the state (all counties except Maricopa, Pinal, and Pima). A set of multipliers was generated for each of these regions. The multipliers for a particular region were applied to the employment and wage data for that region. For example, Metro Phoenix multipliers were applied to the number of Film Industry jobs in Metro Phoenix. Total impacts for the State were arrived at by summing the impacts for each of the regions.
- Since the economic impact of Film Industry jobs in Metro Phoenix, for example, is based on Metro Phoenix multipliers, only those indirect and induced jobs located in Metro Phoenix are accounted for. This means that any indirect and induced jobs created outside of the Metro Phoenix region are excluded from this analysis. This situation occurs for both Metro Tucson and the Balance of the state. It is assumed that the percentage of the indirect and induced jobs situated outside of a particular region that are affected by the Film Industry in that particular region is small and, thus, considered insignificant.
- The reported results will represent the considered judgment of ESI Corporation based on the facts, analyses, and methodologies described in this report.

- All direct and indirect written information supplied by the client, its agents, and assigns, concerning the Film Industry in Arizona is assumed to be true, accurate, and complete. Additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.
- This report is intended to be read and used as a whole and not in parts.

## APPENDIX B      SURVEY INSTRUMENTS

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Appendix B - Survey Instruments	
Arizona Film Commissions	
Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please provide answers to the following questions about your film commission or film contact to the best of your ability.	
#	Question
1	What year did your community establish a local film commission/contact?
2	Which of the following entities provide funding for your film commission/contact? <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="width: 45%;"> <ul style="list-style-type: none"> <li>* Tourism Board</li> <li>* Economic Development</li> <li>* Chamber of Commerce</li> <li>* City funding</li> <li>* County funding</li> <li>* Private sector</li> </ul> </div> <div style="width: 45%;"> <ul style="list-style-type: none"> <li>* Private sector</li> <li>* Grants</li> <li>* Local fundraising</li> <li>* Other</li> </ul> </div> </div>
3.1	Total budget in 2003
3.2	% spent on marketing to recruit out-of-state productions
3.3	% spent on location selection activities
3.4	% spent on local assistance with permits, securing suppliers, etc.
3.5	Other
4	How many staff members work on film projects?
5	Realizing that film projects may be very sporadic, what is the average number of hours per week that staff members work on projects?
6	Please provide the names of all projects with a budget greater than \$1,000 produced in your area in 2003.
7	In filming commercials, how many days were spent in production and post-production in Arizona, how many jobs were created, and what was the total budget?
7.1	Total # Production Days
7.2	Total # Jobs
7.3	Total Budget

<b>Appendix B - Survey Instruments</b>	
<b>Arizona Film Commissions (Cont'd)</b>	
<b>#</b>	<b>Question</b>
8	In filming feature films, how many days were spent in production and post-production in Arizona, how many jobs were created, and what was the total budget?
8.1	Total # Production Days
8.2	Total # Jobs
8.3	Total Budget
9	In filming for network and cable television, how many days in production and post-production in Arizona, how many jobs were created, and what was the total budget?
9.1	Total # Production Days
9.2	Total # Jobs
9.3	Total Budget
10	What are the top three issues affecting your ability to recruit out-of-state productions to your area?
11	Please describe the value of the film/video/digital industry to your local area?
12	Do you have any suggestions about how to better promote and market the film/video/digital industry in Arizona?

Appendix B - Survey Instruments	
Film Festivals	
Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please provide answers to the following questions about the festival to the best of your ability.	
#	Question
1	What was the first year that the festival was held?
2	Please provide the following information for the first year of the festival: a. Full-Time Equivalent (FTE) Employees b. Number of Volunteers c. Number of Days in Festival d. Number of Films Shown e. Total Attendance (including film festival participants & guests)
3	Please provide the following information concerning the festival in 2003: a. Full-Time Equivalent (FTE) Employees b. Number of Volunteers c. Number of Days in Festival d. Number of Films Shown e. Total Attendance (including film festival participants & guests)
4	What is your best estimate of the percentage of those attending the festival (including film festival participants and guests) who spend at least one night in hotels or motels in Arizona?
5	What is the average length of stay for the above mentioned out-of-town participants and guests?
6	Of the films shown at the 2003 festival, what percentage was shot either partially or entirely in Arizona?
7	Of the films shown at the 2003 festival, what percentage was produced by Arizona producers?
8	Does your festival dedicate a portion of its activities to showcase the Arizona film/video/digital industry?
9	What is the estimated 2003 total gross revenue for the festival?
10	What are the estimated 2003 total expenses for the festival?
11	Of the estimated 2003 total expenses, what percentage is spent in Arizona?
12	Do you have any suggestions about how to better promote and market film festivals in Arizona?

Appendix B - Survey Instruments															
Film Industry Supply															
<p>Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please provide answers to the following questions about your company to the best of your ability. Your answers will remain confidential, as they only will be used in the aggregate.</p>															
#	Question														
1	In what year was your company formed?														
2	Which category best describes the services your company provides?														
3	<p>To which of the following segments of the film/video/imaging industry do you provide services?</p> <table border="0"> <tr> <td>* Commercials</td> <td>* Stills</td> </tr> <tr> <td>* Stock footage</td> <td>* TV/Cable: Movie of the Week</td> </tr> <tr> <td>* TV/Cable: Single/Special</td> <td>* Sports programming</td> </tr> <tr> <td>* Feature films</td> <td>* Music videos</td> </tr> <tr> <td>* Short films</td> <td>* Industrials/Corporate films</td> </tr> <tr> <td>* TV/Cable: Episodic</td> <td>* Internet</td> </tr> <tr> <td>* Documentaries</td> <td>* Other</td> </tr> </table>	* Commercials	* Stills	* Stock footage	* TV/Cable: Movie of the Week	* TV/Cable: Single/Special	* Sports programming	* Feature films	* Music videos	* Short films	* Industrials/Corporate films	* TV/Cable: Episodic	* Internet	* Documentaries	* Other
* Commercials	* Stills														
* Stock footage	* TV/Cable: Movie of the Week														
* TV/Cable: Single/Special	* Sports programming														
* Feature films	* Music videos														
* Short films	* Industrials/Corporate films														
* TV/Cable: Episodic	* Internet														
* Documentaries	* Other														
4	How many full-time equivalent (FTE) staff members did your company employ in 2003? (*FTE = one full-time employee (e.g., 1 person working 40 hrs/wk = 1 FTE; 2 people working 20 hrs/wk each = 1 FTE). Note: 1 person salaried to work 40 hrs/wk who works greater than 40 hrs/wk = 1 FTE.)														
5	What is the estimated 2003 gross revenue for your company?														
6	Of your company's 2003 total revenue, what percentage was derived from out-of-state sources?														
7	What were the estimated 2003 expenses for your company?														
8	How much did your company spend on other operating expenses in 2003?														
9	What are the top three issues affecting your ability to conduct business in Arizona?														

Appendix B - Survey Instruments															
In-House Production															
<p>Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please have the person most familiar with your company or organization's film and video production provide answers to the following questions. If your company/organization does not have an in-house production unit, please answer questions 1-4 and return the survey. If your organization does have an in-house production unit, please complete all questions and return the survey. To maintain confidentiality, your answers will only be used in the aggregate. Thank you.</p>															
#	Question														
1	<p>Please identify the areas where your company/organization produced a film or video production in 2003.</p> <table border="0"> <tr> <td>* Commercials/Promos</td> <td>* Sports programming</td> </tr> <tr> <td>* Infomercials</td> <td>* Training videos</td> </tr> <tr> <td>* Interstitial</td> <td>* Music videos</td> </tr> <tr> <td>* Documentaries</td> <td>* Stock footage</td> </tr> <tr> <td>* Television &amp; Cable</td> <td>* Internet</td> </tr> <tr> <td>* Industrial/corporate film</td> <td>* Other</td> </tr> <tr> <td>* Stills</td> <td></td> </tr> </table>	* Commercials/Promos	* Sports programming	* Infomercials	* Training videos	* Interstitial	* Music videos	* Documentaries	* Stock footage	* Television & Cable	* Internet	* Industrial/corporate film	* Other	* Stills	
* Commercials/Promos	* Sports programming														
* Infomercials	* Training videos														
* Interstitial	* Music videos														
* Documentaries	* Stock footage														
* Television & Cable	* Internet														
* Industrial/corporate film	* Other														
* Stills															
2	What was the total estimated fixed cost (including payroll) of IN-HOUSE production for 2003?														
3	What was the total amount spent on OUTSOURCED production in 2003?														
4	What percentage of your company or organization's film/video production was OUTSOURCED TO PRODUCTION COMPANIES IN ARIZONA in 2003?														
5	What year was your company/organization's in-house production unit formed?														
6	How many full-time equivalent (FTE) staff members did your company employ for production in 2003? (*FTE = one full-time employee (e.g., 1 person working 40 hrs/wk = 1 FTE; 2 people working 20 hrs/wk each = 1 FTE). Note: 1 person salaried to work 40 hrs/wk who works greater than 40 hrs/wk = 1 FTE.)														
7	What is the size of your company/organization's production facility in square feet?														



<b>Appendix B - Survey Instruments</b>	
<b>In-House Production (Cont'd)</b>	
<b>#</b>	<b>Question</b>
8	Which of the following categories best describes your production facilities' equipment? * Film                                      * Editing (film) * Video                                    * Editing (video) * Digital/HD                            * Editing (digital/HD) * Sound states                         * Film processing * Sound sweetening
9	Please provide a list of the basic equipment in your company or organization's production facility.
10	Does your company/organization use its in-house facilities to provide production services to other companies, non-profits, or education? - If yes, what percentage was in-state?
11	How much outside revenue did your company/organization generate in 2003 by providing in-house production to other companies?
12	Please describe any in-house production your company/organization provided in 2003 for other companies.
13	What are the top three issues affecting your ability to conduct business in Arizona?

Appendix B - Survey Instruments													
Production Companies													
<p>Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please provide answers to the following questions about your production company to the best of your ability. To maintain confidentiality, your answers will only be used in the aggregate.</p>													
#	Question												
1	In what year was your company formed?												
2	<p>How many full-time equivalent (FTE) staff members did your company employ in 2003?</p> <p>(*FTE = one full-time employee (e.g., 1 person working 40 hrs/wk = 1 FTE; 2 people working 20 hrs/wk each = 1 FTE). Note: 1 person salaried to work 40 hrs/wk who works greater than 40 hrs/wk = 1 FTE.)</p>												
3	Is your company primarily engaged in production, distribution, or both?												
4	<p>Please estimate the number of projects that your company produced in 2003.</p> <table border="0"> <tr> <td>* Commercial</td> <td>* Television &amp; cable</td> </tr> <tr> <td>* Industrial / Corporate film</td> <td>* Stills</td> </tr> <tr> <td>* Documentaries</td> <td>* Sports programming</td> </tr> <tr> <td>* Feature films</td> <td>* Music video</td> </tr> <tr> <td>* Short films</td> <td>* Stock footage</td> </tr> <tr> <td>* Internet</td> <td></td> </tr> </table>	* Commercial	* Television & cable	* Industrial / Corporate film	* Stills	* Documentaries	* Sports programming	* Feature films	* Music video	* Short films	* Stock footage	* Internet	
* Commercial	* Television & cable												
* Industrial / Corporate film	* Stills												
* Documentaries	* Sports programming												
* Feature films	* Music video												
* Short films	* Stock footage												
* Internet													
5	Please estimate the total gross revenue for each of the following categories in 2003.												
6	Estimate your 2003 revenues for all production activities												
7	Of your 2003 total revenue, what percentage was derived from out-of-state sources?												
8	What was your estimated cost for freelance crews in 2003?												
9	Of your total estimated cost for freelancers, what percentage was spent on Arizona crews?												
10	How much did your company spend on fixed expenses in 2003?												

<b>Appendix B - Survey Instruments</b>	
<b>Production Companies (Cont'd)</b>	
<b>#</b>	<b>Question</b>
11	What were your total job/project expenses in 2003?
12	Of your total job cost expenses in 2003, what percentage was spent in Arizona?
13	<p>From what sources do you recruit your employees?</p> <ul style="list-style-type: none"> <li>* College/University Career Centers</li> <li>* Job agencies</li> <li>* Technical schools</li> <li>* Internship programs</li> <li>* Apprenticeships</li> <li>* Word-of-mouth</li> <li>* Other training schools</li> <li>* Advertisements</li> <li>* Community bulletin</li> <li>* Professional associations</li> <li>* Trade publications</li> <li>* TV</li> <li>* Internet</li> <li>* Radio</li> <li>* Other</li> </ul>
14	What type of job skills do you look for when hiring staff?
15	<p>From what sources do you recruit your suppliers?</p> <ul style="list-style-type: none"> <li>* Trade directory</li> <li>* Phone book</li> <li>* Professional Associations</li> <li>* Word of mouth</li> <li>* Advertisements</li> <li>* Trade publications</li> <li>* Television</li> <li>* Other</li> </ul>
16	Please list your top five major suppliers including the city and state that they are located in for the projects noted in question 3.
17	What are the top three issues affecting your ability to conduct business in Arizona?

Appendix B - Survey Instruments							
School Districts							
<p>Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please have the person who is most familiar with the film programs in your district provide answers to the following questions.</p>							
#	Question						
1	How many students attended your high school during the 2002-2003 school year?						
2	<p>What type of 'behind the camera' career skills are being taught at your high school?</p> <table border="0"> <tr> <td>* Camera operation</td> <td>* Animation</td> </tr> <tr> <td>* Film editing</td> <td>* Sound editing</td> </tr> <tr> <td>* Film processing</td> <td>* Other</td> </tr> </table>	* Camera operation	* Animation	* Film editing	* Sound editing	* Film processing	* Other
* Camera operation	* Animation						
* Film editing	* Sound editing						
* Film processing	* Other						
3	Does your school have a production facility? - If yes, what is the size of your production facility in square feet?						
4	In which of the following areas do you own equipment?						
5	What type of student productions has your high school produced in the past two years (and how many)?						
5.1	Commercials						
5.2	Documentaries						
5.3	Music Videos						
5.4	Stock Footage						
5.5	Animated Films						
5.6	Other						
6	Approximately how many graduating seniors have gone on to enroll in college/university film programs in the past three years?						
6.1	Total						
6.2	In-State						
6.3	Out of State						
7	What role do you think film education in secondary schools will have in the film/video/digital industry in the next five years?						

Appendix B - Survey Instruments											
Universities & Colleges											
<p>Your participation in this survey is critical in helping the Arizona Film Office better understand and promote the impact of the film/video/digital industry in Arizona. Please have the person who is most familiar with the film studies program at your institution provide answers to the following questions.</p>											
#	Question										
1	What year did your program start?										
2.1	Students Enrolled										
2.2	Full-Time Equivalent (FTE) Faculty										
2.3	Full-Time Equivalent (FTE) Staff										
2.4	Courses/Year										
3.1	Students Enrolled										
3.2	Full-Time Equivalent (FTE) Faculty										
3.3	Full-Time Equivalent (FTE) Staff										
3.4	Courses/Year										
4	Please give a brief description of the focus of your film/video/digital program at your institution. (For example, training behind the camera, video production, post-production, etc.)										
5	What degrees relating to the film/video/digital industry does your institution offer?										
6	What concentrations relating to the film/video/digital industry does your institution offer?										
7	<p>In which of the following degree programs or subject areas does your institution offer film/video/digital production classes or concentrations?</p> <table border="0"> <tr> <td>* Film/TV studios</td> <td>* Broadcast Journalism</td> </tr> <tr> <td>* Theatre</td> <td>* Telecommunications</td> </tr> <tr> <td>* Media</td> <td>* Communications</td> </tr> <tr> <td>* Drama</td> <td>* None</td> </tr> <tr> <td>* Other</td> <td></td> </tr> </table>	* Film/TV studios	* Broadcast Journalism	* Theatre	* Telecommunications	* Media	* Communications	* Drama	* None	* Other	
* Film/TV studios	* Broadcast Journalism										
* Theatre	* Telecommunications										
* Media	* Communications										
* Drama	* None										
* Other											
8	What job skills, specifically related to the film/video/digital industry, are being taught?										
9	<p>Which of the following do you offer students relating to the film/video/digital industry?</p> <table border="0"> <tr> <td>* Mentorship program</td> <td>* Paid internship</td> </tr> <tr> <td>* Volunteer internships</td> <td>* Career counseling</td> </tr> <tr> <td>* Job databank</td> <td>* Student film festivals</td> </tr> <tr> <td>* On-campus recruiters</td> <td>* Job fairs</td> </tr> <tr> <td>* Job shadowing</td> <td>* Other</td> </tr> </table>	* Mentorship program	* Paid internship	* Volunteer internships	* Career counseling	* Job databank	* Student film festivals	* On-campus recruiters	* Job fairs	* Job shadowing	* Other
* Mentorship program	* Paid internship										
* Volunteer internships	* Career counseling										
* Job databank	* Student film festivals										
* On-campus recruiters	* Job fairs										
* Job shadowing	* Other										

<b>Appendix B - Survey Instruments</b>	
<b>Universities &amp; Colleges (Cont'd)</b>	
<b>#</b>	<b>Question</b>
10	Does your program provide consulting/production to generate revenue or to provide student experience?
11	Does your institution have a production facility? - If YES, what is the size of your production facility in square feet?
12	In which of the following areas do you own equipment?
13	Which of the following categories best describes your production facilities' equipment? * Film                                      * Video * Digital/HD                              * Sound states * Sound sweetening                      * Editing (film) * Editing (video)                        * Editing (digital/HD) * Film processing
14	What role do you think higher education and technical training will have in the film/video/digital industry in the next five years?
15	Does your program have a website? - If yes, please provide the web address:
16	Please provide up-to-date contact information for your program.

## **Exhibit 2**

# Motion Picture Production Tax Incentives Program



ARIZONA DEPARTMENT OF COMMERCE  
*Our Job is JOBS!*

Annual Report - Calendar Year 2006

January 2007



# Motion Picture Production Tax Incentives Program

Annual Report - Calendar Year 2006

## Table of Contents

Incentive Overview	
Background .....	1
Reporting Requirements .....	2
Data Analysis	
Application Activity .....	2
Production Activity .....	2
Credits vs. Spending .....	3
Industry Growth Data (2005-06) .....	5

## Incentive Overview

### Background

The Motion Picture Production Tax Incentives Program was established by the Arizona Legislature in 2005 to promote and stimulate the motion picture industry in Arizona (A.R.S. §41-1517). The program achieves this goal by providing tax incentives to qualified motion picture production companies (qualified company). The Arizona Department of Commerce (Commerce) accepts applications year round, on a first come, first served basis and determines eligibility for program incentives. A company may be qualified for a twelve-month period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Begins production within four-months of pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 in the twelve-month pre-approval period, and
5. Estimates employing Arizona residents during production activities as follows:

<u>Year</u>	<u>Percent</u>
2006	25% of the full-time employees must be Arizona residents
2007	35% of the full-time employees must be Arizona residents
2008	50% of the full-time employees must be Arizona residents

The following is a brief summary of the seven incentives provided by the Motion Picture Production Tax Incentives Program to a qualified company beginning January 1, 2006.

#### Transaction Privilege Tax Exemption on:

- o machinery, equipment and other tangible personal property used directly in the motion picture (A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b)).
- o job printing, engraving, embossing or copying that will be used directly in production (A.R.S. §42-5066(B)(4)).
- o leases or rentals of lodging space (A.R.S. §42-5070(C)(2)).
- o catered food, drink and condiments (A.R.S. §42-5074(B)(10)).
- o construction contracts associated with production (A.R.S. §42-5075(B)(20)).

Use tax exemption on machinery, equipment and other tangible personal property (A.R.S. §42-5159(B)(23)).

Income tax credits used to offset Arizona tax liability. Arizona statutes provide transferable income tax credits of \$30-\$70 million depending on the calendar year in which application is made. Tax credit allocations for a motion picture production

are based on Arizona expenses directly attributable to the production and are equal to:

<u>Credit</u>	<u>Qualifying Production Costs</u>
10%	\$250,000 - \$1,000,000
15%	\$1,000,001 - \$3,000,000
20%	More than \$3,000,000

The tax credits may be used, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years (A.R.S. §§43-1075 and 43-1163).

### **Reporting Requirements**

A.R.S. 41-1517(M) requires Commerce to prepare and publish an annual report of the following information collected under this program:

1. Information provided on applications for motion picture production tax incentives. These records shall reflect a percentage comparison of the annual amount of monies exempted or credited to qualifying motion picture production companies to the estimated amount of monies spent on in-state production costs by motion picture production companies.
2. Annual data on growth in Arizona-based motion picture industry companies and motion picture industry employment and wages.

## **Data Analysis**

### **Application Activity**

Commerce received thirty-three applications from sixteen production companies during calendar year 2006. Twelve applications were either withdrawn by the companies or denied pre-approval by Commerce. Further, tax credit allocations were voluntarily relinquished for three applications.

Commerce pre-approved the remaining eighteen applications, which came from eleven companies for \$30 million in tax credits. The eleven pre-approved companies estimated employing 2,276 full-time employees on their 25 productions. The companies estimated that 1,716 employees (or 75% of all full-time employees) will be Arizona residents. It should be noted no information is available regarding the full-time equivalency of these positions at this time.

The pre-approved companies anticipate spending over \$232 million on the productions, with over \$167 million being spent in Arizona.

### **Production Activity**

Production volume data was requested from the three largest film offices in Arizona. However, due to a staff vacancy at the Phoenix office, no data was reported to ADOC. Based on the data provided by Tucson and the Arizona Department of Commerce Film Office, combined activity appears to have increased

in each performance measure category from 2005 to 2006 (the inception of the tax incentive program):

Number of project shot statewide: up 48% from 2005 to 2006.

Projects Shot – Encompasses a wide variety of production types identified as part of the Visual Arts or Motion Picture Industry. The following projects are currently tracked: Feature Film, Commercial, Documentary, TV, Still/Catalog, Student Films, Industrial, Music Video, Multi Media/New Media, and Other/Unclassified.

Number of “qualified” project inquiries: up 53% from 2005 to 2006.

Qualified Project Inquiries - These are leads that have contacted the Film Office seeking a location to begin, resume, and/or complete production of their project.

Number of production days: up 6% from 2005 to 2006.

Production Days – The number of days a production company is established in state to begin, resume, or complete a project. The count stops when a project “wraps” production in state and is no longer using Arizona as a location or primary base of operations for the identified project.

ADOC FILM OFFICE	FY04	FY05	FY06
Number of projects shot	29	59	100
Number of qualified project inquiries	302	300	460
Number of production days	500	600	632

TUCSON	FY04	FY05	FY06
Number of projects shot	51	52	64
Number of qualified project inquiries	228	182	277
Number of production days	237	268	286

SUB-TOTAL **	FY04	FY05	FY06
Number of projects shot	80	111	164
Number of qualified project inquiries	530	482	737
Number of production days	737	868	918

\*\* excludes Phoenix film office due to lack of available data

### Credits vs. Spending

For the purposes of the following discussion, the three tax credits and exemptions authorized under the program are broken into two categories – spending *within the State related to the production* (the income tax credit and TPT exemption) and spending *outside of the State for goods and services that are used in Arizona during the production* (use tax). All figures are based on estimates from the applicants submitted at the time of application. The actual amount of spending will be attested to in the applicants' Completion Reports required to be submitted to Department of Commerce, possibly starting as early as February 2007.

Credits/Exemptions for In-state spending: For CY 2006, pre-approved applications show spending *in Arizona* related to productions is projected to be \$167,015,540. The total approved, potential credits and exemptions associated with this level of spending within Arizona is \$40,521,979, as shown below.

<b>Approved, Potential Tax Credits and Exemptions for In-state Spending</b>	
<i>Type of Incentive</i>	<i>Credit</i>
Income Tax Credits	\$30,000,000*
TPT Exemptions**	\$10,521,979
Total	\$40,521,979

\* 2006 cap on amount of income tax credits available; established by A.R.S. §41-1517(E)

\*\* Total potential TPT exemptions; estimated in-state spending times 6.1% TPT rate

Exemptions for Out-of-state spending: In addition, pre-approved applications show projected spending of \$65,338,049 *outside Arizona* for goods and services that will be used in-state during a production. Based on use tax of 5.6%, this equates to approved, potential exemptions of \$3,658,931:

<b>Approved, Potential Tax Exemptions for Out-of-state Spending</b>	
Use Tax Exemptions***	\$3,658,931

\*\*\* Total potential use tax exemptions; estimated production costs outside of Arizona times 5.6% use tax rate

Total potential credit/exemptions: The total amount of approved, potential tax credits and exemptions is estimated at \$44,180,910 for CY 2006. Actual dollar amounts of tax credits will not be available until tax returns are submitted to the Arizona Department of Revenue upon completion of production. The final amount of tax credits may be lower than the estimate if some credits are not claimed. Further, transaction privilege and use tax exemptions will not be known until the Department of Revenue begins collecting the data, which anticipated for the February 2007 reporting period.

It should be noted the figures shown above are merely estimates of planned spending and do not reflect the economic impact of the motion picture tax incentives. An econometric analysis is required to determine this impact, including

the number of direct, indirect and induced jobs created, industry output, and most importantly, the amount of state and local taxes generated or the actual “return on investment” for the program. It is anticipated an economic impact analysis will be performed when adequate data has been amassed.

### Industry Growth Data (2005 – 2006)

In December 2004, industry codes under the North American Industry Classification System (NAICS) were identified in an economic impact analysis of the State’s film industry performed for the Arizona Department of Commerce:<sup>1</sup>

51211 – Motion Picture and Video Production

51219 – Postproduction Services and Other Motion Picture and Video Industries

51212 – Motion Picture and Video Distribution

To determine changes to statewide employment in the film industry related businesses, the Arizona Department of Economic Security provided information from the Quarterly Census of Employment and Wages (QCEW) for these three codes. The QCEW data includes both companies and sole proprietors. The following table combines the three NAICS sectors into one group. This data shows annualized quarterly data. It should be emphasized that NAICS codes are self-reported by employers to DES.

Arizona Motion Picture and Film Industry – Annual Employment and Wages									
Year/ Qtr.	Average # of Establishments	Annual Change*	Average Annual Employment	Annual Change*	Avg. Employees Per Firm	Total Industry Wages**	Annual Change*	Average Annual Employee Wage***	Annual Change*
2006/3	194	10%	973	30%	5	\$29,433,393	9%	\$30,258	-16%
2006/2	188	7%	978	35%	5	28,643,598	3%	29,303	-24%
2006/1	183	4%	935	34%	5	27,759,647	-1%	29,705	-26%
2005/4	179	0%	826	13%	5	26,454,898	-7%	32,037	-18%
2005/3	176	-2%	751	7%	4	27,048,441	4%	36,029	-2%

Source: DES, January 15, 2007

\* Change from the same quarter in prior year

\*\* Industry wages represent a rolling 3-month accumulation

\*\*\* Change in average annual employee wages from the same quarter in prior year

<sup>1</sup> *Analysis of the Film and Video Industry in Arizona*, ESI Corporation, December 2004.

<http://www.azcommerce.com/doclib/FILM/Analysis%20of%20the%20Film%20and%20Media%20Industr y%20in%20Arizona%2012.04%20B.pdf>

Firms and employees: The data indicates that the number of firms in the film related industries grew 10 percent from the 3<sup>rd</sup> quarter of 2005 (176 businesses) through the 3<sup>rd</sup> quarter of 2006 (194 businesses). Over this same period, it appears employment also rose 30 percent, from 751 to 973 employees. However, the average number of employees stayed about the same at approximately 5 persons per reporting firm. No information is available regarding the full-time equivalency of these positions.

Wages: Total industry wages in the 3<sup>rd</sup> quarter of 2006 were up 9 percent, increasing from \$27.0 million to \$29.4 million. However, average annual employee wages declined in each quarter when compared to the same quarter in the year prior. The rate of decline accelerated from the 3<sup>rd</sup> quarter of 2005 (-2%) through the 1<sup>st</sup> quarter of 2006 (-26%). However, the rate of decline appears to have slowed through the 3<sup>rd</sup> quarter of 2006.

This decline appears to be a result of the number of employees rising faster than total wages paid for these sectors. In discussions with DES, it is not necessarily unusual for an industry with a high number of part time and contract workers to experience a decline in average employee annualized wages in periods of high growth. Additional periods of data will be needed to determine if this is merely a response to a sudden increase in industry activity in Arizona or if it is a long-term trend.

State and local taxes: At this time, Department of Revenue does not have available in its data systems records of corporate income tax payments for these detailed NAICS codes.

### **Exhibit 3**





**ARIZONA DEPARTMENT  
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## **Motion Picture Production Tax Incentives Program**

Annual Report  
Calendar Year 2007



# Motion Pictures Production Tax Incentives Program Annual Report Calendar Year 2007

## Table of Contents

Preface/Overview .....	3
2007 MOPIC Activity .....	5
Legislation .....	6
Applications/Applicants .....	6
Tax Credit Utilization .....	9
Spending .....	9
Employment and Wages .....	10
Economic and Fiscal Impact .....	14
Appendix A .....	16

### Prepared by:

Kent Ennis, CFA  
Deputy Director  
Arizona Department of Commerce

Lisa Danka  
Asst. Deputy Director, Finance and Investment  
Arizona Department of Commerce

Jessica Smothermon  
Director, Research and Population Statistics  
Arizona Department of Commerce

### Peer and Technical Reviewers:

Jim Rounds  
Senior Vice President  
Elliott D. Pollack & Co

Vincent G. Perez  
Assistant Director, Audit Division  
Arizona Department of Revenue

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## Preface

ARS §41-1517 requires the Arizona Department of Commerce (Commerce) to prepare an annual report related to the Motion Picture Production Tax Incentive Program (MOPIC). This report covers calendar year (CY) 2007 and was prepared by the Economic Research Section of Commerce. The data and information presented herein are from, or based on, public sources or are authorized for release in this report by Arizona law.

## Overview

The MOPIC was initially authorized by the Arizona Legislature in 2005 and effective January 1, 2006. The program features a total of seven exemptions from Arizona Transaction Privilege, Use and Income taxes:

### Five Transaction Privilege Tax (TPT) Exemptions:

- Machinery, equipment and other tangible personal property used directly in the motion picture (A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b)).
- Job printing, engraving, embossing or copying that will be used directly in production (A.R.S. §42-5066(B)(4)).
- Leases or rentals of lodging space (A.R.S. §42-5070(C)(2)).
- Catered food, drink and condiments (A.R.S. §42-5074(B)(10)).
- Construction contracts associated with production (A.R.S. §42-5075(B)(20)).

TPT exemptions are generally received at the point of sale or contract, and are available to pre-approved applicants *even if the amount of income tax authorized for the year have all been allocated or if an applicant does not want the income tax credits*. Applicants are required to report the amount of their TPT exemptions to Commerce. The TPT exemption discussed in this report is limited to that provided by the State. It is unknown if, or how many, cities in Arizona are also providing TPT abatements.

**Use tax exemption:** machinery, equipment and other tangible personal property (A.R.S. §42-5066.B.5). Pre-approved applicants are exempted from paying use taxes for items purchased outside Arizona which are then transported here and used in a production. Like TPT exemptions, use tax exemptions are available even if the income tax credits authorized for the year have all been allocated or if an applicant does not want the income tax credits. Applicants are also required to report the amount of their use tax exemptions to Commerce.

**Income tax credits:** Transferable state income tax credits in the amount of \$250 million were authorized over a five-year period<sup>1</sup> and “capped” each year as shown in Figure 1:

**Figure 1**

Income Tax Credits Authorized by Calendar Year	
2006	\$30 million
2007	\$40 million
2008	\$50 million
2009	\$60 million
2010	\$70 million
2011 and thereafter*	\$70 million

\*If reauthorized by the Arizona Legislature

<sup>1</sup> Most tax credit programs in Arizona are authorized for only five years, and must be reviewed and reauthorized by the Arizona Legislature every five years to remain in effect.

If MOPIC is renewed by the Legislature in 2010, the amount of income tax credits authorized in 2011 and thereafter will be \$70 million annually. These tax credits may be used to offset Arizona income tax liability, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years (A.R.S. §§43-1075 and 43-1163). Any income tax credits remaining unused from the cap at the end of the calendar year can be rolled forward for one year, increasing the following year's cap.

The income tax credits are allocated to qualified applicants based on the amount of expenses in Arizona directly attributable to a motion picture production. Figure 2 shows the breakdown of qualifying productions costs and the credits associated with each in CY 2007:

**Figure 2**

<b>Allocation of Income Tax Credits</b>	
<i>Qualifying Production Costs</i>	<i>Credit*</i>
\$250,000 - \$1,000,000	10%
\$1,000,001 - \$3,000,000	15%
More than \$3,000,000	20%
*In CY 2008, credit percents will increase as follows: \$250,000 - \$1,000,000: credit will be 20% Over \$1,000,000: credit will be 30%	

Commerce accepts applications year round, on a first come, first served basis and determines eligibility for program incentives. An applicant may be qualified for a twelve-month period if it:

- Is primarily engaged (more than 50%) in producing motion pictures;
- Has a physical office and bank account in Arizona;
- Begins production within four-months of pre-approval;
- Anticipates incurring qualifying production costs of at least \$250,000 in the twelve-month pre-approval period; and
- Estimates employing Arizona residents during production activities as follows:

<i>Year</i>	<i>Full-time Requirement</i>
2006	25%
2007	35%
2008	50%

To receive the income tax credits, applicants must apply and meet the eligibility requirements of the program in order to receive "pre-approval," which secures their priority position and a specific amount of tax credits (known as their "allocation") from the amount authorized in the calendar year (the "cap"). Applicants must produce their pre-approved production and then file with Commerce to receive "post-approval." Commerce reviews Arizona spending, employment and other aspects of an applicant's production activity before issuing post-approval, which may be less, but not more, than the pre-approved amount based on the final qualifying production costs. Only upon receipt of a post-approval letter from Commerce can an applicant actually claim the tax credits.

MOPIC is the State's only transferable (salable) tax credit. Because the credits may be sold to others with Arizona tax liability, it is more likely these credits will actually be claimed. This contrasts with all other Arizona tax credits, which cannot be transferred and therefore, are more likely to expire and not be fully claimed to offset tax liability.

As a result of the fact that the five TPT and the use tax exemptions are separate tax credits and may continue to be abated even after the cap has been fully allocated, the actual amount of tax impact is the sum of all three categories: income, TPT and use taxes.

Administration of the program within Commerce is handled by two program managers in the Business Development Finance Office. The expenses associated with program administration are funded from a \$180,000 appropriation from the annual cap amount for MOPIC. The Department of Revenue incurs additional administrative costs related to audits, tracking the sale of tax credits and other activities. These additional costs are funded through the budget of the Department of Revenue and are not included in this report.

## **2007 MOPIC Activity**

Figure 3 provides a summary of MOPIC in 2007. The CY activity related to Legislation, Applications, Tax Credit Utilization, Spending, Employment and Wages are discussed in the ensuing pages, followed by an analysis of the economic and fiscal impact of applications post-approved in CY 2007.

### **Legislation**

During the 2006 legislative session, several changes were enacted to MOPIC and applied retroactively to January 1, 2006. These changes include:

- Clarification of the requirement for an applicant to begin production within four months of pre-approval;
- Authorization for Arizona employees to be counted toward the residency requirement if hired by an authorized payroll service company;
- Authorization for the allocation of the next year's tax credit cap on November 1<sup>st</sup> of each year if the current year's cap has been fully pre-approved by October 31<sup>st</sup>;
- Addition of an exemption from transaction privilege tax on job printing classification; and
- Authorization for the reallocation of tax credit amounts returned to a calendar year's cap if returned during the calendar year in which originally allocated.

### **Application Activity**

Commerce received 51 applications from 26 production companies for income tax and TPT/use tax credits in calendar year 2007. The names of the applicants (production companies) and their productions, and the amounts pre-approved and post-approved are shown in Figure 4. This information for CY 2006 is also included in Figure 5 to provide a cumulative picture of the program.

Of the 51 applications received in CY 2007:

- 4 were denied pre-approval by Commerce for various reasons. Denied applicants may appeal a denial decision.
- 9 were withdrawn by the applicant before receiving pre-approval;
- 6 applicants voluntarily relinquished their tax credit after pre-approval for various reasons;
- 10 pre-approved companies had tax credits rescinded by Commerce because they failed to begin production within four months of pre-approval; and
- 22 were pre-approved;
- 1 applied for and received post-approval<sup>2</sup>.

MOPIC activity increased steadily in CYs 2006 and 2007. However, it should be noted that there were several film project applications that did not receive post-approval due to one or more of the following reasons: 1) the project did not start within the required timeframe; 2) the applicant voluntarily

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<sup>2</sup> In addition to the application post-approved for CY 07 cap, six applications from CY 06 also received post-approval for a total of seven post-approvals.

relinquished its application; 3) the applicant waived the request for tax credits; or 4) the application was denied.

**Figure 3**

<b>MOPIC Summary for CY 2007</b>	
<b>Application Activity</b>	
Total number of applicants	26
Applications received	51
Applications denied <sup>3</sup>	4
Applications withdrawn <sup>4</sup>	9
Applications voluntarily relinquished <sup>5</sup>	6
Applications rescinded <sup>6</sup>	10
Applications pre-approved	22
Applications post-approved (1 from CY 06 and 6 from CY 07)	7
<b>Tax Credit Utilization</b>	
2007 authorized cap	\$40,000,000
Unused cap from CY 06 rolled forward	0
CY 06 cap returned in CY 07 (by applicants unable to complete productions)	\$517,394
Total CY 07 cap available	\$40,517,394
Total cap amount pre-approved	\$40,517,394
Average pre-approval cap amount	\$862,072
Total TPT and use tax exemptions taken	\$72,623
Total tax credits post-approved	\$2,740,855
Total tax incentives (from CYs 06 and 07)	\$2,813,478
Unused cap rolled forwarded to CY 08	\$8,696,546
<b>Spending</b>	
Total estimated spending by pre-approved applicants	\$184,000,000
Estimated spending in Arizona by pre-approved applicants	\$164,000,000
Post-Approved Applicants' Total Spending (all locations)	\$24,682,004
Post-Approved Applicants' Spending in Arizona	<b>\$20,070,809</b>
Percent of Total Spending in Arizona	83%
<b>Film Industry Employment and Wages in Arizona</b>	
Number of employees in CY 07	809
Increase (decrease) in employment from CY 06	(146)
Number of companies in CY 07	222
Increase (decrease) in number of companies from CY 06	23
Average annual wage in CY 07	\$39,788
Increase (decrease) in average annual wage from CY 06	\$8,736
Average hourly wage in CY 07	\$19.13
Increase (decrease) in average hourly wage from CY 06	\$4.20
<b>Economic and Fiscal Impact in Arizona</b>	
Direct FTEs created by post-approved applicants in CY 07	222*
Estimated Indirect and Induced FTEs from CY 07 post-approved applications	203*
Estimated State and local tax revenues generated by CY 07 post-approved applicants	\$1,111,979*
Net benefit (cost) to the General Fund of CY 07 post-approved applications	(\$1,701,499)

\*Estimated using the Minnesota IMPLAN Professional economic model

<sup>3</sup> "Denied" means Commerce found the application ineligible due to failure to meet statutory requirements, to provide required documentation or other reason.

<sup>4</sup> "Withdrawn" means the applicant withdrew the application before receiving pre-approval.

<sup>5</sup> "Voluntarily relinquished" means the applicant withdrew their application after receiving pre-approval.

<sup>6</sup> "Rescinded" means Commerce took back the allocation because the applicant did not meet program requirements, such as starting the production within the 4 month deadline.

Numerous applicants continue to find that they are not able to start production on time and to hold their credit allocation. During 2006 and 2007, several applicants subsequently reapplied. Due to production delays and other reasons, it is expected that there will always be more initial MOPIC applicants than the number that actually receive post-production tax credits.

**Post-approved Applications:** Seven applicants received post-approval in CY 07. One of the post-approved applications was from CY 2007 and the remaining six from CY 2006.

**Figure 4**

<b>2007 Pre-Approved and Post-Approved Productionst</b>			
<i>Production Company</i>	<i>Production</i>	<i>Pre-Approved \$</i>	<i>Post-Approved \$</i>
Hidden Palms Productions	Hidden Palms Season 2 Episodes 19 & 20	\$920,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 15 & 16	\$920,000	*
Chris Lamont Productions, Inc	Deadly Sanctuary	\$700,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 11 & 12	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 1 & 2	\$920,000	status unknown
Spring Break '83 Production, LLC	Spring Break '83	\$1,000,000	*
The Dark West, LLC	The Dark West	\$84,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 21 & 22	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 17 & 18	\$920,000	status unknown
Middle Link Inc.	Wild Horses	\$5,000,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 5 & 6	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 9 & 10	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 25 & 26	\$920,000	status unknown
Veritas Pictures, LLC	1. Suicide Club 2. A Matter of Faith 3. Laughing Your Way to a Better Marriage 4. Faith Campaign	\$390,450	still in production
Middle Link Inc.	Queenie and Dell	\$2,199,140	*
Brothers' Ink, LLC	Capture the Flag	\$1,000,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 3 & 4	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 13 & 14	\$920,000	status unknown
Venture Court Productions	2 Cents	\$154,644	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 23 & 24	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 7 & 8	\$920,000	status unknown
FilmWest Productions, LLC	The Laundry Warrior	\$5,000,000	status unknown
FilmWest Productions, LLC	Pieces of Dreams	\$1,559,898	*
FilmWest Productions, LLC	Clandestine	\$5,000,000	status unknown
Child's Cry, LLC	Child's Cry	\$642,000	*
FilmWest Productions, LLC	Dolan's Cadillac	\$5,000,000	*
FilmWest Productions, LLC	Dot or Feather	\$900,409	status unknown
FilmWest Productions, LLC	Bad Company	\$5,000,000	status unknown
Eleventh Hour Productions, LLC	Cystallize	\$100,000	*
Conditional Love, LLC	Conditional Love	\$1,200,000	*
Scripps Howard Broadcasting Company, dba KNVX-TV	1. ABC 15 Local News 2. Sonoran Living	\$1,926,956	**
Blue Voodoo Technologies	Burden	\$1,905,210	*
Arizona Production Resources, LLC	Shiver	\$402,057	*
Arizona Production Resources, LLC	Seven Deadly Sins	\$1,400,000	*
Randy Murray Productions	Comet	\$62,000	\$62,000
Universal City Studios, LLLP	Kids in America	\$1,361,999	**
Touchstone Television Productions, LLC*	Football Wives	\$638,687	*
Golden Days Productions, Inc.	Wild Oats	\$3,248,600	*

2007 Pre-Approved and Post-Approved Productions <sup>1</sup> (continued)			
<i>Production Company</i>	<i>Production</i>	<i>Pre-Approved \$</i>	<i>Post-Approved \$</i>
110 in the Shade Productions, LLC	The Superstitions	\$233,500	*
FilmWest Productions, LLC	Dolan's Cadillac	\$5,000,000	*
Daydreamin' Pictures	The Human Divide	\$300,000	*
FilmWest Productions, LLC	87 Minutes	***\$1,955,046	status unknown
Pacific Direct Inc.	Snappers	***\$0	still in production
Scripps Howard Broadcasting Company, dba KNVX-TV	1. Local ABC 15 News 2. Sonoran Living	\$1,926,975	*
G2 Productions, LLC	Vacuuming the Cat	\$26,000	*
Fifth Wind Films	Child's Cry	\$640,000	*
Arizona Production Resources, LLC	A Killing Season	\$0	*
Old Tucson Productions	Clandestine	\$4,600,000	*
Old Tucson Productions	Soccer Mama Mia (aka) Soccer Mom	\$1,000,000	*
Old Tucson Productions	Dot or Feather	\$700,000	*
Cheyenne Mountain Entertainment, Inc.	Stargate Worlds MMORPG	\$0	still in production
<p>† This list is in the order in which applications were received by the Arizona Department of Commerce. A production may be listed more than once because the production company may have either withdrawn its application or voluntarily relinquished its allocation and later reapplied.</p> <p>* Indicates the production did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn, production did not meet investment time requirements, application was denied, tax credits were waived</p> <p>** Indicates Completion Report under review in CY08; tax credits TBD</p> <p>*** Indicates allocation came, in whole or in part, from \$517,394 of 2006 credits returned and added to the 2007 cap. \$292,394 went to 87 Minutes and \$225,000 went to Snappers.</p>			

**Figure 5**

2006 Pre-Approved and Post-Approved Productions†			
<i>Production Company</i>	<i>Production</i>	<i>Pre-Approved \$</i>	<i>Post-Approved \$</i>
Universal City Studios, LLP	The Kingdom	\$5,000,000	**
Afterwards Films, Inc	Afterwards	\$345,000	*
Jake's Corner, LLC	Jake's Corner	\$240,000	**
Film West Productions, LLC	1. Twilight Heroes 2. OK Corral	\$435,000	*
Film West Productions, LLC	The Violinist	\$880,000	*
Film West Productions, LLC	Cutthroat	\$1,622,300	*
Film West Productions, LLC	Marble City	\$0	*
Hollywood Sunset Pictures	Beyond Legend Johnny Kakota	\$2,580,000	*
Film West Productions, LLC	Ghost in the Ring	\$1,898,183	status unknown
Film West Productions, LLC	Marble City	\$0	*
Film West Productions, LLC	Rin Tin Tin	\$2,218,559	status unknown
Market Niche Consulting, LLC	The Widow's Son	\$2,000,000	*
2XL Games, Inc.	Baja	\$1,300,000	**
Ghost Town, LLC / Duck Soup Productions	1. Ghost Town ; 2. Commercial	\$0	*
Film West Productions, LLC	Fistful of Blood	\$0	*
Film West Productions, LLC	Bunyan & Babe	\$4,509,317	status unknown
Next Turn Productions, LLC	Jolene	\$610,000	\$296,314
Randy Murray Productions, LLC	1. Nuclear Race; 2. Pandemic 2007; 3. Carne Asada; 4. Video Magazine	\$78,800	\$78,800
Blue Voodoo Technologies	Burden	\$0	*
Film West Productions, LLC	Never Enough	\$0	*
Chris Lamont Productions, Inc.	Netherbeast Incorporated	\$72,500	**
Film West Productions, LLC	Piranha	\$5,000,000	status unknown
Film West Productions, LLC	Cover	\$1,000,000	status unknown
Hidden Palms Productions, Inc.	Hidden Palms Episodes 5 & 6	\$800,000	\$688,097



2006 Pre-Approved and Post-Approved Productions† (continued)			
<i>Production Company</i>	<i>Production</i>	<i>Pre-Approved \$</i>	<i>Post-Approved \$</i>
Hidden Palms Productions, Inc.	Hidden Palms Episodes 7&8	\$800,000	\$170,900^
Hidden Palms Productions, Inc.	Hidden Palms Episodes 3 & 4	\$800,000	\$702,713
Hidden Palms Productions, Inc.	Hidden Palms Episodes 1 & 2	\$747,641	\$742,029
Hollywood Phoenix Studios	Mad Mex	\$0	*
Hollywood Phoenix Studios	Level Seven	\$0	*
Hollywood Phoenix Studios	Cliff Monster	\$0	*
Blue Voodoo Technologies	Burden	\$0	*
Vic's Flicks, LLC	From a Place of Darkness	\$0	*
Lone Tree Productions	Arizona Highways Television	\$0	*

†This list is in the order in which applications were received by the Arizona Department of Commerce. A production may be listed more than once because the production company may have either withdrawn its application or voluntarily relinquished its allocation and later reapplied.

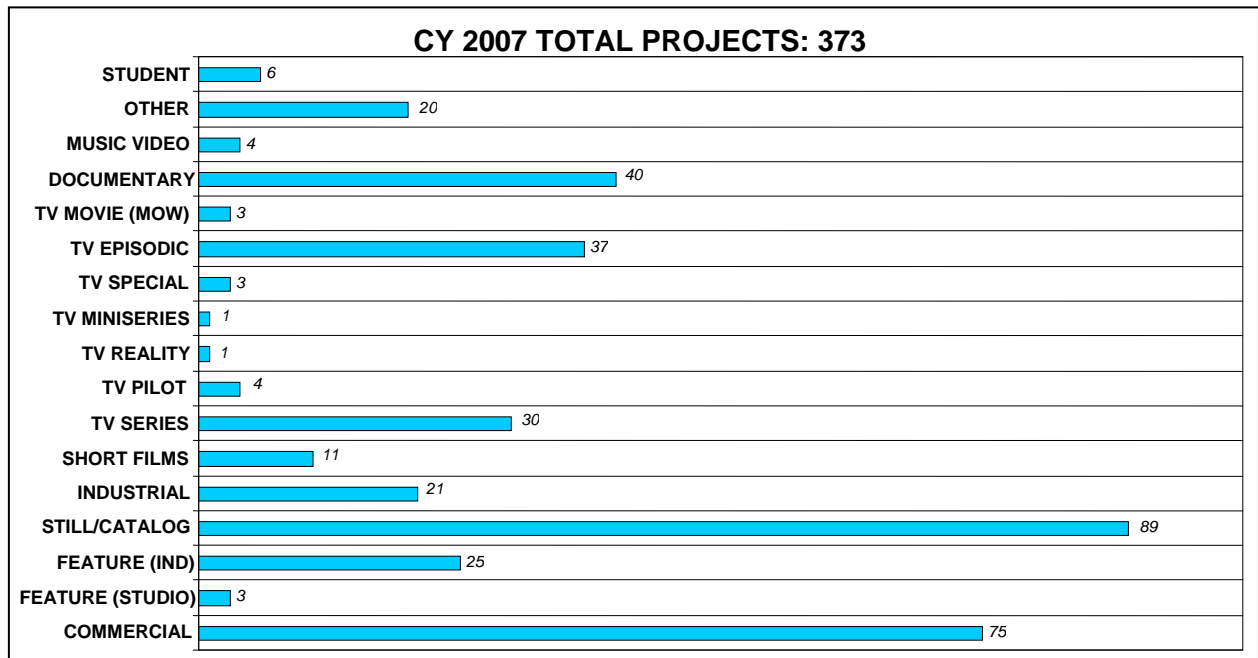
\* Indicates the production did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn, production did not meet investment time requirements, application was denied, tax credits were waived

\*\* Indicates Completion Report is under review in CY08; tax credits TBD

^ Indicates that only Episode was 7 was completed.

**Statewide Production Activity.** In preparing this report, the Commerce Film Office reached out to the 12 local film offices in Arizona for data reflecting CY2007 activity in their area. Seven responded, while five were unable to respond due to staffing issues; the State office also provided data.<sup>7</sup> Figure 6 recaps the types of projects in CY 2007. It should be noted that 373 separate productions were reported in Arizona in CY 2007, with the 51 MOPIC applications representing only 13.6% of the total number productions.

**Figure 6**



<sup>7</sup> Beginning with this report, performance measure data are reported on a calendar year basis to better align with MOPIC.

### **Tax Credit Utilization**

At the end of CY 2007, 22 pre-approved applications were still active and represented \$40 million in allocated tax credits. Two of the 22 applications were allocated credits from the 2006 cap that were returned in 2007 in the amount of \$517,394, making the total amount of credits allocated in 2007 \$40,517,394.

**Post-approved Applications.** As shown in Figure 7, income tax credits of \$2,740,855 and TPT/use tax abatements of \$72,623 were post-approved for seven applicants, for total tax incentives of \$2,813,478. Almost the entire amount of the tax subsidy provided by Arizona (97.5%) for these productions is in the form of income tax credits, with only 2.5% being taken in TPT and use exemptions. This ratio may change as additional applications are post-approved.

**Figure 7**

<b>2007 Post-Approvals: Tax Credit Utilization</b>	
Income Tax Credits Post-approved	\$2,740,855
TPT and Use Tax Abated	\$72,623
Total Arizona Tax Incentives Post-approved	\$2,813,478
TPT and Use Tax as % of Total Tax Incentives	2.5%

### **Spending**

The 22 active pre-approved applicants in 2007 estimated they would spend a total of \$184 million on their productions, with \$164 million being spent in Arizona. As these productions provide post-production documentation of spending, their tax credits will be reported in future MOPIC Annual Reports.

**Post-approved Applications.** As shown in Figure 8, the seven applicants post-approved in CY 2007 reported combined total spending of \$24.6 million to produce their film projects, \$20.07 million (83%) of which was spent in Arizona. Based on the total tax incentives post-approved (\$2.813), the State subsidized (paid for) 13.7% of the spending in Arizona.

**Figure 8**

<b>2007 Post-Approvals: Spending</b>	
Total Spending of Post-approved applicants (all locations)	\$24,682,004
Arizona Spending of Post-approved applicants	\$20,070,809
Percent of Total Spending in Arizona	83%
Average Total Spending Per Project	\$3,526,001
Average Arizona Spending Per Project	\$2,867,259
Tax credit subsidy on Total Arizona Spending	13.7%

Spending reports provided to Commerce by the seven applicants in the post-approval process showed that the \$20.07 million of total Arizona spending was dispersed across a broad range of expense categories, shown in Figure 9. Wages paid were not specifically provided as they tend to be embedded in various expense categories. The top four spending categories in the seven post-approved applications are Producer and Staff (\$4.7 million), Other (\$2.9 million), Talent (\$2.7 million) and Transportation (\$1.3 million). The Other category includes a broad range of otherwise unclassified expenses including:

- Petty Cash
- Insurance
- Writers, Producers, Talent and Production staff
- Set design and Costume
- Transportation
- Post production and Production Costs

**Figure 9**

<b>2007 Post-Approvals: Spending by Category</b>		
<i>Category</i>	<i>Total</i>	
	<i>Qualified AZ Cost</i>	<i>Category %</i>
1. Story & Rights	\$0.00	0.0%
2. Writing	\$329,396.00	1.6%
3. Producer & Staff	\$4,724,144.00	23.5%
4. Director & Staff	\$420,583.64	2.1%
5. Talent	\$2,776,710.08	13.8%
6. Extra Talent	\$211,158.89	1.1%
7. Production Staff	\$913,363.93	4.6%
8. Photography	\$721,338.97	3.6%
9. Special Photography	\$15,500.00	0.1%
10. Special Effects	\$500.00	0.0%
11. Video Tape	\$7,238.00	0.0%
12. Production Sound	\$200,592.07	1.0%
13. Picture Vehicles/Animals	\$100,984.25	0.5%
14. Art Department	\$175,993.49	0.9%
15. Set Construction	\$471,816.40	2.4%
16. Set Dressing	\$378,623.00	1.9%
17. Set Operations	\$593,306.77	3.0%
18. Electrical	\$707,838.82	3.5%
19. Props	\$202,667.19	1.0%
20. Wardrobe	\$338,181.36	1.7%
21. Makeup & Hair	\$257,890.08	1.3%
22. Production Dailies	\$89,927.14	0.4%
23. Music	\$0.00	0.0%
24. Post Production Sound	\$0.00	0.0%
25. Set Strike	\$209,364.00	1.0%
26. Opticals, Mattes and Inserts	\$0.00	0.0%
27. Laboratory Processing	\$0.00	0.0%
28. Second Unit	\$25,112.37	0.1%
29. Additional Unit	\$7,235.94	0.0%
30. Location Expense	\$967,030.76	4.8%
31. Editing	\$5,715.00	0.0%
32. Film & Stock Shots	\$278,123.62	1.4%
33. Insurance	\$73,843.00	0.4%
34. Travel & Living	\$196,650.14	1.0%
35. Transportation	\$1,345,152.30	6.7%
36. Fringe Benefits	\$123,398.43	0.6%
37. General Expenses	\$273,582.43	1.4%
38. Other	\$2,927,847.15	14.6%
<b>Total Expenditures</b>	<b>\$20,070,809.22</b>	<b>100.0%</b>

## **Film Industry Employment and Wages in Arizona**

Film projects are generally known to involve mobile and temporary employment. This is reflected in definition of full-time employment developed in conjunction with the industry and which includes any employee who averages at least *4 hours per day during the period of employment for the production*. Further, the MOPIC statutes do not require permanent, on-going, full-time employment or minimum wage levels as with other incentive programs (Enterprise Zones, Commerce and Economic Development Commission, and Job Training, for example). As a result, it is not possible to determine how many FTEs continue to exist after a production is completed. In addition, the actual amount of wages paid to employees by applicants is generally not known because it is often embedded across multiple spending categories.

However, the Quarterly Census of Employment and Wages (QCEW) data provides an indication of the status of the number of firms, wages and employment in various sectors of the motion picture industry. The QCEW derives its data from quarterly tax reports submitted to state employment security agencies by employers subject to state unemployment insurance (UI) laws and certain federal agencies. These sources comprise 99.7% of all wage and salary civilian employment.

It should be noted, however, that since many workers in the film industry are part-time or temporary, they may not qualify for unemployment insurance benefits. Because the QCEW dataset is drawn from unemployment insurance records, the actual number of employees in this industry – in Arizona and elsewhere – will probably continue to be difficult to measure.

Figure 10 shows a 2007 snapshot of the status in Arizona of Sector 5121 (the primary NAICS sector for motion pictures) and several key subsectors based on the QCEW. Subsector 51213 is excluded from discussion in this report as it represents largely movie theater employment and is not eligible under MOPIC. It is included in Figure 9 merely to provide an accurate picture of the overall motion picture industry in Arizona.

**Figure 10**

<b>2007 Quarterly Census of Employment and Wages for Arizona Production Activity for NAICS* Sector 5121 and Subsectors 51211, 51212, 51213 and 51219</b>					
<i>NAICS Code</i>	<i>Sector or Subsector</i>	<i>Average Annual Employment - AZ</i>	<i>Average Annual Wage (2080 hour year)</i>	<i>Average Hourly Wage</i>	<i>Average # of Firms</i>
5121	Total Motion Picture Video Sector (includes subsectors below)	4,261	\$17,070	\$8.21	268
51211	Motion Picture and Video Production	751	\$39,833	\$19.15	189
51212	Motion Picture and Video Distribution	7	\$44,709	\$21.49	7
51213**	Motion Picture and Video Exhibition	3,452	\$11,746	\$5.65	45
51219	Postproduction Services and Other Motion Picture and Video Industries	51	\$38,447	\$18.48	26
<p>* North American Industry Classification System</p> <p>** Subsector 51213 is excluded from discussion in this report as it represents largely movie theater employment and is not eligible under MOPIC. It is included in this table merely to provide an accurate picture of the overall motion picture industry in Arizona.</p> <p>Source: Bureau of Labor Statistics</p>					

As with most other sectors of Arizona's economy, the overall 5121 NAICS sector has experienced significant change over the last several years. Figure 11 shows the changes by year in the number of firms, total wages, average annual employment and average annual and hourly wages since 2000 for sector 5121, excluding subsector 51213 motion picture exhibition.

**Figure 11**

<b>Quarterly Census of Employment and Wages  Arizona Production Activity for NAICS 5121* (excluding 51213)  2000 - 2007</b>					
Year	Average Number of Firms	Total Annual Sector Wages	Average Annual Employment	Average Annual Wage	Avg. Hourly Wage for 2,080 Hour Year
2000	169	\$39,207,170	830	\$47,252	\$22.72
2001	167	\$28,201,440	724	\$38,979	\$18.74
2002	175	\$24,385,048	642	\$37,998	\$18.27
2003	177	\$22,387,976	609	\$36,777	\$17.68
2004	179	\$28,547,216	733	\$38,932	\$18.72
2005	179	\$26,454,898	826	\$32,047	\$15.41
2006	199	\$29,654,312	955	\$31,052	\$14.93
2007	222	\$32,178,686	809	\$39,788	\$19.13
* Combined NAICS 51211, 51212 and 51219; does not include subsector 51213, Motion Picture Exhibition Source: Bureau of Labor Statistics					

Appendix A shows in greater detail the components of the motion picture production industry that combine to make up the film production category in Arizona. It is possible that some film production related jobs are not reported by employers in the related NAICS film categories. Such workers might be located in several industry codes. In addition, workers that are not part of the Unemployment Insurance system would not be counted in these statistics.

To better understand any changes as a result of MOPIC, data should be considered over two discrete time periods: CYs 2000 through 2005 (prior to implementation of MOPIC) and CYs 2006 and 2007 (the first two years of MOPIC). As seen in Figure 12, most measures of employment and wages have increased since the implementation of MOPIC with the exception of average annual employment, which has decreased by 17 jobs.

**Figure 12**

<b>Changes in Employment and Wages  Before (2000-05) and After (2006-07) MOPIC</b>				
	CY 2000-05		CY 2006-07	
	#\$ Change	% Change	#\$ Change	% Change
Motion Picture firms in AZ	10	5.9	43	24
Total Sector Wages	- \$12,752,272	- 32.5	\$5,723,788	21.6
Average Annual Employment	- 4	- .4	- 17	- 2
Average Annual Wages	- \$15,205	- 32.1	\$7,741	24.1
Average Hourly Wages*	- \$7.31	- 32.1	\$3.72	24.1
* Based on 2080 hour year Source: 2007 Quarterly Census of Employment and Wages, Bureau of Labor Statistics				

**Post-approved Applications.** Figure 13 shows aggregated employment and wage information for the seven post-approved applications. The seven post-approved applicants reported a total of 168,430 of employee hours worked, including 100,893 (60%) worked in Arizona. This represents 97 FTEs based on the program's definition of full-time (4 hours per day), or 49 FTEs based on a

standard 2,080 hour work year. At \$2.8 million in total tax credits, these 97 jobs cost the State \$29,004 each, or \$27.89 per hour worked as reported by applicants.

**Figure 13**

<b>2007 Post-Approvals: Employment and Wages</b>	
Total Arizona Tax Incentives Approved	\$2,813,478
Total Hours Worked reported by Post-approved applicants	168,430
Hours Worked in Arizona	<b>100,893</b>
Percent of Total Hours Worked in Arizona	60%
Estimated Arizona FTEs (based on 4 hours worked per day)	97
QCEW Arizona Average Hourly Wage (AHW) in Film Production <sup>8</sup>	\$19.13
Incentive Cost Per AZ Hour Worked (\$2.8 mil/100,893)	\$27.89
QCEW Arizona Average Annual Wage in Film Production <sup>9</sup>	\$39,788
Incentive Cost Per FTE (\$2.8 mil/97)	\$29,004
Source: Commerce records	

The Incentive Cost Per FTE of \$29,004 compares with other job-based incentive programs as depicted in Figure 14:

**Figure 14**

<b>Cost Per Job Comparisons Among Various Arizona Job-based Incentive Programs (Ranked by Incentive Cost Per Job)</b>			
<i>Program</i>	<i>Job Requirements</i>	<i>Transferable (Salable)?</i>	<i>Maximum Incentive Cost Per Job</i>
MOPIC	<ul style="list-style-type: none"> <li>No new job creation requirement (AZ residency is required)</li> <li>No full-time requirement</li> <li>No minimum wage requirement</li> <li>No health insurance requirements</li> </ul>	Yes	\$29,004
Military Reuse Zone Job Tax Credits	<ul style="list-style-type: none"> <li>Must be new or dislocated full-time positions</li> <li>No minimum wage requirement</li> <li>No health insurance requirements</li> </ul>	No	\$7,500 (new) \$10,000 (dislocated)
Commerce and Economic Development Commission (CEDC)	<ul style="list-style-type: none"> <li>Must be new/retained, full-time and permanent</li> <li>Must pay at or above the average county wage</li> <li>Employer must offer to pay at least 50% of employee health insurance costs</li> </ul>	No	\$3,658*
Enterprise Zone New Job Tax Credits	<ul style="list-style-type: none"> <li>Must be new, full-time (1750 hours annually) and permanent</li> <li>Must pay above the "Wage Offer by County"</li> <li>Employer must offer to pay at least 50% of employee health insurance costs</li> </ul>	No	\$3,000
Healthy Forest New Job Tax Credits	<ul style="list-style-type: none"> <li>Must be new, full-time (1,550 hours annually)</li> <li>Must pay above the "Wage Offer by County"</li> <li>Employer must offer to pay a portion of employee health insurance based on year of operations</li> </ul>	No	\$3,000
*Made to Abraxis BioScience, Inc. Source: Arizona Revised Statutes, Commerce records			

<sup>8</sup> 2007 QCEW data for NAICS 5121, excluding 51213

<sup>9</sup> Ibid.

## **CY 2007 Economic and Fiscal Impact**

Proponents of industry initiatives usually cite the “multiplier effects” of increased direct spending and tax revenue generation related to a specific industry. “Multipliers” attempt to measure the interactions of employment, spending, investment and earnings among and between industries, and are different for each industry and geographic locality. Multipliers are generally based on industry spending interrelationships estimated by the US Department of Commerce, Bureau of Economic Analysis. Private software companies use this government data as the basis for the analysis of new spending or new jobs in an area or industry.

Prior to CY 2007, no applications had been post-approved, making a well-informed analysis of the true outcome of MOPIC impossible. However, the seven applications post-approved in 2007 provide - for the first time - final data to conduct this analysis. For the purposes of this report, the Minnesota IMPLAN Professional<sup>®</sup> economic impact assessment software model<sup>10</sup> was used to analyze both the *economic* and *fiscal* impacts of MOPIC.

**Economic Impact.** *Economic impacts* may be direct, indirect, and induced, and are related to employment, industry output, and new earnings in the economy, among others. The following *economic impacts* are included in this analysis and are defined as follows by Minnesota IMPLAN:

- **Employment** is average annual full- and part-time (ie, “jobs”).
- **Compensation** is the total cost of labor for a business composed of wages and salaries, other labor income (retirement, health insurance), plus employer and employee contributions to social security/payroll taxes.
- **Output** is total revenue from sales/total cost of production for an industry.

These impacts are described in terms of their direct, indirect and induced effects on the economy:

- **Direct** impacts are those directly generated by film and video production companies. Generally, these are considered by the IMPLAN model to be *permanent* jobs.
- **Indirect** impacts are generated by businesses that provide goods and services to film and video production companies.
- **Induced** impacts are generated as a result of the spending by direct and indirect employees in the local economy on such things as food, housing, transportation, etc.

With the assistance of Minnesota IMPLAN, the aggregate Arizona spending of \$20,460,288 provided by the seven post-approved applicants was analyzed using IMPLAN Professional. The *economic impacts* related to employment, compensation and output are shown in Figure 15. It should be noted that these figures are one-time impacts related to the seven specific productions, and will not be repeated in the economy. Further, it is impossible to know how many of the direct, indirect or induced jobs would continue to exist after any given production is completed.

**Figure 15**

<b>Economic Impacts of CY 2007 Post-Approved MOPIC Applications</b>			
	<b>Employment</b>	<b>Compensation</b>	<b>Output</b>
Direct Impact	222	\$3,799,354	\$20,070,810
Indirect Impact	155	\$3,856,039	\$13,973,071
Induced Impact	53	\$1,944,194	\$6,059,692
<b>Total Impacts</b>	<b>430</b>	<b>\$9,599,587</b>	<b>\$40,103,572</b>
Source: Minnesota IMPLAN Professional economic model for Arizona			

<sup>10</sup> Minnesota IMPLAN Group, Inc., <http://www.implan.com/index.html>



- **Employment** – According to the IMPLAN model, 222 direct jobs result from the \$20.07 million in spending. As noted earlier, direct jobs are considered by the IMPLAN model to be *permanent* jobs. Because the motion picture industry is characterized by part-time and temporary employment, it is questionable to assume the 222 jobs are permanent or full-time. Including indirect and induced jobs, the total impact is 430. This is approximately a 2:1 job creation multiplier ratio (2 indirect/induced jobs result for each film industry job created).

It should be noted that the 430 total jobs estimated by the IMPLAN model is higher than the 97 fulltime equivalents reflected in the hours worked as reported by the post-approved applicants. This may be because jobs are embedded across the spending categories reported by the applicants. If this information was available to include in the modeling, the job numbers might more closely match the IMPLAN figures.

- **Compensation** – The IMPLAN model estimates the \$20.07 million in spending reported by the post-approved applicants generated total compensation in the amount of \$9.59 million. Of this amount, \$3.79 million is direct compensation. Again, because jobs are embedded across expense categories, it is impossible to determine if the direct compensation was paid to employees or to owners/investors of the productions. The \$9.59 million represents a compensation multiplier ratio of approximately .5:1 (50 cents of compensation is created for each dollar of spent).
- **Output** - Output estimated by the IMPLAN model is \$40.1 million, and reflects a spending multiplier ratio of approximately 2:1 (\$2 in industry output is generated for each \$1 spent).

To help put this information in context with other industries, Figure 16 presents the impact of the creation of 100 new jobs in Arizona in various industries, measured in terms of total output (column 1), indirect and induced jobs created (column 2) and wages generated (column 3). Highlighted in various colors are industries that are important to Arizona's economy. These lists, developed using the Minnesota IMPLAN Professional economic model for Arizona, have been sorted to present the highest ranking industries at the top. Industries such as Electronic Computer Manufacturing, Computers & Other Electronics, Transport Equipment, Guided Missile and Space Vehicle Manufacturing and Search/Detection/Navigation Instruments produce substantial returns to the economy across all three categories.

**Figure 16**

Additional Economic Output in Arizona Resulting from 100 New, Direct Jobs per Industry		Indirect and Induced Jobs created throughout the Arizona economy as a result of 100 New, Direct Jobs per Industry		Wages Generated throughout the economy as a result of 100 New, Direct Jobs per Industry	
Industry	Total Output (\$)	Industry	Indirect & Induced Jobs (#)	Industry	Total Wages (\$)
Electronic Computer Manufacturing	246,466,800	Electronic Computer Manufacturing	1,370	Lessor of Nonfinance Intang. Assets	1,283,755,124
Lessor of Nonfinance Intang. Assets	163,905,772	Lessor of Nonfinance Intang. Assets	1,227	Beverage & Tobacco	995,153,982
Pipeline Transport	70,179,043	Pipeline Transport	578	Pipeline Transport	564,797,949
Primary Metal Mfg	66,300,738	Water Transport	503	Water Transport	259,568,983
Chemical Mfg	60,913,926	Computer & Other Electronics	412	Primary Metal Mfg	246,971,057
Beverage & Tobacco	54,160,791	Funds- Trusts & Other Finan.	400	Computer & Other Electronics	242,310,833
Computer & Other Electronics	50,217,764	Primary Metal Mfg	396	Chemical Mfg	179,361,227
Utilities	50,021,378	Chemical Mfg	345	Funds- Trusts & Other Financial	114,138,221
Water Transport	48,527,901	Beverage & Tobacco	340	Transport Equipment	112,450,404
Aircraft Engine / Engine Parts Mfg	43,193,480	Food Products	253	Food Products	86,633,609
Guided Missile and Space Vehicle Mfg	41,040,590	Forestry & Logging	247	Utilities	68,922,351
Transport Equipment	35,558,884	Search/ detection/navigation instrmts	210	Forestry & Logging	57,770,146
Food Products	34,391,241	Air Transport	207	Rail Transport	47,042,448
Search/ detection/navigation instrmts	32,941,290	Utilities	204	Paper Mfg	45,204,233
Funds- Trusts & Other Financial	31,757,703	Rail Transport	204	Broadcasting	44,181,416
Paper Mfg	30,858,214	Aircraft Engine / Engine Parts Mfg	204	Air Transport	39,879,229
Rail Transport	30,443,649	Guided Missile and Space Vehicle Mfg	202	Nonmetal Mineral Prod.	38,780,256
Broadcasting	28,869,026	Broadcasting	199	Machinery Mfg	35,513,041
Machinery Mfg	27,553,225	Internet & Data Proc. Svcs	191	Electrical Equipment & Appliances	28,039,531
Forestry & Logging	26,848,270	Transport Equipment	189	Waste Mgmt & Remediation Svcs	25,421,750
Air Transport	23,146,773	Machinery Mfg	176	Internet & Data Proc. Svcs	24,303,683



Additional Economic Output Resulting from 100 New, Direct Jobs per Industry (continued)		Indirect and Induced Jobs created throughout the economy as a result of 100 New, Direct Jobs per Industry (continued)		Wages Generated throughout the economy as a result of 100 New, Direct Jobs per Industry (continued)	
Industry	Total Output (\$)	Industry	Indirect & Induced Jobs (#)	Total Output (\$)	Total Wages (\$)
Nonmetal Mineral Prod.	23,075,102	Paper Mfg	174	Oil & Gas Extraction	23,901,343
Electrical Equipment & Appliances	22,876,746	Nonmetal Mineral Prod.	168	Management of Companies	23,543,180
Textile Mills	22,819,337	Electrical Equipment & Appliances	144	Monetary Authorities	21,928,167
Monetary Authorities	22,039,131	Fishing- Hunting & Trapping	142	Textile Mills	20,544,810
Plastics & Rubber Prod.	21,262,569	Management of Companies	139	Plastics & Rubber Prod.	20,385,299
Oil & Gas Extraction	20,416,877	Waste Mgmt & Remediation Svcs	137	Mining	18,920,344
Optical Instrument & Lens Mfg	19,982,370	Textile Mills	132	Fabricated Metal Prod.	15,630,649
Internet & Data Proc. Svcs	19,379,440	Crop Farming	131	Credit Intermediation & Related	15,516,188
Mining	19,207,494	Monetary Authorities	128	Crop Farming	15,325,921
Fabricated Metal Prod.	18,656,126	Publishing Industries	128	Publishing Industries	14,750,531
Waste Mgmt & Remediation Svcs	17,754,766	Mining	124	Misc. Mfg	13,261,009
Misc. Mfg	17,650,937	Misc. Mfg	121	Electronic Computer Manufacturing	12,223,211
Real Estate	17,581,413	Construction	121	Construction	11,744,988
Crop Farming	17,220,158	Optical Instrument & Lens Mfg	119	Wholesale Trade	11,459,325
Construction	16,774,812	<b>Motion Picture &amp; Sound Recording</b>	<b>117</b>	Insurance Carriers & Rel.	11,406,704
Publishing Industries	16,470,129	Plastics & Rubber Prod.	116	Search/ detection/navigation instrmts	10,747,499
Credit Intermediation & Related	16,231,233	Professional- Scientific & Tech. Svcs	112	Guided Missile and Space Vehicle Mfg	10,589,174
Management of Companies	15,921,898	Fabricated Metal Prod.	109	Real Estate	10,476,163
Insurance Carriers & Rel.	15,580,174	Credit Intermediation & Related	105	Professional- Scientific & Tech. Svcs	10,378,074
Wood Products	15,128,607	Rental & Leasing Svcs	105	Ambulatory Health Care	10,366,725
Wholesale Trade	14,999,911	Insurance Carriers & Rel.	103	Textile Products	10,190,076
Furniture & Related Prod.	14,162,357	Livestock	102	Postal Service	9,827,653
Rental & Leasing Svcs	13,503,325	Truck Transport	102	Construction Infrastructure	9,678,395
Textile Products	13,384,945	Wholesale Trade	101	Truck Transport	9,306,833
Livestock	13,081,437	Hospitals	101	Aircraft Engine / Engine Parts Mfg	9,000,274
<b>Motion Picture &amp; Sound Recording</b>	<b>13,056,229</b>	Ambulatory Health Care	97	Hospitals	8,947,591
Mining Services	12,041,907	Museums & Similar	97	Rental & Leasing Svcs	8,843,837
Professional- Scientific & Tech. Svcs	11,721,185	Furniture & Related Prod.	95	Motor Veh. & Parts Dealers	8,477,394
Construction Misc.	11,720,400	Construction Infrastructure	95	Construction Misc.	8,419,135
Truck Transport	11,716,546	Oil & Gas Extraction	94	Wood Products	8,342,382
Construction Infrastructure	11,458,946	Postal Service	93	<b>Motion Picture &amp; Sound Recording</b>	<b>8,083,653</b>
Ambulatory Health Care	11,070,686	Construction Misc.	92	Furniture & Related Prod.	7,358,079
Leather & Allied	10,894,310	Real Estate	91	Mining Services	6,957,323
Hospitals	10,771,147	Construction Commercial	83	Sightseeing Transport	6,902,068
Motor Veh. & Parts Dealers	10,692,791	Securities & Other Financial	81	Construction Commercial	6,859,725
Govt. & Non NAICs	10,345,984	Wood Products	78	Printing & Related	6,324,301
Apparel Mfg	10,249,214	Motor Veh. & Parts Dealers	77	Govt. & Non NAICs	6,299,127
Postal Service	9,616,052	Textile Products	76	Optical Instrument & Lens Mfg	6,053,451
Construction Commercial	9,593,661	Mining Services	69	Warehousing & Storage	6,042,058
Warehousing & Storage	9,085,310	Warehousing & Storage	66	Leather & Allied	5,781,285
Repair & Maintenance	9,035,273	Govt. & Non NAICs	64	Museums & Similar	5,737,564
Printing & Related	8,464,897	Sightseeing Transport	63	Securities & Other Financial	5,055,178
Furniture & Home Furnishings	8,416,768	Leather & Allied	62	Electronics & Appliances Stores	5,021,671
Museums & Similar	7,587,140	Repair & Maintenance	61	Furniture & Home Furnishings	4,780,395
Securities & Other Financial	7,556,505	Printing & Related	60	Repair & Maintenance	4,684,691
Sightseeing Transport	7,461,560	Furniture & Home Furnishings	59	Livestock	4,572,365
Accommodations	7,405,940	Apparel Mfg	57	Food & Beverage Stores	4,332,593
Food & Beverage Stores	7,387,240	Food & Beverage Stores	56	Bldg Materials & Garden Dealers	4,160,075
Bldg Materials & Garden Dealers	7,274,663	Accommodations	54	Accommodations	3,869,079
Electronics & Appliances Stores	7,171,572	Electronics & Appliances Stores	53	Health & Personal Care Stores	3,768,546
Health & Personal Care Stores	6,952,467	Health & Personal Care Stores	51	Gasoline Stations	3,766,547
Gasoline Stations	6,325,948	Bldg Materials & Garden Dealers	50	Couriers & Messengers	3,675,822
Amusement- Gambling & Recreation	6,308,474	Educational Svcs	50	Religious/Grantmaking/Similar Orgs	3,396,640
Couriers & Messengers	6,307,602	Personal & Laundry Svcs	49	Educational Svcs	3,236,586
Fishing- Hunting & Trapping	6,273,012	Admin. Support Svcs	49	Nursing & Residential Care	3,199,650
Personal & Laundry Svcs	6,109,212	Amusement- Gambling & Recreation	48	Amusement- Gambling & Recreation	3,185,978
Transit & Ground Passengers	6,050,381	Performing Arts & Spectator Sports	48	Admin. Support Svcs	3,174,524
Educational Svcs	5,175,662	Couriers & Messengers	47	Apparel Mfg	3,159,890
Admin. Support Svcs	5,174,424	Gasoline Stations	46	Transit & Ground Passengers	3,067,499
Clothing & Accessories Stores	5,156,490	Religious/Grantmaking/Similar Orgs	46	Performing Arts & Spectator Sports	2,799,203
Food Svcs & Drinking Places	5,065,831	Transit & Ground Passengers	44	Personal & Laundry Svcs	2,786,675
Non-Store Retailers	4,840,066	Nursing & Residential Care	43	Clothing & Accessories Stores	2,744,663
General Merch. Stores	4,833,803	Misc. Retailers	38	General Merch. Stores	2,690,345
Nursing & Residential Care	4,766,770	Clothing & Accessories Stores	37	Misc. Retailers	2,630,874
Misc. Retailers	4,546,486	Food Svcs & Drinking Places	36	Ag. & Forestry Svcs	2,222,458
Religious/Grantmaking/Similar Orgs	4,525,090	Non-Store Retailers	34	Sports- Hobby-Book & Music Stores	2,124,252
Performing Arts & Spectator Sports	4,273,150	General Merch. Stores	31	Food Svcs & Drinking Places	1,988,819
Sports- Hobby-Book & Music Stores	3,583,675	Social Assistance	30	Social Assistance	1,865,011
Social Assistance	3,544,598	Sports- Hobby-Book & Music Stores	24	Non-Store Retailers	1,677,014
Ag. & Forestry Svcs	2,136,939	Ag. & Forestry Svcs	24	Fishing- Hunting & Trapping	1,656,051

Sources: Elliott D. Pollack & Co, Minnesota IMPLAN.

**Fiscal Impact.** Analyzing the *fiscal impact* of a tax credit is also critical in understanding the performance of the program, particularly if it is generating at least as much in state and local tax revenues as is being paid out in the form of credits. In other words, is the program paying for itself? Although “spending” in Arizona generally results in transaction privilege tax revenue generation, it is critical to note it is not a 1:1 relationship. In addition, MOPIC provides for TPT abatements, further impacting the ability of the program to generate enough tax revenue to cover its costs to the General Fund.

Figure 17 shows the *fiscal impact* of the seven applications post-approved in CY 2007 based on the IMPLAN analysis of the reported spending. IMPLAN Professional measures tax revenues generated to state and local government as a result of spending. These revenues generally include corporate and personal income taxes, licenses, fines and fees, business and residential property taxes, dividends and other taxes.

Although \$1,111,979 in state and local tax revenues were created, the cost to the State general fund in the amount of credits was \$2,813,478, a net loss of \$1,701,499.

**Figure 17**

<b>Fiscal Impact of CY 2007 Post-Approved MOPIC Applications</b>	
Tax Revenues Generated	\$1,111,979
Total Arizona Tax Incentives Post-approved	\$2,813,478
<b>Net Tax Benefit (Cost) to General Fund*</b>	<b>(\$1,701,499)</b>
* Does not include program administration costs incurred by Commerce or the Department of Revenue related to the post-approval process of the 2007 post-approved applications Source: Minnesota IMPLAN Professional economic model and Commerce records	

## APPENDIX A

### Arizona Motion Picture Industry & Video Employment & Wages by NAICS – from Quarterly Census of Employment and Wages (Source: Bureau of Labor Statistics)

<b>Motion Picture/ Video Production</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51211	2000	152	\$37,483,636	765	\$59,138	\$28.43
51211	2001	149	\$26,576,915	667	\$39,875	\$19.17
51211	2002	155	\$22,766,339	586	\$38,850	\$18.68
51211	2003	155	\$20,863,471	549	\$38,020	\$18.28
51211	2004	159	\$27,475,664	695	\$39,562	\$19.02
51211	2005	158	\$25,512,751	794	\$32,142	\$15.45
51211	2006	175	\$28,364,534	914	\$31,042	\$14.92
51211	2007	189	\$29,904,913	751	\$39,833	\$19.15

<b>Motion Picture/ Video Distribution</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51212	2000	6	\$961,865	41	\$23,750	\$11.42
51212	2001	7	\$850,577	33	\$25,775	\$12.39
51212	2002	8	\$874,234	31	\$28,663	\$13.78
51212	2003	7	\$466,775	11	\$41,491	\$19.95
51212	2004	6	\$403,174	11	\$37,505	\$18.03
51212	2005	7	\$197,924	8	\$26,390	\$12.69
51212	2006	6	\$112,681	5	\$25,040	\$12.04
51212	2007	7	\$312,960	7	\$44,709	\$21.49

<b>Motion Picture/ Video Post- Production</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51219	2000	11	\$761,669	25	\$31,089	\$14.95
51219	2001	11	\$773,948	25	\$31,590	\$15.19
51219	2002	12	\$744,475	25	\$29,484	\$14.18
51219	2003	15	\$1,057,730	49	\$21,586	\$10.38
51219	2004	14	\$668,378	28	\$23,871	\$11.48
51219	2005	14	\$744,223	25	\$30,376	\$14.60
51219	2006	19	\$1,177,097	37	\$32,249	\$15.50
51219	2007	26	\$1,960,813	51	\$38,447	\$18.48

<b>Film Production Total</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
Film Total *	2000	169	\$39,207,170	830	\$47,252	\$22.72
Film Total *	2001	167	\$28,201,440	724	\$38,979	\$18.74
Film Total *	2002	175	\$24,385,048	642	\$37,998	\$18.27
Film Total *	2003	177	\$22,387,976	609	\$36,777	\$17.68
Film Total *	2004	179	\$28,547,216	733	\$38,932	\$18.72
Film Total *	2005	179	\$26,454,898	826	\$32,047	\$15.41
Film Total *	2006	199	\$29,654,312	955	\$31,052	\$14.93
Film Total *	2007	222	\$32,178,686	809	\$39,788	\$19.13
*Combined NAICS 51211,51212 and 51219						

<b>Motion Picture/ Video Exhibition</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51213	2000	45	\$25,607,262	2,792	\$9,173	\$4.41
51213	2001	43	\$27,116,225	2,921	\$9,282	\$4.46
51213	2002	42	\$29,492,909	3,367	\$8,759	\$4.21
51213	2003	43	\$30,077,890	3,278	\$9,176	\$4.41
51213	2004	41	\$30,772,767	3,154	\$9,758	\$4.69
51213	2005	45	\$32,791,016	3,085	\$10,631	\$5.11
51213	2006	46	\$33,403,873	3,000	\$11,135	\$5.35
51213	2007	45	\$40,546,502	3,452	\$11,746	\$5.65

<b>Total Motion Picture/ Video Sector</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
5121	2000	213	\$64,814,432	3,621	\$17,901	\$8.61
5121	2001	211	\$55,317,665	3,646	\$15,174	\$7.30
5121	2002	219	\$53,877,957	4,009	\$13,439	\$6.46
5121	2003	220	\$52,465,866	3,887	\$13,500	\$6.49
5121	2004	221	\$59,319,983	3,887	\$15,261	\$7.34
5121	2005	224	\$59,245,914	3,910	\$15,152	\$7.28
5121	2006	245	\$63,058,185	3,955	\$15,945	\$7.67
5121	2007	268	\$72,725,188	4,261	\$17,070	\$8.21

## **Exhibit 4**

# Motion Picture Production Tax Incentives Program

Annual Report  
Calendar Year 2008



ARIZONA DEPARTMENT  
OF COMMERCE

*The center for  
economic advancement*



# Motion Pictures Production Tax Incentives Program

## Annual Report - Calendar Year 2008

### Table of Contents

Executive Summary .....	i
Introduction .....	1
MOPIC Legislation .....	1
Program Overview .....	1
Seven Tax Incentives .....	1
Three Separate Programs .....	3
Application Process.....	4
Pre-Approval .....	4
Post-Approval.....	5
Limited Managed Audit .....	5
Transfer or Sale of Income Tax Credits .....	6
Program Administration .....	6
2008 MOPIC Activity .....	7
Tax Credit Availability and Utilization .....	7
Applications Activity .....	7
Motion Picture Production .....	8
Commercial Advertisements and Music Videos .....	9
Infrastructure Projects .....	10
Statewide Production Activity.....	11
CY 08 Post-Approved Applications.....	13
Film Industry Employment and Wages in Arizona .....	15
CY 2008 Economic and Fiscal Impact .....	18
Economic Impact.....	18
Fiscal Impact .....	20
Appendix A .....	22
Appendix B .....	36
Appendix C .....	39
Appendix D .....	45
Appendix E .....	47

#### Prepared by:

Kent Ennis, CFA	Lisa Danka	Jessica Smothermon
Interim Director	Asst. Deputy Director, Finance and Investment	Director, Research & Population Statistics
Arizona Department of Commerce	Arizona Department of Commerce	Arizona Department of Commerce

#### Peer and Technical Reviewers:

Jim Rounds	Vincent G. Perez	Tom Rex	Rosemarie Grizzard, Director
Danny Court	Assistant Director	Associate Director	Heather Rider, Program Manager
Elliott D. Pollack & Co	Audit Division Arizona	Center for Competitiveness and	Stephanie Washington, Program Manager
	Department of Revenue	Prosperity Research	Business Development Finance
		W.P. Carey School of Business	Arizona Department of Commerce
		Arizona State University	

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## Executive Summary

The Arizona Department of Commerce (Commerce) is required by law to prepare an annual report related to the Motion Picture Production Tax Incentive Program (MOPIC). This report covers calendar year (CY) 08 (CY 08), and the data for the calendar year is summarized in Figure A.

**Tax credit availability and utilization:** MOPIC consists of seven separate tax incentives available to applicants for motion picture productions or commercial advertisements and music videos. The incentives include five exemptions from State transaction privilege taxes (TPT), a use tax exemption and income tax credits. Infrastructure projects may apply for income tax credits only. In CY 08, \$50,000,000 in income tax credits were authorized for allocation across the three programs. In addition, \$8,562,221 of income tax credits from CY 07 were rolled forward into CY 08, resulting in total availability of \$58,562,221.

Total pre-approvals for income tax credits in CY 08 were \$34,202,179, an average of \$371,762 per application. At the end of CY 08, \$16,000,000 remained unallocated from the cap and has been rolled forward into CY 09, bringing total income tax credit availability for that year to \$76,000,000.

**Application activity:** Commerce received a total of 92 applications in CY 08 across all three programs from 46 separate production companies. Of these, 70 were ultimately pre-approved; the remainder did not go forward because they were denied, rescinded, voluntarily relinquished or withdrawn. Six applications were post-approved in CY 08, three of which were pre-approved in CY 06 and three in CY 07.

**Applicant Spending** Applicants pre-approved in CY 08 estimated spending a total of \$573,085,245 on their productions, of which \$331,186,027 was estimated to be in Arizona. Of the six applicants post-approved in CY 08, total spending on their productions was \$119,295,126; of this amount, \$44,900,039, or 38%, was spent in Arizona.

**Film Industry Employment and Wages in Arizona:** The latest available federal data shows the number of identified employees working in the Arizona film industry decreased by 146 from CY 06 to CY 07, from 955 to 809. However, the number of individual companies saw an increase of 23, from 199 to 222. Average annual wages also increased by \$8,736 in CY 07 to \$39,788, resulting in an hourly wage of \$19.13, an increase of \$4.20 per hour higher than wages in CY 06.

**Economic and Fiscal Impact of MOPIC in Arizona:** The six applicants post-approved in CY 08 received a total of \$8,641,589 in tax incentives, including TPT and use tax exemptions and income tax credits. To determine the economic impact of the Arizona spending (\$44,900,039) of these applicants and the amount of state and local tax revenues generated, Commerce modeled the Arizona spending of the six applicants using the Minnesota IMPLAN Professional economic model, with the following results:

- **Employment** – creation of 317 direct jobs is estimated as a result of the Arizona spending, plus an additional 413 indirect and induced jobs, for a total job impact of 730 (a job creation ratio of approximately 2:1). IMPLAN considers direct jobs to be *permanent* jobs, and because the motion picture industry appears to be characterized by part-time and temporary employment, the dependability of this result may be questionable.
- **Compensation** – estimated compensation of \$16.9 million, of which \$5.29 million is direct compensation (a multiplier ratio of approximately .4:1 or 40 cents of compensation for each \$1 spent by these applicants in Arizona). Because wage costs are often embedded across expense categories in the reports provided to Commerce, it is not possible to determine what proportion of the direct compensation was paid to employees or to owners/investors of the productions.
- **Output** – estimated economic output in Arizona of \$96.5 million (a spending multiplier ratio of approximately 2:1).
- **Fiscal Impact** – estimated state and local tax revenue generation of \$2,317,566. However, the tax credits received by these applicants totaled \$8,641,589, resulting in a net cost to the State general fund of \$6,324,023.



Figure A

MOPIC Activity Comparison – CY 07 and 08 (Includes All Three Programs)				
Tax Credit Availability and Utilization		CY 08	CY 07	Change from CY 07 Increase/(Decrease)
1	Authorized cap	\$50,000,000	\$40,000,000	\$10,000,000
2	Unused cap from previous year rolled forward on January 1	0	0	0
3	Cap returned from previous year (by applicants unable to complete productions)	\$8,562,221	\$517,394	\$8,044,827
4	Total cap available (sum of lines 1-3)	\$58,562,221	\$40,517,394	\$18,044,827
5	Total cap amount pre-approved	\$34,202,179	\$40,517,394	(\$6,315,215)
6	Average amount of income tax credits per pre-approved application	\$371,762	\$862,072	(\$490,310)
7	TPT and use tax exemptions reported by applicants post-approved	\$831,067	\$72,623	\$758,444
8	Income tax credits for applicant post-approved	\$7,810,522	\$2,740,855	\$5,069,667
9	Total Arizona Tax Incentives for applicants post-approved (sum of lines 7 and 8)	\$8,641,589	\$2,813,478	\$5,828,111
10	Unused cap rolled forward to the next CY	\$16,000,000	\$8,696,546	\$7,303,454
<b>Application Activity</b>				
11	Total number of applicants	46	26	20
12	Applications received	92	51	41
13	Applications denied/1	5	4	1
14	Applications withdrawn/2	16	9	7
15	Applications voluntarily relinquished/3	45	6	39
16	Applications rescinded/4	2	10	(8)
17	Applications pre-approved	70	22	48
18	Applications post-approved	6	7	(1)
<b>Applicant Spending</b>				
19	Total estimated spending by pre-approved applicants	\$573,085,245	\$184,000,000	\$389,085,245
20	Estimated spending in Arizona by pre-approved applicants	\$331,186,027	\$164,000,000	\$167,186,027
21	Post-Approved Applicants' Total Spending (all locations)	\$119,295,126	\$24,682,004	\$94,613,122
22	Post-Approved Applicants' Spending in Arizona	\$44,900,039	\$20,070,809	\$24,829,230
23	Percent of Total Spending in Arizona (line 21 divided by line 22)	38%	83%	-46%
<b>Film Industry Employment and Wages in Arizona/5</b>				
24	Number of employees in AZ	809	809	*
25	Increase (decrease) in employment from prior year	-146	-146	*
26	Number of companies in AZ	222	222	*
27	Increase (decrease) in number of companies from prior year	23	23	*
28	Average annual wage for AZ film industry	\$39,788	\$39,788	*
29	Increase (decrease) in average annual wage from prior year	\$8,736	\$8,736	*
30	Average hourly wage for AZ film industry	\$19.13	\$19.13	*
31	Increase (decrease) in average hourly wage from prior year	\$4.20	\$4.20	*
<b>Economic and Fiscal Impact of MOPIC in Arizona</b>				
32	Direct FTEs created by post-approved applicants	317**	222**	95
33	Estimated Indirect and Induced FTEs created	413**	203**	210
34	Total Arizona Tax Incentives Post-approved	\$8,641,589	\$2,813,478	\$5,828,111
35	Estimated State and local tax revenues generated by post-approved applicants	\$2,317,566**	\$1,111,979**	\$1,205,587
36	Net benefit (cost) to the General Fund of post-approved applications (line 35 minus line 34)	(\$6,324,023)	(\$1,701,499)	(\$4,622,524)

\* Latest available data is the same as reported in the CY 07 Annual Report, so no changes apply.

\*\* Estimated using the Minnesota IMPLAN Professional economic model with 2006 multipliers. Statewide average tax rates are assumed.

1/ "Denied" means Commerce found the application ineligible due to failure to meet statutory requirements, provide required documentation or other reason.

2/ "Withdrawn" means the applicant withdrew the application before receiving pre-approval.

3/ "Voluntary relinquished" means the applicant withdrew their application after receiving pre-approval

4/ "Rescinded" means Commerce took back the allocation because the applicant did not meet program requirements, such as starting the production within the 90 day deadline.

5/ Most recent data available from the Bureau of Labor Statistics is from 2007.

## Introduction

ARS §41-1517 requires the Arizona Department of Commerce (Commerce) to prepare an annual report related to the Motion Picture Production Tax Incentive Program (MOPIC). This report covers calendar year (CY) 08 and was prepared by Commerce. The data and information presented herein are from, or based on, public sources or are authorized for release in this report by Arizona law. Appendix A contains the full text of the statutes governing the program.

## MOPIC Legislation

Since originally enacted in 2005 and effective January 1, 2006, numerous changes have been made to MOPIC statutes. Several changes were made during the 2007 legislative session and became effective September 17, 2007, the most significant of which include:

- Applicants must now begin production within 90 days after pre-approval. If an applicant fails to undertake production and also fails to voluntarily relinquish the unused credit amounts within the 90 day period, the company and all signing the application are disqualified from receiving, or participating in any motion picture production company that applies for, or receives, Arizona motion picture tax incentives for three years after the original application.<sup>1</sup>
- The requirement for Commerce to verify violation of the obscenity restrictions at the time of pre-approval and post-approval was changed to post-approval only.
- An income tax credit set aside equal to 5% of each calendar year's cap was created for commercial advertisement or music video production companies.
- Income tax credits were authorized for the construction of eligible "soundstages" and "support and augmentation facility" infrastructure projects in Arizona. The applicant must be a person who will own and operate the infrastructure project and can be a motion picture company. Depending on the type of infrastructure project, the applicant must spend between \$1 million and \$5 million on the infrastructure project to maintain eligibility.
- Limited managed audits were authorized for applicants receiving post-approval from Commerce to confirm the tax credit amount. If the audit is accepted by the Arizona Department of Revenue, the post-approved tax credit amount is no longer subject to recapture, except as noted in statute.

## Program Overview

MOPIC was created to promote and stimulate the production of commercial motion pictures in Arizona. MOPIC provides incentives to qualified companies that produce motion pictures and commercial advertisements and music videos (CAMV) in Arizona and to persons who construct infrastructure projects in Arizona. MOPIC is comprised of seven tax incentives, all of which are available to motion picture and CAMV productions; infrastructure projects receive income tax credits only.

### Seven Tax Incentives

MOPIC features a total of seven exemptions from Arizona transaction privilege, use and income taxes:

#### ➤ **Five Transaction Privilege Tax (TPT) Exemptions:**

- Machinery, equipment and other tangible personal property used directly in the motion picture (A.R.S. §§42-5061.B.23 and 42-5071.B.2.b).
- Job printing, engraving, embossing or copying that will be used directly in production (A.R.S. §42-5066.B.45).
- Leases or rentals of lodging space (A.R.S. §42-5070.C.2).
- Catered food, drink and condiments (A.R.S. §42-5074.B.10).

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<sup>1</sup> ARS 41-1517.Q

- Construction contracts associated with production (A.R.S. §42-5075.B.20).

TPT exemptions are generally received at the point of sale or contract. Applicants are required to report the amount of their TPT exemptions to Commerce at the time they seek post-approval (see Application Process discussion below). However, some vendors may provide receipts to the applicants which do not state the amount of TPT exempted, depending on how they process such sales. Therefore, the amount of TPT exemption discussed in this report is limited to that reported to Commerce and may be understated. Further, it is unknown if, or how many, cities in Arizona are also providing TPT abatements for film production activities.

- **Use tax exemption:** machinery, equipment and other tangible personal property (A.R.S. §42-5159.B.23). Pre-approved applicants are exempted from paying use taxes for items purchased outside Arizona which are then transported here and used in a production. Applicants are also required to report the amount of their use tax exemptions to Commerce at time of post-approval.
- **Income tax credits:** Transferable state income tax credits in the amount of \$250 million were authorized for MOPIC over a five-year period<sup>2</sup> and “capped” each year as shown in Figure 1. If MOPIC is renewed by the Legislature in 2010, the amount of income tax credits authorized in 2011 and thereafter will be \$70 million annually. These tax credits may be used to offset Arizona income tax liability, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years (A.R.S. §§43-1075 and 43-1163). Any income tax credits remaining unused from the cap at the end of the calendar year can be rolled forward for one year, increasing the following year’s cap.

**Figure 1**

Income Tax Credits Authorized by Calendar Year	
2006	\$30 million
2007	\$40 million
2008	\$50 million
2009	\$60 million
2010	\$70 million
2011 and thereafter*	\$70 million

\*If reauthorized by the Arizona Legislature

The MOPIC income tax credits may be used to offset Arizona tax liability may be sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years. MOPIC is the State’s only transferable income tax credit, and because the income tax credits may be sold to others who have Arizona tax liability, it is more likely such credits will actually be claimed. This contrasts with all other Arizona tax credit incentives, which cannot be transferred or sold, and, therefore, are more likely to expire and not be fully claimed to offset State tax liability.

**The Sum Total:** The TPT exemptions, use tax exemptions and the income tax credits can be utilized jointly or separately in the motion picture production and commercial advertisement and music video programs (infrastructure programs only receive income tax credits). Even if the income tax credit cap has been fully allocated for the year, TPT and use tax exemptions may still be taken by applicants. Therefore, although the income tax credits are capped each year, the actual amount of taxes abated is the sum of all three categories:

**Total taxes abated = TPT exemptions + use tax exemptions + income tax credits**

<sup>2</sup> Most tax credit programs in Arizona are authorized for five years, and must be reviewed and reauthorized by the Arizona Legislature every five years to remain in effect.

### Three Separate Programs

The seven tax incentives are available to applicants in three separate incentive programs: motion picture production incentives, commercial advertisement and music video incentives (CAMV), and infrastructure project tax credits (infrastructure projects do not receive TPT or use tax exemptions). The three programs have specific spending requirements and certification periods, as shown in Figure 2.

Figure 2

Overview of the Three MOPIC Incentive Programs (\$50 Million Total Authorized for CY 08)					
	Motion Picture Productions		Commercial Advertisement and Music Videos		Infrastructure Projects
CY 08 Amount Authorized <sup>3</sup>	\$42,320,000		\$2,500,000 (5% of the amount of the calendar year cap)		<ul style="list-style-type: none"><li>• Soundstage - \$5,000,000 per project</li><li>• Support/Augmentation - \$3,000,000 per project (beginning in CY 09)</li></ul>
Income Tax Credit Amount	Production Costs	Credit	Production Costs	Credit	15% of the Arizona project costs not to exceed \$5 million in any year for soundstages. For support and augmentation projects \$7 million in 2009, \$9 million in 2010.
	\$250,000 - \$1,000,000	20%	\$250,000 - \$1,000,000	20%	
	Over \$1,000,000	30%	Over \$1,000,000	30%	
Receives TPT and Use Tax Exemptions	Yes		Yes		No
Certification Period	24 months; must begin production within 90 days of pre-approval		12 months; must complete project within 60 days of date of application		No certification period
Applicant Requirements	<ul style="list-style-type: none"><li>• Primarily engaged (more than 50%) in producing motion pictures</li><li>• A physical office in Arizona</li><li>• An Arizona bank account</li></ul>		<ul style="list-style-type: none"><li>• Primarily engaged (more than 50%) in producing motion pictures</li><li>• A physical office in Arizona</li><li>• An Arizona bank account</li></ul>		<ul style="list-style-type: none"><li>• Construct an eligible soundstage or support/augmentation facility project</li><li>• Own and operate the infrastructure project</li><li>• Submit a report to Commerce upon completion of the project</li></ul>
Production Requirements	Begins production within 90 days of pre-approval		Completes productions within 60 days of requesting pre-approval		Project must begin within 90 days of pre-approval and applicant must secure a surety bond
Spending Requirements	Anticipates incurring qualifying production costs of at least \$250,000 on each motion picture		Anticipates incurring qualifying production costs of at least \$250,000 during the 12-month certification period		<u>Soundstage - at least:</u> <ul style="list-style-type: none"><li>• \$250,000 within 90 days of pre-approval, and</li><li>• \$1,250,000 within 12 months of pre-approval, and</li><li>• \$5 million within 36 months of pre-approval</li></ul> <u>Support/augmentation facility - at least:</u> <ul style="list-style-type: none"><li>• \$250,000 within 90 days of pre-approval, and</li><li>• \$1 million within 36 months of pre-approval</li></ul>
Resident Employment Requirements	Arizona residents must comprise 50% of all full-time employees during production		Arizona residents must comprise 50% of all full-time employees during production		Not applicable

<sup>3</sup> In addition to the authorized amounts for each program shown here, an additional \$180,000 of the annual cap was allocated to Commerce in fiscal year 2008-09 to pay for the costs of the program. This amount was increased to \$337,000 for fiscal year 2009-10, and covers the costs of both MOPIC and the Arizona Film Office.

The income tax credits are allocated to qualified applicants in the motion picture and CAMV programs based on the amount of their total qualified production costs or infrastructure spending incurred in Arizona and which are directly attributable to the motion picture production. According to ARS §41-1517(A)(2), qualifying production costs are limited to and subject to the following conditions:

- a. Salaries and other compensation for talent, management and labor paid to residents of this state, as defined by section 43-104.
- b. A story and scenario to be used for a motion picture.
- c. Set construction and operations, wardrobe, props, accessories and related services in this state. Expenses paid for construction contracts are limited to contractors who are licensed under title 32, chapter 10.
- d. Photography, sound synchronization, lighting and related costs incurred in this state.
- e. Editing and related services performed in this state.
- f. Rental of facilities and equipment in this state.
- g. Catered food, drink and condiment purchased in this state.
- h. Other direct in-state costs of producing the motion picture, pursuant to rules adopted by the Department of Revenue that follow generally accepted accounting standards for the motion picture industry.

For the infrastructure program, the amount of the income tax credit is equal to 15% of the Arizona project costs, not to exceed five million in any year for soundstages. Support and augmentation projects are limited to \$3 million per project, with an annual cap on this category of \$7 million dollars in 2009 and \$9 million in 2010. Allocations of the infrastructure tax credits are further limited by the annual cap for the entire MOPIC programs (\$50 million in CY 08). Infrastructure projects do not benefit from the TPT and use tax exemptions.

## Application Process

Commerce accepts MOPIC applications year round, on a first come, first served basis and determines eligibility for program incentives. An eligible applicant is a "motion picture production company," an entity primarily engaged in the business of producing motion pictures and which has a physical business office and bank account in Arizona. For the infrastructure component of the program, the applicant must be the entity that will own and operate the infrastructure project and may be a motion picture production company. A summary of the three programs is included as Appendix B.

### Pre-approval

To receive an allocation of income tax credits or to use the TPT and use tax exemptions, applicants must apply and meet the eligibility requirements of the program.

**For motion pictures and CAMVs:** Applicants are required to demonstrate they have the lawful right to produce a particular production and must provide, among other things:

- The projected first preproduction date and last production date in Arizona.
- The estimated total budget of the production and estimated total expenditures in Arizona.
- The estimated total percentage of the production taking place in Arizona.
- The estimated level of employment of residents of this state in the cast and crew.
- A script, including a synopsis, the proposed director and a preliminary list of the cast and producer. For television series which often do not have the scripts developed for each show until later, a synopsis of the general nature of the series, description of characters, locations and sets, and the intended distribution or broadcast medium with specific television channels, if known, is acceptable.
- A signed affidavit by any person who will be credited on screen as the producer or producers of the motion picture (not including the executive producers, associate producers, assistant producers or line producers):

- Agreeing to furnish records of expenditures in Arizona to the Department of Revenue on request, and
- Attesting that any items purchased on which TPT exemptions are received are intended for use by the applicant directly in motion picture production.

**For infrastructure projects:** At a minimum, applicants must provide:

- A detailed description of the project.
- A preliminary budget.
- An outline of how the project meets the requirements of this section.
- The projected start and completion dates.
- The name and contact information for the prime contractor, if known, and a copy of the construction contract, if available.
- An affidavit signed by an executive representing the applicant:
  - Agreeing to furnish records of expenditures on infrastructure projects in Arizona to Commerce on request.
  - Attesting that any items included in its base investment are intended for use by the applicant directly in the infrastructure project.

Once all necessary information has been received and the application has been processed, Commerce will issue a letter of “pre-approval” to the applicant, which secures their priority position and a specific amount of income tax credits (known as their “allocation”) from the cap authorized in the calendar year for each of the three programs. Even if the cap for the year has been fully allocated, applicants may still receive pre-approval for income tax credits and begin to use the TPT and use tax exemptions. If income tax credits become available at a later date for that calendar year (due to another project voluntarily relinquishing or other reason), the credits will flow down the priority placement list to waiting applicants, in the order of priority placement.

Following pre-approval, applicants must either 1) produce their pre-approved production, or 2) build the pre-approved infrastructure. Upon completion, applicants may then file with Commerce to receive “post-approval.”

#### Post-approval

In the post-approval process, Commerce reviews Arizona spending, employment and other aspects of an applicant’s production activity before issuing post-approval, which may be less, but not more, than the pre-approved amount based on the final qualifying production costs. Depending on the size of the production or infrastructure project, the review of spending may involve validation of all expenses or of just the expenses in a sample of spending categories.

The employment of Arizona residents is also reviewed in the post-completion process to ensure the 50% requirement in statute is met. To establish residency for a full-time employee, a qualified company or its authorized payroll service company must, on the date of hire, obtain a “Residency Affidavit” for each Arizona resident involved in production activities in the state. The Residency Affidavit is valid for the entire pre-approval period but can only be used for a single initial application. The company must retain the Residency Affidavits to document the Arizona employment levels for Commerce or in the event of audit by the Arizona Department of Revenue (DOR).

Once the application has met the requirements of the program, Commerce issues a letter of “post-approval.” Only upon receipt of a post-approval letter from Commerce can an applicant actually claim the tax credits on their Arizona tax return or officially transfer (sell) them.

#### Limited Managed Audit

At the applicant’s option and own expense, it may enter into a limited managed audit (LMA) with the Arizona Department of Revenue (DOR) that includes an audit of production costs and other requirements prescribed by program statutes to confirm the amount of any income tax credits. An LMA is subsequent

to, and in addition to, any spending review conducted previously by Commerce, and according to statute, the two processes cannot occur simultaneously. The LMA must be conducted by the taxpayer's authorized representative, who is an independent, certified public accountant licensed in Arizona. The certified public accountant and the firm the certified public accountant is affiliated with cannot regularly perform services for the motion picture production company or its affiliates.

If the director of DOR accepts the findings of the audit and issues a "notice of determination," and the taxpayer files its income tax return in a timely manner with the appropriate forms, the amount of tax credits accepted by DOR is not subject to recapture, disallowance, reduction or denial with respect to either the motion picture production company or any subsequent transferee of the credit. The director's "notice of determination" must include a written certificate to the taxpayer stating the amount of the credit and that the credit is not subject to recapture from a transferee. However, credits may still be subject to recapture if the motion picture production company failed to disclose material information during the audit or falsified its books or records or otherwise engaged in an action that prevented an accurate audit.

#### Transfer or Sale of Income Tax Credits

Pursuant to ARS §43-1075.H, all or part of any unclaimed amount of MOPIC income tax credits may be sold or otherwise transferred under the following conditions:

1. A single sale or transfer may involve one or more transferees, and a transferee may in turn resell or transfer the credit subject to the same conditions of this subsection.
2. Both the transferor and transferee must submit a written notice of the transfer to DOR within thirty days after the sale or transfer. The transferee's notice shall include a processing fee equal to one per cent of the transferee's tax credit balance or two hundred dollars, whichever is less. The notice shall include:
  - (a) The name of the motion picture production company.
  - (b) The date of the transfer.
  - (c) The amount of the transfer.
  - (d) The transferor's tax credit balance before the transfer and the remaining balance after the transfer.
  - (e) All tax identification numbers for both transferor and transferee.
  - (f) Any other information required by rule.
3. A sale or transfer of the credit does not extend the time in which the credit can be used.
4. Except as otherwise provided, if a transferor was not qualified or was disqualified from using the credit at the time of the transfer, DOR must either disallow the credit claimed by a transferee or recapture the credit from the transferee through any authorized collection method. The transferee's recourse is against the transferor.
5. In the case of any failure to comply with this subsection, DOR must disallow the tax credit until the taxpayer is in full compliance.

Although a taxpayer may be able to enter into a purchase agreement for the credit even before the credit is actually earned, the credit could not be used by the transferee to offset a tax liability until it is actually earned by the production company, post-approved by Commerce and all statutory conditions of transfer have been met.

#### Program Administration

Administration of the program within Commerce is handled by two program managers in the Business Development Finance Office. In CY 08, an appropriation of \$180,000 from the annual cap authorized for MOPIC was allocated to Commerce for the costs of the program, including the two program managers. In CY 09, this amount increased to \$337,000, and now costs of MOPIC, the Arizona Film Office and up to six employees. DOR incurs additional administrative costs related to audits, tracking the sale of tax credits and other activities. These additional costs are funded through DOR's budget and are not included in this report.

## CY 08 MOPIC Activity

To better demonstrate the activity across the three MOPIC programs, several tables have been developed to describe MOPIC in CY 08:

- Figure 3 reviews tax credit availability and utilization across all three programs;
- Figure 4 presents the application activity across all three programs;
- Figure 5 summarizes motion picture production program activity only;
- Figure 6 summarizes activity in the Commercial Advertisement and Music Video Productions (CAMV) program only; and
- Figure 7 summarizes Infrastructure projects only.

Additional discussion regarding spending and employment and wages is then provided, followed by an analysis of the economic and fiscal impact of MOPIC applications post-approved in CY 08.

### Tax Credit Availability and Utilization

Figure 3 recaps the income tax credit availability and utilization in CY 08. For CY 08, \$50,000,000 in income tax credits were authorized for allocation across the three MOPIC programs (line 1). No income tax credits remained from CY 07 that were rolled forward into CY 08 (line 2) on January 1. However, throughout CY 08, \$8,562,221 in CY 07 credits were returned because the applicants were unable to complete their productions (line 3). As a result, total availability in CY 08 was \$58,562,221 (line 4).

**Figure 3**

Tax Credit Availability and Utilization (all three programs) - CY 08		
1	CY 08 authorized cap	\$50,000,000
2	Unused cap from CY 07 rolled forward on January 1, 08	0
3	CY 07 cap returned in CY 08 (by applicants unable to complete productions)	\$8,562,221
4	Total CY 08 cap available (sum of lines 1-3)	\$58,562,221
5	Total cap amount pre-approved	\$34,202,179
6	Average amount of income tax credits per pre-approved application	\$371,762
7	TPT and use tax exemptions reported by applicants post-approved in CY 08	\$831,067
8	Income tax credits for applicant post-approved in CY 08	\$7,810,522
9	Total Arizona Tax Incentives for applicants post-approved in CY 08 (sum of lines 7 and 8)	\$8,641,589
10	Unused cap rolled forward to CY 09	\$16,000,000

Total pre-approvals for income tax credits in CY 08 were \$34,202,179 (line 5), for an average of \$371,762 per application (line 6). Six applicants were post approved in CY 08, and reported a total of \$831,067 in TPT and use tax exemptions in their completion reports (line 7). The amount of income tax credits for these applicants totaled \$7,810,522 (line 8); bringing the total amount of post-approved tax incentives to \$8,641,589 (line 9).

At the end of CY 08, \$16,000,000 remained from the cap<sup>4</sup> and has been rolled forward into CY 09 (line 10), bringing total income tax credit availability for that year to \$76,000,000.

### Application Activity – all three programs

Figure 4 provides a summary of CY 08 application activity. Commerce received 92 applications from 46 production companies for income tax credits and TPT/use tax exemptions in CY 08. This comprises an increase from CY 07 of 51 applications and 26 applicants. The increase may be due to the increased amount of credits available in CY 08 (CY 07 was \$40 million vs. \$50 million in CY 08) and the addition of

<sup>4</sup> The amount pre-approved (\$34,202,179) and the amount rolled forward (\$16,000,000) will not sum to the authorized cap (\$50 mil) due to the fact that motion picture tax credits can be allocated, voluntarily relinquished and re-allocated to the same applicant numerous times.



the CAMV and infrastructure programs. Appendix C includes a breakout of applicants, their productions, and the amounts pre-approved and post-approved by the applicant category for CYs 06-08 to provide a full picture of all the components of MOPIC.

Of the 92<sup>5</sup> applications (line 12) received by Commerce:

- 5 were denied pre-approval by Commerce;
- 16 were withdrawn by the applicant before receiving pre-approval;
- 45 applicants voluntarily relinquished their tax credit after pre-approval for various reasons - these applicants may have reapplied and voluntarily relinquished one or more times;
- 2 pre-approved companies had tax credits rescinded by Commerce because they failed to begin production within 90 days of pre-approval;
- 70 applicants ultimately received pre-approval; and
- 6 applied for and received post-approval<sup>6</sup>. These applicants were pre-approved under the CY 06 and 07 caps.

**Figure 4**

<b>Application Activity (all three programs) – CY 08</b>		
11	Total number of applicants	46
12	Applications received	92
13	Applications denied <sup>7</sup>	5
14	Applications withdrawn <sup>8</sup>	16
15	Applications voluntarily relinquished <sup>9</sup>	45
16	Applications rescinded <sup>10</sup>	2
17	Applications pre-approved	70
18	Applications post-approved (3 CY 06 applicants and 3 CY 07 applicants)	6

Applications often do not follow through to receive post-approval due to one or more of the following reasons: 1) the project does not start within the required timeframe; 2) the applicant voluntarily relinquished its application; 3) the applicant waived the request for tax credits; 4) the applicant has not yet applied for post-approval or 5) the application was denied. Numerous applicants find they are unable to start production on time, and therefore unable hold onto their income tax credit allocation. Due to production delays and other reasons, it is expected there will always be more applicants pre-approved than post-approved.

#### Motion Picture Production Program

Of the three MOPIC programs, the motion picture production program saw the greatest volume of activity in CY 08. As seen in Figure 5, of the 92 total applications received across all three programs, 62 of those were for feature films and television programs, from 29 different applicants. In addition, the six applicants post-approved in CY 08 were in this program.

The amount of income tax credits available for motion picture productions was \$42,320,000. Of this amount, \$22,968,428 was allocated for pre-approved applications, resulting in an average allocation of

<sup>5</sup> The application activity in Figure 4 will not sum to 92 because some of the applications are counted in multiple categories (i.e., they have been pre-approved AND either voluntarily relinquished or denied).

<sup>6</sup> There were three applicants from CY 06 in addition to three applications post-approvals for CY 07 cap.

<sup>7</sup> "Denied" means Commerce found the application ineligible due to failure to meet statutory requirements, to provide required documentation or other reason.

<sup>8</sup> "Withdrawn" means the applicant withdrew the application before receiving pre-approval.

<sup>9</sup> "Voluntary relinquished" means the applicant withdrew their application after receiving pre-approval.

<sup>10</sup> "Rescinded" means Commerce took back the allocation because the applicant did not meet program requirements, such as starting the production within the 90 day deadline.

\$2,531,886 per application. Total spending estimated for the 62 pre-approved applications was \$252,944,486, with \$91,258,876 anticipated to occur in Arizona.

**Figure 5**

<b>Motion Picture Production Program - CY 08</b>	
<b>Application Activity</b>	
Total number of applicants	29
Applications received	62
Applications denied	0
Applications withdrawn	8
Applications voluntarily relinquished	40
Applications rescinded	2
Applications pre-approved	53
Applications post-approved (3 CY06 and 3 CY07)	6
<b>Tax Credit Utilization</b>	
2008 authorized cap	\$42,320,000
Unused cap from CY 07 rolled forward	0
CY 07 cap returned in CY 08 (by applicants unable to complete productions)	\$8,562,221
Total CY 08 cap available	\$53,132,221
Total cap amount pre-approved	\$22,968,428
Average pre-approval cap amount	\$2,531,886
Total TPT and use tax exemptions taken	\$831,067
Total tax credits post-approved	\$7,810,522
Total tax incentives	\$8,641,589
Unused cap rolled forward to CY 09	\$16,000,000
<b>Spending</b>	
Total estimated spending by pre-approved applicants	\$252,944,486
Estimated spending in Arizona by pre-approved applicants	\$91,258,876
Post-Approved Applicants' Total Spending (all locations)	\$119,295,126
Post-Approved Applicants' Spending in Arizona	\$44,900,039
Percent of Total Spending in Arizona	38%

#### Commercial advertisements and music videos (CAMV)

The CAMV program was effective in September 2007, and CY 08 represents its first year of activity. This program consists of an income tax credit set aside equal to 5% of each calendar year's cap for commercial advertisement or music video production companies. If a calendar year's CAMV set aside is exhausted, applicants must wait until the first business day of the next calendar year to submit an application. A CAMV applicant must provide documentation of total expenditures within 60 days of pre-approval to maintain eligibility. In addition, a CAMV applicant must spend at least \$250,000 within 12 consecutive months after pre-approval.

As seen in Figure 6, nine applicants submitted 20 applications, with 13 ultimately receiving pre-approval. No applicants had received post-approval under this program as of the end of 2008.

Statute provides 5% of the cap for each calendar year for CAMVs, and the amount available in CY 08 was \$2.5 million. The total amount pre-approved was \$310,455, an average allocation of \$23,881 per application. At the end of 2008, \$2,189,545 remained and was included in the \$16 million rolled forward into CY 09.

With regard to spending, applicants estimate total spending for the pre-approved applications in the amount \$2,579,117, of which \$1,755,920 is anticipated to occur in Arizona. Due to the short certification period of CAMV (12 months) and the shorter duration of these types of projects generally, it is expected additional information will be available on the performance of this program in the CY 09 MOPIC report.

Figure 6

Commercial Advertisements and Music Videos (CAMV) – CY 08	
<b>Application Activity</b>	
Total number of applicants	9
Applications received	20
Applications denied	1
Applications withdrawn	6
Applications voluntarily relinquished	2
Applications rescinded	0
Applications pre-approved	13
Applications post-approved	0
<b>Tax Credit Utilization</b>	
2008 authorized cap	\$2,500,000
Unused cap from CY 07 rolled forward	\$0
CY 07 cap returned in CY 08 (by applicants unable to complete productions)	\$0
Total CY 08 cap available	\$2,500,000
Total cap amount pre-approved	\$310,455
Average pre-approval cap amount	\$23,881
Total TPT and use tax exemptions taken	\$0
Total tax credits post-approved	\$0
Total tax incentives	\$0
Unused cap rolled forward to CY 09	\$2,189,545
<b>Spending</b>	
Total estimated spending by pre-approved applicants	\$2,579,117
Estimated spending in Arizona by pre-approved applicants	\$1,755,920
Post-Approved Applicants' Total Spending (all locations)	N/A
Post-Approved Applicants' Spending in Arizona	N/A
Percent of Total Spending in Arizona	N/A

#### Infrastructure Projects

CY 08 also marks the first year of available data for the infrastructure project program. Eligible projects are “soundstages” and “support and augmentation facilities.” The applicant must be the person who will own and operate the infrastructure project. Depending on the type of infrastructure project, the applicant must spend between \$1 million and \$5 million on the infrastructure project to maintain eligibility. The income tax credit amount is based on 15% of the base investment, not to exceed \$5 million for soundstage projects in CY 08. In addition, \$3 million per support and augmentation facilities is authorized effective CY 09, with a total available in this category of \$7 million in CY 09 and \$9 million in CY 10 (provided soundstage projects have been certified pursuant to statute). The applicant must begin construction within 90 days of the date of pre-approval. To demonstrate construction has begun, the applicant must spend the lesser of 10% of the total base investment amount<sup>11</sup>, or \$250,000, and provide a surety bond equal to the base investment amount.

The infrastructure applicant must also demonstrate continued eligibility by spending \$1.25 million within 12 months, and \$5 million within 36 months, of the date of pre-approval. Commerce is authorized to disqualify an infrastructure applicant if it fails to submit a completion report to Commerce within 18 months after post-approval. The infrastructure applicant and any person(s) that signed the application are disqualified from future participation in the program. Commerce is also authorized to terminate, adjust or recapture all or part of the tax credits if, within 60 months of post-approval, Commerce determines the applicant failed to comply with any of the statutory requirements. DOR may also terminate approval and require the infrastructure applicant to file amended returns and pay a monthly penalty equal to 4.5% of the approved credit amount.

<sup>11</sup> Defined in ARS §41-1517.01.K.1 as “the budget for the infrastructure project.”

Figure 7

Infrastructure Projects – CY 08	
<b>Application Activity</b>	
Total number of applicants	8
Applications received	10
Applications denied	4
Applications withdrawn	2
Applications voluntarily relinquished	3
Applications rescinded	0
Applications pre-approved	4
Applications post-approved (identify the CY if not all in CY08)	0
<b>Tax Credit Utilization</b>	
CY 08 authorized cap – soundstages	\$5,000,000
CY 08 authorized cap – support/augmentation facilities (not available until CY 09)	N/A
Unused cap from CY 07 rolled forward	N/A
CY 07 cap returned in CY 08 (by applicants unable to complete productions)	N/A
Total CY 08 cap available (for soundstages only)	\$5,000,000
Total cap amount pre-approved	\$10,923,296
Average pre-approval cap amount	\$2,730,824
Total TPT and use tax exemptions taken	\$0
Total tax credits post-approved	\$0
Total tax incentives	\$0
Unused cap rolled forward to CY 09	\$0
<b>Spending</b>	
Total estimated spending by pre-approved applicants	\$317,561,642
Estimated spending in Arizona by pre-approved applicants	N/A*
Post-Approved Applicants' Total Spending (all locations)	N/A
Post-Approved Applicants' Spending in Arizona	N/A
Percent of Total Spending in Arizona	N/A

\*Infrastructure applicants are not required to report estimated Arizona spending on initial application.

As seen in Figure 7, eight applicants submitted a total of ten applications for infrastructure projects in CY 08. Ultimately, only four were pre-approved. Although only \$5 million was authorized for soundstages in CY 08<sup>12</sup>, pre-approvals totaled \$10,923,296.<sup>13</sup> This equates to an average allocation of \$2,730,824 for each of the four pre-approved applications. Total spending is estimated at \$317,561,642, all of it occurring in Arizona.

#### Statewide Production Activity

There are 10 local film offices/commissions (including the one at Commerce) across Arizona certified with the Association of Film Commissioners International. The Arizona Film Office within Commerce obtained additional data reflecting CY 08 production from five of the local offices. Many of the remaining offices were unable to report data due to staffing issues.

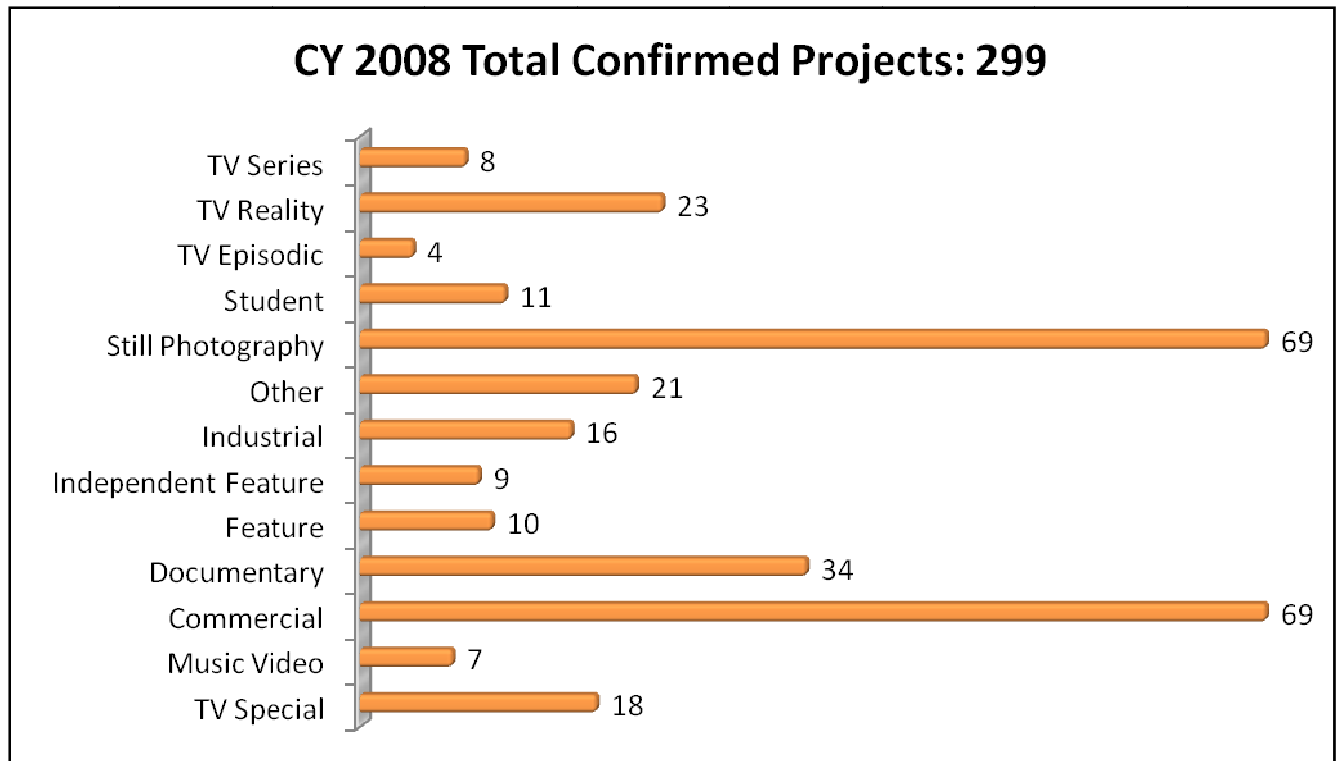
Figure 8 recaps the types of projects in CY 08 reported statewide. There were 299 confirmed separate productions reported in Arizona in CY 08. This is an approximate 20% decline from CY 07, when 373 productions were reported. The 92 MOPIC applications received represent only 30.7% of the 299 productions, suggesting that 70% of the film production work done in Arizona in 2008 was accomplished independent of the MOPIC program. While film offices across Arizona do their best to work with production companies to capture data from activity done locally, it is inevitable that some companies do

<sup>12</sup> No funding for support and augmentation facilities was authorized in statute for CY 08.

<sup>13</sup> If an applicant high on the priority placement list cannot complete its project within the statutory timeframe, the credits generally become available to those further down the list.

not avail themselves of either the MOPIC program or the local knowledge that these offices offer. As a result, the extent to which production activity falls outside the purview of MOPIC or local film offices is not truly known.

**Figure 8**



## CY 08 Post-approved Applications

Six applicants received post-approval in CY 08, all in the motion picture production program. Three of the post-approved applications were originally pre-approved in CY 07 and the remaining three in CY 06. The applicants post-approved in CY 08 are broken down by applicant name (production company), the name of the production, and both pre-approved and post-approved amounts in Figure 9.

**Figure 9**

CY 08 Post- Approved Applicants			
Applicant Name	Production Name	Income Tax Credits Pre-Approved	Income Tax Credits Post-Approved
Universal City Studios	The Kingdom	\$5,000,000	\$4,141,522
Pacific Direct Inc	Snappers	\$225,000	\$174,675
Scripps Howard Broadcasting	Local ABC 15 News & Sonoran Living	\$1,926,956	\$1,926,956
2XL Games	Baja	\$1,300,000	\$1,300,000
Jake's Corner, LLC	Jake's Corner	\$240,000	\$240,000
Veritas Pictures	1. Suicide Club 2. A Matter of Faith 3. Laughing Your Way to a Better Marriage 4. Faith Campaign	\$390,450	\$27,369

**Tax Credit Utilization:** As seen in Figure 10, tax credit utilization was significantly higher in CY 08 over CY 07. TPT and use tax exemptions reported increased dramatically, from \$72,623 in CY 07 to \$831,067 in CY 08. The amount of TPT and use taxes as a percentage of total tax incentives almost quadrupled, from 2.5% in CY 07 to 9.6% in CY 08. However, almost the entire amount of the tax subsidy provided by Arizona (90.4%) for the six post-approved productions is in the form of income tax credits. This is a decrease from 97.5% in CY 07.

Likewise, the amount of income tax credits post-approved also increased, from \$2,740,855 in CY 07 to \$7,810,522 in CY 08. Total tax incentives (TPT, use and income) were \$5,828,111 more in CY 08 than CY 07, increasing from \$2,813,478 to \$8,641,589.

**Application Activity:** With regards to application activity, the number of applications pre-approved more than tripled in CY 08 over CY 07, increasing from 22 to 70. One fewer applicant was post-approved in CY 08 than in CY 07.

**Post-approved Applicant Spending:** At the time of application, the six post-approved applicants estimated total production spending in Arizona of \$60,959,316. In their completion reports, the actual total production spending was \$119,295,126, of which \$44,900,039 occurred in Arizona. The post-approved amount represents a decrease of \$16,059,277 in the amount initially estimated to be spent in Arizona. The percent of production spending in Arizona also decreased by 46%, from 83% in CY 07 to 38% in CY 08.

Average total production spending per project of \$3,526,001 in CY 07 increased to \$19,882,521 in CY 08, probably reflecting the Universal Studios production, "The Kingdom." Average Arizona spending per project also increased from CY 07, from \$2,867,259 to \$7,483,340 in CY 08. Based on the total tax incentives post-approved (\$8.642 million), the State subsidized (paid for) 17.0% of the spending in Arizona.

Figure 10

MOPIC Post-Approval Comparison – CY 07 and 08 (Includes All Three Programs)				
Tax Credit Utilization		CY 08	CY 07	Change from CY 07 Increase or (Decrease)
1	TPT and use tax exemptions reported by applicants post-approved	\$831,067	\$72,623	\$758,444
2	Income tax credits for applicant post-approved	\$7,810,522	\$2,740,855	\$5,069,667
3	Total Arizona Tax Incentives for applicants post-approved	\$8,641,589	\$2,813,478	\$5,828,111
4	TPT and Use Tax as % of Total Tax Incentives	9.6%	2.5%	7.1%
5	Income taxes as % of total tax incentives	90.4%	97.5%	(7.1%)
<b>Application Activity</b>				
6	Applications pre-approved	70	22	48
7	Applications post-approved	6	7	(1)
<b>Post-approved Applicant Spending</b>				
8	Total estimated spending (all locations; from the applications)	\$103,799,105	\$16,785,000	\$87,014,105
9	Estimated spending in Arizona (from the applications)	\$60,959,316	\$8,458,000	\$52,501,316
10	Post-Approved Applicants' Total Spending (all locations; from completion report)	\$119,295,126	\$24,682,004	\$94,613,122
11	Average Total Spending Per Project	\$19,882,521	\$3,526,001	\$16,356,520
12	Post-Approved Applicants' Actual Spending in Arizona (from completion report)	\$44,900,039	\$20,070,809	\$24,829,230
13	Average Arizona Spending Per Project	\$7,483,340	\$2,867,259	\$5,737,229
14	Percent of Total Spending in Arizona	38%	83%	-46%
<b>Economic and Fiscal Impact of MOPIC in Arizona</b>				
15	Direct FTEs created by post-approved applicants	317*	222*	95
16	Estimated Indirect and Induced FTEs created	413*	203*	210
17	Total Arizona Tax Incentives Post-approved	\$8,641,589	\$2,813,478	\$5,828,111
18	Estimated State and local tax revenues generated by post-approved applicants	\$2,317,566*	\$1,111,979*	\$1,205,587
19	Net benefit (cost) to the General Fund of post-approved applications (line 18 minus line 17)	(\$6,324,023)	(\$1,701,499)	(\$4,622,524)

\*Estimated using the Minnesota IMPLAN Professional economic model with 2006 multipliers

Spending reports provided to Commerce by the six applicants in the post-approval process showed that the \$44.9 million of total Arizona spending was dispersed across a broad range of expense categories, shown in Figure 11. Wages paid were not specifically provided as they tend to be embedded in various expense categories. The top five spending categories in the six post-approved applications are Special Photography (\$9 million), Location Expense (\$6.8 million), Set Construction (\$5.0 million), Payroll (\$3.5 million), and Game Art & Animation Contracts (\$2.7 million).



Figure 11

CY 08 Post-Approvals: Spending by Category – Film Production					
Category	Total		Category	Total	
	Qualified AZ Cost	Category %		Qualified AZ Cost	Category %
Special Photography	\$9,011,117	24.1%	Programming	\$50,081	0.7%
Location Expense	\$6,860,165	18.2%	Editing	\$89,510	0.2%
Set Construction	\$5,020,611	13.4%	Hardware- Purchases Only	\$33,855	0.5%
Payroll	\$3,569,491	49.8%	Contract Services	\$26,886	0.4%
Game Art & Animation Contracts	\$2,757,515	38.5%	User Interface & Contract	\$17,820	0.2%
Transportation	\$1,742,622	4.6%	Set Strike	\$15,462	0.0%
Fringe Benefits	\$1,522,619	4.1%	IT / Systems	\$12,365	0.2%
Opticals, Mattes and Inserts	\$1,370,348	3.7%	Production Sound	\$11,498	0.2%
Photography	\$1,300,024	3.4%	Workman's Comp	\$11,273	0.2%
Producer & Staff	\$1,207,288	3.2%	Video Tape	\$10,212	0.0%
Electrical	\$1,069,204	2.8%	Electronics	\$8,172	0.1%
Talent	\$918,891	2.5%	Film & Stock Shots	\$2,863	0.0%
Set Operations	\$860,928	2.3%	Sound Design	\$2,500	0.0%
Set Dressing	\$793,064	2.1%	Laboratory Processing	\$1,346	0.0%
Second Unit	\$787,730	2.1%	Insurance	\$666	0.0%
Picture Vehicles/Animals	\$689,347	1.8%	Production Dailies	\$162	0.0%
Extra Talent	\$589,481	1.6%	A/V Services	\$0	0.0%
Special Effects	\$572,830	1.5%	Copier & Laser Printers	\$0	0.0%
Travel & Living	\$483,259	1.3%	Hardware- Expenses	\$0	0.0%
Story & Rights	\$378,453	1.0%	Health & Dental	\$0	0.0%
General Expenses	\$344,841	0.9%	Main & End Titles	\$0	0.0%
Wardrobe	\$337,881	0.9%	Marketing & PR	\$0	0.0%
Operating Overhead Unit	\$314,920	4.4%	Middleware Licensing	\$0	0.0%
Production Staff	\$305,495	0.8%	Office Furn.- Purchase	\$0	0.0%
Payroll- Taxes Employer	\$267,454	3.7%	Office Furn.- Expenses	\$0	0.0%
Additional Unit	\$251,419	0.7%	Other Development Costs	\$0	0.0%
Director & Staff	\$266,989	0.7%	Other Expenses	\$0	0.0%
Other (Loss/Damages & Temp Services)	\$220,033	0.6%	Professional Fees	\$0	0.0%
Post Production Sound	\$198,493	0.5%	Rentals	\$0	0.0%
Writing	\$129,589	0.3%	Repairs	\$0	0.0%
Props	\$91,846	0.2%	Script Development	\$0	0.0%
Fringe Benefits	\$80,419	1.1%	Software & Stock Libraries	\$0	0.0%
Makeup & Hair	\$84,200	0.2%	Software- Expenses	\$0	0.0%
Production Sound	\$71,400	0.2%	Song & Music	\$0	0.0%
Art Department	\$19,807	0.2%	Talent	\$0	0.0%
Music	\$54,563	0.1%	Travel & Entertainment	\$0	0.0%
Total Expenditures				\$44,900,039	100.0%

## Film Industry Employment and Wages in Arizona

Film projects often involve mobile and temporary employment. The transitory nature of the work was captured in the definition of full-time employment developed in conjunction with the Arizona film industry to mean any employee who averages at least *4 hours per day during the period of employment for the production*. Further, the MOPIC statutes do not require permanent, on-going, full-time employment or minimum wage levels as with other Arizona incentive programs, i.e., Enterprise Zones, Commerce and Economic Development Commission, and Job Training. As a result, it is not possible to determine how many FTEs continue to exist after productions are completed. In addition, the actual amount of wages paid to employees by applicants is generally not known because it is often embedded across the multiple spending categories.



The Quarterly Census of Employment and Wages (QCEW) data from the Bureau of Labor Statistics (BLS) provides an indication of the status of the number of firms, wages and employment in various sectors of the motion picture industry. This data set provides a greater level of industry detail on an annual basis than other data (federal or state), and is, therefore, the most appropriate data for this type of analysis. The QCEW derives its data from quarterly tax reports submitted to state employment security agencies by employers subject to state unemployment insurance (UI) laws, and also certain federal agencies. These sources comprise 99.7% of all wage and salary civilian employment. The most current data is for 2007. See Appendix D for additional information on the QCEW data set.

It should be noted, however, that since many workers in the film industry are part-time or temporary, they may not qualify for unemployment insurance benefits. Because the QCEW dataset is drawn primarily from unemployment insurance records, the actual number of employees in this industry – in Arizona and elsewhere – will probably continue to be difficult to measure.

Figure 12 shows a 2007<sup>14</sup> snapshot of the status in Arizona of the North American Industry Classification System (NAICS) Sector 5121, the primary NAICS sector for motion pictures and several key subsectors.<sup>14</sup> The North American Industry Classification System is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

**Figure 12**

<b>2007 Quarterly Census of Employment and Wages for Arizona Production Activity for NAICS* Sector 5121 and Subsectors 51211, 51212, 51213 and 51219</b>					
<i>NAICS Code</i>	<i>Sector or Subsector</i>	<i>Average Annual Employment - AZ</i>	<i>Average Annual Wage (2080 hour year)</i>	<i>Average Hourly Wage</i>	<i>Average # of Firms</i>
5121	Total Motion Picture Video Sector (includes subsectors below)	4,261	\$17,070	\$8.21	268
51211	Motion Picture and Video Production	751	\$39,833	\$19.15	189
51212	Motion Picture and Video Distribution	7	\$44,709	\$21.49	7
51213**	Motion Picture and Video Exhibition	3,452	\$11,746	\$5.65	45
51219	Postproduction Services and Other Motion Picture and Video Industries	51	\$38,447	\$18.48	26

\* North American Industry Classification System

\*\* Subsector 51213 is excluded from discussion in this report as it represents largely movie theater employment and is not eligible under MOPIC. It is included in this table merely to provide an accurate picture of the overall motion picture industry in Arizona.

Source: Bureau of Labor Statistics

As with most other sectors of Arizona's economy, the overall 5121 NAICS sector has experienced significant change over the last several years. Figure 13 shows the changes by year in the number of firms, total wages, average annual employment and average annual and hourly wages since 2000 for sector 5121, excluding subsector 51213 motion picture exhibition.

<sup>14</sup> At the time of this writing, 2008 data had not yet been released by BLS; therefore, the 2007 data presented here is the same data presented in the CY 07 report.

**Figure 13**

<b>Quarterly Census of Employment and Wages Arizona Production Activity for NAICS 5121* (excluding 51213) 2000 - 2007</b>					
Year	Average Number of Firms	Total Annual Sector Wages	Average Annual Employment	Average Annual Wage	Avg. Hourly Wage for 2,080 Hour Year
2000	169	\$39,207,170	830	\$47,252	\$22.72
2001	167	\$28,201,440	724	\$38,979	\$18.74
2002	175	\$24,385,048	642	\$37,998	\$18.27
2003	177	\$22,387,976	609	\$36,777	\$17.68
2004	179	\$28,547,216	733	\$38,932	\$18.72
2005	179	\$26,454,898	826	\$32,047	\$15.41
2006	199	\$29,654,312	955	\$31,052	\$14.93
2007	222	\$32,178,686	809	\$39,788	\$19.13

\* Combined NAICS 51211, 51212 and 51219; does not include subsector 51213, Motion Picture Exhibition  
Source: Bureau of Labor Statistics

Appendix E shows in greater detail the components of the motion picture production industry that combine to make up the film production category in Arizona. It is possible that some film production related jobs are not reported by employers in the related NAICS film categories. Such workers might be located in several industry codes. In addition, workers that are not part of the Unemployment Insurance system would not be counted in these statistics.

To better understand any changes as a result of MOPIC, data should be considered over two discrete time periods: CYs 2000 through 2005 (prior to implementation of MOPIC) and CYs 06 and 07 (the first two years of MOPIC). As seen in Figure 14, most measures of employment and wages have increased since the implementation of MOPIC with the exception of average annual employment, which has decreased by 17 jobs.

**Figure 14**

<b>Changes in Employment and Wages Before (2000-05) and After (2006-07) MOPIC</b>				
	CY 2000-05		CY 2006-07	
	#\$ Change	% Change	#\$ Change	% Change
Motion Picture firms in AZ	10	5.9	43	24
Total Sector Wages	- \$12,752,272	- 32.5	\$5,723,788	21.6
Average Annual Employment	- 4	- .4	- 17	- 2
Average Annual Wages	- \$15,205	- 32.1	\$7,741	24.1
Average Hourly Wages*	- \$7.31	- 32.1	\$3.72	24.1

\* Based on 2080 hour year

Source: 2007 Quarterly Census of Employment and Wages, Bureau of Labor Statistics

Figure 15 shows aggregated employment and wage information for the CY 08 six post-approved applications, compared to the applications post-approved in CY 07. The six post-approved applicants reported a total of 883,347 of employee hours worked, including 541,789 (61%) worked in Arizona. This represents 521 FTEs based on the program's definition of full-time (4 hours per day), or 260 FTEs based on a standard 2,080 hour work year. At \$8.6 million in total tax credits, these 521 jobs cost the State \$16,587 each, or \$15.93 per hour worked as reported by applicants.

Figure 15

MOPIC Post-Approval Comparison – CY 07 and 08: Employment and Wages			
	CY 08	CY 07	Change from CY 07 Increase/(Decrease)
Total Arizona Tax Incentives Approved	\$8,641,589	\$2,813,478	\$5,828,119
Total Hours Worked reported by Post-approved applicants	883,347	168,430	714,917
Hours Worked in Arizona	541,789	100,893	440,896
Percent of Total Hours Worked in Arizona	61%	60%	1%
Estimated Arizona FTEs (based on 4 hours worked per day) <sup>15</sup>	521	97	424
QCEW Arizona Average Hourly Wage (AHW) in Film Production <sup>16</sup>	\$19.13	\$19.13	--
Incentive Cost Per AZ Hour Worked <sup>17</sup>	\$15.95	\$27.89	(\$11.94)
QCEW Arizona Average Annual Wage in Film Production <sup>18</sup>	\$39,788	\$39,788	--
Incentive Cost Per FTE <sup>19</sup>	\$16,587	\$29,004	(\$12,417)

Source: Commerce records

Figure 15 indicates MOPIC saw improvements in the number of hours worked in Arizona, from 100,893 in CY 07 to 541,789 in CY 08. Likewise, the estimated Arizona FTEs (based on the 4 hour per day definition of “full-time” in the guidelines) also increased, from 97 in CY 07 to 521 in CY 08. It is unknown how many of these jobs continue to exist in Arizona.

Further, the incentive cost per AZ hour worked and the incentive cost per FTE improved from CY 07 to CY 08, decreasing from \$27.89 to \$15.95 and from \$29,004 to \$16,587, respectively.

## CY 08 Economic and Fiscal Impact

Proponents of industry initiatives usually cite the “multiplier effects” of increased direct spending and tax revenue generation related to a specific industry. “Multipliers” attempt to measure the interactions of employment, spending, investment and earnings among and between industries, and are different for each industry and geographic locality. Multipliers are generally based on industry spending interrelationships estimated by the US Department of Commerce, Bureau of Economic Analysis. Private software companies use this government data as the basis for the analysis of new spending or new jobs in an area or industry. For the purposes of this report, the Minnesota IMPLAN Professional<sup>®</sup> economic impact assessment software model<sup>20</sup> was used to analyze both the *economic* and *fiscal* impacts of MOPIC.

### Economic Impact

*Economic impacts* may be direct, indirect, and induced, and are related to employment, industry output, and new earnings in the economy, among others. The following *economic impacts* are included in this analysis and are defined as follows by Minnesota IMPLAN:

<sup>15</sup> Hours worked in Arizona per CY, divided by 1040 hours (full-time status under MOPIC guidelines)

<sup>16</sup> 2007 QCEW data for NAICS 5121, excluding 51213

<sup>17</sup> Total amount of tax credits post-approved per CY, divided by Hours worked in Arizona for that CY

<sup>18</sup> 2007 QCEW data for NAICS 5121, excluding 51213

<sup>19</sup> Total amount of tax credits post-approved per CY, divided by Estimated Arizona FTEs

<sup>20</sup> Minnesota IMPLAN Group, Inc., <http://www.implan.com/index.html>

- **Employment** is average annual full- and part-time, i.e., "jobs."
- **Compensation** is the total cost of labor for a business composed of wages and salaries, other labor income (retirement, health insurance), plus employer and employee contributions to social security/payroll taxes.
- **Output** is total revenue from sales/total cost of production for an industry.

These impacts are described in terms of their direct, indirect and induced effects on the economy:

- **Direct** impacts are those directly generated by film and video production companies. Generally, these are considered by the IMPLAN model to be *permanent* jobs.
- **Indirect** impacts are generated by businesses that provide goods and services to film and video production companies.
- **Induced** impacts are generated as a result of the spending by direct and indirect employees in the local economy on such things as food, housing, transportation, etc.

The aggregate Arizona MOPIC spending of \$44,900,039 provided by the six post-approved applicants was analyzed using IMPLAN PRO software purchased from the Minnesota IMPLAN Group. The *economic impacts* related to employment, compensation and output are shown in Figure 16. It should be noted that these figures are one-time impacts related to these six specific productions and will not be repeated in the economy. Further, it is impossible to know how many of the direct, indirect or induced jobs would continue to exist after any given production is completed.

Figure 16

MOPIC Post-Approval Comparison – CY 07 and 08: Estimated Economic Impacts						
Impact	Employment		Compensation		Output	
	CY 08	CY 07	CY 08	CY 07	CY 08	CY 07
Direct Impact	317	222	\$5,290,480	\$3,799,354	\$44,900,039	\$20,070,810
Indirect Impact	305	155	\$8,069,694	\$3,856,039	\$39,242,106	\$13,973,071
Induced Impact	108	53	\$3,541,348	\$1,944,194	\$12,368,978	\$6,059,692
<b>Total Impacts</b>	<b>730</b>	<b>430</b>	<b>\$16,901,522</b>	<b>\$9,599,587</b>	<b>\$96,511,123</b>	<b>\$40,103,572</b>

Source: Minnesota IMPLAN Professional economic model for Arizona

- **Employment** – According to the IMPLAN model, 317 direct jobs result from the \$44.90 million in Arizona MOPIC spending, an increase of 95 over CY 07. As noted earlier, direct jobs are considered by the IMPLAN model to be *permanent* jobs. Because the motion picture industry is characterized by part-time and temporary employment, it may be questionable to assume the 317 jobs are permanent or full-time. Including indirect and induced jobs, the total estimated employment impact is 730, an increase of 300 over CY 07. This is approximately a 2:1 job creation multiplier ratio (2 indirect/induced jobs result for each film industry job created).

It should be noted that because of the indirect and induced effects of film production spending, the 730 total jobs estimated by the IMPLAN model is higher than the 521 fulltime equivalents reflected in the hours worked as reported by the post-approved applicants. This may be because jobs are embedded across the spending categories reported by the applicants. If this information was available to include in the modeling, the job numbers might more closely match the IMPLAN figures.

- **Compensation** – The IMPLAN model estimates the \$44.90 million in spending reported by the post-approved applicants generated total compensation in the amount of \$16.9 million. Of this amount, \$5.29 million is direct compensation. This represents an increase of \$7,301,935 in total

compensation, from \$9,599,587 in CY 07, and a \$1,491,126 increase in direct compensation, from \$3,799,354 in CY 07.

Again, because wage costs are embedded across expense categories reported by the MOPIC applicants, it is not possible to determine the proportion paid to employees or to owners/investors of the productions. The \$16.9 million represents a compensation multiplier ratio of approximately 0.4:1 (40 cents of compensation is created for each \$1 spent).

- **Output** - Output estimated by the IMPLAN model is \$96,511,123, an increase of \$56,407,551 from \$40, 103,572 in CY 07. This reflects a spending multiplier ratio of approximately 2:1 (\$2 in industry output is generated for each \$1 spent).

#### Fiscal Impact

Analyzing the *fiscal impact* of a tax credit is critical in understanding the performance of the program, particularly to gauge whether it may be generating at least as much in state and local tax revenues as is being paid out in the form of credits. In other words, is the program paying for itself? Although “spending” in Arizona generally results in transaction privilege tax revenue generation, it is critical to note it is not a 1:1 relationship, meaning that every \$1 spent does not generate a like amount in tax revenues for state and local governments.

Figure 17 shows a comparison of the *fiscal impact* of the applications post-approved in both CYs 07 and 08, based on the IMPLAN analysis of their reported Arizona spending. IMPLAN Professional measures tax revenues generated to state and local government as a result of spending. These revenues generally include corporate and personal income taxes, licenses, fines and fees, business and residential property taxes, dividends and other taxes.

Although \$2,317,566 in state and local tax revenues was estimated by the IMPLAN model, the cost to the State general fund in the amount of post production income tax credits was \$8,641,589, creating an identified net fiscal loss of \$6,324,023. Even though the amount of spending in Arizona by production companies more than doubled (from \$20M in CY 07 to \$44M in CY 08), the fiscal impact did not cover the cost of these incentives to the General Fund. The loss in CY 08 is substantially larger than that in CY 07, by an estimated \$4,622,524.

**Figure 17**

<b>MOPIC Post-Approval Comparison – CY 07 and 08: Fiscal Impact</b>		
<b>Description</b>	<b>CY 08</b>	<b>CY 07</b>
Estimated Tax Revenues Generated	\$2,317,566	\$1,111,979
Total Arizona Tax Incentives Post-approved	\$8,641,589	\$2,813,478
<b>Net Tax Benefit (Cost) to General Fund*</b>	<b>(\$6,324,023)</b>	<b>(\$1,701,499)</b>
<small>* Does not include program administration costs incurred by Commerce or the Department of Revenue related to the post-approval process of the 2008 post-approved applications Source: Minnesota IMPLAN Professional economic model and Commerce records</small>		

This report is a static analysis of the impact of tax credits in Arizona per calendar year. The purpose of tax incentives, including MOPIC, is to create desired changes in company behavior - in this case, to create Arizona film industry employment and economic activities that otherwise might not have been expected to occur. In addition, in most instances, tax incentives are generally created to stimulate ancillary or additional jobs that are not directly associated with the tax credit recipients, i.e., the “multipliers” discussed in this report. If these tax credits transform the Arizona economy by building a new industry that can survive if the tax credits are later discontinued, long term fiscal benefits may outweigh the cost.

The question is whether or not the industry will leave the state if the tax credits are discontinued sometime in the future.

The difficulty in creating tax incentives is to make them large enough to have an impact on economic decisions, but not so large as to be unduly generous or burdensome to the State General Fund. Other than MOPIC, Arizona income tax incentive programs provide state income tax credits or abatements for no more than the amount of a company's Arizona *income tax liability*. For example, if a company were to qualify for incentives that abated its entire statutory corporate tax rate of 6.968%, it would only take \$69.68 in *additional* \$1,000 in taxable corporate profits (at 6.968%) in Arizona to offset that abatement.<sup>21</sup> This additional profit might come from the tax incentive applicant's activities or the company's multiplier impact on spending in other industries in the State.

However, in the case of MOPIC, Arizona income tax credits are based on eligible *project spending*, not taxable corporate profits. The MOPIC tax credit of up to 30% of film spending would require significantly higher corporate profitability (and therefore, tax liabilities) in Arizona to offset the incentive. For example, \$1,000 of post-production approved MOPIC film spending generates a \$300 income tax credit. Offsetting this credit requires the taxpayer to generate an *additional* \$4,305<sup>22</sup> in taxable corporate profits for this incentive to be revenue neutral.

A thriving film industry in Arizona has always existed and the future continues to be bright, as evidenced by the significant number of productions – beyond those participating in MOPIC – that were produced here. However, it is unlikely that activities directly associated with the level of existing MOPIC tax credits can reach revenue neutrality.

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<sup>21</sup> \$1,000 taxable corporate profits X 6.968% = \$69.68

<sup>22</sup> \$300 (amount of the credit on \$1,000 in film spending) divided by 6.968% (AZ corporate tax rate) = \$4,305

## APPENDIX A

### MOPIC Statutes

#### 41-1517. Motion picture production tax incentives; duties; definitions

A. From and after December 31, 2005 through December 31, 2010, the department of commerce shall qualify motion picture production companies that produce one or more motion pictures in this state for motion picture production tax incentives, subject to the following requirements and conditions:

1. Except as provided in subsection K of this section, a motion picture production company must spend at least two hundred fifty thousand dollars toward production costs in this state producing each motion picture.

2. For the purpose of this section, production costs are limited to and subject to the following conditions:

(a) Salaries and other compensation for talent, management and labor paid to residents of this state, as defined by section 43-104.

(b) A story and scenario to be used for a motion picture.

(c) Set construction and operations, wardrobe, props, accessories and related services in this state. Expenses paid for construction contracts are limited to contractors who are licensed under title 32, chapter 10.

(d) Photography, sound synchronization, lighting and related costs incurred in this state.

(e) Editing and related services performed in this state.

(f) Rental of facilities and equipment in this state.

(g) Catered food, drink and condiment purchased in this state.

(h) Other direct in-state costs of producing the motion picture, pursuant to rules adopted by the department of revenue that follow generally accepted accounting standards for the motion picture industry.

(i) Payments for penalties and fines do not qualify as production costs.

(j) Expenses incurred before the date of notice of preapproval under subsection D of this section do not qualify as production costs.

3. A motion picture production company or its authorized payroll service company must employ residents of this state in its production activities as follows:

(a) In 2006, at least twenty-five per cent of full-time employees working in this state must be residents of this state.

(b) In 2007, at least thirty-five per cent of full-time employees working in this state must be residents of this state.

(c) In 2008 and every subsequent taxable year, at least fifty per cent of full-time employees working in this state must be residents of this state.

4. A motion picture production company must submit a completed application pursuant to subsection C of this section. An application is complete on receipt of all requested information.

5. A motion picture production company must include in the credits for each motion picture, other than a commercial advertisement or music video, an acknowledgement that the production was filmed in Arizona.

B. Only a motion picture production company that demonstrates that it has the lawful right to produce a particular production may apply for qualification under this section with respect to that production.

C. A motion picture production company initially applying for qualification under this section must report the following to the department of commerce on a form and in a manner prescribed by the department, with the cooperation of the department of revenue:

1. The name, address, telephone number and website of the motion picture production company.
  2. The name and address of an individual who will maintain records of expenditures in this state.
  3. The projected first preproduction date and last production date in this state.
  4. The production office address and office telephone number in this state.
  5. The estimated total budget of the production.
  6. The estimated total expenditures in this state.
  7. The estimated total percentage of the production taking place in this state.
  8. The estimated level of employment of residents of this state in the cast and crew.
  9. A script, including a synopsis, the proposed director and a preliminary list of the cast and producer, except that, with respect to a television series, other than a pilot production, in lieu of a script the applicant must include:
    - (a) A synopsis of the general nature of the series.
    - (b) A description of the characters and the intended nature of their interaction with each other.
    - (c) A description of the locations.
    - (d) A description of the sets.
    - (e) The intended distribution or broadcast medium with specific television channels, if known.
  10. An affirmation signed by any person who will be credited on screen as the producer or producers of the motion picture, not including the executive producers, associate producers, assistant producers or line producers, that:
    - (a) The motion picture production company agrees to furnish records of expenditures in this state to the department of revenue on request.
    - (b) Any items purchased with a certificate issued under section 42-5009, subsection H are intended for use by the applicant directly in motion picture production.
- D. The department of commerce shall review all applications within thirty days after submission of a complete application pursuant to subsection C of this section to determine whether the motion picture production company satisfies all of the criteria provided in subsection A of this section and shall establish the process by which the department qualifies and preapproves a company for motion picture production tax incentives. This process shall preapprove a company for motion picture production tax incentives based on priority placement established by the date that such motion picture production company filed its initial application for qualification with the department.
- E. The department of commerce may conduct a site visit to verify that production has begun. Within ninety days after the department preapproves the company's initial application, the company must submit notice to the department that production has begun and provide at least one of the following:
1. A copy of a contract, loan out agreement or deal memo with a cameraman and crew.
  2. A copy of the crew call sheet for the first day of production.
  3. Evidence that residents of this state have been paid a total of at least five thousand dollars for work on the preapproved motion picture.
  4. A copy of a contract or agreement directly attributable to the preapproved motion picture.
- F. Preapproval by the department of commerce under subsection D of this section lapses, the application is void and the amount of the preapproved incentives does not apply against the dollar limit prescribed by subsection J of this section if, within ninety days after the department preapproves the company, the company fails to provide documentation of either:
1. Its expenditure in this state of the lesser of:
    - (a) Ten per cent of the estimated total state budget of the production.
    - (b) Two hundred fifty thousand dollars.
  2. A completion bond, equal to the estimated total budget of the production, for the production of the motion picture for which the company was preapproved. For the purposes of this paragraph,



"completion bond" means an executed written contract, issued by an insurance company with an insurance industry rating of B+ or better by A.M. Best company guarantying to the financiers of the project that it will be completed according to the terms of the preapproved application submitted by the production company in its application.

G. The preapproved amount applies against the dollar limit prescribed by subsection J of this section for the year in which the application was submitted regardless of whether the initial preapproval period extends into the following year or years. Before the expiration of the initial preapproval or requalification period, a company may voluntarily relinquish unused credit amounts.

H. The department of commerce shall reallocate the amount of credits that is voluntarily relinquished under subsection G of this section, that lapses under subsection F of this section or that lapses under subsection O of this section. The reallocation shall be to other motion picture production companies that applied in the original credit year based on priority placement. The amount of the reallocated credits shall continue to apply against the dollar limit of the original credit year regardless of the year in which the reallocation occurs. If for any year an unused balance occurs in the income tax credits authorized under the dollar limit prescribed by subsection J of this section:

1. The balance shall be allocated to motion picture production companies that successfully appeal the denial of approval under this section or section 41-1517.01. Any amount of income tax credits due to successful appeals that are not paid from an unused balance in any year shall be paid against the dollar limit allowed by subsection J of this section in the following year.

2. Any remaining unused balance shall be reallocated for the purposes of this section in the following year.

I. Beginning with the tax credits allocated for 2006 pursuant to subsection J of this section, an approved credit offsets tax liability for the taxable year for which the credit was originally allocated or any subsequent taxable year within the applicable carryforward period pursuant to section 43-1075, subsection G or section 43-1163, subsection G. The credits must be claimed on a timely filed original income tax return, including extensions.

J. Subject to the requirements of section 41-1517.01 and subsections K and U of this section, the department of commerce shall not preapprove income tax credits exceeding a total of:

1. Thirty million dollars for 2006.
2. Forty million dollars for 2007.
3. Fifty million dollars for 2008.
4. Sixty million dollars for 2009.
5. From and after December 31, 2009, seventy million dollars for a single year.
6. Five million dollars for an individual motion picture application in 2007.
7. Seven million dollars for an individual motion picture application in 2008.
8. Eight million dollars for an individual motion picture application in 2009.
9. From and after December 31, 2009, nine million dollars for an individual motion picture application.

K. Beginning in 2008, the following provisions apply with respect to commercial advertisement and music video production:

1. Five per cent of the maximum dollar amount of income tax credits prescribed for any year by subsection J of this section is reserved for use with respect to commercial advertisement and music video production.
2. A commercial advertisement or music video production company may apply for qualification under subsection C of this section before the company reaches the minimum expenditure threshold requirements of subsection A, paragraph 1 of this section.
3. In lieu of a script under subsection C, paragraph 9 of this section, the applicant must submit a synopsis or storyboard that:

- (a) Identifies the product, service, person or event for a commercial advertisement or the artist and song for a music video.
  - (b) Describes the general content or message to be conveyed.
  - (c) Describes the location or locations.
  - (d) Describes the sets.
  - (e) Describes the intended distribution or medium and specific channels, if known.
4. The department must review the completed application within fifteen business days.
  5. Expenses incurred before the date of submission of a completed application under subsection C of this section do not qualify as production costs.
  6. The department shall allocate the income tax credit incentives based on priority placement established by the date that the company files its application and based on the percentage of estimated total expenditures in this state allowed as a credit under section 43-1075 or 43-1163.
  7. Within sixty days after applying with the department under subsection C of this section, a company that is preapproved for a specific production must notify and provide documentation of expenditures to the department of the total amount of eligible production costs associated with the production.
  8. The company is not eligible for income tax credit incentives until the company's eligible production expenditures reach two hundred fifty thousand dollars in a period of twelve consecutive months. When the company reaches that threshold, the company may apply to the department for approval of the income tax credit incentives pursuant to subsection O of this section. Applications for approval of income tax credit incentives may not be submitted by the same company more frequently than once a calendar month.
  9. Notwithstanding any other provision of this section, the department of commerce shall adopt rules and prescribe forms and procedures as necessary for the purposes of this subsection.
- L. Except for applications with respect to commercial advertisement and music video production under subsection K of this section, after October 31 of each year, if the department has preapproved the maximum calendar year tax credit amount pursuant to subsection J of this section, the department may accept initial applications for the next calendar year. The preapproval of any application pursuant to this subsection shall not be effective prior to the first business day of the following calendar year. The department may accept initial applications with respect to commercial advertisement and music video production under subsection K of this section only during the calendar year in which the credits would be allotted.
- M. Subject to subsection O of this section, the department of commerce shall deny an application submitted on completion of the production pursuant to subsection O of this section if it determines that:
1. The motion picture production company does not meet all of the established criteria provided in subsection A of this section.
  2. The production would constitute an obscene motion picture film or obscene pictorial publication under title 12, chapter 7, article 1.1.
  3. The production depicts sexual activity as defined in title 13, chapter 35.
  4. The production would constitute sexual exploitation of a minor or commercial sexual exploitation of a minor under title 13, chapter 35.1.
- N. On a determination by the department of commerce that a motion picture production company qualifies for motion picture production tax incentives, the department shall issue the company a written letter of qualification and transmit a copy of the letter to the department of revenue. Beginning from and after December 31, 2007, a letter of qualification is effective for twenty-four consecutive months as stated in the letter.

O. Upon completion of the motion picture production, a motion picture production company that qualifies for the motion picture tax incentives shall apply to the department in writing for approval of income tax credits, submit a viewable copy of the motion picture, except as provided in subsection P of this section, and certify the total amount of eligible production costs associated with the project incurred from and after December 31, 2005. From and after June 30, 2006, the department shall provide approval to a motion picture production company that it has met the eligibility requirements of this section and shall notify the department of revenue that the motion picture production company may claim the tax credits pursuant to sections 43-1075 and 43-1163. If the eligible production costs actually spent are less than the amount preapproved for income tax credits, the preapproved amount not incurred lapses and does not apply against the dollar limit prescribed by subsection J of this section for that year.

P. A motion picture production company may apply for postapproval of the production under subsection O of this section before a viewable copy of the production is available. To do so, the company must submit with its application a letter of credit, payable to the department of revenue, providing that within two business days after the issuer receives a written determination from the department of commerce that the production fails to qualify for the tax credits the issuer will pay to the department of revenue the full face value of the income tax credits in the application. If the department of revenue draws on the letter of credit, the monies shall be transferred to and held in an interest bearing account pending the final outcome of an appeal, if any. The letter of credit may be released on the determination by the department of commerce that the completed production qualifies for the tax credits.

Q. If a preapproved motion picture production company fails to undertake production, as described in subsection F of this section, and also fails to voluntarily relinquish the unused credit amounts for reallocation by the department as provided by subsection G of this section within the ninety-day period, the company and all persons signing the application for preapproval are disqualified from receiving, or participating in any motion picture production company that applies for or receives, tax incentives pursuant to this section for three years after the original application.

R. The department of commerce, with the cooperation of the department of revenue, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.

S. Any information gathered from motion picture production companies for the purposes of this section, or applicants for infrastructure incentives for the purposes of section 41-1517.01, shall be considered confidential taxpayer information and shall be disclosed only as provided in section 42-2003, subsection B, paragraph 12, except that the department shall publish the following information in its annual report:

1. The name of each motion picture production company and infrastructure applicant and the amount of income tax credits preapproved for each production and infrastructure project.
2. The amount of credits approved with respect to each production.

T. The department of commerce shall:

1. Keep annual records of the information provided on applications for motion picture production tax incentives. These records shall reflect a percentage comparison of the annual amount of monies exempted or credited to qualifying motion picture production companies to the estimated amount of monies spent on in-state production costs by motion picture production companies.
2. Maintain annual data on growth in Arizona-based motion picture industry companies and motion picture industry employment and wages.

3. Not later than April 30 of each year, prepare and publish a report summarizing the information collected pursuant to this subsection. The department shall make copies of the annual report available to the public on request.

U. Subject to annual legislative authorization, the amount of three hundred thirty seven thousand seven hundred dollars from the dollar amount of income tax credits under subsection J of this section is allocated each year to the department of commerce for up to six full-time equivalent positions dedicated solely for the purposes of this section and section 41-1517.01. If the income tax credits terminate pursuant to subsection A of this section and section 41-1517.01, subsection A, the authorization under this subsection and any positions dedicated for those purposes also terminate.

V. For the purposes of this section:

1. "Commercial advertisement" means an advertising message designed for delivery through either:

(a) A motion picture film or video medium to attract the attention of consumers or influence consumers' feelings toward a particular product, service, event or cause.

(b) Still photography that is used in national or international print media to attract the attention of consumers or influence consumers' feelings toward a particular product, service event or cause.

2. "Motion picture" means a single medium or multimedia program, including a commercial advertisement, music video or television series, that:

(a) Is created by production activities conducted in whole or in part in this state.

(b) Can be viewed or reproduced.

(c) Is intended for commercial distribution or licensing in the delivery medium used.

Motion picture does not include any production featuring actual news, current events, weather, locally produced and locally broadcast television productions, financial market reports, concerts, internet broadcasts, talk shows and interviews, game shows, sporting events, award or other gala events, a production whose sole purpose is fund-raising, a production used for corporate or organizational training or in-house corporate advertising or other similar production activities.

3. "Motion picture production company" or "production company" means any person primarily engaged in the business of producing motion pictures and that has a physical business office and bank account in this state.

4. "Motion picture production tax incentives" means the tax deductions for transaction privilege and use taxes listed in section 42-5009, subsection H and the credit against income taxes provided under section 43-1075 or 43-1163.

5. "Music video" means a filmed or videotaped rendition of a song or songs, portraying musicians performing the song or other visual images set to the lyrics of the song.

6. "Television series" means a group of productions that is created or adapted for television broadcast with a common series title, that is related to each other in subject or theme, that is produced seasonally for appearing at scheduled intervals, but subject to discretionary programming and scheduling decisions, and with or without a predetermined number of episodes. Television series includes a pilot production for the promotion or introduction of a television series.

#### 41-1517.01. Motion picture infrastructure tax incentives; definitions

A. From and after October 31, 2007 through December 31, 2010, the department of commerce shall certify motion picture infrastructure projects in this state for the purpose of tax credits under section 43-1075.01 or 43-1163.01. To qualify for certification:

1. A person must apply to the department. The applicant must be the person who will own and operate the infrastructure project and may be a motion picture production company, as defined in section 41-1517. The application must include:

(a) The applicant's name and contact information.

- (b) A detailed description of the project.
- (c) A preliminary budget.
- (d) An outline of how the project meets the requirements of this section.
- (e) The projected start and completion dates.
- (f) The name and contact information for the prime contractor, if known.
- (g) A copy of the construction contract, if available.
- (h) An affirmation signed by an executive representing the applicant that:
  - (i) The applicant agrees to furnish records of expenditures on infrastructure projects in this state to the department of commerce on request.
  - (ii) Any items included in its base investment are intended for use by the applicant directly in the infrastructure project.

2. If the application is for a soundstage, after the date the department of commerce approves the application under subsection B of this section, the applicant must spend at least:

- (a) Two hundred fifty thousand dollars in this state directly on project expenses within ninety days.
- (b) An additional one million dollars in this state directly on project expenses within twelve months.
- (c) A total of at least five million dollars in this state directly on project expenses within thirty-six months.

3. If the application is for support and augmentation facilities, after the date the department of commerce approves the application under subsection B of this section, the applicant must spend at least:

- (a) Two hundred fifty thousand dollars in this state directly on project expenses within ninety days.
- (b) A total of at least one million dollars in this state directly on project expenses within thirty-six months.

B. Within thirty days after submission, the department of commerce shall review each complete application to determine whether the applicant satisfies all of the criteria required by this section. The department may conduct a site visit as part of the review process. This process shall approve an applicant for tax credits under this section based on:

- 1. Priority placement for credits under this section established by the date the applicant filed its initial application under subsection A of this section.
- 2. The availability of tax credit amounts under the dollar limits prescribed by subsection C of this section.

C. Subject to the limits prescribed in section 41-1517, subsection J, the department of commerce shall not certify income tax credits under this section, computed as fifteen per cent of the total base investment, exceeding a total of:

- 1. Five million dollars for soundstage projects initially certified in 2008.
- 2. If no soundstage project was initially certified in 2008, five million dollars for soundstage projects initially certified in 2009.
- 3. If at least one soundstage project was initially certified in 2008:
  - (a) Five million dollars for soundstage projects initially certified in 2009.
  - (b) Seven million dollars for support and augmentation facilities initially certified in 2009 that are associated with certified soundstage projects.
- 4. If no soundstage project was initially certified in 2008 or 2009, five million dollars for soundstage projects initially certified in 2010.
- 5. If only one soundstage project was initially certified in 2008 or 2009:
  - (a) Five million dollars for soundstage projects initially certified in 2010.
  - (b) Nine million dollars for support and augmentation facilities initially certified in 2010 that are associated with the certified soundstage project.

6. If more than one soundstage project was initially certified in 2008 or 2009, or both:
- (a) Five million dollars for soundstage projects initially certified in 2010.
  - (b) Nine million dollars for support and augmentation facilities initially certified in 2010 that are associated with certified soundstage projects.
7. Three million dollars for a support and augmentation facilities project.
- D. After October 31 of each year, if the department has preapproved the maximum dollar amount of income tax credits under subsection C of this section for the calendar year, the department may accept initial applications for the next calendar year. The preapproval of any application pursuant to this subsection is not effective before the first business day of the following calendar year.
- E. Preapproval by the department of commerce under subsection B of this section lapses, the application is void and the amount of the preapproved incentives does not apply against the dollar limit prescribed by subsection C of this section if:
- 1. Within ninety days after the department preapproves the company, the company fails to provide documentation of:
    - (a) Its expenditure in this state of the lesser of:
      - (i) Ten per cent of the estimated total base investment amount.
      - (ii) Two hundred fifty thousand dollars.
    - (b) A surety bond equal to the estimated total base investment amount for which the company was preapproved.
  - 2. For soundstage projects, within one year after the department preapproves the company, the company fails to provide documentation of:
    - (a) Total expenditure in this state of one million two hundred fifty thousand dollars.
    - (b) A surety bond equal to the estimated total base investment amount for which the company was preapproved.
- F. On completion of the motion picture infrastructure project, an applicant that has been preapproved for income tax credits must apply to the department in writing for approval of the total base investment in the project. If the applicant has met the eligibility requirements of this section, the department shall:
- 1. Approve the total base investment amount, but the calculated income tax credit shall not exceed the preapproved amount under this section.
  - 2. Notify the department of revenue that the applicant may claim the income tax credits pursuant to section 43-1075.01 or 43-1163.01 in the amount determined under paragraph 1 of this subsection.
- G. The company and all persons signing the application for preapproval may be disqualified from receiving future tax credits pursuant to this section if, within eighteen months after the date of postapproval under subsection F of this section, the applicant fails to submit a report to the department that includes:
- 1. A list of activities and productions conducted at the project in the twelve months following postapproval.
  - 2. The amount of any additional capital investment.
  - 3. Any changes to or improvements made to the project since the date of postapproval.
- H. Within sixty months after postapproval under subsection F of this section, if the department of commerce determines that a person that received a tax credit pursuant to this section failed to comply with any of the requirements prescribed by this section, the department shall terminate, adjust or recapture all or part of the tax credit. The department of commerce shall notify the department of revenue of the conditions of noncompliance. The department of revenue may also terminate the approval of the credit if it obtains information indicating a failure to qualify and comply. The department of revenue may require the person to:

1. File appropriate amended tax returns reflecting the recapture of the amount of the tax credit actually applied to reduce state income tax liability.
2. Pay a penalty of four and one-half per cent of the amount of the applied credit per month elapsing from the date the penalty is assessed until it is paid, except that the total penalty shall not exceed twenty-five per cent of the full amount of the credit.
- I. The department of commerce, with the cooperation of the department of revenue, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.
- J. Any information gathered from applicants for the purposes of this section is considered to be confidential taxpayer information and shall be disclosed only as provided in section 41-1517, subsection S and section 42-2003, subsection B, paragraph 12.
- K. For the purposes of this section:
  1. "Base investment" means the budget for the infrastructure project.
  2. "Motion picture" has the same meaning as defined in section 41-1517.
  3. "Motion picture infrastructure project", "infrastructure project" and "project":
    - (a) Means soundstages and support and augmentation facilities that are constructed in this state and primarily used for motion picture production.
    - (b) Does not include motion picture theaters and other commercial exhibition facilities.
  4. "Soundstage" means a permanent facility in this state of one or more sets or stages used primarily for staging and filming motion pictures and any land, permanent buildings or capital equipment that is in or adjacent to, and is necessary for the operation of, a soundstage.
  5. "Support and augmentation facilities" means permanent facilities in this state that are used to complement motion picture production needs and complement the motion picture production.
  6. "Surety bond" means an executed written contract, issued by an insurance company with an insurance industry rating of B+ or better by A.M. Best company guarantying to the financiers of the project that it will be completed according to the terms of the preapproved application submitted by the production company in its application.

**43-1075. Credit for motion picture production costs; definitions**

A. Beginning from and after December 31, 2005 through December 31, 2010, a credit is allowed against the taxes imposed by this title for motion picture production costs paid by a motion picture production company in this state that are directly attributable to the production of one or more motion pictures in this state. The amount of the credit is equal to a percentage of the amount of motion picture production costs paid in this state as follows:

<u>Production costs</u>	<u>Percentage credit</u>
\$250,000 - \$1,000,000	20%
More than \$1,000,000	30%

- B. The department shall not allow in any year tax credits that exceed the aggregate amount prescribed in section 41-1517.
- C. The department shall not allow a credit under this section to a taxpayer who has a delinquent tax balance owing to the department under this title or title 42.
- D. To qualify for a credit under this section, the motion picture production company must:
  1. Employ residents of this state in production as follows:
    - (a) In 2006, twenty-five per cent of full-time employees working in this state must be residents of this state.
    - (b) In 2007, thirty-five per cent of full-time employees working in this state must be residents of this state.

(c) In 2008 and every subsequent taxable year, fifty per cent of full-time employees working in this state must be residents of this state.

2. Include in the production credits for each commercial motion picture, other than a commercial advertisement or music video, an acknowledgement that the production was filmed in Arizona.

3. Receive preapproval and postapproval from the department of commerce pursuant to section 41-1517.

E. Beginning with tax credits allocated for 2006 pursuant to section 41-1517, subsection J, a motion picture production company, at its expense, may voluntarily enter into a limited managed audit agreement pursuant to title 42, chapter 2, article 7 that includes an audit of its production costs and other requirements prescribed by section 41-1517 and by this section to confirm the amount of any credit under this section. The request to enter into the audit must be made after the motion picture production company receives postcertification for the credit pursuant to section 41-1517, subsection O. The audit must be conducted by the taxpayer's authorized representative, as defined by section 42-2301, who is an independent certified public accountant licensed in this state. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the motion picture production company or its affiliates. If the director accepts the findings of the audit and issues a notice of determination pursuant to section 42-2303 and the taxpayer timely files its income tax return with the appropriate credit claim forms, the credit amount accepted is not subject to recapture, disallowance, reduction or denial with respect to either the motion picture production company or any subsequent transferee of the credit, and subsection H, paragraph 4 of this section does not apply. The director's notice of determination shall include a written certificate to the taxpayer stating the amount of the credit and that the credit is not subject to recapture from a transferee. This subsection does not prohibit the recapture of a credit from a motion picture production company if the company failed to disclose material information during the audit or falsified its books or records or otherwise engaged in an action that prevented an accurate audit.

F. Co-owners of a motion picture production company, including partners in a partnership, members of a limited liability company and shareholders of an S corporation as defined in section 1361 of the internal revenue code, may allocate the credit allowed under this section among the co-owners on any basis without regard to their proportional ownership interest. The total of the credits allowed all such owners of the motion picture production company may not exceed the amount that would have been allowed for a sole owner of the company.

G. If the allowable tax credit for a taxpayer exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.

H. All or part of any unclaimed amount of credit under this section may be sold or otherwise transferred under the following conditions:

1. A single sale or transfer may involve one or more transferees, and a transferee may in turn resell or transfer the credit subject to the same conditions of this subsection.

2. Both the transferor and transferee must submit a written notice of the transfer to the department within thirty days after the sale or transfer. The transferee's notice shall include a processing fee equal to one per cent of the transferee's tax credit balance or two hundred dollars, whichever is less. The notice shall include:

(a) The name of the motion picture production company.

(b) The date of the transfer.

(c) The amount of the transfer.



- (d) The transferor's tax credit balance before the transfer and the remaining balance after the transfer.
- (e) All tax identification numbers for both transferor and transferee.
- (f) Any other information required by rule.
3. A sale or transfer of the credit does not extend the time in which the credit can be used.
4. Except as provided by subsection E of this section, if a transferor was not qualified or was disqualified from using the credit at the time of the transfer, the department shall either disallow the credit claimed by a transferee or recapture the credit from the transferee through any authorized collection method. The transferee's recourse is against the transferor.
5. In the case of any failure to comply with this subsection, the department shall disallow the tax credit until the taxpayer is in full compliance.
- I. The department shall maintain annual data on the total amount of monies credited pursuant to this section, and shall provide those data to the department of commerce on request.
- J. The department, with the cooperation of the department of commerce, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.
- K. A taxpayer who claims a credit for motion picture costs under this section shall not claim a credit under section 43-1075.01 for the same costs.
- L. The credit allowed by this section is in lieu of any allowance for state tax purposes of a deduction of those expenses allowed by the internal revenue code.
- M. For the purposes of this section, "commercial advertisement", "motion picture", "motion picture production company" and "music video" have the same meanings prescribed in section 41-1517.

**43-1163. Credit for motion picture production costs: definitions**

A. Beginning from and after December 31, 2005 through December 31, 2010, a credit is allowed against the taxes imposed by this title for motion picture production costs paid by a motion picture production company in this state that are directly attributable to the production of one or more motion pictures in this state. The amount of the credit is equal to a percentage of the amount of motion picture production costs paid in this state as follows:

<u>Production costs</u>	<u>Percentage credit</u>
\$250,000 - \$1,000,000	20%
More than \$1,000,000	30%

- B. The department shall not allow in any year tax credits that exceed the aggregate amount prescribed in section 41-1517.
- C. The department shall not allow a credit under this section to a taxpayer that has a delinquent tax balance owing to the department under this title or title 42.
- D. To qualify for a credit under this section, the motion picture production company must:
1. Employ residents of this state in production as follows:
    - (a) In 2006, twenty-five per cent of full-time employees working in this state must be residents of this state.
    - (b) In 2007, thirty-five per cent of full-time employees working in this state must be residents of this state.
    - (c) In 2008 and every subsequent taxable year, fifty per cent of full-time employees working in this state must be residents of this state.
  2. Include in the production credits for each commercial motion picture, other than a commercial advertisement or music video, an acknowledgement that the production was filmed in Arizona.
  3. Receive preapproval and postapproval from the department of commerce pursuant to section 41-1517.

E. Beginning with tax credits allocated for 2006 pursuant to section 41-1517, subsection J, a motion picture production company, at its expense, may voluntarily enter into a limited managed audit agreement pursuant to title 42, chapter 2, article 7 that includes an audit of its production costs and other requirements prescribed by section 41-1517 and by this section to confirm the amount of any credit under this section. The request to enter into the audit must be made after the motion picture production company receives postcertification for the credit pursuant to section 41-1517, subsection O. The audit must be conducted by the taxpayer's authorized representative, as defined by section 42-2301, who is an independent certified public accountant licensed in this state. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the motion picture production company or its affiliates. If the director accepts the findings of the audit and issues a notice of determination pursuant to section 42-2303 and the taxpayer timely files its income tax return with the appropriate credit claim forms, the credit amount accepted is not subject to recapture, disallowance, reduction or denial with respect to either the motion picture production company or any subsequent transferee of the credit, and subsection H, paragraph 4 of this section does not apply. The director's notice of determination shall include a written certificate to the taxpayer stating the amount of the credit and that the credit is not subject to recapture from a transferee. This subsection does not prohibit the recapture of a credit from a motion picture production company if the company failed to disclose material information during the audit or falsified its books or records or otherwise engaged in an action that prevented an accurate audit.

F. Co-owners of a motion picture production company, including corporate partners in a partnership and members of a limited liability company, may allocate the credit allowed under this section among the co-owners on any basis without regard to their proportional ownership interest. The total of the credits allowed all such owners of the motion picture production company may not exceed the amount that would have been allowed for a sole owner of the company.

G. If the allowable tax credit for a taxpayer exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.

H. All or part of any unclaimed amount of credit under this section may be sold or otherwise transferred under the following conditions:

1. A single sale or transfer may involve one or more transferees, and a transferee may in turn resell or transfer the credit subject to the same conditions of this subsection.
2. Both the transferor and transferee must submit a written notice of the transfer to the department within thirty days after the sale or transfer. The transferee's notice shall include a processing fee equal to one per cent of the transferee's tax credit balance or two hundred dollars, whichever is less. The notice shall include:
  - (a) The name of the motion picture production company.
  - (b) The date of the transfer.
  - (c) The amount of the transfer.
  - (d) The transferor's tax credit balance before the transfer and the remaining balance after the transfer.
  - (e) All tax identification numbers for both transferor and transferee.
  - (f) Any other information required by rule.
3. A sale or transfer of the credit does not extend the time in which the credit can be used.
4. Except as provided by subsection E of this section, if a transferor was not qualified or was disqualified from using the credit at the time of the transfer, the department shall either disallow the

credit claimed by a transferee or recapture the credit from the transferee through any authorized collection method. The transferee's recourse is against the transferor.

5. In the case of any failure to comply with this subsection, the department shall disallow the tax credit until the taxpayer is in full compliance.

I. The department shall maintain annual data on the total amount of monies credited pursuant to this section, and shall provide those data to the department of commerce on request.

J. The department, with the cooperation of the department of commerce, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.

K. A taxpayer that claims a credit for motion picture costs under this section shall not claim a credit under section 43-1163.01 for the same costs.

L. The credit allowed by this section is in lieu of any allowance for state tax purposes of a deduction of those expenses allowed by the internal revenue code.

M. For the purposes of this section, "commercial advertisement", "motion picture", "motion picture production company" and "music video" have the same meanings prescribed in section 41-1517.

#### 43-1163.01. Credit for motion picture infrastructure projects: definition

A. A credit is allowed against the taxes imposed by this title for investments in motion picture infrastructure projects in this state as provided by section 41-1517.01. The amount of the credit is fifteen per cent of the total base investment in the project during the taxable year as approved and reported by the department of commerce pursuant to section 41-1517.01, subsection F. The taxpayer may apply the credit against income taxes for the taxable year in which the motion picture infrastructure project is completed as provided by section 41-1517.01, subsection F.

B. The department shall not allow:

1. Tax credits for any taxable year under this section and section 43-1075.01 that would violate the aggregate limits prescribed by section 41-1517.01, subsection C.

2. A tax credit under this section to a taxpayer that has a delinquent tax balance owing to the department under this title or title 42.

C. An applicant, at its expense, may voluntarily enter into a limited managed audit agreement pursuant to title 42, chapter 2, article 7 that includes an audit of its base investment and other requirements prescribed by section 41-1517.01 and by this section to confirm the amount of any credit under this section. The request to enter into the audit must be made after the applicant receives approval for the credit pursuant to section 41-1517.01, subsection F. The audit must be conducted by the applicant's authorized representative, as defined in section 42-2301, who is an independent certified public accountant licensed in this state. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the taxpayer or its affiliates. If the director accepts the findings of the audit and issues a notice of determination pursuant to section 42-2303 and the taxpayer timely files its income tax return with the appropriate credit claim forms, the credit amount accepted is not subject to recapture, disallowance, reduction or denial with respect to either the taxpayer or any subsequent transferee of the credit, and subsection F, paragraph 4 of this section does not apply. The director's notice of determination shall include a written certificate to the taxpayer stating the amount of the credit and that the credit is not subject to recapture from a transferee. This subsection does not prevent the recapture of a credit if the taxpayer failed to disclose material information during the audit or falsified its books or records or otherwise engaged in an action that prevented an accurate audit.

D. Co-owners of a business, including corporate partners in a partnership and members of a limited liability company, may allocate the credit allowed under this section among the co-owners on any

basis without regard to their proportional ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the company.

E. If the allowable tax credit for a taxpayer exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.

F. All or part of any unclaimed amount of credit under this section may be sold or otherwise transferred under the following conditions:

1. A single sale or transfer may involve one or more transferees, and a transferee may in turn resell or transfer the credit subject to the same conditions of this subsection.

2. Both the transferor and transferee must submit a written notice of the transfer to the department within thirty days after the sale or transfer. The transferee's notice shall include a processing fee equal to one per cent of the transferee's tax credit balance or two hundred dollars, whichever is less. The notice shall include:

(a) The name of the taxpayer.

(b) The date of the transfer.

(c) The amount of the transfer.

(d) The transferor's tax credit balance before the transfer and the remaining balance after the transfer.

(e) All tax identification numbers for both transferor and transferee.

(f) Any other information required by rule.

3. A sale or transfer of the credit does not extend the time in which the credit can be used. The carryforward period of time under subsection E of this section for a credit that is sold or transferred begins on the date the credit was originally earned.

4. Except as provided by subsection C of this section, if a transferor was not qualified or was disqualified from using the credit at the time of the transfer, the department shall either disallow the credit claimed by a transferee or recapture the credit from the transferee through any authorized collection method. The transferee's recourse is against the transferor.

5. In the case of any failure to comply with this subsection, the department shall disallow the tax credit until the taxpayer is in full compliance.

G. The department of revenue shall maintain annual data on the total amount of monies credited pursuant to this section, and shall provide that data to the department of commerce on request.

H. The department of revenue, with the cooperation of the department of commerce, shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.

I. A taxpayer that claims a credit for motion picture infrastructure projects under this section shall not claim a credit under section 43-1163 for the same costs.

J. The credit allowed by this section is in lieu of any allowance for state tax purposes of a deduction of those expenses allowed by the internal revenue code.

K. For the purposes of this section, "motion picture infrastructure project" has the same meaning prescribed in section 41-1517.01.

## Appendix B

### Summary of the Three MOPIC Programs

#### Motion Picture Production Tax Incentives Program Summary

(Established under A.R.S. §§ 41-1517 and 41-1517.01)

The Motion Picture Production Tax Incentives Program was designed to promote and stimulate the motion picture industry in Arizona. The program achieves this by providing tax incentives to qualified motion picture production companies (qualified company) that engage in motion picture production in Arizona. The program also offers tax credits to individuals or qualified companies who construct infrastructure projects such as a soundstage or support and augmentation facility in Arizona. The Arizona Department of Commerce (Commerce) accepts applications year round, on a first come, first served basis and determines eligibility for program incentives.

**1) MOTION PICTURE PRODUCTION INCENTIVES** A company may be qualified for a twenty-four month certification period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Begins production within 90 days of pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 on each motion picture, and
5. Estimates that Arizona residents will comprise 50% of all full-time employees during production activities.

**2) COMMERCIAL ADVERTISEMENT AND MUSIC VIDEO INCENTIVES – 5% Set Aside Program** A company may be qualified for a twelve month certification period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Completes productions within 60 days of requesting pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 during the 12-month certification period, and
5. Estimates that Arizona residents will comprise 50% of all full-time employees during production activities.

***The following is a brief summary of the incentives offered by the Motion Picture Production Tax Incentives Program to qualified companies that engage in motion picture production in Arizona. Transaction Privilege Tax Exemption on:***

- **machinery, equipment and other tangible personal property.** Under A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b), eligible tangible personal property sold or leased to a qualified company and used directly in motion picture production is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer or lessor at the time of sale or lease.*
- **job printing, engraving, embossing or copying.** Under A.R.S. §42-5066(B)(4), eligible sales to a qualified motion picture production company for job printing, engraving, embossing or copying that will be used directly in motion picture production are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer at the time of the sale.*
- **leases or rentals of lodging space.** Under A.R.S. §42-5070(C)(2), eligible leases or rentals of lodging space to a qualified company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the operator of the transient lodging facility at the time of lease or rental.*

- **catered food, drink and condiments.** Under A.R.S. §42-5074(B)(10), eligible sales of catered food, drink and condiments to a qualified company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the catering business at the time of the purchase.*
- **construction contracts.** Under A.R.S. §42-5075(B)(20) eligible contracts for the construction of any building, or other structure, associated with motion picture production in Arizona are exempt from state and county TPT. *To qualify for the exemption, a qualified company must present a current Revenue issued exemption certificate to the prime contractor at the time the contract is entered into.*

**Use tax exemption** on machinery, equipment and other tangible personal property. Under A.R.S. §42-5159(B)(23), the storage, use or consumption in Arizona of eligible tangible personal property used directly in the motion picture production by a qualified company is exempt from use tax. *To qualify for the exemption, at the time of purchase the qualified company must present to the retailer a current Revenue issued exemption certificate.*

**Transferable income tax credits** Under A.R.S. §§43-1075 and 43-1163, a qualified company can receive a non-refundable tax credit for a motion picture production, subject to the following requirements and restrictions: the company must receive pre-approval and post-approval from Commerce before claiming the tax credit; the company must acknowledge that the production was filmed in Arizona; an obscene film shall not receive tax incentives; an individual motion picture shall not receive tax credits in excess of: \$5 million in 2007, \$7 million in 2008, \$8 million in 2009 and \$9 million thereafter.

Arizona statutes provide transferable income tax credits of \$40-\$70 million depending on the calendar year in which application is made. Beginning in 2008, 5% of these tax credits are reserved for companies that produce commercial advertisements and music videos. A portion of these credits is also available for eligible infrastructure projects.

Tax credits for a motion picture production are based on expenses in Arizona directly attributable to the production and are equal to 20% if the qualifying production costs are \$250,000 to \$1 million. In cases where the qualifying production costs are more than \$1 million the tax credit is equal to 30%. These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years.

**3) INFRASTRUCTURE PROJECT TAX CREDIT** A person or a qualified company may be approved for tax credits if:

1. It constructs an eligible infrastructure project,
2. The facility will be owned and operated by the applicant,
3. It submits a report to Commerce upon completion of the project, and
4. Its Arizona project expenditures for a soundstage are at least:
  - a. \$250,000 within 90 days of pre-approval,
  - b. \$1,250,000 within 12 months of pre-approval,
  - c. \$5 million within 36 months of pre-approval; or
5. Its Arizona project expenditures for a support and augmentation facility are at least:
  - a. \$250,000 within 90 days of pre-approval,
  - b. \$1 million within 36 months of pre-approval.

***The following is a brief summary of the tax credit offered by the Motion Picture Production Tax Incentives Program to a person or qualified company who constructs a soundstage or support and augmentation facility in Arizona.***

**Transferable income tax credits.** Under A.R.S. §§43-1075.01 and 43-1163.01, a person or a qualified company can receive a non-refundable tax credit for the construction of an eligible infrastructure project, subject to the following requirements and restrictions: the company must receive pre-approval and post-approval from Commerce before claiming the tax credit; tax credits are authorized on a first come, first served basis, according to a priority placement number issued by Commerce. Commerce can approve tax credits equal to 15% of the Arizona project costs not to exceed \$5 million in any year for soundstages. In addition, beginning in CY 09, up to \$3 million per project for support and augmentation facilities is authorized with this category being capped at \$7 million in 2009, and \$9 million in 2010. Allocations of tax credits are further limited by the availability of the tax credits (\$40-\$70 million tax credits) under A.R.S. § 41-1517. These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years.

Definitions set forth in statute are:

1. "**Infrastructure project:**

- a. means soundstages and support and augmentation facilities that are constructed in this state and primarily used for motion picture production.
- b. does not include motion picture theaters and other commercial exhibition facilities."

2. "**Motion picture** means a single medium or multimedia program, including a commercial advertisement, music video or television series, that:

- a. is created by production activities conducted in whole or in part in this state.
- b. can be viewed or reproduced.
- c. is intended for commercial distribution or licensing in the delivery medium used.

Motion picture does not include any production featuring actual news, current events, weather, locally produced and locally broadcast television productions, financial market reports, concerts, internet broadcasts, talk shows and interviews, game shows, sporting events, award or other gala events, a production whose sole purpose is fundraising, a production used for corporate or organizational training or in-house corporate advertising or other similar production activities."

3. "**Soundstage** means a permanent facility in this state of one or more sets or stages used primarily for staging and filming motion pictures and any land, permanent buildings or capital equipment that is in or adjacent to, and is necessary for the operation of, a soundstage."

4. "**Support and augmentation facilities** means permanent facilities in this state that are used to complement motion picture production needs and complement the motion picture production."

## Appendix C

### Listing of all Pre- and Post-approved Applications

(CY 08 includes a list for each of the three programs; CYs 07 and 06 are Motion Picture Productions only)

CY 08 Pre-Approved and Post-Approved Motion Picture Productions			
Production Company	Production / Project	Amount Pre-Approved	Amount Post-Approved
Alright Entertainment	Chasing the Beyond	\$3,399,165	*
Backbone Pictures LLC	Darc	\$1,140,000	*
Bird Productions, Inc	The Headhunter's Cave	\$0	*
Bird Productions, Inc	The Tomes	\$0	*
Canterbury Productions	SIS	\$5,026,785	**
Canterbury Productions	Fire and Ice / HER 2	\$1,124,546	*
Castle Valley Films LLC	Deadly Sanctuary	\$1,200,000	*
Clearvision Studios LLC	Room & Board	\$100,000	*
Day Dreamin Pictures, LLC	The Human Divide	\$1,425,000	*
Day Dreamin Pictures, LLC	The Human Divide	\$675,000	*
Day Dreamin Pictures, LLC	Do or Die	\$2,400,000	*
Dial Z for Zombie Productions	Dial Z for Zombie & the Texas Toad Massacre	\$0	*
Falling Rocks, LLC	Drop Point	\$750,000	*
Falling Rocks, LLC	Falling Rocks	\$600,000	*
Hollywood Sunset Pictures Inc	Beyond Legend- Johnny Kakota	\$1,800,000	*
Middle Pictures, Inc.	Middle Men	\$1,800,000	still in production
Nano Dogs the Movie LLC	Nano Dogs	\$2,592,030	*
Old Tucson Productions	Bad Company	\$4,500,000	*
Old Tucson Productions	Blue Tattoo	\$2,100,000	*
Old Tucson Productions	Blue Tattoo	\$0	*
Old Tucson Productions	Clandestine	\$4,374,759	*
Old Tucson Productions	Clandestine	\$4,500,000	*
Old Tucson Productions	Dead	\$2,100,000	*
Old Tucson Productions	Dot or Feather	\$1,050,000	*
Old Tucson Productions	Dot or Feather	\$1,110,000	*
Old Tucson Productions	Dot or Feather	\$1,500,000	*
Old Tucson Productions	Food Chain	\$600,000	*
Old Tucson Productions	Soccer Mom aka Soccer Mama Mia	\$0	*
Poison Rose Productions	Knocking on Heavens Door	\$3,300,000	*
R2K Productions	A Fairy's Tale	\$5,713,072	*
R2K Productions	A Fairy's Tale	\$5,713,072	still in production
R2K Productions	Ghost of Sarah Frank	\$774,528	*
R2K Productions	Ghost of Sarah Frank	\$774,528	still in production
R2K Productions	Pieces of A Dream	\$2,354,768	*



R2K Productions	Pieces of A Dream	\$2,354,768	still in production
R2K Productions	Savage Dawn	\$2,352,248	*
R2K Productions	Savage Dawn	\$2,352,248	still in production
Rebels Without Causes, LLC	Rebels Without Causes	\$1,350,000	*
Rebels Without Causes, LLC	Rebels Without Causes	\$1,350,000	*
Sedona Movie, LP	Sedona Movie	\$900,000	*
Sedona Movie, LP	Sedona Movie	\$1,200,000	still in production
Stargate Worlds LLC	Stargate Worlds MMORPG	\$7,000,000	still in production
Storm Productions LLC	Riders On the Storm	\$984,000	*
Taming the Beast LLC	Taming the Beast	\$1,500,000	*
Taming the Beast LLC	Taming the Beast	\$1,500,000	*
Taming the Beast LLC	Taming the Beast	\$1,500,000	*
Taming the Beast LLC	Taming the Beast	\$1,500,000	still in production
The Dark West, LLC	The Dark West	\$435,000	*
The Reign LLC	The Reign	\$825,000	*
The Reign LLC	The Reign	\$825,000	*
The Ruby Company	The Ruby Boys	\$510,000	*
Thorns from a Rose LLC	Thorns from a Rose	\$52,020	*
Thorns from a Rose LLC	Thorns from a Rose	\$54,103	*
Thorns from a Rose LLC	Thorns from a Rose	\$303,000	*
Thorns from a Rose LLC	Thorns from a Rose	\$720,000	*
Thorns from a Rose LLC	Thorns from a Rose	\$900,000	still in production
TJ Productions, LLC	"Untitled Sam Mendes Project"	\$522,400	still in production
Woodridge Productions, Inc.	Maneater	\$2,846,570	still in production
Zia Dragon Syndicate, LLC	Tucson On Ice	\$975,000	*
Zia Dragon Syndicate, LLC	Tucson On Ice	\$1,275,000	*
Zocalo Pictures, Films, Inc	Do Not Deliver (work'g title)	\$0	*
Zocalo Pictures, Films, Inc	The First Eagle	\$0	*

\* Indicates the production did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn. Production did not meet investment time requirements, application was denied.

\*\* Indicates Completion Report under review in CY09; tax credits TBD

CY08 Pre-Approved and Post-Approved Commercial Advertisement And Music Video Productions			
Production Company	Production / Project	Amount Pre-Approved	Amount Post-Approved
Applebox Pictures	Wanna Bet?	\$0	*
Applebox Pictures	Splash	\$0	*
Applebox Pictures	Kyle Petty Victory Invitational	\$0	*
Joe Blow Films	Chas Roberts "Fridge"	\$7,600	still in 12 month certification period

Joe Blow Films	Cable One "All the Way"	\$12,014	still in 12 month certification period
Joe Blow Films	Cable One "Chipmunk"	\$12,014	still in 12 month certification period
Joe Blow Films	Cable One "Enemy Territory"	\$12,014	still in 12 month certification period
Joe Blow Films	Lowes 2008 Adrian Fernandez Summer Promo TV	\$54,800	still in 12 month certification period
Morton Jankel Zander, Inc.	Culvers	\$68,000	still in 12 month certification period
Pantera Productions, LLC	4 Guys	\$46,400	still in 12 month certification period
Randy Murray Productions	All The Way	\$0	*
Randy Murray Productions	Expect More AZ TV	\$0	*
Render Films	Brocade Communications	\$22,200	still in 12 month certification period
Render Films	Zippi Networks	\$0	*
Render Films	Zippi Networks	\$34,000	still in 12 month certification period
True Story Films	Muscular Dystrophy Association - 2008 Campaign	\$28,800	still in 12 month certification period
True Story Films	Fan Stories 2008	\$0	*
True Story Films	Addictive	\$12,611	still in 12 month certification period
VUWest Inc.	TGPI Luxury Lifestyle	\$0	*
VUWest Inc.	"Yes on 200"	\$0	*

\* Indicates the production did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn. Production did not meet investment time requirements, company did not meet minimum investment of \$250K, application was denied.

CY 08 Pre-Approved and Post-Approved Infrastructure Projects			
Production Company	Production / Project	Amount Pre-Approved	Amount Post-Approved
A-Lift Studios	Infrastructure Project: Soundstage	\$5,000,000	*
AZ Native Studios, LLC	Infrastructure - Sound Stage	\$5,000,000	*
AZ Native Studios, LLC	Infrastructure: Sound Stage	\$924,148	project pre-approved; still in construction phase
Bodner Avondale Studios LLC	Infrastructure: Sound Stage	\$4,075,852	project pre-approved; still in construction phase
Cheyenne Mountain Entertainment	Infrastructure Project: Soundstage	\$0	*
High Speed Entertainment LLC	Infrastructure Project: Soundstage	\$0	*
Native Arizona Ventures LLC	Infrastructure Project: Soundstage	\$0	*
Old Tucson Company	Infrastructure Project: Support & Augmentation	\$0	*
Phoenix Film Studios LLC	Infrastructure Project: Soundstage	\$0	*
Todd Hewett (Infrastructure)	Infrastructure - Sound Stage	\$0	*

\* Indicates the project did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn. Production did not meet investment time requirements, application was denied.

2007 Pre-Approved and Post-Approved Motion Picture Productions			
Production Company	Production	Amount Pre-Approved	Amount Post-Approved
110 in the Shade Productions, LLC	The Superstitions	\$233,500	*
Arizona Production Resources, LLC	Shiver	\$402,057	*
Arizona Production Resources, LLC	Seven Deadly Sins	\$1,400,000	*
Arizona Production Resources, LLC	A Killing Season	\$0	*
Blue Voodoo Technologies	Burden	\$1,905,210	*
Brothers' Ink, LLC	Capture the Flag	\$1,000,000	*
Cheyenne Mountain Entertainment, Inc.	Stargate Worlds MMORPG	\$0	still in production
Child's Cry, LLC	Child's Cry	\$642,000	*
Chris Lamont Productions, Inc	Deadly Sanctuary	\$700,000	*
Conditional Love, LLC	Conditional Love	\$1,200,000	*
Daydreamin' Pictures	The Human Divide	\$300,000	*
Eleventh Hour Productions, LLC	Cystallize	\$100,000	*
Fifth Wind Films	Child's Cry	\$640,000	*
FilmWest Productions, LLC	The Laundry Warrior	\$5,000,000	status unknown
FilmWest Productions, LLC	Pieces of Dreams	\$1,559,898	*
FilmWest Productions, LLC	Clandestine	\$5,000,000	status unknown
FilmWest Productions, LLC	Dolan's Cadillac	\$5,000,000	*
FilmWest Productions, LLC	Dot or Feather	\$900,409	status unknown
FilmWest Productions, LLC	Bad Company	\$5,000,000	status unknown
FilmWest Productions, LLC	Dolan's Cadillac	\$5,000,000	*
FilmWest Productions, LLC	87 Minutes	***\$1,955,046	status unknown
G2 Productions, LLC	Vacuuming the Cat	\$26,000	*
Golden Days Productions, Inc.	Wild Oats	\$3,248,600	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 19 & 20	\$920,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 15 & 16	\$920,000	*
Hidden Palms Productions	Hidden Palms Season 2 Episodes 11 & 12	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 1 & 2	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 21 & 22	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 17 & 18	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 5 & 6	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 9 & 10	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 25 & 26	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 3 & 4	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 13 & 14	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 23 & 24	\$920,000	status unknown
Hidden Palms Productions	Hidden Palms Season 2 Episodes 7 & 8	\$920,000	status unknown

Middle Link Inc.	Wild Horses	\$5,000,000	*
Middle Link Inc.	Queenie and Dell	\$2,199,140	*
Old Tucson Productions	Clandestine	\$4,600,000	*
Old Tucson Productions	Soccer Mama Mia (aka) Soccer Mom	\$1,000,000	*
Old Tucson Productions	Dot or Feather	\$700,000	*
Pacific Direct Inc.	Snappers	***\$0	\$174,675
Randy Murray Productions	Comet	\$62,000	\$62,000
Scripps Howard Broadcasting Company, dba KNVX-TV	1. ABC 15 Local News 2. Sonoran Living	\$1,926,956	\$1,926,956
Scripps Howard Broadcasting Company, dba KNVX-TV	1. Local ABC 15 News      2. Sonoran Living	\$1,926,975	*
Spring Break '83 Production, LLC	Spring Break '83	\$1,000,000	*
The Dark West, LLC	The Dark West	\$84,000	*
Touchstone Television Productions, LLC*	Football Wives	\$638,687	*
Universal City Studios, LLLP	Kids in America	\$1,361,999	**
Venture Court Productions	2 Cents	\$154,644	*
Veritas Pictures, LLC	1. Suicide Club 2. A Matter of Faith 3. Laughing Your Way to a Better Marriage 4. Faith Campaign	\$390,450	\$27,369^

\* Indicates the production did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn. production did not meet investment time requirements, application was denied, tax credits were waived

\*\* Indicates Completion Report under review in CY09; tax credits TBD

\*\*\* Indicates productions funded in whole or in part from \$517,394 of 2006 credits returned to the cap. \$292,394 went to 87 Minutes and \$225,000 went to Snappers.

^ indicates that only Faith Campaign was completed.

2006 Pre-Approved and Post-Approved Motion Picture Productions			
Production Company	Production	Amount Pre-Approved	Amount Post-Approved
2XL Games, Inc.	Baja	\$1,300,000	\$1,300,000
Afterwards Films, Inc	Afterwards	\$345,000	*
Blue Voodoo Technologies	Burden	\$0	*
Blue Voodoo Technologies	Burden	\$0	*
Chris Lamont Productions, Inc.	Netherbeast Incorporated	\$72,500	**
Film West Productions, LLC	1. Twilight Heroes 2. OK Corral	\$435,000	*
Film West Productions, LLC	The Violinist	\$880,000	*
Film West Productions, LLC	Cutthroat	\$1,622,300	*
Film West Productions, LLC	Marble City	\$0	*
Film West Productions, LLC	Ghost in the Ring	\$1,898,183	status unknown

Film West Productions, LLC	Marble City	\$0	*
Film West Productions, LLC	Rin Tin Tin	\$2,218,559	status unknown
Film West Productions, LLC	Fistful of Blood	\$0	*
Film West Productions, LLC	Bunyan & Babe	\$4,509,317	status unknown
Film West Productions, LLC	Never Enough	\$0	*
Film West Productions, LLC	Piranha	\$5,000,000	status unknown
Film West Productions, LLC	Cover	\$1,000,000	status unknown
Ghost Thown, LLC / Duck Soup Productions	1. Ghost Town 2. Commercial	\$0	*
Hidden Palms Productions, Inc.	Hidden Palms Episodes 5 & 6	\$800,000	\$688,097
Hidden Palms Productions, Inc.	Hidden Palms Episodes 7&8	\$800,000	\$170,900^
Hidden Palms Productions, Inc.	Hidden Palms Episodes 3 & 4	\$800,000	\$702,713
Hidden Palms Productions, Inc.	Hidden Palms Episodes 1 & 2	\$747,641	\$742,029
Hollywood Phoenix Studios	Mad Mex	\$0	*
Hollywood Phoenix Studios	Level Seven	\$0	*
Hollywood Phoenix Studios	Cliff Monster	\$0	*
Hollywood Sunset Pictures	Beyond Legend Johnny Kakota	\$2,580,000	*
Jake's Corner, LLC	Jake's Corner	\$240,000	\$240,000
Lone Tree Productions	Arizona Highways Television	\$0	*
Market Niche Consulting, LLC	The Widow's Son	\$2,000,000	*
Next Turn Productions, LLC	Jolene	\$610,000	\$296,314
Randy Murray Productions, LLC	1. Nuclear Race 2. Pandemic 2007 3. Carne Asada 4. Video Magazine	\$78,800	\$78,800
Universal City Studios, LLP	The Kingdom	\$5,000,000	\$4,141,522
Vic's Flicks, LLC	From a Place of Darkness	\$0	*

\* Indicates the production did not go forward for one of the following reasons: credits were voluntarily relinquished, application was withdrawn, production did not meet investment time requirements, application was denied, tax credits were waived

\*\* Indicates Completion Report is under review in CY09; tax credits TBD

^ Indicates that only Episode was 7 was completed.

## APPENDIX D

### Quarterly Census of Employment and Wages (QCEW)

The Quarterly Census of Employment and Wages (QCEW) data is utilized because it is the only source of a comprehensive nature of this data, and provides the best measure of employment and wages publicly available at the level of industry detail that is needed. Other Bureau of Labor Statistics (BLS) data sets are benchmarked to the QCEW data, which serves as an important input to many BLS programs. The QCEW data are used as the benchmark source for employment by the Current Employment Statistics program and the Occupational Employment Statistics program. The Unemployment Insurance (UI) administrative records collected under the QCEW program serve as a sampling frame for BLS establishment surveys.

In addition, data from the QCEW program serves as an input to other Federal and State programs. The Bureau of Economic Analysis (BEA) of the Department of Commerce uses QCEW data as the base for developing the wage and salary component of personal income. The Employment and Training Administration (ETA) of the Department of Labor and the State Employment Security Agencies (SESAs) use QCEW data to administer the employment security program. The QCEW data accurately reflect the extent of coverage of the State UI laws and are used to measure UI revenues; national, State and local area employment; and total and UI taxable wage trends.

The QCEW program derives its data from quarterly tax reports submitted to SESAs by over eight million employers subject to State unemployment insurance (UI) laws and from Federal agencies subject to the Unemployment Compensation for Federal Employees (UCFE) program. This includes 99.7% of all wage and salary civilian employment. These reports provide information on the number of people employed and the wages paid to the employees each quarter. The program obtains information on the location and industrial activity of each reported establishment, and assigns location and standard industrial classification codes accordingly. This establishment level information is aggregated, by industry code, to the county level, and to higher aggregate levels.

The QCEW data is considered to be a near census of monthly employment and quarterly wage information (see **bolded sentence below**). The information below comes directly from the BLS website.

The Quarterly Census of Employment and Wages Program is a cooperative program involving the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor and the State Employment Security Agencies (SESAs). The QCEW program produces a comprehensive tabulation of employment and wage information for workers covered by State unemployment insurance (UI) laws and Federal workers covered by the Unemployment Compensation for Federal Employees (UCFE) program. Publicly available files include data on the number of establishments, monthly employment, and quarterly wages, by North American Industry Classification System (NAICS) industry, by county, by ownership sector, for the entire United States. These data are aggregated to annual levels, to higher industry levels (NAICS industry groups, sectors, and super sectors), and to higher geographic levels (national, State, and Metropolitan Statistical Area (MSA)).

The QCEW program serves as a near census of monthly employment and quarterly wage information by 6-digit NAICS industry at the national, State, and county levels. At the national level, the QCEW program publishes employment and wage data for nearly every NAICS industry. At the State and area level, the QCEW program publishes employment and wage data down to the 6-digit NAICS industry level, if disclosure restrictions are met. In accordance with BLS policy, data provided to the Bureau in confidence are not published and are used only for specified statistical purposes. BLS withholds publication of UI-covered employment and wage data for any industry level when necessary to protect the identity of cooperating employers. Totals at the industry level for the States and the Nation include the nondisclosable data suppressed within the detailed tables. However, these totals cannot be used to reveal the suppressed data.

Employment data under the QCEW program represent the number of covered workers who worked during, or received pay for, the pay period including the 12th of the month. Excluded are members of the armed forces, the self-employed, proprietors, domestic workers, unpaid family workers, and railroad workers covered by the railroad unemployment insurance system. Wages represent total compensation paid during the calendar quarter, regardless of when services were performed. Included in wages are pay for vacation and other paid leave, bonuses, stock options, tips, the cash value of meals and lodging, and in some States, contributions to deferred compensation plans (such as 401(k) plans). The QCEW program does provide partial information on agricultural industries and employees in private households.

## Appendix E

### Arizona Motion Picture Industry & Video Employment & Wages by NAICS – from Quarterly Census of Employment and Wages (Source: Bureau of Labor Statistics)

<b>Motion Picture/ Video Production</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51211	2000	152	\$37,483,636	765	\$59,138	\$28.43
51211	2001	149	\$26,576,915	667	\$39,875	\$19.17
51211	2002	155	\$22,766,339	586	\$38,850	\$18.68
51211	2003	155	\$20,863,471	549	\$38,020	\$18.28
51211	2004	159	\$27,475,664	695	\$39,562	\$19.02
51211	2005	158	\$25,512,751	794	\$32,142	\$15.45
51211	2006	175	\$28,364,534	914	\$31,042	\$14.92
51211	2007	189	\$29,904,913	751	\$39,833	\$19.15

<b>Motion Picture/ Video Distribution</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51212	2000	6	\$961,865	41	\$23,750	\$11.42
51212	2001	7	\$850,577	33	\$25,775	\$12.39
51212	2002	8	\$874,234	31	\$28,663	\$13.78
51212	2003	7	\$466,775	11	\$41,491	\$19.95
51212	2004	6	\$403,174	11	\$37,505	\$18.03
51212	2005	7	\$197,924	8	\$26,390	\$12.69
51212	2006	6	\$112,681	5	\$25,040	\$12.04
51212	2007	7	\$312,960	7	\$44,709	\$21.49

<b>Motion Picture/ Video Post- Production</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51219	2000	11	\$761,669	25	\$31,089	\$14.95
51219	2001	11	\$773,948	25	\$31,590	\$15.19
51219	2002	12	\$744,475	25	\$29,484	\$14.18
51219	2003	15	\$1,057,730	49	\$21,586	\$10.38
51219	2004	14	\$668,378	28	\$23,871	\$11.48
51219	2005	14	\$744,223	25	\$30,376	\$14.60
51219	2006	19	\$1,177,097	37	\$32,249	\$15.50
51219	2007	26	\$1,960,813	51	\$38,447	\$18.48



<b>Film Production Total</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
Film Total *	2000	169	\$39,207,170	830	\$47,252	\$22.72
Film Total *	2001	167	\$28,201,440	724	\$38,979	\$18.74
Film Total *	2002	175	\$24,385,048	642	\$37,998	\$18.27
Film Total *	2003	177	\$22,387,976	609	\$36,777	\$17.68
Film Total *	2004	179	\$28,547,216	733	\$38,932	\$18.72
Film Total *	2005	179	\$26,454,898	826	\$32,047	\$15.41
Film Total *	2006	199	\$29,654,312	955	\$31,052	\$14.93
Film Total *	2007	222	\$32,178,686	809	\$39,788	\$19.13
*Combined NAICS 51211,51212 and 51219						

<b>Motion Picture/ Video Exhibition</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
51213	2000	45	\$25,607,262	2,792	\$9,173	\$4.41
51213	2001	43	\$27,116,225	2,921	\$9,282	\$4.46
51213	2002	42	\$29,492,909	3,367	\$8,759	\$4.21
51213	2003	43	\$30,077,890	3,278	\$9,176	\$4.41
51213	2004	41	\$30,772,767	3,154	\$9,758	\$4.69
51213	2005	45	\$32,791,016	3,085	\$10,631	\$5.11
51213	2006	46	\$33,403,873	3,000	\$11,135	\$5.35
51213	2007	45	\$40,546,502	3,452	\$11,746	\$5.65

<b>Total Motion Picture/ Video Sector</b>	<b>Year</b>	<b>Average Number of Firms</b>	<b>Total Annual Sector Wages</b>	<b>Average Annual Employment</b>	<b>Average Annual Wage</b>	<b>Avg. Hourly Wage for 2,280 Hour Year</b>
5121	2000	213	\$64,814,432	3,621	\$17,901	\$8.61
5121	2001	211	\$55,317,665	3,646	\$15,174	\$7.30
5121	2002	219	\$53,877,957	4,009	\$13,439	\$6.46
5121	2003	220	\$52,465,866	3,887	\$13,500	\$6.49
5121	2004	221	\$59,319,983	3,887	\$15,261	\$7.34
5121	2005	224	\$59,245,914	3,910	\$15,152	\$7.28
5121	2006	245	\$63,058,185	3,955	\$15,945	\$7.67
5121	2007	268	\$72,725,188	4,261	\$17,070	\$8.21

## **Exhibit 5**

**From:** [Cindy Grogan](#)  
**To:** [Nathan A. Prince](#)  
**Cc:** [Angie Valenzuela](#)  
**Subject:** RE: SB1708 - Review, Edits, Implementation language needed  
**Date:** Wednesday, May 11, 2022 10:26:00 AM  
**Attachments:** [Mopic Guidelines 09.1.2011.docx](#)  
[Program Summary 06.21.2011.doc](#)

---

Thanks, not sure if everyone is aware that Commerce had a Motion Picture Production Tax Incentive that ended. It was fun to watch the films for eligibility.

---

**From:** Nathan A. Prince <Nathanp@AZcommerce.com>  
**Sent:** Wednesday, May 11, 2022 9:29 AM  
**To:** Cindy Grogan <CindyG@AZcommerce.com>  
**Cc:** Angie Valenzuela <angiev@AZcommerce.com>  
**Subject:** FW: SB1708 - Review, Edits, Implementation language needed  
**Importance:** High

FYI



**Nathan A. Prince**  
**General Counsel**  
**T** [602-845-1263](tel:602-845-1263) **F** 602-845-1201  
**E** [Nathanp@AZcommerce.com](mailto:Nathanp@AZcommerce.com)  
100 N. 7th Ave., Suite 400  
Phoenix, AZ 85007  
[www.azcommerce.com](http://www.azcommerce.com) |

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**From:** Brett Galley <[brettg@AZcommerce.com](mailto:brettg@AZcommerce.com)>  
**Sent:** Tuesday, May 10, 2022 1:32 PM  
**To:** Ken Burns <[KenB@AZcommerce.com](mailto:KenB@AZcommerce.com)>  
**Cc:** Nathan A. Prince <[Nathanp@AZcommerce.com](mailto:Nathanp@AZcommerce.com)>; Marcia Portillo <[MarciaP@AZcommerce.com](mailto:MarciaP@AZcommerce.com)>;  
Liisa Laikko <[LiisaL@AZcommerce.com](mailto:LiisaL@AZcommerce.com)>  
**Subject:** SB1708 - Review, Edits, Implementation language needed  
**Importance:** High

Hello,

It is time to finally really take a look at the film bill. Budget negotiations are allegedly happening this week and our policy advisor is trying to wrap his head around the film bill. They would like to know what edits we would need for smooth implementation of the program.

I believe we will have needed edits, so Ken I'll likely look to take some time on your calendar on

Tuesday if possible to discuss.

There are two attachments because there is one amendment hanging out there that hasn't been adopted yet, but is expected to be. When reading the bill please read the amendment as part of page 3 between lines 41 and 42. The Amendment was adopted by House Approps but hasn't been engrossed in the bill, because the bill is held in rules and hasn't gone to House Floor yet to adopt the amendment.

Look forward to discussing with you all.

Best,  
Brett Galley



**Brett Galley**

**Director, Legislative Affairs**

**T** [813-943-8489](tel:813-943-8489) **F** 602-845-1201

**E** [brettg@AZcommerce.com](mailto:brettg@AZcommerce.com)

100 N. 7th Ave., Suite 400

Phoenix, Arizona 85007

[www.azcommerce.com](http://www.azcommerce.com) |

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ARIZONA COMMERCE AUTHORITY  
MOTION PICTURE PRODUCTION TAX INCENTIVES PROGRAM

Program Guidelines



Table of Contents



**All Applicants:**

Section 1. Overview .....	2
Section 2. Definitions of Program Terms .....	3
Section 3. Tax Incentives Limitations .....	5
Section 4. Calendar Year Cap Management .....	6
Section 5. Revocation of Qualification and Recapture of Incentives .....	7
Section 6. Limited Managed Audits .....	8

**Companies Producing a Motion Picture:**

Section 7. Eligibility Requirements for Production of a Motion Picture .....	9
Section 8. Explanation of Tax Incentives for Production of a Motion Picture .....	9
Section 9. Submittal of Initial Applications for Production of a Motion Picture .....	10
Section 10. Processing Initial Applications for Production of a Motion Picture .....	11
Section 11. Next Steps: During Production of a Motion Picture .....	12
Section 12. Processing Completion Reports for Post-Approval of Production of a Motion Picture .....	13

**Companies Producing a Commercial Advertisement or Music Video:**

Section 13. Eligibility Requirements for Production of a Commercial Advertisement or Music Video .....	14
Section 14. Explanation of Tax Incentives for Production of a Commercial Advertisement or Music Video .....	14
Section 15. Submittal of Initial Applications for a Commercial Advertisement or Music Video .....	16
Section 16. Processing Initial Applications for a Commercial Advertisement or Music Video Production Company .....	16
Section 17. Next Steps for a Commercial Advertisement or Music Video Production Company .....	17
Section 18. Processing Completion Reports for a Commercial Advertisement or Music Video .....	20
Section 19. Processing Completion Reports for Post Approval of Tax Credits .....	20

**Infrastructure Applicants:**

Section 20. Eligibility Requirements for Construction of an Infrastructure Project .....	21
Section 21. Explanation of Infrastructure Tax Credits .....	21
Section 22. Submittal of Initial Applications for Construction of an Infrastructure Project .....	22
Section 23. Processing Initial Applications for Construction of an Infrastructure Project .....	22
Section 24. Next Steps: During Construction of an Infrastructure Project .....	23
Section 25. Processing Completion Reports for Construction of an Infrastructure Project .....	24

Motion Picture Production Tax Incentives Program  
Arizona Commerce Authority  
333 North Central Avenue | Suite 1900 | Phoenix, AZ 85004  
Questions regarding Motion Picture Production Tax Incentives can be  
directed to [annabellem@azcommerce.com](mailto:annabellem@azcommerce.com)

**Arizona Department of Commerce**  
**MOTION PICTURE PRODUCTION TAX INCENTIVES PROGRAM**

**Program Guidelines<sup>1</sup>**

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**Section 1. Overview**

---

The Motion Picture Production Tax Incentives Program (A.R.S. §§41-1517 and 41-1517.01) was established by the Arizona legislature in 2005 to promote the motion picture industry in the state. The program is effective December 31, 2005 through December 31, 2010. Effective September 19, 2007, tax incentives are available for the production of motion pictures as well as the construction of infrastructure projects in Arizona.

**A. PRODUCTION INCENTIVES**

The program offers the following tax incentives to qualified companies that produce one or more motion pictures:

- Transaction privilege tax (TPT) exemption on:
  - ✓ machinery, equipment and other tangible personal property
  - ✓ job printing, engraving, embossing or copying
  - ✓ the lease or rental of lodging space
  - ✓ sales of catered food, drink and condiments
  - ✓ construction contracts for buildings or other structures
- Use tax exemption on machinery, equipment and other tangible personal property
- Income tax credits equal to 20% or 30% of the company's investment in qualifying production costs

A company seeking tax incentives under this program must obtain pre-approval (letter of qualification) from the Arizona Commerce Authority(Commerce) that is valid for a 24 month period. If the company's initial application is eligible, Commerce will issue pre-approval and will transmit a copy of the pre-approval to the Arizona Department of Revenue (Revenue). Concurrent with submittal of an initial application to Commerce, a company may request a letter of good standing from Revenue by submitting a "Tax Clearance Application" form to Revenue. Requesting tax clearance at this time will expedite Revenue's approval for an exemption certificate. If Revenue establishes the company's eligibility under its statutes, Revenue will issue a certificate for transaction privilege tax and use tax exemptions and a Certificate of Good Standing. Once the company has the exemption certificate, TPT and use tax exemptions can be taken. A production company must provide documentation to Commerce that the production listed in the initial application has begun within 90 days of pre-approval to maintain eligibility. When the production proposed in the initial application is finished, the company must submit a Completion Report to Commerce. Commerce may issue post-approval to a company after verification that eligibility requirements have been met by the company during the production of the qualified motion picture. Once post-approval is received, a company may claim the tax credits and retain TPT and use tax exemptions.

**B. INFRASTRUCTURE TAX CREDITS**

The program also provides a tax credit of up to 15% of the base investment amount to a person or qualified company who constructs an infrastructure project.

A person or qualified company seeking tax credits under this program must obtain pre-approval (letter of qualification) from Commerce. The pre-approval is valid until completion of the infrastructure project. If the initial application is eligible, Commerce will issue pre-approval and will transmit a copy of the pre-approval to Revenue. The applicant must provide documentation to Commerce that it has spent at least \$250,000 on the project within 90 days of pre-approval to maintain eligibility. Depending on the type of infrastructure project, the applicant must also demonstrate it has spent up to \$5 million on the project within 36 months of pre-approval. When the proposed infrastructure project is completed, the applicant must submit a Completion Report to Commerce. Commerce may issue post-approval to an applicant after verification that eligibility requirements have been met by the applicant during construction of the qualified infrastructure project. Once post-approval is received, an applicant may claim the tax credits.

---

<sup>1</sup> These Guidelines are provided to assist applicants. In case of conflict between what is presented here and the Arizona Revised Statutes, the statutes and the Arizona Administrative Code shall prevail. See A.R.S §§ 41-1517, 41-1517.01, 42-5009, 43-1075, 43-1075.01, 43-1163 and 43-1163.01.

---

## Section 2. Definitions of Program Terms

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For purposes of applying for and maintaining eligibility for the Motion Picture Production Tax Incentive Program, the following terms are either defined by Commerce, defined in A.R.S. §§41-1517 and 41-1517.01 or are statutory definitions modified by Commerce. If a term is not defined, the most commonly accepted meaning will apply. For purposes of this program:

1. "Base investment" means the budget for the infrastructure project.
2. "Begin production" means a production company is able, within ninety days of the pre-approval date, to provide documentation to Commerce of either:
  - a. Its Arizona expenditure of the lesser of:
    - i. Ten percent of the estimated total Arizona budget of the production.
    - ii. Two hundred fifty thousand dollars.
  - b. A completion bond, equal to the estimated total budget of the pre-approved production.In addition, the production company must provide written notice to Commerce along with one of the following:
  - c. A copy of a contract, loan out agreement or deal memo with a cameraman and crew.
  - d. A copy of the crew call sheet for the first day of production.
  - e. Evidence that residents of this state have been paid a total of at least five thousand dollars for work on the pre-approved motion picture.
  - f. A copy of a contract or agreement directly attributable to the pre-approved motion picture.
3. "Begin construction" means a individual or qualified company is able, within ninety days of the pre-approval, to provide documentation to Commerce of either:
  - a. Its Arizona expenditure of the lesser of:
    - i) Ten percent of the estimated total base investment amount.
    - ii) Two hundred fifty thousand dollars.
  - b. A surety bond, equal to the estimated total base investment amount of the project.
4. "Business day" means a day other than Saturday, Sunday, a legal holiday or the day the State of Arizona observes a legal holiday.
5. "Calendar year cap" or "cap": means the tax credit amount prescribed by A.R.S. §41-1517(J) for allocation in a specific calendar year.
6. "Commercial advertisement" means an advertising message designed for delivery through either:
  - a. A motion picture film or video medium to attract the attention of consumers or influence consumers' feelings toward a particular product, service, event or cause.
  - b. Still photography that is used in national or international print media to attract the attention of consumers or influence consumers' feelings toward a particular product, service, event or cause.
7. "Company" means the same as "motion picture production company."
8. "Completion" means the production meets all eligibility requirements under A.R.S. §41-1517 including: content restrictions, employment levels, inclusion of an Arizona acknowledgement and a viewable copy of the production or a letter of credit have been submitted to Commerce for review.
9. "Completion bond" means an executed written contract, issued by an insurance company with an insurance industry rating of b+ or better by A.M. Best Company guarantying to the financiers of the project that it will be completed according to the terms of the pre-approved application submitted by the production company in its application.
10. "Costs incurred in Arizona" means an expense paid by the qualified company or its delegate to a retailer, lessor or contractor who has a physical office located within the boundaries of the state of Arizona.
11. "Date of receipt" means the day the initial application is **delivered to and accepted by** Commerce via United States Postal Service, private delivery service or hand delivery. Postmarks will be disregarded when determining the date of receipt. Any other form of delivery for an initial application, including emailed or faxed copies will not be accepted by Commerce and will be returned.

12. "Delegate" means a person or entity to which the qualified company has assigned authority to incur expenses for the qualified company. It does not include a person or entity that passes out-of-state expenses through their bank accounts or operations in an attempt to convert them into in-state qualifying production costs.
13. "Full-time employee" means an individual who works an average of at least four hours a day (during his/her employment periods) on productions identified in the initial application throughout the pre-approval period and for whom a qualified company or its authorized payroll service company is required to remit federal or state withholding tax. For each pre-approval period the company must verify whether an individual meets the conditions to be a "full-time employee."
14. "Initial application" means either the Commerce form "Initial Application for Pre-Approval for a Motion Picture Production Company" or "Initial Application for Construction of an Infrastructure Project" and all required attachments to apply for tax incentives.
15. "Investment threshold" means qualifying production costs totaling at least \$250,000.
16. "Motion picture" means a single medium or multimedia program, including a commercial advertisement, music video or television series, that:
  - a. Is created by production activities conducted in whole or in part in Arizona.
  - b. Can be viewed or reproduced.
  - c. Is intended for commercial distribution or licensing in the delivery medium used.

Motion picture does not include any production featuring actual news, current events, weather, locally produced and locally broadcast television productions, financial market reports, concerts, internet broadcasts, talk shows and interviews, game shows, sporting events, award or other gala events, a production whose sole purpose is fundraising, a production used for corporate or organizational training or in-house corporate advertising or other similar production activities.
17. "Motion picture infrastructure project", "infrastructure project" or "project":
  - a. Means soundstages and support and augmentation facilities that are constructed in Arizona and primarily (more than 50%) used for motion picture production.
  - b. Does not include motion picture theaters and other commercial exhibition facilities.
18. "Motion picture production company" or "qualified company": means any person primarily engaged in the business of producing motion pictures and that has a physical business office and bank account in this state.
19. "Music video" means a filmed or videotaped rendition of a song or songs, portraying musicians performing the song or other visual images set to the lyrics of the song.
20. "Primarily engaged" means more than 50 percent of all business activity, measured by revenues or expenses, is in the business of producing motion pictures.
21. "Priority placement number" means the order in which the calendar year cap is allocated to persons or qualified companies. The order is established by either:
  - a. The date of receipt of a single application by Commerce, or
  - b. The number determined by lottery for each day multiple initial applications are received.
22. "Production" means the same as "motion picture."
23. "Qualifying production costs" means only costs incurred by the company or its delegate in Arizona after the date of pre-approval and prior to expiration of pre-approval and include:
  - a. Salaries and other compensation for talent, management and labor paid to residents of Arizona.
  - b. A story and scenario to be used for a motion picture.
  - c. Set construction and operations, wardrobe, props, accessories and related services in Arizona. Construction costs are limited to those paid to contractors licensed in Arizona under Title 32, Chapter 10.
  - d. Photography, sound synchronization, lighting and related costs.
  - e. Editing and related services.
  - f. Rental of facilities and equipment.
  - g. Catered food, drink and condiment.
  - h. Other direct in-state costs of producing the motion picture, pursuant to rules adopted by Commerce and Revenue that follow generally accepted accounting standards for the motion picture industry.
  - i. Payments for penalties and fines do not qualify as production costs.



- j. Expenses incurred before the pre-approval date do not qualify as production costs.
  - k. Costs incurred before the date of submission of a completed commercial advertisement and music video application do not qualify as production costs.
24. "Script" means the storyline, dialog, scenes and directions written for a motion picture.
  25. "Soundstage" means a permanent facility in Arizona of one or more sets or stages used primarily for staging and filming motion pictures and any land, permanent buildings or capital equipment that is in or adjacent to, and is necessary for the operation of, a soundstage.
  26. "Support and augmentation facilities" means permanent facilities in Arizona that are used to complement motion picture production needs and complement the motion picture production.
  27. "Substantially complete" means all questions in the initial application are fully addressed by the company and all documents required by Commerce are attached or can be supplied within 15 calendar days after receipt of notification by Commerce of any deficiencies.
  28. "Surety bond" means an executed written contract, issued by an insurance company with an insurance industry rating of b+ or better by A.M. Best Company guarantying to the financiers of the project that it will be completed according to the terms of the pre-approved application.
  29. "Synopsis" means a condensed written outline or summary of the motion picture.
  30. "Tax incentives" means the tax exemptions from transaction privilege and use taxes listed in A.R.S. §42-5009(H) and tax credits against Arizona tax liability provided under A.R.S. §§43-1075, 43-1075.01, 43-1163 and 43-1163.01.
  31. "Television series" means a group of productions created or adapted for television broadcast with a common series title, related to each other in subject or theme, which is produced seasonally for appearing at scheduled intervals, but subject to discretionary programming and scheduling decisions, and with or without a predetermined number of episodes. Television series includes a pilot production for the promotion or introduction of a television series.
  32. "Time of lease or rental" as used in Sections 8 and 14 of these Guidelines, means the period during which the lease or rental of the tangible personal property or lodging space for a consideration occurs. Due to the periodic nature of lease and rental transactions a motion picture production company must possess a letter of pre-approval from Commerce and a current Revenue issued exemption certificate throughout the lease or rental period in order to qualify for the transaction privilege tax exemption.
  33. "Time of sale or purchase" as used in Sections 8 and 14 of these Guidelines, means the date on which the transfer of title or possession, or both, of the tangible personal property, for a consideration occurs.

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### Section 3. Tax Incentives Limitations

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- A. Commerce cannot pre-approve a total amount of tax credits that exceeds:

<u>Calendar Year</u>	<u>Maximum Tax Credit Amount*</u>
2006	\$30 million
2007	\$40 million
2008	\$50 million
2009	\$60 million
2010 and after	\$70 million

\* Beginning in 2008, the Arizona legislature has allocated \$180,000 of the cap per year to Commerce for the administration of the program.

The following restrictions also apply to the calendar year cap:

1. Beginning in 2008, five percent of the calendar year cap is reserved for use by qualified companies that produce commercial advertisements or music videos. The five percent set aside can only be used by commercial advertisement or music video production companies. Any tax credits returned to the 5% set aside due to ineligibility or voluntary relinquishment shall be reallocated to another commercial advertisement or music video production company that applied in the same year but is waiting in line for tax credits according to its priority placement number. Any unused portion of the 5% set aside may be allocated in the next calendar year to commercial advertisement or music video production companies.



<u>Calendar Year</u>	<u>5% Tax Credit Amount Reserved</u>
2008	\$2,500,000
2009	\$3,000,000
2010 and after	\$3,500,000

2. Persons or qualified companies that construct eligible infrastructure projects in Arizona can receive a tax credit allocation. The tax credit allocations are computed at fifteen percent of the base investment subject to the following limitations:
  - a. Beginning in 2008, the combined allocations for soundstage construction shall not exceed \$5 million tax credits in any year.
  - b. Beginning January 1, 2009, allocations made for support and augmentation facilities shall not exceed \$3 million tax credits per project.
    - i. If one or more soundstages are pre-approved in 2008, the combined allocations for construction of support and augmentation facilities shall not exceed \$7 million tax credits in 2009.
    - ii. If one or more soundstages are pre-approved in 2008 or 2009, the combined allocations for construction of support and augmentation facilities shall not exceed \$9 million tax credits in 2010.

- B. Commerce cannot pre-approve tax credits for an individual application for producing motion pictures that exceeds:

<u>Calendar Year</u>	<u>Tax Credit Maximum per Application</u>
2006	\$5 million
2007	\$5 million
2008	\$7 million
2009	\$8 million
2010 and after	\$9 million

- C. The commercial advertisement or music video production company is not eligible for an allocation of tax credits until the company's qualified production costs reach \$250,000 in twelve consecutive months from the date of pre-approval. Once the \$250,000 investment threshold has been met, the company can apply for post-approval and an allocation of tax credits no more than once a calendar month.
- D. Commerce shall not post-approve tax incentives to a production that is obscene, depicts sexual activity or sexually exploits a minor as provided under A.R.S. §§41-1517(M); 12-811; 13-3501; 13-3551; 13-3552; 13-3553.
- E. If a company files a completion report for an initial application, Commerce shall not pre-approve any additional tax credits for any of the productions in an initial application for which pre-approval was issued.
- F. There is no limitation on the amount of TPT and use tax exemptions available to a qualified company or motion picture. Nor is there a limit on the total amount of TPT and use tax exemptions available in any calendar year under this program. An Infrastructure project does not qualify for TPT and use tax exemptions.

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#### **Section 4. Calendar Year Cap Management**

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- A. Commerce shall pre-approve tax credits according to A.R.S. §41-1517(J). The date of pre-approval dictates the cap year from which the allocation is made. The total amount of credits pre-approved for a single application shall be applied against the calendar year cap in which pre-approval occurred. If a calendar year's cap is exhausted by October 31<sup>st</sup>, Commerce may accept applications, except for commercial advertisements or music videos, on or after November 1<sup>st</sup> for an allocation of tax credits from the next calendar year's cap. However, the pre-approval letter issued to the company will not be effective until the first business day of the next calendar year. Commerce shall allocate a 20% tax credit on qualified production costs up to \$1 million. If total qualified production costs for a pre-approved production exceed the \$1 million threshold, Commerce shall allocate a 30% tax credit.
- B. Five percent of each calendar year's cap is set aside for production of commercial advertisement or music video applicants.
- C. When initial application is made, if sufficient cap is not available the company may either:
  1. Accept any remaining allocation amount and any TPT and use tax exemptions, or

2. Proceed with pre-approval for the application knowing the production will not receive tax credits at this time and accept any TPT and use tax exemptions, or
  3. Irrevocably decline any remaining tax credit allocation amount for that calendar year and accept any TPT and use tax exemptions, or
  4. Withdraw the initial application and apply in the next year when sufficient cap may be available.
- D. "A company may voluntarily relinquish all or part of the pre-approved tax credit amount by submitting the Commerce form "Voluntary Relinquishment of Tax Credits." It is important to note, when a company relinquishes tax credits the company is voluntarily relinquishing any and all rights to the tax credits and is prohibited from claiming, using, carrying forward, selling or transferring the relinquished tax credits. However, the company may continue receiving transaction privilege and use tax exemptions, even though the company relinquished all or part of its tax credit allocation. To retain any transaction privilege and use tax exemptions the company must maintain eligibility and submit a completion report to Commerce. Failure to submit a completion report would constitute ineligibility and would make any TPT and use tax exemptions received since pre-approval subject to recapture of the incentive amounts plus interest and penalties as provided by A.R.S. §42-5009(H).
- E. Tax credits that were voluntarily relinquished or returned due to ineligibility shall be re-allocated to a person or qualified company with the next priority placement number. (A.R.S. §41-1517(H)) The voluntary relinquishment form needs to be signed by the same person who signed the initial application or another officer of the applicant company empowered to sign for the company.
- F. In any year there is an unused tax credit amount Commerce shall allocate the balance to a person or qualified company that successfully appeals the denial of tax incentives under this program. If sufficient unused tax credit amount is not available from the current or previous years' caps to satisfy a successful appeal, Commerce shall allocate tax credits from the next calendar year's cap. (A.R.S. §41-1517(H)) Any unused credits may be allocated to any company in the queue for that year or, if there are no companies to accept the credits, the credits will flow to the next calendar year.

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## **Section 5. Revocation of Qualification and Recapture of Incentives**

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- A. As provided by A.R.S. §41-1517(F), if a company fails to begin production and notify Commerce within ninety days of pre-approval by Commerce, the pre-approval lapses, the application is void, all transaction privilege and use tax exemptions will be recaptured and the pre-approved tax credits will be returned to the calendar year cap from which they came.
- B. As provided by A.R.S. §41-1517(Q), if a company fails to begin production and notify Commerce within ninety days of pre-approval and also fails to voluntarily relinquish tax credit amounts, the company and all persons signing the application are disqualified from receiving, or participating in any motion picture production company that applies for or receives, tax incentives under this program for three years after the original application.
- C. As provided by A.R.S. §41-1517 (K)(7) If a commercial advertisement or music video company fails to complete a production within 60 days of submitting the project to commerce for pre-approval, qualification for tax incentives will be revoked.
- D. A.R.S. §41-1517(V)(2) provides that a company must be primarily engaged in the business of producing motion pictures during the pre-approval period. If a qualified company doesn't meet the requirements as reported in the Completion Report, the company's qualification will be revoked. Commerce will notify Revenue to initiate revocation and recapture of incentives already received during the pre-approval period
- E. Failure by an infrastructure applicant to submit the Annual Report may result in the disqualification of a person or qualified company and all persons signing the infrastructure application. The disqualified person or qualified company may not receive future tax credit allocations under this program. (A.R.S. §41-1517.01(G))
- F. Pursuant to A.R.S. §41-1517.01(H) if Commerce or Revenue determines within sixty months of post-approval that a person that received an infrastructure tax credit failed to comply with any of the statutory requirements, all or part of the tax credits are subject to recapture. Revenue may require the applicant to:
1. File appropriate amended tax returns reflecting the recapture of the amount of the tax credit actually applied to reduce state income tax liability.
  2. Pay a penalty of four and one-half percent of the amount of the applied credit per month elapsing from the date the penalty is assessed until it is paid. The total penalty shall not exceed twenty-five percent of the full amount of the credit.

- G. Under A.R.S. §§42-5009, 43-1075, 43-1075.01, 43-1163 and 43-1163.01, Revenue may terminate a company's eligibility if it obtains information indicating failure of the company to qualify for incentives and compliance with program requirements. Revenue may require the taxpayer to file appropriate amended tax returns reflecting the recapture of the tax incentives.
- If qualification is terminated or revoked, all or part of the tax credits received under this program are subject to recapture under A.R.S. §§43-1075(H) and 43-1163(H). The transferee (purchaser) of the tax credit has recourse only against the transferor (seller), not the State of Arizona.
  - If qualification is terminated or revoked, all or part of the TPT and use tax exemptions received under this program are subject to recapture under A.R.S. §42-5009(H).

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## **Section 6. Limited Managed Audits**

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After receiving post-approval from Commerce, a person or qualified company may voluntarily enter into a limited managed audit agreement with Revenue pursuant to Title 42 Chapter 2 Article 7. The applicant at its own expense must engage an independent Arizona licensed certified public accountant that is not affiliated with the applicant to conduct the limited managed audit. If the Director of Revenue accepts the findings of the audit and issues a notice of determination pursuant to A.R.S. §42-2303 and the taxpayer timely files its Arizona income tax return with the appropriate forms the credit amount accepted by Revenue is not subject to recapture, disallowance, reduction or denial with respect to either the qualified company or any subsequent transferee (purchaser) of the credit. (A.R.S. §43-1075(E), 43-1075.01(C), 43-1163(E) and 43-1163.01(C))

### **Instructions**

- Companies producing a motion picture please see Sections 7 through 12.
- Companies producing a commercial advertisement or music video please see Sections 13 through 19.
- Applicants constructing an infrastructure project please see Sections 20 through 25.

## Companies producing a motion picture

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### Section 7. Eligibility Requirements for Production of a Motion Picture

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A motion picture production company is eligible for tax incentives upon completion of production and compliance with requirements in A.R.S. §41-1517 if it:

- Is primarily (more than 50%) engaged in the business of producing motion pictures
- Demonstrates it has the lawful right to produce the motion picture
- Has a physical office and bank account in Arizona
- Begins production on the motion picture listed in the initial application within 90 days of pre-approval
- Has a script, except for a television series, commercial advertisement or music video, including a synopsis for the production in the initial application
- Has a budget and proposed director, list of cast and producer for the production in the initial application
- Spends at least \$250,000 in qualifying production costs
- Employs the statutorily required percentage of Arizona residents during the pre-approval period
- Acknowledges each production was filmed in Arizona, except for commercial advertisements or music videos
- Is not obscene, does not depict sexual activity or sexually exploit a minor as provided under A.R.S. §§41-1517(M); 12-811; 13-3501; 13-3551; 13-3552; 13-3553
- Submits a viewable copy of the complete production to Commerce or a letter of credit payable to Revenue
- Submits an Initial Application and receives pre-approval from Commerce
- Submits a Completion Report and receives post-approval from Commerce
- Must comply with all Employee Sanctions set forth in A.R.S. § 23-214(B) and A.R.S. § 35-397.

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### Section 8. Explanation of Tax Incentives for Production of a Motion Picture

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The Motion Picture Production Tax Incentives program provides the following Arizona tax incentives to companies producing motion pictures that are approved by Commerce.

1. Transaction privilege tax exemption on machinery, equipment and other tangible personal property. Under A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b), eligible tangible personal property sold or leased to a qualified motion picture production company and used directly in motion picture production is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer or lessor at the time of sale or lease.*
2. Transaction privilege tax exemption on job printing, engraving, embossing or copying. Under A.R.S. §42-5066(B)(5), eligible sales to a qualified motion picture production company for job printing, engraving, embossing or copying that will be used directly in motion picture production are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer at the time of the sale.*
3. Transaction privilege tax exemption on leases or rentals of lodging space. Under A.R.S. §42-5070(C)(2), eligible leases or rentals of lodging space to a qualified motion picture production company is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the operator of the transient lodging facility at the time of lease or rental.*
4. Transaction privilege tax exemption on catered food, drink and condiments. Under A.R.S. §42-5074(B)(10), eligible sales of catered food, drink and condiments to a qualified motion picture production company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the catering business at the time of the purchase.*
5. Transaction privilege tax exemption on construction contracts. Under A.R.S. §42-5075(B)(20) eligible contracts for the construction of any building, or other structure, associated with motion picture production in Arizona are exempt from state and county TPT. *To qualify for the exemption, a qualified company must present a current Revenue issued exemption certificate to the prime contractor at the time the contract is entered into.*
6. Use tax exemption on machinery, equipment and other tangible personal property. Under A.R.S. §42-5159(B)(23), the storage, use or consumption in Arizona of eligible tangible personal property that is used directly in the motion picture production by a qualified motion picture production company is exempt from use tax. *To*

qualify for the exemption, at the time of purchase the qualified company must present to the retailer a current Revenue issued exemption certificate.

7. Income tax credits. Under A.R.S. §§43-1075 and 43-1163, for years beginning from and after December 31, 2005, a non-refundable tax credit is allowed for a qualified motion picture production company. These tax credits can be used to offset Arizona tax liability on a dollar for dollar basis. The tax credit is equal to 20% or 30% of the qualifying production costs incurred by a qualified company that are directly attributable to the production of a motion picture in Arizona.

The tax credits for a qualified motion picture production company are equal to:

<u>Credit Amount</u>	<u>Production Costs</u>
20%	\$250,000 - \$1,000,000
30%	More than \$1,000,000

The tax credit must be claimed by a qualified company on an original Arizona tax return along with Form 334 for the next tax year due after post-approval was received but no earlier than the year of the pre-approval. Co-owners of a company (including partners in a partnership, LLC members and shareholders of an S corporation) may each claim a share of the tax credits allowed. The allocation of tax credits among owners is not required to follow ownership interest. The total credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the company. (A.R.S. §§43-1075(F) and 43-1163(F))

After the qualified company receives post-approval from Commerce, it may use, carry forward, sell or transfer all or part of the tax credits to one or more persons, who may in turn use, carry forward, sell or transfer the tax credits an unlimited number of times. Any transferor who sells or transfers a credit before filing an Arizona income tax return must timely file an Arizona income tax return, and pay any amounts shown on the return as due. If the return is not timely filed or the amount shown on the return is not timely paid, Revenue may deny the credit of the transferee.

Sale or transfer of tax credits must meet the requirements of A.R.S. §§43-1075(H) and 43-1163(H). The purchaser or transferee can use the credits to offset tax liability for any tax year that is timely filed on an original tax return but no earlier than the pre-approval year and no later than the five year carry forward period. The sale or transfer of tax credits does not extend the five-year carry forward period. The five-year carry forward period begins with the year subsequent to the cap year. If qualification is terminated or revoked, all or part of the tax credits received under this program are subject to recapture under A.R.S. §§43-1075(H) and 43-1163(H). The transferee (purchaser) of the tax credit has recourse only against the transferor (seller), not the State of Arizona. Both the transferor (seller) and transferee (purchaser) must submit written notice of the transaction to Revenue within 30 days after the sale or transfer of tax credits. To download Revenue's forms, visit <http://www.azdor.gov/>

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## **Section 9. Submittal of Initial Applications for Production of a Motion Picture**

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The acceptance process described in this section will determine the priority placement number assigned to initial applications. The priority placement number determines the order in which Commerce allocates that calendar year's cap. Commerce shall only accept original, initial applications delivered via United States Postal Service, private delivery service or hand delivery. Postmarks will be disregarded when determining the date of receipt. Any other form of delivery for an initial application, including emailed or faxed copies will not be accepted by Commerce and will be returned. Commerce shall accept initial applications for a calendar year's cap on or after the first business day of every calendar year. If a calendar year's cap is exhausted by October 31<sup>st</sup> of a year, Commerce can accept applications for the next calendar year's cap beginning November 1<sup>st</sup>. Any initial application for a calendar year's cap received prior to the first business day of the calendar year or prior to November 1<sup>st</sup>, whichever is applicable, will be rejected and the applicant notified. Commerce will date stamp initial applications on the date of receipt and assign a priority placement number as follows. If a single application is received on any day, it will be assigned a priority placement number on the next business day following the date of receipt. If more than one initial application is received on any day, each initial application will be entered into a lottery for that day. The lottery will be held on the next business day following the date of receipt of the initial application.

Any initial application for a calendar year's cap that is not substantially complete will be rejected and the applicant notified, processing will cease and the priority placement number will be voided. If an initial application is returned by Commerce a company may file a revised initial application for the same production or infrastructure project at a later date and receive a new priority placement number.

January 1 will be the effective date of the pre-approval letters for all applications received prior to January 1.

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## Section 10. Processing Initial Applications for Production of a Motion Picture

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- A. A company may apply to Commerce for a twenty-four month pre-approval for motion picture production tax incentives on or after the first business day of a calendar year. If a calendar year's cap is exhausted by October 31<sup>st</sup>, Commerce can accept applications on or after November 1<sup>st</sup> of that year for allocations from the next calendar year's cap.

Application can be made by submitting the Commerce form: "Initial Application for Pre-Approval for a Motion Picture Production Company". Initial Applications must be original applications, delivered via United States Postal Service, private delivery service or hand delivery. Facsimile or electronically transferred applications will be returned. A company working on more than one production may have more than one initial application at any given time. Note: pre-approval does not guarantee receipt of tax incentives under this program because pre-approval is issued before Commerce determines final eligibility.

A commercial advertisement or music video production company may submit an application for tax incentives under either this Section or Section 16. of these Program Guidelines. However, applications submitted under this Section are no longer subject to the unique requirements provided by A.R.S. §41-1517(K). Rather, the applicant is subject to the provisions in A.R.S. §41-1517(C).

The Initial Application, according to A.R.S. §41-1517(C), shall include:

1. Name and contact information for the company
  2. Name and contact information of an individual who will maintain records of expenditures in Arizona
  3. The Arizona production office address and phone number
  4. For the production in the initial application:
    - a. Documentation that the applicant has the lawful right to produce the particular production.
    - b. A script and synopsis, except a television series can submit in lieu of a script,
      - i. A synopsis of the general nature of the series
      - ii. A description of the characters and the intended nature of their interaction
      - iii. A description of the locations and sets
      - iv. The intended distribution or broadcast medium with specific television channels, if know
    - c. Name of the proposed director
    - d. Name of the proposed producer
    - e. Preliminary list of cast
    - f. Projected earliest pre-production date and last production date in Arizona
    - g. The estimated total budget of each production
    - h. The estimated total Arizona expenditures of each production NOTE: the amount of total Arizona expenditures may not be increased after the initial application
    - i. The estimated percentage of the total production taking place in Arizona
    - j. The estimated level of employment of Arizona residents in cast and crew
  5. The company must submit to Commerce an affidavit signed by any person who will be credited on screen (except for commercial advertisement or music videos) as the producer(s) and by an officer of the applicant company. Signatures by executive, associate or line producers shall not be accepted. By signing the affidavit the company agrees, but is not limited, to the following:
    - a. To furnish records of expenditures in Arizona to Commerce or Revenue on request
    - b. Use any items purchased with a certification of exemption directly in or associated with motion picture production
    - c. That the information contained in the initial application is true and correct under penalty of perjury
- B. Concurrent with submittal of an initial application to Commerce, a company may request a letter of good standing from Revenue by submitting form "Tax Clearance Application." Submitting the "Tax Clearance Application" at this time will expedite Revenue's approval. A separate tax clearance application must be submitted for each initial application submitted to Commerce. If a company files multiple initial applications for different productions, a separate tax clearance application must be submitted to Revenue for each application. If a separate tax clearance application is not submitted to Revenue and approval received, a company will not receive a letter of good standing for that initial application.
- C. During review of the initial application, Commerce may request additional information, conduct a site visit or discuss the initial application with the company. The company will have fifteen calendar days to supply any additional information requested by Commerce. If the information provided does not complete the application the company will be given one extension of an additional 15 calendar days to supply the requested information. If the



company does not satisfy the request within the allotted timeframe, the application will be considered withdrawn by the company and the priority placement number assigned to the initial application or addendum will be voided.

- D. Commerce shall make a determination with regard to each initial application within 30 days after the date of receipt of a complete initial application.
- E. If Commerce denies pre-approval, the company may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10. A production company may appeal this decision; however, the denial of pre-approval prohibits a company from receiving tax exemptions under this program unless the appeal is successful.
- F. If the company is eligible for tax incentives, Commerce shall issue a pre-approval (letter of qualification) and transmit a copy to Revenue for action. Pre-approval is issued to a qualified company for each initial application and is effective for a twenty-four month period. A pre-approval includes an estimated dollar amount and the percentage of calendar year cap allocated, the effective date and the expiration date of the pre-approval, the priority placement number and the production name(s).
- G. When a "Tax Clearance Application" is received by Revenue and Revenue establishes the company's eligibility under its statutes, Revenue will issue a certificate for TPT and use tax exemptions and copy Commerce. Once the company has the exemption certificate, TPT and use tax exemptions can be claimed by providing a copy of the Revenue issued exemption certificate to a vendor at the time of the transaction as discussed in Sections 8 and 14 of this Guideline. If a company files multiple initial applications for different productions, a separate tax clearance application must be submitted to Revenue for each application. If a separate tax clearance application is not submitted to Revenue and approval received, a company will not receive a transaction privilege and use tax exemption certificate for that initial application.

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## **Section 11. Next Steps: During Production of a Motion Picture**

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### **A. Within 90 days After Pre-approval**

A company must begin production and notify Commerce that production has begun on the initial application within ninety days after Commerce issues pre-approval, which Commerce may verify through a site visit. To prove production has begun, and avoid lapse of pre-approval, the company shall provide one of the following:

1. Documentation of its Arizona expenditure of the lesser of:
  - a. Ten percent of the estimated total Arizona budget of the production.
  - b. Two hundred fifty thousand dollars.
2. A completion bond, equal to the estimated total budget of the pre-approved production.

**In addition**, the company must provide one of the following to Commerce within ninety days of pre-approval:

3. A copy of a contract, loan out agreement or deal memo with a cameraman and crew.
4. A copy of the crew call sheet for the first day of production.
5. Evidence that residents of this state have been paid a total of at least five thousand dollars for work on the pre-approved motion picture.
6. A copy of a contract or agreement directly attributable to the pre-approved motion picture.

If the company fails to begin production and notify Commerce, the pre-approval lapses, the application is void, all transaction privilege and use tax exemptions will be recaptured and the pre-approved tax credits will be returned to the calendar year cap from which they came. Further, if a pre-approved motion picture production company fails to begin production, as described above, and also fails to voluntarily relinquish the unused tax credit amounts within the 90 day period, the company and all persons signing the application for pre-approval are disqualified from receiving, or participating in any motion picture production company that applies for or receives, tax incentives for three years after the original application. (A.R.S. 41-1517(Q))

### **B. Qualifying Expenses**

Any expense incurred prior to a pre-approval or subsequent to expiration of a pre-approval will not be considered a qualifying expense, nor will it be counted toward the \$250,000 investment threshold. The \$250,000 investment threshold must be met for each pre-approval, which is based on an initial application. Therefore, a company with two or more initial applications must make a separate \$250,000 investment for each pre-approval.

Only qualifying costs incurred in Arizona that are directly attributable to a production as shown in the initial application can be counted toward the investment threshold. Out-of-state production costs are ineligible even if passed through a third party Arizona company in an effort to make them eligible. It is the responsibility of the pre-



approved production company to ensure that its providers are in compliance with the requirements for qualifying production costs. Prior to issuing post-approval, Commerce will check all or some of the expenses to ensure compliance and will request documentation of the expenses, if necessary.

A qualified company must maintain records of expenditures for each initial application in order to certify costs to Commerce or Revenue upon completion of production. Expenditures shall be reported to Commerce using "Expense Report Forms 1 & 2." Commerce may require additional documentation, conduct inspections or audits, as necessary, to verify compliance.

**C. Employment Levels and Residency**

The calendar year of a pre-approval letter dictates the employment percentages that must be met for the pre-approval period. A qualified company or its authorized payroll service company must employ residents of Arizona in its production activities as follows:

1. In 2006, at least twenty-five percent of full-time employees working in the state must be Arizona residents.
2. In 2007, at least thirty-five percent of full-time employees working in the state must be Arizona residents.
3. In 2008 through 2010, at least fifty percent of full-time employees working in the state must be Arizona residents.

To establish residency for a full-time employee, a qualified company or its authorized payroll service company must on the date of hire obtain a "Residency Affidavit" for each Arizona resident involved in production activities in the state. The Residency Affidavit is valid for the entire pre-approval period but can only be used for a single initial application. The company must retain the Residency Affidavits to document the Arizona employment levels for Commerce or in the event of audit by Revenue.

To report employment data to Commerce, a company shall use "Calculation of Arizona Residency Forms 1 & 2." Arizona residency must be expressed as a percentage. To calculate the percentage: divide the total number of hours worked by full-time Arizona residents by the total number of hours worked by full-time employees on the production during the pre-approval period while in Arizona.

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**Section 12. Processing Completion Reports for Post-Approval of Production of a Motion Picture**

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- A. To maintain eligibility, within thirty days of completion of the production in the initial application, the company must submit a "Completion Report" to Commerce. A production does not need to be released or distributed to be considered complete and to generate tax credits or exemptions.

The Completion Report, according to A.R.S. §41-1517(O) and (P), shall include:

1. Expense Report Forms 1 & 2 for the production in the initial application
  2. Calculation of Arizona Residency Forms 1 & 2 for the twenty-four month pre-approval period
  3. A complete and viewable copy of the production in the initial application. A company can apply for post-approval before a viewable copy is available. However, if the company requests post-approval without a viewable copy, it must submit a letter of credit payable to the Arizona Department of Revenue and equal to the pre-approved tax credit value for that production. Revenue may draw on the letter of credit if Commerce determines that the company did not meet the requirements of A.R.S. §41-1517.
- B. To generate a tax credit and retain TPT and use tax exemptions a company must document compliance with the provisions of A.R.S. §41-1517 and the requirements established in the Program Guidelines.
- C. During review of the completion report, Commerce may request additional information, conduct a site visit or discuss the completion report with the applicant. The applicant will have fifteen calendar days to supply any additional information requested by Commerce. If the information is not timely submitted to Commerce the completion report will be considered withdrawn by the applicant and the priority placement number assigned to the completion report will be voided.
- D. Commerce shall attempt to make a determination with regard to completion report within 60 days after the date of receipt of a complete report.
- E. If Commerce denies post-approval, the applicant may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10.



- F. If the applicant is eligible for tax incentives, Commerce shall issue post-approval. The post-approval will include the production name, a specific dollar amount and the percentage of tax credits the qualified company may claim. Commerce will review total production costs and recalculate the final amount of tax credits, as needed. The post-approved amount may be less than the pre-approved amount (if costs were less than estimated), but never higher.
- G. The qualified company must claim the tax credits on its original Arizona tax return for the next tax year due after post-approval was received but no earlier than the year of pre-approval. If the return is not timely filed or the amount shown on the return is not timely paid, Revenue may deny the credit of the transferee (the purchaser). The transferee can use the credits to offset tax liability for the tax year in which the transaction occurred.

## *Companies producing a commercial advertisement or music video*

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### **Section 13. Eligibility Requirements for Production of a Commercial Advertisement or Music Video**

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A commercial advertisement or music video production company is eligible for tax incentives upon completion of production and compliance with requirements in A.R.S. §41-1517 if it:

- Submits an Initial Application and receives pre-approval from Commerce
- Is primarily (more than 50%) engaged in the business of producing motion pictures, which includes commercial advertisements and music videos
- Demonstrates it has the lawful right to produce the commercial advertisement or music video
- Has a physical business office and bank account in Arizona
- Completes the production(s) listed in the initial application and any added productions within 60 days of submitting each application for pre-approval
- Includes a synopsis or storyboard for the production(s) in the initial application
- Has a budget and proposed director, list of cast and producer for the production in the initial application
- Spends at least \$250,000 in qualifying production costs in one or more productions pre-approved within twelve consecutive months after pre-approval of an initial application
- Employs the statutorily required percentage of Arizona residents.
- Is not obscene, does not depict sexual activity or sexually exploit a minor as provided under A.R.S. §§41-1517(M); 12-811; 13-3501; 13-3551; 13-3552; 13-3553
- Submits a viewable copy of the completed production to Commerce or a letter of credit payable to Revenue
- After meeting investment requirements of \$250,000 the company submits an Acknowledgement of Post Approval or a Completion Report within 30 days of completion of a production and receives post-approval from Commerce.
- Must comply with all Employee Sanctions set forth in A.R.S. § 23-214(B) and A.R.S. § 35-397.

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### **Section 14. Explanation of Tax Incentives for Production of a Commercial Advertisement or Music Video**

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The Motion Picture Production Tax Incentives program provides the following Arizona tax incentives for commercial advertisement or music video production companies that are approved by Commerce.

1. Transaction privilege tax exemption on machinery, equipment and other tangible personal property. Under A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b), eligible tangible personal property sold or leased to a qualified motion picture production company and used directly in motion picture production is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer or lessor at the time of sale or lease.*
2. Transaction privilege tax exemption on job printing, engraving, embossing or copying. Under A.R.S. §42-5066(B)(5), eligible sales to a qualified motion picture production company for job printing, engraving, embossing or copying that will be used directly in motion picture production are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer at the time of the sale.*

3. Transaction privilege tax exemption on leases or rentals of lodging space. Under A.R.S. §42-5070(C)(2), eligible leases or rentals of lodging space to a qualified motion picture production company is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the operator of the transient lodging facility at the time of lease or rental.*
4. Transaction privilege tax exemption on catered food, drink and condiments. Under A.R.S. §42-5074(B)(10), eligible sales of catered food, drink and condiments to a qualified motion picture production company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the catering business at the time of the purchase.*
5. Transaction privilege tax exemption on construction contracts. Under A.R.S. §42-5075(B)(20) eligible contracts for the construction of any building, or other structure, associated with motion picture production in Arizona are exempt from state and county TPT. *To qualify for the exemption, a qualified company must present a current Revenue issued exemption certificate to the prime contractor at the time the contract is entered into.*
6. Use tax exemption on machinery, equipment and other tangible personal property. Under A.R.S. §42-5159(B)(23), the storage, use or consumption in Arizona of eligible tangible personal property that is used directly in the motion picture production by a qualified motion picture production company is exempt from use tax. *To qualify for the exemption, at the time of purchase the qualified company must present to the retailer a current Revenue issued exemption certificate.*
7. Income tax credits. Under A.R.S. §§43-1075 and 43-1163, for years beginning from and after January 1, 2008, a non-refundable tax credit is allowed for a production of a commercial advertisement or music video by a qualified motion picture production company from the 5% cap set-aside for such productions. These tax credits can be used to offset Arizona tax liability on a dollar for dollar basis. The tax credit is equal to 20% or 30% of the qualifying production costs incurred by a qualified company that are directly attributable to the production of a motion picture in Arizona.

The tax credits for a qualified motion picture production company are equal to:

<u>Credit Amount</u>	<u>Production Costs</u>
20%	\$250,000 - \$1,000,000
30%	More than \$1,000,000

A commercial advertisement or music video production company may initially qualify for tax credits by applying for pre-approval for one or more projects. The company provides an estimated budget for each project included in the initial application, knowing it must invest at least \$250,000 in the 12 months following pre-approval (41-1517 (K)(8)). The company does not estimate expenses for productions it does not yet have. Commerce reserves an allocation amount based on the assumed investment of \$250,000 in the 12 month investment period (41-1517 (L)). If the initial application exceeds \$250,000 in qualified production costs, the reserved amount of credits may be based on an amount greater than \$250,000. A commercial advertisement or music video, whether submitted in an initial application or subsequently added to the initial application (through submittal of the form "Addendum to an Initial Application"), must be completed and reported to Commerce within 60 days of submittal of the request for pre-approval. Only expenditures relating to a completed production and for completed productions made during the 12-month investment period may be qualified production costs and generate tax credits.

The tax credit must be claimed by a qualified company on an original Arizona tax return along with Form 334 for the next tax year due after post-approval was received but no earlier than the year of the pre-approval. Co-owners of a company (including partners in a partnership, LLC members and shareholders of an S corporation) may each claim a share of the tax credits allowed. The allocation of tax credits among owners is not required to follow ownership interest. The total credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the company. (A.R.S. §§43-1075(F) and 43-1163(F))

After the qualified company receives post-approval from Commerce, it may use, carry forward, sell or transfer all or part of the tax credits to one or more persons, who may in turn use, carry forward, sell or transfer the tax credits an unlimited number of times. Any transferor who sells or transfers a credit before filing an Arizona income tax return must timely file an Arizona income tax return, and pay any amounts shown on the return as due. If the return is not timely filed or the amount shown on the return is not timely paid, Revenue may deny the credit of the transferee.

Sale or transfer of tax credits must meet the requirements of A.R.S. §§43-1075(H) and 43-1163(H). The purchaser or transferee can first use the credits to offset tax liability for the tax year in which the transaction occurred. The sale or transfer of tax credits does not extend the five-year carry forward period. The five-year carry forward period begins with the year subsequent to the cap year. If qualification is terminated or revoked, all



or part of the tax credits received under this program are subject to recapture under A.R.S. §§43-1075(H) and 43-1163(H). The transferee (purchaser) of the tax credit has recourse only against the transferor (seller), not the State of Arizona. Both the transferor (seller) and transferee (purchaser) must submit written notice of the transaction to Revenue within 30 days after the sale or transfer of tax credits. To download Revenue's forms, visit <http://www.azdor.gov/>

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## Section 15. Submittal of Initial Applications for a Commercial Advertisement or Music Video

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The acceptance process described in this section will determine the priority placement number assigned to initial applications. The priority placement number determines the order in which Commerce allocates that calendar year's cap. Commerce shall accept initial applications for a calendar year's cap on or after the first business day of every calendar year. If a calendar year's set aside is fully allocated, a commercial advertisement or music video production company must wait until the first business day of the next year to submit an initial application. Any initial application for a calendar year's cap received prior to the first business day of the calendar year will be rejected and the applicant notified. Commerce will date stamp initial applications on the date of receipt and assign a priority placement number as follows. If a single application is received on any day, it will be assigned a priority placement number on the next business day following the date of receipt. If more than one initial application is received on any day, each initial application will be entered into a lottery for that day. The lottery will be held on the next business day following the date of receipt of the initial application.

Any initial application for a calendar year's cap that is not substantially complete will be rejected and the applicant notified, processing will cease and the priority placement number will be voided. If an initial application is returned by Commerce a company may file a revised initial application for the same production at a later date and receive a new priority placement number.

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## Section 16. Processing Initial Applications for a Commercial Advertisement or Music Video Production Company

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- A. A commercial advertisement or music video company may apply to Commerce for a twelve month pre-approval under the unique provisions of A.R.S. §41-1517(K). A commercial advertisement or music video company may apply for pre-approval before the company makes the minimum investment of \$250,000. Applications are accepted by Commerce on or after the first business day of a calendar year. If the 5% set aside is exhausted, Commerce cannot accept applications for the next calendar year's set aside until the first business day of the next calendar year.

Application can be made by submitting the Commerce form: "Initial Application for Pre-Approval for a Commercial Advertisement or Music Video". A company may choose to combine any number of productions under one initial pre-approval as long as it completes each production within 60 days. The 60 days completion may extend beyond the 12 month certification period, however, only expenses made in the 12 month certification period can generate credits. Or a company may choose to receive a separate pre-approval for each production. Note: pre-approval does not guarantee receipt of tax incentives under this program because pre-approval is issued before Commerce determines final eligibility.

A commercial advertisement or music video production company may submit an application for tax incentives under either Section 10. or under this Section of these Program Guidelines. However, applications submitted under Section 10. are no longer subject to the unique requirements provided by A.R.S. §41-1517(K). Rather, the applicant is subject to the provisions in A.R.S. §41-1517(C).

The Initial Application, according to A.R.S. §41-1517(C) and (K), shall include:

1. Name and contact information for the company
2. Name and contact information of an individual who will maintain records of expenditures in Arizona
3. The Arizona production office address and phone number
4. Name of the production(s) and for each production in the initial application
  - a. A synopsis or storyboard that:
    - i. Identifies the product, service, person or event for a commercial advertisement or identifies the artist and song for a music video
    - ii. A description of the general content or message to be conveyed
    - iii. A description of the locations and sets
    - iv. The intended distribution or medium with specific television channels, if know



- b. Name of the proposed director
  - c. Name of the proposed producer
  - d. Preliminary list of cast
  - e. Projected earliest pre-production date and last production date in Arizona
  - f. The estimated total budget of each production
  - g. The estimated total Arizona expenditures of each production
  - h. The estimated percentage of the total production taking place in Arizona
  - i. The estimated level of employment of Arizona residents in cast and crew
5. An affidavit signed by an authorized officer of the company. By signing the affidavit the applicant company agrees, but is not limited, to the following:
- a. To furnish records of expenditures in Arizona to Commerce or Revenue on request
  - b. Use any items purchased with a certification of exemption directly in or associated with motion picture production
  - c. That the information contained in the initial application is true and correct under penalty of perjury
  - d. That the company will submit a viewable copy of the completed production to Commerce or a letter of credit payable to Revenue
- B. Concurrent with submittal of an initial application or addendum to Commerce, a company may request a letter of good standing from Revenue by submitting form "Tax Clearance Application." Submitting the "Tax Clearance Application" at this time will expedite Revenue's approval. A separate tax clearance application must be submitted for each initial application and each addendum submitted to Commerce. If a company files multiple initial applications for different productions, a separate tax clearance application for each must be submitted to Revenue. If a separate tax clearance application for each production is not submitted to Revenue and approval received, a company will not receive a letter of good standing for that initial application or production and will be ineligible for tax incentives.
- C. During review of the initial application or addendum, Commerce may request additional information, conduct a site visit or discuss the initial application with the company. The company will have fifteen calendar days to supply any additional information requested by Commerce. If the information is not timely submitted to Commerce the initial application will be considered withdrawn by the company. Or if the information provided does not complete the application the company will be given one extension of an additional 15 calendar days to supply the requested information. If the company does not satisfy the request within the allotted timeframe, the application will be considered withdrawn by the company and the priority placement number assigned to the initial application or addendum will be voided.
- D. Commerce shall make a determination with regard to each initial application and each addendum within 15 business days after the date of receipt of a complete initial application or addendum.
- E. If Commerce denies pre-approval, the company may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10. A company may appeal this decision; however, the denial of pre-approval also prohibits a company from receiving tax incentives under this program unless the appeal is successful.
- F. If the company is eligible for tax incentives, Commerce shall issue a pre-approval and transmit a copy to Revenue. Pre-approval is issued to a qualified company for each initial application and is effective for a twelve month period. A commercial advertisement or music video production company is not eligible for post approval of tax credits until the company's qualified production costs reach \$250,000 within twelve consecutive months from the date of pre-approval. A pre-approval letter includes the production name(s), the effective date, the expiration date, priority placement number, amount of tax credits reserved (a minimum of \$50,000) and percentage of tax credits, notice that the company is eligible for TPT and use tax exemptions, notice that the company must complete the production(s) identified in the initial application within 60 days and submit a "Interim Report" to Commerce and a reminder that the company must spend \$250,000 within twelve months to maintain eligibility.
- G. When Revenue receives both a pre-approval letter and a "Tax Clearance Application" and establishes the company's eligibility under its statutes, Revenue will issue a certificate for TPT and use tax exemptions and copy Commerce. Once the company has the exemption certificate, the company can obtain TPT and use tax exemptions by providing a copy of the Revenue-issued exemption certificate to a vendor at the time of the transaction as discussed in Sections 8 and 14 of this Guideline.

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## Section 17. Next Steps for a Commercial Advertisement or Music Video Production Company

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To maintain eligibility, a commercial advertisement or music video company must complete each production for which it receives pre-approval within 60 calendar days of the date it requested pre-approval. The sixty-day window to complete production begins the date the application or addendum is submitted to Commerce for a specific production.

If you have completed your production but have not met the \$250,000 minimum threshold then you are required to submit an Interim Report.

**\*If you have completed at least one production, have met the \$250,000 threshold, and do not intend to add any further productions, please go to section 18.**

**\* If you have met the \$250,000 threshold and have completed at least one production but intend to complete more productions then please go to Section C below.**

- A. **INTERIM REPORT:** The Company must submit the form "Interim Report" to Commerce within 30 calendar days of completion of the production. A separate Interim Report must be submitted for each completed production until the \$250,000 threshold is met. The company must also attach a completed Expense report Forms 1 & 2 for each production. The company must document the total amount of qualified production costs associated with each production identified in the initial application and/or addendum. Prior to issuing post-approval and to ensure compliance, Commerce will review the expenses for eligibility. Therefore, documentation of the expenses must be included with the Expense Reports. Documentation includes, but is not limited to, invoices, receipts, cancelled checks, credit card statements, and time sheet and/or payroll forms. Please organize the documentation to coordinate with the categories listed in Expense Report 2. The company must also attach a viewable copy of the production that was completed or provide a letter of credit payable to the Arizona Department of Revenue and equal to the pre-approved tax credit value for that production.

After review of an Interim Report, Commerce will acknowledge the total amount of qualified production costs to date under the initial application. Once the company spends \$250,000 on any number of productions that have either been identified in the initial application or added to the application through an addendum, Commerce will notify the company that it is eligible to submit a "Request for Post-Approval of Tax Credits" or a "Completion Report for Post-Approval of Tax Credits".

- B. **ADDENDUM:** At any time during the twelve-month pre-approval period, a commercial advertisement or music video company can add one or more productions to a pre-approved initial application by submitting an "Addendum". Commerce will assign each addendum a unique item number, part of which is the priority placement number assigned to the initial application. The investment amount for all the productions identified with an initial application may be combined to enable the applicant company to meet or exceed the \$250,000 minimum investment amount. However, only the expenses for completed productions incurred within the twelve-month pre-approval period generate tax credits.

If the company submits addenda which result in the qualified production costs exceeding \$250,000 in aggregate for the initial application, Commerce may upwardly adjust the pre-approved credit amount. Any allocation for such adjusted costs must be made from the cap year from which the initial allocation of credits was made. If no credits remain in that cap year, the company may choose to get in line for any returned cap or may submit a new initial application for credits under the next calendar year's cap. If the company submits a new initial application in a new cap year, the productions and expenses in the first application cannot be aggregated with the new initial application.

To add a production to a pre-approved initial application, the company must submit the form "Addendum to Initial Application for Adding a Production to a Pre-Approved Initial Application for a Commercial Advertisement or Music Video" to Commerce. A separate addendum must be submitted for each production being added to an initial application. The addendum shall include:

1. Name and contact information for the company
2. The priority placement number to which the production is being added
3. For the production in the addendum:
  - a. Name of the production
  - b. For each production, a synopsis or storyboard that:
    - i. Identifies the product, service, person or event for a commercial advertisement or identifies the artist and song for a music video
    - ii. A description of the general content or message to be conveyed
    - iii. A description of the locations and sets
    - iv. The intended distribution or medium with specific television channels, if know



- c. Name of the proposed director
  - d. Name of the proposed producer
  - e. Preliminary list of cast
  - f. Projected earliest pre-production date and last production date in Arizona
  - g. The estimated total budget of each production
  - h. The estimated total Arizona expenditures of each production
  - i. The estimated percentage of the total production taking place in Arizona
  - j. The estimated level of employment of Arizona residents in cast and crew
4. An affidavit signed by an authorized officer of the company. By signing the affidavit the applicant company agrees, but is not limited, to the following:
- a. To furnish records of expenditures in Arizona to Commerce or Revenue on request
  - b. Use any items purchased with a certification of exemption directly in or associated with motion picture production
  - c. That the information contained in the addendum is true and correct under penalty of perjury
  - d. That the company will submit a viewable copy of the completed production to Commerce or a letter of credit payable to Revenue

During review of an addendum, Commerce may request additional information, conduct a site visit or discuss the initial application with the company. The company will have fifteen calendar days to supply any additional information requested by Commerce. If the information is not timely submitted to Commerce the addendum will be considered withdrawn by the company. Or if the information provided does not complete the application the company will be given one extension of an additional 15 calendar days to supply the requested information. If the company does not satisfy the request within the allotted timeframe, the addendum will be considered withdrawn.

Commerce shall make a determination with regard to each addendum within 15 business days after the date of receipt of a complete addendum.

If Commerce denies pre-approval, the company may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10. A company may appeal this decision; however, the denial of pre-approval also prohibits a company from receiving tax incentives under this program unless the appeal is successful.

If the company is eligible for tax incentives for the production in an addendum, Commerce shall issue a revised pre-approval and transmit a copy to Revenue. The revised pre-approval letter includes the production name(s), the established effective date, the expiration date, priority placement number and unique item number, amount of tax credits reserved (a minimum of \$50,000) and percentage of tax credits, notice that the company is eligible for TPT and use tax exemptions, notice that the company must complete the production identified in the addendum within 60 days and a reminder that the company must spend \$250,000 within twelve months to maintain eligibility.

#### **C. Request for Post-Approval of Tax Credits:**

The commercial advertisement or Music Video Production Company is not eligible for an allocation of tax credits until the company's qualified production costs reach \$250,000 in the twelve consecutive months during pre-approval. The production company may either request tax credits upon reaching the \$250,000 threshold and having completed at least one production at anytime during the 12 month certification period or wait until the end of the 12 month certification period when all productions are completed.

If the production company chooses to request tax credits prior to the end of the 12 month certification period and all requirements have been met, the production company shall submit the form "Request for Post Approval of Tax Credits" to Commerce. The form shall include:

- 1. Name and contact information for the company
- 2. For each production in the request:
  - a.) Name of production(s)
  - b.) A synopsis or storyboard
  - c.) Name of the Director
  - d.) Name of Producer
  - e.) List of Cast
  - f.) Production dates in Arizona
  - g.) Total budget of each production



- h.) Total Arizona expenditures of each production
  - i.) The total percentage of production taking place in Arizona
  - j.) Level of employment in Arizona for cast and crew
3. An Affidavit signed by an authorized officer of the company. By signing the affidavit the company agrees, but is not limited to the following:
- a.) To furnish records of expenditures in Arizona to Commerce or Revenue upon request
  - b.) Use any items purchased with a certification of exemption directly in or associated with motion picture production
  - c.) That the information contained in the Request for Post-Approval of Tax Credits is true and correct under penalty of perjury
  - d.) That the company will submit a viewable copy of the production to Commerce or a letter of credit payable to Revenue.
- D. If a production is not completed within 60 calendar days of request for pre-approval and the company has no other pre-approved productions under that initial application, the priority placement number assigned to the initial application is void, any tax exemptions received may be recaptured by the Arizona Department of Revenue and the reserved tax credits revert back to the 5% set aside for allocation to another company. The commercial advertisement or Music Video Production Company can later file a new initial application for a separate production and receive a new priority placement number to reserve cap and claim tax exemptions.

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#### **Section 18. Processing Acknowledgement of Eligibility for Post Approval and Completion Reports for a Commercial Advertisement or Music Video**

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- A. Once the \$250,000 investment threshold has been met and at least one production is completed, the company may apply for post-approval of tax credits by submitting an "Acknowledgement of Post-Approval" or "Completion Report" form to Commerce. These reports must be submitted within 30 days of completion of the production. These reports for post-approval can be submitted no more often than once a calendar month. A production does not need to be released or distributed to be considered complete and to generate tax credits or exemptions. However, to generate a tax credit and retain TPT and use tax exemptions a company must document compliance with the provisions of A.R.S. §41-1517 and the requirements established in the Program Guidelines.

The acknowledgement for post-approval and the completion report can be submitted for any number of productions that have been completed by the company that were pre-approved under one priority placement number. The company must also attach a completed Expense report Forms 1 & 2 for each production. The company must document the total amount of qualified production costs associated with each production identified in the initial application and/or addendum. Prior to issuing post-approval and to ensure compliance, Commerce will review the expenses for eligibility. Therefore, documentation of the expenses must be included with the Expense Reports. Documentation includes, but is not limited to, invoices, receipts, cancelled checks, credit card statements, and time sheet and/or payroll forms. Please organize the documentation to coordinate with the categories listed in Expense Report 2. Only qualified expenses related to a completed production can generate a post-approval of tax credits. According to A.R.S. §41-1517(O) and (P) the last Completion Report submitted for a pre-approval period must include:

1. Expense Report Forms 1 & 2, and any supporting documentation, for the production in the initial application
2. Calculation of Arizona Residency Forms 1 & 2. A motion picture production company has to employ 50% AZ residents during 12 month certification period.
3. A complete and viewable copy of the production in the initial application or addenda. A company can apply for post-approval before a viewable copy is available. However, if the company requests post-approval without a viewable copy, it must submit a letter of credit payable to the Arizona Department of Revenue and equal to the pre-approved tax credit value for that production. Revenue may draw on the letter of credit if Commerce determines that the company did not meet the requirements of A.R.S. §41-1517.



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## Section 19. Processing Acknowledgement for Post-Approval and Completion Reports for Post Approval of Tax Credits

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- A. The commercial advertisement or Music Video Production Company is not eligible for an allocation of tax credits until the company's qualified production costs reach \$250,000 in twelve consecutive months from the date of pre-approval. The company can combine the expenses of multiple productions to meet the \$250,000 investment threshold. Only the expenses incurred within the twelve-month pre-approval period generate tax credits. Tax credit allocations will be issued at 20% of the investment amount until the commercial advertisement or Music Video Production Company combines enough productions so that its investment amount exceeds \$1,000,000. Once the investment amount exceeds \$1,000,000, Commerce will issue the company a revised tax credit allocation at 30%, provided there are sufficient tax credits to satisfy the request in the 5% set aside in the cap year from which the initial application was pre-approved.
- B. During review of the acknowledgement for post-approval and the completion report, Commerce may request additional information, conduct a site visit or discuss the reports with the applicant. The applicant will have fifteen calendar days to supply any additional information requested by Commerce. If the information is not timely submitted to Commerce the completion report will be considered withdrawn by the applicant and the priority placement number assigned to the initial application will be voided. Or if the information provided does not complete the application the company will be given one extension of an additional 15 calendar days to supply the requested information. If the company does not satisfy the request within the allotted timeframe, the addendum will be considered withdrawn.
- C. Commerce shall attempt to make a determination with regard to the completion report within 60 days after the date of receipt.
- D. If Commerce denies post-approval, the applicant may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10.
- E. If the applicant is eligible for tax incentives, Commerce shall issue a post-approval and transmit a copy to Revenue. Post-approval is issued to a qualified company for each eligible production identified in the reports. Commerce will review total production costs, determine the total qualified costs and recalculate the final amount of tax credits. The post-approved amount may be less than the pre-approved amount (if costs were less than estimated). The only way the post-approved amount can be higher than the pre-approved amount is if the company successfully completed productions that were added to the initial application and if sufficient credits remain in the cap for the year the initial application was pre-approved. A post-approval includes the production name(s), a dollar amount of tax credits, the percentage used to calculate the calendar year cap allocation, the effective date and the expiration date, the priority placement number and unique item number and a notice to Revenue that the company may retain TPT and use tax exemptions.
- F. The qualified company must claim the tax credits on its original Arizona tax return for the next year due after post-approval was received but no earlier than the year of the pre-approval even if the credits were transferred before the return was filed. If the return is not timely filed or the amount shown on the return is not timely paid, Revenue may deny the credit of the transferee (the purchaser). The transferee can use the credits to offset tax liability for the tax year in which the transaction occurred.

### ***Infrastructure Applicants***

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## Section 20. Eligibility Requirements for Construction of an Infrastructure Project

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A person or a qualified company is eligible for tax credits upon completion of the infrastructure project and compliance with requirements in A.R.S. §41-1517.01 if:

- 1. It constructs an eligible infrastructure project
- 2. The facility is owned and operated by the applicant
- 3. It submits a Completion Report to Commerce when the project is finished
- 4. The Arizona project expenditures for a soundstage must meet the following investment schedule:
  - a. At least \$250,000 within 90 days of pre-approval,
  - b. An additional \$1 million within 12 months of pre-approval,
  - c. A total of \$5 million within 36 months of pre-approval; or
- 5. The Arizona project expenditures for a support and augmentation facility must meet the following investment schedule:
  - a. At least \$250,000 within 90 days of pre-approval,



- b. A total of \$1 million within 36 months of pre-approval.
6. Submits an Initial Application and receives pre-approval from Commerce
7. Submits a Completion Report and receives post-approval from Commerce
8. Must comply with all Employee Sanctions set forth in A.R.S. § 23-214(B) and A.R.S. § 35-397.

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## Section 21. Explanation of Infrastructure Tax Credits

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The Motion Picture Production Tax Incentives program provides Arizona tax credits to persons and companies approved by Commerce for construction of an eligible infrastructure project.

Beginning September 19, 2007 through December 31, 2010, under A.R.S. §§43-1075.01 and 43-1163.01, a non-refundable tax credit is allowed for a person or qualified company. These tax credits can be used to offset Arizona tax liability on a dollar for dollar basis. The tax credit is up to 15% of the base investment amount spent by the applicant that is directly attributable to the construction of a qualified infrastructure project in Arizona.

The tax credit must be claimed by a person or a qualified company on an original Arizona tax return along with Form 334 for the tax year in which post-approval was received. Co-owners of a company (including partners in a partnership, LLC members and shareholders of an S corporation) may each claim a share of the tax credits allowed. The allocation of tax credits among owners is not required to follow ownership interest. The total credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the company. (A.R.S. §§43-1075.01(D) and 43-1163.01(D))

After the person or qualified company receives post-approval from Commerce, it may use, carry forward, sell or transfer all or part of the tax credits to one or more persons, who may in turn use, carry forward, sell or transfer the tax credits an unlimited number of times. Any transferor who sells or transfers a credit before filing an Arizona income tax return must timely file an Arizona income tax return, and pay any amounts shown on the return as due. If the return is not timely filed or the amount shown on the return is not timely paid, Revenue may deny the credit of the transferee.

Sale or transfer of tax credits must meet the requirements of A.R.S. §§43-1075.01(F) and 43-1163.01(F). The purchaser or transferee can use the credits to offset tax liability for the tax year in which the transaction occurred. The sale or transfer of tax credits does not extend the five-year carry forward period. The five-year carry forward period begins the year the person or qualified company originally earned the tax credits. If qualification is terminated or revoked, all or part of the tax credits received under this program are subject to recapture. Further, a penalty equal to 4.5% of the credit amount may be assessed per month. (A.R.S. §41-1517.01(H)) The transferee (purchaser) of the tax credit has recourse only against the transferor (seller), not the State of Arizona. Both the transferor (seller) and transferee (purchaser) must submit written notice of the transaction to Revenue within 30 days after the sale or transfer of tax credits. To download Revenue's forms, visit <http://www.azdor.gov/>

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## Section 22. Submittal of Initial Applications for Construction of an Infrastructure Project

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The acceptance process described in this section will determine the priority placement number assigned to initial applications. The priority placement number determines the order in which Commerce allocates that calendar year's cap. Commerce shall accept initial applications for a calendar year's cap on or after the first business day of every calendar year. If a calendar year's cap is exhausted by October 31<sup>st</sup> of a year, Commerce can accept applications for the next calendar year's cap beginning November 1<sup>st</sup>. Any initial application for a calendar year's cap received prior to the first business day of the calendar year or prior to November 1<sup>st</sup>, whichever is applicable, will be rejected and the applicant notified. Commerce will date stamp initial applications on the date of receipt and assign a priority placement number as follows. If a single application is received on any day, it will be assigned a priority placement number on the next business day following the date of receipt. If more than one initial application is received on any day, each initial application will be entered into a lottery for that day. The lottery will be held on the next business day following the date of receipt of the initial application.

Any initial application for a calendar year's cap that is not substantially complete will be rejected and the applicant notified, processing will cease and the priority placement number will be voided. If an initial application is returned by Commerce a company may file a revised initial application for the same production or infrastructure project at a later date and receive a new priority placement number.

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## Section 23. Processing Initial Applications for Construction of an Infrastructure Project

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- A. A person or qualified company may apply to Commerce for pre-approval for infrastructure tax credits under the unique provisions of A.R.S. §41-1517.01(A). Applications for infrastructure tax credits are accepted on or after the



first business day of a calendar year. If a calendar year's cap is exhausted by October 31<sup>st</sup>, Commerce can accept applications on or after November 1<sup>st</sup> of that year for allocations from the next calendar year's cap.

Application can be made by submitting the Commerce form: "Initial Application for Construction of an Infrastructure Project". A person or qualified company working on more than one project may have more than one initial application at any given time. Note: pre-approval does not guarantee receipt of tax credit under this program because pre-approval is issued before Commerce determines final eligibility.

The Initial Application, according to A.R.S. §41-1517.01(A), shall include:

1. Name and contact information for the applicant
  2. A detailed description of the infrastructure project
  3. A preliminary budget
  4. An outline of how the project meets the program requirements
  5. The projected start and completion dates
  6. The name and contact information for the prime contractor, if known
  7. A copy of the construction contract, if available
  8. The applicant must submit to Commerce an affidavit signed by an executive representing the applicant, in which the applicant agrees, but is not limited, to the following:
    - a. To furnish records of expenditures on infrastructure projects in Arizona to Commerce on request
    - b. Any items included in the base investment amount are intended for use by the applicant directly in the infrastructure project
    - c. That the information contained in the initial application is true and correct under penalty of perjury
- B. During review of the initial application, Commerce may request additional information, conduct a site visit or discuss the initial application with the applicant. The applicant will have fifteen calendar days to supply any additional information requested by Commerce. If the information is not timely submitted to Commerce the initial application will be considered withdrawn by the applicant and the priority placement number assigned to the initial application will be voided.
- C. Commerce shall make a determination with regard to each initial application within 30 days after the date of receipt of a complete initial application.
- D. If Commerce denies pre-approval, the applicant may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10.
- E. If the applicant is eligible for infrastructure tax credits, Commerce shall issue a pre-approval and transmit a copy to Revenue. Pre-approval is issued to a person or qualified company for each initial application. A pre-approval includes an estimated dollar amount and the percentage of calendar year cap allocated, the effective date and the expiration date of the pre-approval, the priority placement number and a description of the infrastructure project.

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#### **Section 24. Next Steps: During Construction of an Infrastructure Project**

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- A. A person or qualified company must begin construction and notify Commerce that construction has begun on the initial application within ninety days after Commerce issues pre-approval, which Commerce may verify through a site visit. To prove construction has begun, and avoid lapse of pre-approval, the applicant shall provide:
1. Its Arizona expenditure of the lesser of:
    - a. Ten percent of the estimated total base investment amount.
    - b. Two hundred fifty thousand dollars,
  2. A surety bond, equal to the estimated total base investment amount of the project.
- B. To avoid lapse of pre-approval, a person or qualified company constructing a soundstage, must within twelve months of the date of pre-approval provide Commerce with:
1. Documentation that is has spent at least \$1,250,000 on project costs,
  2. A surety bond equal to the estimated total base investment amount of the project.
- C. To maintain eligibility, a person or qualified company constructing a soundstage, must within thirty-six months of the date of pre-approval provide Commerce with documentation that is has spent a total of at least \$5 million dollars on project costs.

- D. To maintain eligibility, a person or qualified company constructing a support and augmentation facility must within thirty-six months of the date of pre-approval provide documentation to Commerce that it has spent at total of at least \$1 million dollars on the project.

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**Section 25. Processing Completion Reports for Construction of an Infrastructure Project**

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- A. To maintain eligibility, within thirty days of completion of an infrastructure project, the applicant must submit a "Completion Report" to Commerce. The Completion Report shall include, but is not limited to, documentation of the infrastructure project expenditures. The company must also document compliance with the provisions of A.R.S. §41-1517.01 and the requirements established in the Program Guidelines.
- B. During review of the completion report, Commerce may request additional information, conduct a site visit or discuss the completion report with the applicant. The applicant will have fifteen calendar days to supply any additional information requested by Commerce. If the information is not timely submitted to Commerce the completion report will be considered withdrawn by the applicant and the priority placement number assigned to the completion report will be voided.
- C. Commerce shall attempt to make a determination with regard to the completion report within 60 days after the date of receipt of a complete report.
- D. If Commerce denies post-approval, the applicant may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10.
- E. If the applicant is eligible for infrastructure tax credits, Commerce shall issue a post-approval and transmit a copy to Revenue. The post-approval will include the infrastructure project name, a specific dollar amount and the percentage of tax credits the individual or qualified company may claim. Commerce will review total project costs and recalculate the final amount of tax credits, as needed. The post-approved amount may be less than the pre-approved amount (if costs were less than estimated), but never higher.
- F. The person or qualified company must claim the tax credits on its original Arizona tax return for the year in which post-approval was received even if the credits were transferred before the return was filed. If the return is not timely filed or the amount shown on the return is not timely paid, Revenue may deny the credit of the transferee (purchaser). The transferee can use the credits to offset tax liability for the tax year in which the transaction occurred.
- G. To avoid disqualification from the program, an applicant for an infrastructure project must submit an "Annual Report" to Commerce within eighteen months of post-approval. The Annual Report must include, according to A.R.S. 41-1517.01(G), but is not limited to,
1. A list of activities and productions conducted at the project in the twelve months following post-approval.
  2. The amount of any additional capital investment.
  3. Any changes to or improvements made to the project since the date of post-approval.

# Motion Picture Production Tax Incentives Program Summary

(Established under A.R.S. §§ 41-1517 and 41-1517.01)

The Motion Picture Production Tax Incentives Program was designed to promote and stimulate the motion picture industry in Arizona. The program achieves this by providing tax incentives to qualified motion picture production companies (qualified company) that engage in motion picture production in Arizona. The program also offers tax credits to individuals or qualified companies who construct infrastructure projects such as a soundstage or support and augmentation facility in Arizona. The Arizona Commerce Authority (Commerce) accepts applications year round, on a first come, first served basis and determines eligibility for program incentives.

## **1) MOTION PICTURE PRODUCTION INCENTIVES**

A company may be qualified for a twenty-four month certification period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Begins production within 90 days of pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 on each motion picture, and
5. Estimates that Arizona residents will comprise 50% of all full-time employees during production activities

## **2) COMMERCIAL ADVERTISEMENT AND MUSIC VIDEO INCENTIVES – 5% Set Aside Program**

A company may be qualified for a twelve month certification period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Completes productions within 60 days of requesting pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 during the 12-month certification period, and
5. Estimates that Arizona residents will comprise 50% of all full-time employees during production activities

***The following is a brief summary of the incentives offered by the Motion Picture Production Tax Incentives Program to qualified companies that engage in motion picture production in Arizona.***

### **Transaction Privilege Tax Exemption** on:

- o **machinery, equipment and other tangible personal property.** Under A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b), eligible tangible personal property sold or leased to a qualified company and used directly in motion picture production is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer or lessor at the time of sale or lease.*
- o **job printing, engraving, embossing or copying.** Under A.R.S. §42-5066(B)(4), eligible sales to a qualified motion picture production company for job printing, engraving, embossing or copying that will be used directly in motion picture production are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer at the time of the sale.*
- o **leases or rentals of lodging space.** Under A.R.S. §42-5070(C)(2), eligible leases or rentals of lodging space to a qualified company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the operator of the transient lodging facility at the time of lease or rental.*
- o **catered food, drink and condiments.** Under A.R.S. §42-5074(B)(10), eligible sales of catered food, drink and condiments to a qualified company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the catering business at the time of the purchase.*
- o **construction contracts.** Under A.R.S. §42-5075(B)(20) eligible contracts for the construction of any building, or other structure, associated with motion picture production in Arizona are exempt from state and county TPT. *To qualify for the exemption, a qualified company must present a current Revenue issued exemption certificate to the prime contractor at the time the contract is entered into.*

**Use tax exemption** on machinery, equipment and other tangible personal property. Under A.R.S. §42-5159(B)(23), the storage, use or consumption in Arizona of eligible tangible personal property used directly in the motion picture production by a qualified company is exempt from use tax. *To qualify for the exemption, at the time of purchase the qualified company must present to the retailer a current Revenue issued exemption certificate.*

**Transferable income tax credits** Under A.R.S. §§43-1075 and 43-1163, a qualified company can receive a non-refundable tax credit for a motion picture production, subject to the following requirements and restrictions: the company must receive pre-approval and post-approval from Commerce before claiming the tax credit; the company must acknowledge that the production was filmed in Arizona; an obscene film shall not receive tax incentives; an individual motion picture shall not receive tax credits in excess of: \$5 million in 2007, \$7 million in 2008, \$8 million in 2009 and \$9 million thereafter.

Arizona statutes provide transferable income tax credits of \$40-\$70 million depending on the calendar year in which application is made. Beginning in 2008, 5% of these tax credits are reserved for companies that produce commercial advertisements and music videos. A portion of these credits is also available for eligible infrastructure projects.

# Motion Picture Production Tax Incentives Program Summary (continued)

(Established under A.R.S. §§ 41-1517 and 41-1517.01)

Tax credits for a motion picture production are based on expenses in Arizona directly attributable to the production and are equal to 20% if the qualifying production costs are \$250,000 to \$1 million. In cases where the qualifying production costs are more than \$1 million the tax credit is equal to 30%.

These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years.

## **3) INFRASTRUCTURE PROJECT TAX CREDIT**

A person or a qualified company may be approved for tax credits if:

1. It constructs an eligible infrastructure project,
2. The facility will be owned and operated by the applicant,
3. It submits a report to Commerce upon completion of the project, and
4. Its Arizona project expenditures for a soundstage are at least:
  - a. \$250,000 within 90 days of pre-approval,
  - b. \$1,250,000 within 12 months of pre-approval,
  - c. \$5 million within 36 months of pre-approval; or
5. Its Arizona project expenditures for a support and augmentation facility are at least:
  - a. \$250,000 within 90 days of pre-approval,
  - b. \$1 million within 36 months of pre-approval.

*The following is a brief summary of the tax credit offered by the Motion Picture Production Tax Incentives Program to a person or qualified company who constructs a soundstage or support and augmentation facility in Arizona.*

**Transferable income tax credits.** Under A.R.S. §§43-1075.01 and 43-1163.01, a person or a qualified company can receive a non-refundable tax credit for the construction of an eligible infrastructure project, subject to the following requirements and restrictions: the company must receive pre-approval and post-approval from Commerce before claiming the tax credit; tax credits are authorized on a first come, first served basis, according to a priority placement number issued by Commerce. Commerce can approve tax credits equal to 15% of the Arizona project costs not to exceed \$5 million in any year for soundstages. In addition beginning in CY 09 up to \$3 million per project for support and augmentation facilities is authorized with this category being capped at \$7 million in 2009 and \$9 million in 2010. Allocations of tax credits are further limited by the availability of the tax credits (\$40-\$70 million tax credits) under A.R.S. § 41-1517. These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years.

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Definitions set forth in statute are:

1. **"Infrastructure project:**
  - a. means soundstages and support and augmentation facilities that are constructed in this state and primarily used for motion picture production.
  - b. does not include motion picture theaters and other commercial exhibition facilities."
2. **"Motion picture** means a single medium or multimedia program, including a commercial advertisement, music video or television series, that:
  - a. is created by production activities conducted in whole or in part in this state.
  - b. can be viewed or reproduced.
  - c. is intended for commercial distribution or licensing in the delivery medium used.Motion picture does not include any production featuring actual news, current events, weather, locally produced and locally broadcast television productions, financial market reports, concerts, internet broadcasts, talk shows and interviews, game shows, sporting events, award or other gala events, a production whose sole purpose is fundraising, a production used for corporate or organizational training or in-house corporate advertising or other similar production activities."
3. **"Soundstage** means a permanent facility in this state of one or more sets or stages used primarily for staging and filming motion pictures and any land, permanent buildings or capital equipment that is in or adjacent to, and is necessary for the operation of, a soundstage."
4. **"Support and augmentation facilities** means permanent facilities in this state that are used to complement motion picture production needs and complement the motion picture production."

## **Exhibit 6**

**From:** [Cindy Grogan](#)  
**To:** [Nathan A. Prince](#); [Angie Valenzuela](#); [Brett Galley](#); [Ken Burns](#)  
**Cc:** [Marcia Portillo](#); [Liisa Laikko](#)  
**Subject:** FW: SB1708 - Review, Edits, Implementation language needed  
**Date:** Wednesday, May 11, 2022 10:57:00 AM  
**Attachments:** [Mopic Guidelines 09.1.2011.docx](#)  
[Program Summary 06.21.2011.doc](#)

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Not sure if everyone is aware that Commerce had a Motion Picture Production Tax Incentive that ended, what was done in the past may be helpful.

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**From:** Nathan A. Prince <[Nathanp@AZcommerce.com](mailto:Nathanp@AZcommerce.com)>  
**Sent:** Wednesday, May 11, 2022 9:29 AM  
**To:** Cindy Grogan <[CindyG@AZcommerce.com](mailto:CindyG@AZcommerce.com)>  
**Cc:** Angie Valenzuela <[angiev@AZcommerce.com](mailto:angiev@AZcommerce.com)>  
**Subject:** FW: SB1708 - Review, Edits, Implementation language needed  
**Importance:** High

FYI



**Nathan A. Prince**  
**General Counsel**  
**T** 602-845-1263 **F** 602-845-1201  
**E** [Nathanp@AZcommerce.com](mailto:Nathanp@AZcommerce.com)  
100 N. 7th Ave., Suite 400  
Phoenix, AZ 85007  
[www.azcommerce.com](http://www.azcommerce.com) |

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**From:** Brett Galley <[brettg@AZcommerce.com](mailto:brettg@AZcommerce.com)>  
**Sent:** Tuesday, May 10, 2022 1:32 PM  
**To:** Ken Burns <[KenB@AZcommerce.com](mailto:KenB@AZcommerce.com)>  
**Cc:** Nathan A. Prince <[Nathanp@AZcommerce.com](mailto:Nathanp@AZcommerce.com)>; Marcia Portillo <[MarciaP@AZcommerce.com](mailto:MarciaP@AZcommerce.com)>;  
Liisa Laikko <[LiisaL@AZcommerce.com](mailto:LiisaL@AZcommerce.com)>  
**Subject:** SB1708 - Review, Edits, Implementation language needed  
**Importance:** High

Hello,

It is time to finally really take a look at the film bill. Budget negotiations are allegedly happening this week and our policy advisor is trying to wrap his head around the film bill. They would like to know what edits we would need for smooth implementation of the program.



I believe we will have needed edits, so Ken I'll likely look to take some time on your calendar on Tuesday if possible to discuss.

There are two attachments because there is one amendment hanging out there that hasn't been adopted yet, but is expected to be. When reading the bill please read the amendment as part of page 3 between lines 41 and 42. The Amendment was adopted by House Approps but hasn't been engrossed in the bill, because the bill is held in rules and hasn't gone to House Floor yet to adopt the amendment.

Look forward to discussing with you all.

Best,  
Brett Galley



**Brett Galley**

**Director, Legislative Affairs**

**T** [813-943-8489](tel:813-943-8489) **F** 602-845-1201

**E** [brettg@AZcommerce.com](mailto:brettg@AZcommerce.com)

100 N. 7th Ave., Suite 400

Phoenix, Arizona 85007

[www.azcommerce.com](http://www.azcommerce.com) |



## **Exhibit 7**

~~pharmacy board; information change requirement~~  
(now: tax credits; motion picture credits)

State of Arizona  
House of Representatives  
Fifty-fifth Legislature  
Second Regular Session  
2022

## CHAPTER 387

# HOUSE BILL 2156

AN ACT

AMENDING TITLE 41, CHAPTER 10, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-1517; REPEALING SECTION 41-1517, ARIZONA REVISED STATUTES, AS ADDED BY THIS ACT; AMENDING SECTIONS 42-1122, 42-2003, 43-222 AND 43-1021, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1082; REPEALING SECTION 43-1082, ARIZONA REVISED STATUTES, AS ADDED BY THIS ACT; AMENDING SECTION 43-1121, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1165; REPEALING SECTION 43-1165, ARIZONA REVISED STATUTES, AS ADDED BY THIS ACT; RELATING TO INCOME TAX CREDITS

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 41, chapter 10, article 1, Arizona Revised  
3 Statutes, is amended by adding section 41-1517, to read:

4 41-1517. Arizona motion picture production program; duties;  
5 preapproval; postapproval; fee; rulemaking; audit;  
6 report; definitions

7 A. THE AUTHORITY SHALL:

8 1. IMPLEMENT AN ARIZONA MOTION PICTURE PRODUCTION PROGRAM IN THIS  
9 STATE TO PROMOTE THE WORKFORCE DEVELOPMENT AND EXPANSION OF THE COMMERCIAL  
10 MOTION PICTURE INDUSTRY IN THIS STATE.

11 2. CERTIFY MOTION PICTURE PRODUCTION COMPANIES THAT PRODUCE ONE OR  
12 MORE MOTION PICTURES IN THIS STATE FOR THE PURPOSE OF THE TAX CREDITS  
13 ALLOWED UNDER SECTION 43-1082 OR 43-1165.

14 B. TO QUALIFY FOR THE PROGRAM, A MOTION PICTURE PRODUCTION COMPANY  
15 SHALL:

16 1. DO EITHER OF THE FOLLOWING:

17 (a) USE A QUALIFIED PRODUCTION FACILITY IN THIS STATE TO PRODUCE  
18 THE MOTION PICTURE PRODUCTION.

19 (b) IF THE MOTION PICTURE PRODUCTION IS FILMED PRIMARILY AT A  
20 PRACTICAL LOCATION, PRODUCE AND FILM THE MOTION PICTURE PRODUCTION  
21 PRIMARILY IN THIS STATE AND PERFORM ALL PREPRODUCTION, POSTPRODUCTION AND  
22 EDITING AT AN INDUSTRY STANDARD FACILITY IN THIS STATE, IF SUCH A FACILITY  
23 FOR THOSE FUNCTIONS IS AVAILABLE.

24 2. MAINTAIN THE MOTION PICTURE PRODUCTION COMPANY'S PRODUCTION  
25 LABOR POSITIONS IN THIS STATE.

26 3. INCLUDE IN THE CREDITS FOR EACH MOTION PICTURE PRODUCTION AN  
27 ACKNOWLEDGMENT THAT THE PRODUCTION WAS FILMED IN ARIZONA.

28 4. SUBMIT A COMPLETED APPLICATION PURSUANT TO SUBSECTION C OF THIS  
29 SECTION. AN APPLICATION IS COMPLETE ON RECEIPT OF ALL REQUESTED  
30 INFORMATION.

31 5. PROVIDE SUPPORTING STATEMENTS AND RECORDS REQUESTED BY THE  
32 AUTHORITY TO DEMONSTRATE THAT THE MOTION PICTURE PRODUCTION COMPANY  
33 SATISFIES THE CRITERIA PROVIDED IN THIS SUBSECTION.

34 C. THE APPLICATION FOR CERTIFICATION UNDER THIS SECTION SHALL BE ON  
35 A FORM PRESCRIBED BY THE AUTHORITY AND SHALL INCLUDE THE FOLLOWING:

36 1. THE NAME, ADDRESS, TELEPHONE NUMBER AND WEBSITE ADDRESS OF THE  
37 MOTION PICTURE PRODUCTION COMPANY.

38 2. THE NAME AND ADDRESS OF AN INDIVIDUAL WHO WILL MAINTAIN RECORDS  
39 OF EXPENDITURES IN THIS STATE.

40 3. THE PROJECTED FIRST PREPRODUCTION DATE AND LAST PRODUCTION DATE  
41 IN THIS STATE.

42 4. THE PRODUCTION OFFICE ADDRESS AND OFFICE TELEPHONE NUMBER IN  
43 THIS STATE.

44 5. THE ESTIMATED TOTAL BUDGET OF THE PRODUCTION.

45 6. THE ESTIMATED TOTAL PRODUCTION COST EXPENDITURES IN THIS STATE.

1           7. THE ESTIMATED TOTAL PERCENTAGE OF THE PRODUCTION THAT WILL TAKE  
2 PLACE IN THIS STATE.

3           8. THE ESTIMATED NUMBER AND DURATION OF FULL-TIME PRODUCTION LABOR  
4 EMPLOYMENT POSITIONS IN THIS STATE.

5           9. THE ESTIMATED NUMBER OF EMPLOYEES WHO ARE RESIDENTS OF THIS  
6 STATE IN THE CAST AND CREW.

7           10. THE ESTIMATED MEDIAN WAGE OF PRODUCTION LABOR EMPLOYMENT  
8 POSITIONS IN THIS STATE.

9           11. A SCRIPT OR SYNOPSIS, THE NAME OF THE PROPOSED DIRECTOR AND A  
10 PRELIMINARY LIST OF THE CAST AND PRODUCER.

11           12. AN AFFIDAVIT THAT ATTESTS THAT THE MOTION PICTURE PRODUCTION  
12 COMPANY WILL MEET ALL OF THE REQUIREMENTS TO QUALIFY FOR THE TAX CREDITS,  
13 INCLUDING THAT THE MOTION PICTURE PRODUCTION COMPANY WILL USE A QUALIFIED  
14 PRODUCTION FACILITY IN THIS STATE TO PRODUCE THE MOTION PICTURE PRODUCTION  
15 OR OTHERWISE SATISFY THE REQUIREMENTS PRESCRIBED IN SUBSECTION B,  
16 PARAGRAPH 1 OF THIS SECTION.

17           D. THE AUTHORITY SHALL ESTABLISH PROCESSES TO:

18           1. REVIEW A COMPLETED INITIAL APPLICATION SUBMITTED PURSUANT TO  
19 THIS SECTION WITHIN A TIME PERIOD PRESCRIBED BY THE AUTHORITY BY RULE TO  
20 DETERMINE WHETHER THE MOTION PICTURE PRODUCTION COMPANY SATISFIES ALL OF  
21 THE CRITERIA PROVIDED IN SUBSECTION B OF THIS SECTION.

22           2. CERTIFY AND PREAPPROVE A MOTION PICTURE PRODUCTION COMPANY FOR  
23 THE MOTION PICTURE PRODUCTION TAX CREDITS UNDER SECTION 43-1082 OR  
24 43-1165. PREAPPROVAL PRIORITY SHALL BE BASED ON THE DATE THAT THE MOTION  
25 PICTURE PRODUCTION COMPANY FILES A COMPLETE INITIAL APPLICATION FOR  
26 CERTIFICATION WITH THE AUTHORITY.

27           E. THE PREAPPROVED AMOUNT APPLIES AGAINST THE APPLICABLE DOLLAR  
28 LIMIT PRESCRIBED BY SUBSECTION I OF THIS SECTION FOR THE CALENDAR YEAR IN  
29 WHICH THE APPLICATION WAS SUBMITTED REGARDLESS OF WHETHER THE PREAPPROVAL  
30 PERIOD EXTENDS INTO THE FOLLOWING YEAR OR YEARS.

31           F. THE AUTHORITY SHALL DENY AN APPLICATION IF THE AUTHORITY  
32 DETERMINES THAT:

33           1. THE MOTION PICTURE PRODUCTION COMPANY DOES NOT MEET ALL OF THE  
34 ESTABLISHED CRITERIA PROVIDED IN SUBSECTION B OF THIS SECTION.

35           2. THE PRODUCTION WOULD CONSTITUTE AN OBSCENE MOTION PICTURE FILM  
36 OR OBSCENE PICTORIAL PUBLICATION UNDER TITLE 12, CHAPTER 7, ARTICLE 1.1.

37           3. THE PRODUCTION VIOLATES THE OBSCENITY LAWS UNDER TITLE 13,  
38 CHAPTER 35.

39           4. THE PRODUCTION WOULD CONSTITUTE SEXUAL EXPLOITATION OF A MINOR  
40 OR COMMERCIAL SEXUAL EXPLOITATION OF A MINOR UNDER TITLE 13, CHAPTER 35.1.

41           G. ON A DETERMINATION BY THE AUTHORITY THAT A MOTION PICTURE  
42 PRODUCTION COMPANY QUALIFIES FOR THE MOTION PICTURE PRODUCTION TAX CREDITS  
43 UNDER SECTION 43-1082 OR 43-1165, THE AUTHORITY SHALL ISSUE THE MOTION  
44 PICTURE PRODUCTION COMPANY A PREAPPROVAL LETTER AND TRANSMIT A COPY OF THE  
45 PREAPPROVAL LETTER TO THE DEPARTMENT OF REVENUE. A PREAPPROVAL LETTER IS

1 EFFECTIVE FOR A TIME PERIOD PRESCRIBED BY THE AUTHORITY BY RULE THAT SHALL  
2 BE STATED IN THE PREAPPROVAL LETTER. A MOTION PICTURE PRODUCTION COMPANY  
3 MAY APPLY TO THE AUTHORITY TO EXTEND THE PREAPPROVAL PERIOD IF THE MOTION  
4 PICTURE PRODUCTION COMPANY CAN DEMONSTRATE THAT AN ACT OF FORCE MAJEURE  
5 OCCURRED AND THAT THE PREAPPROVAL LETTER WILL EXPIRE BEFORE THE PRODUCTION  
6 IS COMPLETE.

7 H. ON COMPLETION OF THE MOTION PICTURE PRODUCTION, A MOTION PICTURE  
8 PRODUCTION COMPANY THAT IS PREAPPROVED FOR THE MOTION PICTURE PRODUCTION  
9 TAX CREDITS UNDER SECTION 43-1082 OR 43-1165 SHALL APPLY TO THE AUTHORITY,  
10 ON A FORM PRESCRIBED BY THE AUTHORITY, FOR APPROVAL OF MOTION PICTURE  
11 PRODUCTION TAX CREDITS AND PROVIDE AN AUDITED STATEMENT COMPLETED BY A  
12 CERTIFIED PUBLIC ACCOUNTANT IN THIS STATE THAT CERTIFIES THE TOTAL AMOUNT  
13 OF ELIGIBLE PRODUCTION COSTS ASSOCIATED WITH THE PRODUCTION. THE  
14 AUTHORITY SHALL PROVIDE POSTAPPROVAL TO A MOTION PICTURE PRODUCTION  
15 COMPANY THAT THE MOTION PICTURE PRODUCTION COMPANY HAS MET THE ELIGIBILITY  
16 REQUIREMENTS OF THIS SECTION AND NOTIFY THE DEPARTMENT OF REVENUE THAT THE  
17 MOTION PICTURE PRODUCTION COMPANY MAY CLAIM THE TAX CREDITS UNDER SECTION  
18 43-1082 OR 43-1165.

19 I. THE AUTHORITY MAY NOT PREAPPROVE TAX CREDITS EXCEEDING THE  
20 FOLLOWING AMOUNTS IN A CALENDAR YEAR, OF WHICH UP TO \$25,000,000 IN EACH  
21 CALENDAR YEAR MAY BE USED FOR MOTION PICTURE PRODUCTIONS THAT QUALIFY FOR  
22 THE PROGRAM PURSUANT TO SUBSECTION B, PARAGRAPH 1, SUBDIVISION (b) OF THIS  
23 SECTION:

- 24 1. IN CALENDAR YEAR 2023, \$75,000,000.
- 25 2. IN CALENDAR YEAR 2024, \$100,000,000.
- 26 3. IN CALENDAR YEAR 2025, AND EACH CALENDAR YEAR THEREAFTER,  
27 \$125,000,000.

28 J. ANY INFORMATION GATHERED FROM MOTION PICTURE PRODUCTION  
29 COMPANIES FOR THE PURPOSES OF THIS SECTION IS CONSIDERED CONFIDENTIAL  
30 TAXPAYER INFORMATION AND SHALL BE DISCLOSED ONLY AS PROVIDED IN SECTION  
31 42-2003, SUBSECTION B, PARAGRAPH 12.

32 K. THE AUTHORITY SHALL ADOPT FEES AND DEPOSIT REQUIREMENTS AND  
33 RULES AND SHALL PUBLISH AND PRESCRIBE FORMS AND PROCEDURES AS NECESSARY TO  
34 ADMINISTER THIS SECTION AND PROVIDE ADMINISTRATIVE SUPPORT SERVICES.

35 L. THE AUTHORITY SHALL SUBMIT A REPORT ON OR BEFORE DECEMBER 31  
36 EACH YEAR TO THE GOVERNOR, THE PRESIDENT OF THE SENATE AND THE SPEAKER OF  
37 THE HOUSE OF REPRESENTATIVES AND SHALL PROVIDE A COPY OF THIS REPORT TO  
38 THE SECRETARY OF STATE. THE AUTHORITY SHALL ALSO MAKE THE REPORT  
39 AVAILABLE TO THE GENERAL PUBLIC ON REQUEST. THE REPORT SHALL INCLUDE:

- 40 1. INFORMATION RELATING TO THE PROGRAM'S ACTIVITIES, RECEIPTS AND  
41 EXPENDITURES.
- 42 2. INFORMATION COMPARING THE ANNUAL AMOUNT OF MONIES CREDITED TO  
43 CERTIFIED MOTION PICTURE PRODUCTION COMPANIES TO THE ESTIMATED AMOUNT OF  
44 MONIES SPENT ON IN-STATE PRODUCTION COSTS BY MOTION PICTURE PRODUCTION  
45 COMPANIES.

1           3. QUARTERLY DATA ON THE GROWTH AND DEVELOPMENT OF MOTION PICTURE  
2 INDUSTRY EMPLOYMENT AND WAGES IN THIS STATE.

3           4. A THIRD-PARTY REVIEW OF THE RELATIVE ECONOMIC BENEFITS TO THIS  
4 STATE BASED ON AN ANALYSIS OF THE FOLLOWING:

5           (a) A COMPARISON OF THE ESTIMATED STATE TAX REVENUES GENERATED BY  
6 MOTION PICTURE PRODUCTION ACTIVITY TO THE CALCULATED VALUE OF THE TAX  
7 CREDIT. STATE TAX REVENUE ESTIMATES SHALL INCLUDE THE SUM OF ALL INCOME  
8 TAXES, TRANSACTION PRIVILEGE TAXES AND OTHER TAXES IMPOSED BY THIS STATE.

9           (b) THE DIRECT, INDIRECT AND INDUCED INPUTS THAT RELY ON COMMONLY  
10 USED INPUT-OUTPUT ECONOMIC MODELING FOR GENERATING ECONOMIC MULTIPLIERS  
11 AND THAT MEASURE THE DIRECT AND INDIRECT IMPACT OF THE MOTION PICTURE  
12 PRODUCTION INDUSTRY AND IDENTIFIABLE INDUCED ECONOMIC ACTIVITY IN THIS  
13 STATE, INCLUDING BENEFITS RELATED TO CONSTRUCTION ACTIVITY AND THE  
14 ASSOCIATED STATE TRANSACTION PRIVILEGE TAX.

15           (c) THE DIFFERENCE BETWEEN THE STATE TAX REVENUES ESTIMATED  
16 PURSUANT TO SUBDIVISION (a) OF THIS PARAGRAPH AND THE AMOUNT OF MONIES  
17 CREDITED PURSUANT TO SECTIONS 43-1082 AND 43-1165, AGGREGATED EACH YEAR  
18 AND REPORTED ON A CUMULATIVE BASIS IN EACH SUCCEEDING YEAR.

19           M. BEGINNING ON THE FIFTH YEAR AFTER THE AUTHORITY ISSUES THE FIRST  
20 PREAPPROVAL LETTER AND AT LEAST EVERY FIFTH YEAR THEREAFTER, THE AUTHORITY  
21 SHALL PERFORM AN AUDIT OF THE PROGRAM. ON OR BEFORE JUNE 30 OF THE  
22 RESPECTIVE YEAR, THE AUTHORITY SHALL ISSUE A PUBLIC REPORT OF THE AUDIT  
23 AND SUBMIT THE REPORT OF THE AUDIT TO THE PRESIDENT OF THE SENATE AND THE  
24 SPEAKER OF THE HOUSE OF REPRESENTATIVES AND SHALL PROVIDE A COPY TO THE  
25 SECRETARY OF STATE. THE AUDITOR GENERAL SHALL REVIEW EACH AUDIT PERFORMED  
26 PURSUANT TO THIS SUBSECTION AND REPORT THE AUDITOR GENERAL'S FINDINGS TO  
27 THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF  
28 REPRESENTATIVES AND SHALL PROVIDE A COPY TO THE SECRETARY OF STATE. THE  
29 AUDIT PERFORMED ON THE TENTH YEAR AFTER THE FIRST AUDIT BY THE AUTHORITY  
30 SHALL INCLUDE A RECOMMENDATION FOR WHETHER THE PROGRAM IS ECONOMICALLY  
31 VIABLE AND EFFECTIVE.

32           N. EACH AUDIT REPORT REQUIRED BY SUBSECTION M OF THIS SECTION MUST  
33 INCLUDE:

34           1. THE CUMULATIVE TOTAL NUMBER OF PRODUCTION LABOR EMPLOYMENT  
35 POSITIONS AND LABOR COSTS RELATED TO THOSE POSITIONS THAT QUALIFIED FOR  
36 THE TAX CREDITS ALLOWED UNDER SECTION 43-1082, SUBSECTION A, PARAGRAPH 2  
37 OR SECTION 43-1165, SUBSECTION A, PARAGRAPH 2 FOR EACH YEAR THE CREDIT IS  
38 TAKEN.

39           2. A COMPARISON OF THE MEDIAN WAGE OF PRODUCTION LABOR EMPLOYMENT  
40 POSITIONS IN EACH COUNTY AND THE MEDIAN WAGE IN THE COUNTY IN WHICH A  
41 PRODUCTION LABOR EMPLOYMENT POSITION IS LOCATED.

42           3. THE CUMULATIVE TOTAL OF WORKER-DAYS CALCULATED BY MULTIPLYING  
43 THE TOTAL NUMBER OF PRODUCTION LABOR EMPLOYMENT POSITIONS BY THE NUMBER OF  
44 DAYS WORKED FOR EACH POSITION DURING THE EMPLOYMENT.

1           0. FOR THE PURPOSES OF THIS SECTION:  
2           1. "MOTION PICTURE PRODUCTION" MEANS A SINGLE MEDIUM OR MULTIMEDIA  
3 PROGRAM, INCLUDING A FEATURE FILM, EPISODIC SERIES OR COMMERCIAL  
4 ADVERTISEMENT MESSAGE, THAT:  
5           (a) IS CREATED BY PRODUCTION ACTIVITIES CONDUCTED IN THIS STATE.  
6           (b) CAN BE VIEWED OR REPRODUCED.  
7           (c) IS INTENDED FOR COMMERCIAL DISTRIBUTION OR LICENSING IN THE  
8 DELIVERY MEDIUM USED.  
9           2. "MOTION PICTURE PRODUCTION COMPANY" MEANS ANY PERSON THAT IS  
10 PRIMARILY ENGAGED IN THE BUSINESS OF PRODUCING MOTION PICTURES AND THAT  
11 HAS A PHYSICAL BUSINESS OFFICE IN THIS STATE.  
12           3. "PRACTICAL LOCATION" MEANS A LOCATION AT WHICH A MOTION PICTURE  
13 PRODUCTION IS FILMED THAT IS NOT AND THAT DOES NOT USE AN INDUSTRY  
14 STANDARD SOUND STAGE OR PRODUCTION FACILITY TO PRODUCE AND FILM THE MOTION  
15 PICTURE PRODUCTION.  
16           4. "PRODUCTION COSTS":  
17           (a) MEANS COSTS FOR THE FOLLOWING THAT ARE INCURRED AND TAXABLE IN  
18 THIS STATE:  
19           (i) ALL COMPENSATION PAID TO TALENT, WRITERS, DIRECTORS AND  
20 MANAGEMENT.  
21           (ii) ALL COMPENSATION PAID FOR PRODUCTION LABOR.  
22           (iii) SET CONSTRUCTION AND OPERATION COSTS PAID PURSUANT TO  
23 CONSTRUCTION CONTRACTS WITH CONTRACTORS THAT ARE LICENSED UNDER TITLE 32,  
24 CHAPTER 10.  
25           (iv) WARDROBE, PROPS, ACCESSORIES AND RELATED SERVICES.  
26           (v) PHOTOGRAPHY, SOUND SYNCHRONIZATION, LIGHTING AND RELATED COSTS.  
27           (vi) EDITING AND RELATED SERVICES.  
28           (vii) RENTAL OF QUALIFIED PRODUCTION FACILITIES.  
29           (viii) RENTAL OF EQUIPMENT.  
30           (ix) CATERED FOOD, DRINK AND CONDIMENT PURCHASED FROM A QUALIFIED  
31 PRODUCTION FACILITY.  
32           (x) OTHER DIRECT IN-STATE COSTS OF PRODUCING THE MOTION PICTURE  
33 PRODUCTION PURSUANT TO RULES ADOPTED BY THE AUTHORITY.  
34           (b) DOES NOT INCLUDE PAYMENTS FOR PENALTIES AND FINES OR FEES OR  
35 DEPOSITS ESTABLISHED BY THE AUTHORITY OR THE DEPARTMENT OF REVENUE TO  
36 ADMINISTER THE PROGRAM.  
37           5. "PRODUCTION LABOR" MEANS ALL LABORERS WORKING ON A PRODUCTION  
38 THAT ARE NOT TALENT, WRITERS, DIRECTORS, PRODUCERS OR MANAGEMENT.  
39           6. "PROGRAM" MEANS THE ARIZONA MOTION PICTURE PRODUCTION PROGRAM  
40 IMPLEMENTED PURSUANT TO THIS SECTION.  
41           7. "QUALIFIED PRODUCTION FACILITY" MEANS A STRUCTURE THAT IS BUILT  
42 FOR FILM INDUSTRY PURPOSES, IS LOCATED IN THIS STATE, IS AT LEAST TEN  
43 THOUSAND SQUARE FEET AND MEETS GENERALLY ACCEPTED INDUSTRY STANDARDS,  
44 INCLUDING STANDARDS FOR SOUNDPROOFING, LIGHTING, AIR CONDITIONING AND



1 MOTION PICTURE PRODUCTION QUALITY TECHNOLOGY FOR PRODUCING, FILMING OR  
2 OTHERWISE CREATING A MOTION PICTURE PRODUCTION.

3 Sec. 2. Delayed repeal

4 Section ~~41-1517~~, Arizona Revised Statutes, as added by this act, is  
5 repealed from and after December 31, 2043.

6 Sec. 3. Section 42-1122, Arizona Revised Statutes, is amended to  
7 read:

8 ~~42-1122.~~ Setoff for debts to state agencies, political subdivisions  
9 and courts; revolving fund; penalties; definitions

10 A. The department shall establish a liability setoff program by  
11 which refunds under ~~sections~~ SECTION 42-1118 and ~~43-1072~~ TITLE 43,  
12 CHAPTERS 10 AND 11 may be used to satisfy debts that the taxpayer owes to  
13 this state, a political subdivision or a court. The program shall comply  
14 with the standards and requirements prescribed by this section.

15 B. If a taxpayer owes an agency, political subdivision or court a  
16 debt, the agency, political subdivision or court, by November 1 of each  
17 year, may notify the department, furnishing at least the state agency,  
18 court or program identifier, the taxpayer's first name, last name, middle  
19 initial or middle name and suffix and social security number and any other  
20 available identification that the agency, political subdivision or court  
21 deems appropriate of the debtor as shown on the records of the agency,  
22 political subdivision or court, and the amount of the debt.

23 C. The department shall match the information submitted by the  
24 agency, political subdivision or court by at least two items of  
25 identification of the taxpayer with taxpayers who qualify for refunds  
26 under section 42-1118 and shall:

27 1. Notify the agency, political subdivision or court of a potential  
28 match, the taxpayer's home address and any additional taxpayer  
29 identification numbers used by the taxpayer. Even if the taxpayer is not  
30 entitled to a refund, the department of revenue shall provide to:

31 (a) The court, the clerk of the court and the department of  
32 economic security, for child support and spousal maintenance purposes  
33 only, the home address of a taxpayer whose debt for overdue support is  
34 referred for setoff and any additional taxpayer identification numbers  
35 used by the taxpayer.

36 (b) The court the home address and any additional taxpayer  
37 identification numbers used by the taxpayer whose debt for a court  
38 obligation is referred for setoff and who is identified by the court as a  
39 probationer on absconder status.

40 2. Request final agency, political subdivision or court  
41 confirmation in writing or electronically as determined by the department  
42 within ten days after the match and of the continuation of the debt. If  
43 the agency, political subdivision or court fails to provide confirmation  
44 within forty-five days after the request, the department shall release the  
45 refund to the taxpayer.

1           D. An agency, political subdivision or court may submit updated  
2 information, additions, deletions and other changes on a quarterly or more  
3 frequent basis, at the convenience of the agency, political subdivision or  
4 court.

5           E. On confirmation pursuant to subsection C, paragraph 2 of this  
6 section, the agency or political subdivision shall notify the taxpayer, by  
7 mail to the most recent physical address or electronically to the most  
8 recent ~~e-mail~~ EMAIL address provided by the taxpayer to the department:

9           1. Of the intention to set off the debt against the refund due.

10           2. Of the taxpayer's right to appeal to the appropriate court or to  
11 request a review by the agency or political subdivision pursuant to agency  
12 or political subdivision rule, within thirty days after the physical or  
13 electronic mailing of the notice.

14           F. In addition, the taxpayer shall receive notice that if the  
15 refund is intercepted in error through no fault of the taxpayer, the  
16 taxpayer is entitled to the full refund plus interest and penalties from  
17 the agency, political subdivision or court as provided by subsection 0 of  
18 this section.

19           G. The basis for a request for review as provided by subsection E  
20 of this section shall not include the validity of the claim if its  
21 validity has been established at an agency hearing, by judicial review in  
22 a court of competent jurisdiction in this or any other state or by final  
23 administrative decision and shall state with specificity why the taxpayer  
24 claims the obligation does not exist or why the amount of the obligation  
25 is incorrect.

26           H. If, within thirty days after the physical or electronic mailing  
27 of the notice, the taxpayer requests a review by the agency or political  
28 subdivision or provides the agency or political subdivision with proof  
29 that an appeal has been taken to the appropriate court, the agency or  
30 political subdivision shall immediately notify the department and the  
31 setoff procedure shall be stayed pending resolution of the review or  
32 appeal.

33           I. If the department does not receive notice of a timely appeal, it  
34 shall draw and deliver a warrant in the amount of the available refund up  
35 to the amount of the debt in favor of the agency or political subdivision  
36 and notify the taxpayer of the action by physical mail or ~~e-mail~~ EMAIL.

37           J. Subsections E, G, H and I of this section do not apply to a debt  
38 imposed by a court except that the taxpayer shall receive notice of the  
39 intent to set off the debt against the refund due and the right to appeal  
40 to the court that imposed the debt within thirty days after the physical  
41 or electronic mailing of the notice. The basis for the request for review  
42 shall not include the validity of the claim and shall state with  
43 specificity why the taxpayer claims the obligation does not exist or why  
44 the obligation is incorrect.

1           K. If the setoff accounts for only a portion of the refund due, the  
2 remainder of the refund shall be sent to the taxpayer. A court shall not  
3 use this section to satisfy a judgment or payment of a fine or civil  
4 penalty until the judgment has become final or until the time to appeal  
5 the imposition of a fine or civil penalty has expired.

6           L. A revolving fund is established to recover and pay the cost of  
7 operating the setoff program under this section. Monies in the fund may  
8 also be used for the general operating expenses of the department. The  
9 department may prescribe a fee to be collected from each agency, political  
10 subdivision or court using the setoff procedure or from the taxpayer, and  
11 the amount shall be deposited in the fund. The amount of the fee shall  
12 reasonably reflect the actual cost of the service provided. Monies in the  
13 revolving fund are subject to legislative appropriation.

14           M. If agencies, political subdivisions or courts have two or more  
15 delinquent accounts for the same taxpayer, the refund may be apportioned  
16 among them pursuant to rules prescribed by the department of revenue,  
17 except that a setoff to the department of economic security for overdue  
18 support has priority over all other setoffs.

19           N. If the refund is insufficient to satisfy the entire debt, the  
20 remainder of the debt may be collected by the agency, political  
21 subdivision or court as provided by law or resubmitted for setoff against  
22 subsequent refunds.

23           O. In the case of a refund that is intercepted in error through no  
24 fault of the taxpayer under this section, the taxpayer shall be reimbursed  
25 by the agency, political subdivision or court with interest pursuant to  
26 section 42-1123. In addition, if all or part of a refund is intercepted  
27 in error due to an agency, political subdivision or court incorrectly  
28 identifying a taxpayer as a debtor through no fault of the taxpayer, the  
29 agency, political subdivision or court shall also pay the taxpayer a  
30 penalty as follows:

31           1. If the agency, political subdivision or court reimburses the  
32 taxpayer sixteen through one hundred eighty days after the agency,  
33 political subdivision or court receives notification that the refund was  
34 erroneously intercepted and the refund was received by the agency,  
35 political subdivision or court, the penalty is equal to ten percent of the  
36 amount of the refund that was intercepted.

37           2. If the agency, political subdivision or court reimburses the  
38 taxpayer one hundred eighty-one through three hundred sixty-five days  
39 after the agency, political subdivision or court receives notification  
40 that the refund was erroneously intercepted and the refund was received by  
41 the agency, political subdivision or court, the penalty is equal to  
42 fifteen percent of the amount of the refund that was intercepted.

43           3. If the agency, political subdivision or court fails to reimburse  
44 the taxpayer within three hundred sixty-five days after the agency,  
45 political subdivision or court receives notification that the refund was

1 erroneously intercepted and the refund was received by the agency,  
2 political subdivision or court, the penalty is equal to twenty percent of  
3 the amount of the refund that was intercepted.

4 P. The time periods set forth in subsection O of this section shall  
5 be stayed during a review of an agency decision pursuant to section  
6 25-522.

7 Q. Except as is reasonably necessary to accomplish the purposes of  
8 this section, the department shall not disclose under this section any  
9 information in violation of chapter 2, article 1 of this title.

10 R. An agency, political subdivision or court shall not enter into  
11 an agreement with a debtor for:

12 1. The assignment of any prospective refund to the agency,  
13 political subdivision or court in satisfaction of the debt.

14 2. Payment of the debt if the debt has been confirmed to the  
15 department for setoff under subsection C, paragraph 2 of this section.

16 S. If a tax refund is based on a joint income tax return and the  
17 department of economic security receives a written claim from the  
18 nonobligated spouse within forty-five days after the notice of a setoff  
19 for overdue child support, the setoff only applies to that portion of the  
20 refund due to the obligor. The nonobligated spouse shall provide to the  
21 department of economic security copies of both the obligated and  
22 nonobligated spouse's federal W-2 forms and evidence of estimated tax  
23 payments supporting the proportionate share of each spouse's payment of  
24 tax. The department of economic security shall retain the amount of the  
25 setoff refund due to the obligated spouse determined by a proration based  
26 on the tax payments of each spouse by estimated tax payment or tax  
27 withheld from wages.

28 T. For the purposes of this section:

29 1. "Agency" means:

30 (a) A department, agency, board, commission or institution of this  
31 state.

32 (b) A corporation that is under contract with this state and that  
33 provides a service that would otherwise be provided by a department,  
34 agency, board, commission or institution of this state, if the contract  
35 specifically authorizes participation in the liability setoff program and  
36 the attorney general's office has reviewed the contract and approves such  
37 authorization. The participation in the liability setoff program shall be  
38 limited to debt related to the services the corporation provides for or on  
39 behalf of this state.

40 2. "Court" means all courts of record, justice courts and municipal  
41 courts.

42 3. "Debt":

43 (a) Means an amount over \$50 that is owed to an agency, political  
44 subdivision or court by a taxpayer and may include a judgment in favor of  
45 this state or a political subdivision of this state, interest, penalties,

1 charges, costs, fees, fines, civil penalties, surcharges, assessments,  
2 administrative charges or any other amount.

3 (b) Includes monies that are owed by a taxpayer for overdue support  
4 and that are referred to the department of economic security or the clerk  
5 of the court for collection.

6 4. "Overdue support" means a delinquency in court ordered payments  
7 for spousal maintenance or support of a child or for spousal maintenance  
8 to the parent with whom the child is living if child support is also being  
9 enforced pursuant to an assignment or application filed under 42 United  
10 States Code section 654(6) or other applicable law.

11 5. "Political subdivision" means a county or an incorporated city  
12 or town in this state.

13 Sec. 4. Section 42-2003, Arizona Revised Statutes, is amended to  
14 read:

15 42-2003. Authorized disclosure of confidential information

16 A. Confidential information relating to:

17 1. A taxpayer may be disclosed to the taxpayer, its successor in  
18 interest or a designee of the taxpayer who is authorized in writing by the  
19 taxpayer. A principal corporate officer of a parent corporation may  
20 execute a written authorization for a controlled subsidiary.

21 2. A corporate taxpayer may be disclosed to any principal officer,  
22 any person designated by a principal officer or any person designated in a  
23 resolution by the corporate board of directors or other similar governing  
24 body. If a corporate officer signs a statement under penalty of perjury  
25 representing that the officer is a principal officer, the department may  
26 rely on the statement until the statement is shown to be false. For the  
27 purposes of this paragraph, "principal officer" includes a chief executive  
28 officer, president, secretary, treasurer, vice president of tax, chief  
29 financial officer, chief operating officer or chief tax officer or any  
30 other corporate officer who has the authority to bind the taxpayer on  
31 matters related to state taxes.

32 3. A partnership may be disclosed to any partner of the  
33 partnership. This exception does not include disclosure of confidential  
34 information of a particular partner unless otherwise authorized.

35 4. A limited liability company may be disclosed to any member of  
36 the company or, if the company is manager-managed, to any manager.

37 5. An estate may be disclosed to the personal representative of the  
38 estate and to any heir, next of kin or beneficiary under the will of the  
39 decedent if the department finds that the heir, next of kin or beneficiary  
40 has a material interest that will be affected by the confidential  
41 information.

42 6. A trust may be disclosed to the trustee or trustees, jointly or  
43 separately, and to the grantor or any beneficiary of the trust if the  
44 department finds that the grantor or beneficiary has a material interest  
45 that will be affected by the confidential information.

1           7. A government entity may be disclosed to the head of the entity  
2 or a member of the governing board of the entity, or any employee of the  
3 entity who has been delegated the authorization in writing by the head of  
4 the entity or the governing board of the entity.

5           8. Any taxpayer may be disclosed if the taxpayer has waived any  
6 rights to confidentiality either in writing or on the record in any  
7 administrative or judicial proceeding.

8           9. The name and taxpayer identification numbers of persons issued  
9 direct payment permits may be publicly disclosed.

10          10. Any taxpayer may be disclosed during a meeting or telephone  
11 call if the taxpayer is present during the meeting or telephone call and  
12 authorizes the disclosure of confidential information.

13           B. Confidential information may be disclosed to:

14          1. Any employee of the department whose official duties involve tax  
15 administration.

16          2. The office of the attorney general solely for its use in  
17 preparation for, or in an investigation that may result in, any proceeding  
18 involving tax administration before the department or any other agency or  
19 board of this state, or before any grand jury or any state or federal  
20 court.

21          3. The department of liquor licenses and control for its use in  
22 determining whether a spirituous liquor licensee has paid all transaction  
23 privilege taxes and affiliated excise taxes incurred as a result of the  
24 sale of spirituous liquor, as defined in section 4-101, at the licensed  
25 establishment and imposed on the licensed establishments by this state and  
26 its political subdivisions.

27          4. Other state tax officials whose official duties require the  
28 disclosure for proper tax administration purposes if the information is  
29 sought in connection with an investigation or any other proceeding  
30 conducted by the official. Any disclosure is limited to information of a  
31 taxpayer who is being investigated or who is a party to a proceeding  
32 conducted by the official.

33          5. The following agencies, officials and organizations, if they  
34 grant substantially similar privileges to the department for the type of  
35 information being sought, pursuant to statute and a written agreement  
36 between the department and the foreign country, agency, state, Indian  
37 tribe or organization:

38           (a) The United States internal revenue service, alcohol and tobacco  
39 tax and trade bureau of the United States treasury, United States bureau  
40 of alcohol, tobacco, firearms and explosives of the United States  
41 department of justice, United States drug enforcement agency and federal  
42 bureau of investigation.

43           (b) A state tax official of another state.

1 (c) An organization of states, federation of tax administrators or  
2 multistate tax commission that operates an information exchange for tax  
3 administration purposes.

4 (d) An agency, official or organization of a foreign country with  
5 responsibilities that are comparable to those listed in subdivision (a),  
6 (b) or (c) of this paragraph.

7 (e) An agency, official or organization of an Indian tribal  
8 government with responsibilities comparable to the responsibilities of the  
9 agencies, officials or organizations identified in subdivision (a), (b) or  
10 (c) of this paragraph.

11 6. The auditor general, in connection with any audit of the  
12 department subject to the restrictions in section 42-2002, subsection D.

13 7. Any person to the extent necessary for effective tax  
14 administration in connection with:

15 (a) The processing, storage, transmission, destruction and  
16 reproduction of the information.

17 (b) The programming, maintenance, repair, testing and procurement  
18 of equipment for purposes of tax administration.

19 (c) The collection of the taxpayer's civil liability.

20 8. The office of administrative hearings relating to taxes  
21 administered by the department pursuant to section 42-1101, but the  
22 department shall not disclose any confidential information without the  
23 taxpayer's written consent:

24 (a) Regarding income tax or withholding tax.

25 (b) On any tax issue relating to information associated with the  
26 reporting of income tax or withholding tax.

27 9. The United States treasury inspector general for tax  
28 administration for the purpose of reporting a violation of internal  
29 revenue code section 7213A (26 United States Code section 7213A),  
30 unauthorized inspection of returns or return information.

31 10. The financial management service of the United States treasury  
32 department for use in the treasury offset program.

33 11. The United States treasury department or its authorized agent  
34 for use in the state income tax levy program and in the electronic federal  
35 tax payment system.

36 12. The Arizona commerce authority for its use in:

37 (a) Qualifying renewable energy operations for the tax incentives  
38 under section 42-12006.

39 (b) Qualifying businesses with a qualified facility for income tax  
40 credits under sections 43-1083.03 and 43-1164.04.

41 (c) Fulfilling its annual reporting responsibility pursuant to  
42 section 41-1511, subsections U and V, ~~and~~ section 41-1512, subsections U  
43 and V **AND SECTION 41-1517, SUBSECTION L.**

44 (d) Certifying computer data centers for tax relief under section  
45 41-1519.

1 (e) CERTIFYING APPLICANTS FOR THE TAX CREDIT FOR MOTION PICTURE  
2 PRODUCTION COSTS UNDER SECTIONS 43-1082 AND 43-1165.

3 13. A prosecutor for purposes of section 32-1164, subsection C.

4 14. The office of the state fire marshal for use in determining  
5 compliance with and enforcing title 37, chapter 9, article 5.

6 15. The department of transportation for its use in administering  
7 taxes, surcharges and penalties prescribed by title 28.

8 16. The Arizona health care cost containment system administration  
9 for its use in administering nursing facility provider assessments.

10 17. The department of administration risk management division and  
11 the office of the attorney general if the information relates to a claim  
12 against this state pursuant to section 12-821.01 involving the department  
13 of revenue.

14 18. Another state agency if the taxpayer authorizes the disclosure  
15 of confidential information in writing, including an authorization that is  
16 part of an application form or other document submitted to the agency.

17 19. The department of economic security for its use in determining  
18 whether an employer has paid all amounts due under the unemployment  
19 insurance program pursuant to title 23, chapter 4.

20 20. The department of health services for its use in determining  
21 the following:

22 (a) Whether a medical marijuana dispensary is in compliance with  
23 the tax requirements of chapter 5 of this title for the purposes of  
24 section 36-2806, subsection A.

25 (b) Whether a marijuana establishment, marijuana testing facility  
26 or dual licensee licensed under title 36, chapter 28.2 is in compliance  
27 with the tax obligations under this title or title 43.

28 C. Confidential information may be disclosed in any state or  
29 federal judicial or administrative proceeding pertaining to tax  
30 administration pursuant to the following conditions:

31 1. One or more of the following circumstances must apply:

32 (a) The taxpayer is a party to the proceeding.

33 (b) The proceeding arose out of, or in connection with, determining  
34 the taxpayer's civil or criminal liability, or the collection of the  
35 taxpayer's civil liability, with respect to any tax imposed under this  
36 title or title 43.

37 (c) The treatment of an item reflected on the taxpayer's return is  
38 directly related to the resolution of an issue in the proceeding.

39 (d) Return information directly relates to a transactional  
40 relationship between a person who is a party to the proceeding and the  
41 taxpayer and directly affects the resolution of an issue in the  
42 proceeding.

43 2. Confidential information may not be disclosed under this  
44 subsection if the disclosure is prohibited by section 42-2002, subsection  
45 C or D.



1 D. Identity information may be disclosed for purposes of notifying  
2 persons entitled to tax refunds if the department is unable to locate the  
3 persons after reasonable effort.

4 E. The department, on the request of any person, shall provide the  
5 names and addresses of bingo licensees as defined in section 5-401, verify  
6 whether or not a person has a privilege license and number, a tobacco  
7 product distributor's license and number or a withholding license and  
8 number or disclose the information to be posted on the department's  
9 website or otherwise publicly accessible pursuant to section 42-1124,  
10 subsection F and section 42-3401.

11 F. A department employee, in connection with the official duties  
12 relating to any audit, collection activity or civil or criminal  
13 investigation, may disclose return information to the extent that  
14 disclosure is necessary to obtain information that is not otherwise  
15 reasonably available. These official duties include the correct  
16 determination of and liability for tax, the amount to be collected or the  
17 enforcement of other state tax revenue laws.

18 G. Confidential information relating to transaction privilege tax,  
19 use tax, severance tax, jet fuel excise and use tax and any other tax  
20 collected by the department on behalf of any jurisdiction may be disclosed  
21 to any county, city or town tax official if the information relates to a  
22 taxpayer who is or may be taxable by a county, city or town or who may be  
23 subject to audit by the department pursuant to section 42-6002. Any  
24 taxpayer information that is released by the department to the county,  
25 city or town:

26 1. May be used only for internal purposes, including audits. If  
27 there is a legitimate business need relating to enforcing laws,  
28 regulations and ordinances pursuant to section 9-500.39 or 11-269.17, a  
29 county, city or town tax official may redisclose transaction privilege tax  
30 information relating to a vacation rental or short-term rental property  
31 owner or online lodging operator from the new license report and license  
32 update report, subject to the following:

33 (a) The information redisclosed is limited to the following:

34 (i) The transaction privilege tax license number.

35 (ii) The type of organization or ownership of the business.

36 (iii) The legal business name and doing business as name, if  
37 different from the legal name.

38 (iv) The business mailing address, tax record physical location  
39 address, telephone number, email address and fax number.

40 (v) The date the business started in this state, the business  
41 description and the North American industry classification system code.

42 (vi) The name, address and telephone number for each owner,  
43 partner, corporate officer, member, managing member or official of the  
44 employing unit.

1 (b) Redislosure is limited to nonelected officials in other units  
2 within the county, city or town. The information may not be redisclosed  
3 to an elected official or the elected official's staff.

4 (c) All redisclosures of confidential information made pursuant to  
5 this paragraph are subject to paragraph 2 of this subsection.

6 2. May not be disclosed to the public in any manner that does not  
7 comply with confidentiality standards established by the department. The  
8 county, city or town shall agree in writing with the department that any  
9 release of confidential information that violates the confidentiality  
10 standards adopted by the department will result in the immediate  
11 suspension of any rights of the county, city or town to receive taxpayer  
12 information under this subsection.

13 H. The department may disclose statistical information gathered  
14 from confidential information if it does not disclose confidential  
15 information attributable to any one taxpayer. The department may disclose  
16 statistical information gathered from confidential information, even if it  
17 discloses confidential information attributable to a taxpayer, to:

18 1. The state treasurer in order to comply with the requirements of  
19 section 42-5029, subsection A, paragraph 3.

20 2. The joint legislative income tax credit review committee, the  
21 joint legislative budget committee staff and the legislative staff in  
22 order to comply with the requirements of section 43-221.

23 I. The department may disclose the aggregate amounts of any tax  
24 credit, tax deduction or tax exemption enacted after January 1, 1994.  
25 Information subject to disclosure under this subsection shall not be  
26 disclosed if a taxpayer demonstrates to the department that such  
27 information would give an unfair advantage to competitors.

28 J. Except as provided in section 42-2002, subsection C,  
29 confidential information, described in section 42-2001, paragraph 1,  
30 subdivision (a), item (ii), may be disclosed to law enforcement agencies  
31 for law enforcement purposes.

32 K. The department may provide transaction privilege tax license  
33 information to property tax officials in a county for the purpose of  
34 identification and verification of the tax status of commercial property.

35 L. The department may provide transaction privilege tax, luxury  
36 tax, use tax, property tax and severance tax information to the  
37 ombudsman-citizens aide pursuant to title 41, chapter 8, article 5.

38 M. Except as provided in section 42-2002, subsection D, a court may  
39 order the department to disclose confidential information pertaining to a  
40 party to an action. An order shall be made only on a showing of good  
41 cause and that the party seeking the information has made demand on the  
42 taxpayer for the information.

43 N. This section does not prohibit the disclosure by the department  
44 of any information or documents submitted to the department by a bingo

1 licensee. Before disclosing the information, the department shall obtain  
2 the name and address of the person requesting the information.

3 O. If the department is required or ~~permitted~~ ALLOWED to disclose  
4 confidential information, it may charge the person or agency requesting  
5 the information for the reasonable cost of its services.

6 P. Except as provided in section 42-2002, subsection D, the  
7 department of revenue shall release confidential information as requested  
8 by the department of economic security pursuant to section 42-1122 or  
9 46-291. Information disclosed under this subsection is limited to the  
10 same type of information that the United States internal revenue service  
11 is authorized to disclose under section 6103(1)(6) of the internal revenue  
12 code.

13 Q. Except as provided in section 42-2002, subsection D, the  
14 department shall release confidential information as requested by the  
15 courts and clerks of the court pursuant to section 42-1122.

16 R. To comply with the requirements of section 42-5031, the  
17 department may disclose to the state treasurer, to the county stadium  
18 district board of directors and to any city or town tax official that is  
19 part of the county stadium district confidential information attributable  
20 to a taxpayer's business activity conducted in the county stadium  
21 district.

22 S. The department shall release to the attorney general  
23 confidential information as requested by the attorney general for purposes  
24 of determining compliance with or enforcing any of the following:

25 1. Any public health control law relating to tobacco sales as  
26 provided under title 36, chapter 6, article 14.

27 2. Any law relating to reduced cigarette ignition propensity  
28 standards as provided under title 37, chapter 9, article 5.

29 3. Sections 44-7101 and 44-7111, the master settlement agreement  
30 referred to in those sections and all agreements regarding disputes under  
31 the master settlement agreement.

32 T. For proceedings before the department, the office of  
33 administrative hearings, the state board of tax appeals or any state or  
34 federal court involving penalties that were assessed against a return  
35 preparer, an electronic return preparer or a payroll service company  
36 pursuant to section 42-1103.02, 42-1125.01 or 43-419, confidential  
37 information may be disclosed only before the judge or administrative law  
38 judge adjudicating the proceeding, the parties to the proceeding and the  
39 parties' representatives in the proceeding prior to its introduction into  
40 evidence in the proceeding. The confidential information may be  
41 introduced as evidence in the proceeding only if the taxpayer's name, the  
42 names of any dependents listed on the return, all social security numbers,  
43 the taxpayer's address, the taxpayer's signature and any attachments  
44 containing any of the foregoing information are redacted and if either:

1           1. The treatment of an item reflected on such a return is or may be  
2 related to the resolution of an issue in the proceeding.

3           2. Such a return or the return information relates or may relate to  
4 a transactional relationship between a person who is a party to the  
5 proceeding and the taxpayer that directly affects the resolution of an  
6 issue in the proceeding.

7           3. The method of payment of the taxpayer's withholding tax  
8 liability or the method of filing the taxpayer's withholding tax return is  
9 an issue for the period.

10          U. The department and attorney general may share the information  
11 specified in subsection S of this section with any of the following:

12           1. Federal, state or local agencies located in this state for the  
13 purposes of enforcement of the statutes or agreements specified in  
14 subsection S of this section or for the purposes of enforcement of  
15 corresponding laws of other states.

16           2. Indian tribes located in this state for the purposes of  
17 enforcement of the statutes or agreements specified in subsection S of  
18 this section.

19           3. A court, arbitrator, data clearinghouse or similar entity for  
20 the purpose of assessing compliance with or making calculations required  
21 by the master settlement agreement or agreements regarding disputes under  
22 the master settlement agreement, and with counsel for the parties or  
23 expert witnesses in any such proceeding, if the information otherwise  
24 remains confidential.

25          V. The department may provide the name and address of qualifying  
26 hospitals and qualifying health care organizations, as defined in section  
27 42-5001, to a business that is classified and reporting transaction  
28 privilege tax under the utilities classification.

29          W. The department may disclose to an official of any city, town or  
30 county in a current agreement or considering a prospective agreement with  
31 the department as described in section 42-5032.02, subsection G any  
32 information relating to amounts that are subject to distribution and that  
33 are required by section 42-5032.02. Information disclosed by the  
34 department under this subsection:

35           1. May ~~only~~ be used ONLY by the city, town or county for internal  
36 purposes.

37           2. May not be disclosed to the public in any manner that does not  
38 comply with confidentiality standards established by the department. The  
39 city, town or county must agree with the department in writing that any  
40 release of confidential information that violates the confidentiality  
41 standards will result in the immediate suspension of any rights of the  
42 city, town or county to receive information under this subsection.

43          X. Notwithstanding any other provision of this section, the  
44 department may not disclose information provided by an online lodging  
45 marketplace, as defined in section 42-5076, without the written consent of

1 the online lodging marketplace, and the information may be disclosed only  
2 pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,  
3 paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such  
4 information:

5 1. Is not subject to disclosure pursuant to title 39, relating to  
6 public records.

7 2. May not be disclosed to any agency of this state or of any  
8 county, city, town or other political subdivision of this state.

9 Sec. 5. Section 43-222, Arizona Revised Statutes, is amended to  
10 read:

11 43-222. Income tax credit review schedule

12 The joint legislative income tax credit review committee shall  
13 review the following income tax credits:

14 1. For years ending in 0 and 5, sections 43-1079.01, 43-1088,  
15 43-1089.04, 43-1167.01 and 43-1175.

16 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,  
17 43-1075, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162,  
18 43-1164.03 and 43-1183.

19 3. For years ending in 2 and 7, sections 43-1073, 43-1082, 43-1085,  
20 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, 43-1165,  
21 43-1169 and 43-1181.

22 4. For years ending in 3 and 8, sections 43-1074.01, 43-1081,  
23 43-1168, 43-1170 and 43-1178.

24 5. For years ending in 4 and 9, sections 43-1073.01, 43-1076,  
25 43-1081.01, 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

26 Sec. 6. Section 43-1021, Arizona Revised Statutes, is amended to  
27 read:

28 43-1021. Addition to Arizona gross income

29 In computing Arizona adjusted gross income, the following amounts  
30 shall be added to Arizona gross income:

31 1. A beneficiary's share of the fiduciary adjustment to the extent  
32 that the amount determined by section 43-1333 increases the beneficiary's  
33 Arizona gross income.

34 2. An amount equal to the ordinary income portion of a lump sum  
35 distribution that was excluded from federal adjusted gross income pursuant  
36 to the special rule for individuals who attained fifty years of age before  
37 January 1, 1986 under Public Law 99-514, section 1122(h)(3).

38 3. The amount of interest income received on obligations of any  
39 state, territory or possession of the United States, or any political  
40 subdivision thereof, located outside ~~the~~ OF THIS state ~~of Arizona~~,  
41 reduced, for taxable years beginning from and after December 31, 1996, by  
42 the amount of any interest on indebtedness and other related expenses that  
43 were incurred or continued to purchase or carry those obligations and that  
44 are not otherwise deducted or subtracted in arriving at Arizona gross  
45 income.

1           4. The excess of a partner's share of partnership taxable income  
2 required to be included under chapter 14, article 2 of this title over the  
3 income required to be reported under section 702(a)(8) of the internal  
4 revenue code.

5           5. The excess of a partner's share of partnership losses determined  
6 pursuant to section 702(a)(8) of the internal revenue code over the losses  
7 allowable under chapter 14, article 2 of this title.

8           6. Any amount of agricultural water conservation expenses that were  
9 deducted pursuant to the internal revenue code for which a credit is  
10 claimed under section 43-1084.

11           7. The amount by which the depreciation or amortization computed  
12 under the internal revenue code with respect to property for which a  
13 credit was taken under either section 43-1081 or 43-1081.01 exceeds the  
14 amount of depreciation or amortization computed pursuant to the internal  
15 revenue code on the Arizona adjusted basis of the property.

16           8. The amount by which the adjusted basis computed under the  
17 internal revenue code with respect to property for which a credit was  
18 claimed under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold  
19 or otherwise disposed of during the taxable year exceeds the adjusted  
20 basis of the property computed under section 43-1074.02, 43-1081 or  
21 43-1081.01, as applicable.

22           9. The deduction referred to in section 1341(a)(4) of the internal  
23 revenue code for restoration of a substantial amount held under a claim of  
24 right.

25           10. The amount by which a net operating loss carryover or capital  
26 loss carryover allowable pursuant to section 1341(b)(5) of the internal  
27 revenue code exceeds the net operating loss carryover or capital loss  
28 carryover allowable pursuant to section 43-1029, subsection F.

29           11. The amount of any depreciation allowance allowed pursuant to  
30 section 167(a) of the internal revenue code to the extent not previously  
31 added.

32           12. The amount of a nonqualified withdrawal, as defined in section  
33 15-1871, from a college savings plan established pursuant to section 529  
34 of the internal revenue code that is made to a distributee to the extent  
35 the amount is not included in computing federal adjusted gross income,  
36 except that the amount added under this paragraph shall not exceed the  
37 difference between the amount subtracted under section 43-1022 in prior  
38 taxable years and the amount added under this section in any prior taxable  
39 years.

40           13. If a subtraction is or has been taken by the taxpayer under  
41 section 43-1024, in the current or a prior taxable year for the full  
42 amount of eligible access expenditures paid or incurred to comply with the  
43 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)  
44 or title 41, chapter 9, article 8, any amount of eligible access  
45 expenditures that is recognized under the internal revenue code, including

1 any amount that is amortized according to federal amortization schedules,  
2 and that is included in computing taxable income for the current taxable  
3 year.

4 14. For taxable years beginning from and after December 31, 2017,  
5 the amount of any net capital loss included in Arizona gross income for  
6 the taxable year that is derived from the exchange of one kind of legal  
7 tender for another kind of legal tender. For the purposes of this  
8 paragraph:

9 (a) "Legal tender" means a medium of exchange, including specie,  
10 that is authorized by the United States Constitution or Congress to pay  
11 debts, public charges, taxes and dues.

12 (b) "Specie" means coins having precious metal content.

13 15. For taxable years beginning from and after December 31, 2021,  
14 the amount deducted by the partnership or S corporation pursuant to the  
15 internal revenue code for the amount paid to this state under section  
16 43-1014 and for taxes that the department determines are substantially  
17 similar to the tax imposed under section 43-1014. This amount shall be  
18 reflected in the partner's or shareholder's Arizona gross income and the  
19 partnership's or S corporation's Arizona taxable income.

20 16. THE AMOUNT OF ANY MOTION PICTURE PRODUCTION COSTS THAT WAS  
21 DEDUCTED PURSUANT TO THE INTERNAL REVENUE CODE FOR WHICH A TAX CREDIT IS  
22 CLAIMED UNDER SECTION 43-1082.

23 Sec. 7. Title 43, chapter 10, article 5, Arizona Revised Statutes,  
24 is amended by adding section 43-1082, to read:

25 43-1082. Credit for motion picture production costs;  
26 qualifications; data maintenance; rules;  
27 definitions

28 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2022, A  
29 TAX CREDIT IS ALLOWED AGAINST PRODUCTION COSTS PAID BY A MOTION PICTURE  
30 PRODUCTION COMPANY IN THIS STATE THAT ARE SUBJECT TO TAXATION BY THIS  
31 STATE AND THAT ARE DIRECTLY ATTRIBUTABLE TO A MOTION PICTURE PRODUCTION.  
32 THE AMOUNT OF THE CREDIT SHALL BE DETERMINED AS FOLLOWS:

33 1. AN AMOUNT EQUAL TO A PERCENTAGE OF THE TOTAL AMOUNT OF THE  
34 QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA COMMERCE AUTHORITY  
35 PURSUANT TO SECTION 41-1517 AS FOLLOWS:

36 (a) FOR A MOTION PICTURE PRODUCTION COMPANY THAT SPENDS UP TO  
37 \$10,000,000, FIFTEEN PERCENT.

38 (b) FOR A MOTION PICTURE PRODUCTION COMPANY THAT SPENDS MORE THAN  
39 \$10,000,000 BUT LESS THAN \$35,000,000, SEVENTEEN AND ONE-HALF PERCENT.

40 (c) FOR A MOTION PICTURE PRODUCTION COMPANY THAT SPENDS MORE THAN  
41 \$35,000,000, TWENTY PERCENT.

42 2. AN ADDITIONAL TWO AND ONE-HALF PERCENT OF THE MOTION PICTURE  
43 PRODUCTION COMPANY'S PRODUCTION LABOR COSTS RELATED TO POSITIONS HELD BY  
44 RESIDENTS OF THIS STATE AS APPROVED BY THE ARIZONA COMMERCE AUTHORITY  
45 PURSUANT TO SECTION 41-1517.

1           3. IF THE MOTION PICTURE PRODUCTION COMPANY EITHER:

2           (a) USES A QUALIFIED PRODUCTION FACILITY IN THIS STATE TO PRODUCE  
3 THE MOTION PICTURE PRODUCTION, AN ADDITIONAL TWO AND ONE-HALF PERCENT OF  
4 THE TOTAL AMOUNT OF QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA  
5 COMMERCE AUTHORITY PURSUANT TO SECTION 41-1517.

6           (b) FILMS PRIMARILY AT A PRACTICAL LOCATION, PRODUCES AND FILMS THE  
7 MOTION PICTURE PRODUCTION PRIMARILY IN THIS STATE AND PERFORMS ALL  
8 PREPRODUCTION, POSTPRODUCTION AND EDITING AT A QUALIFIED PRODUCTION  
9 FACILITY IN THIS STATE, AN ADDITIONAL TWO AND ONE-HALF PERCENT OF THE  
10 TOTAL QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA COMMERCE  
11 AUTHORITY PURSUANT TO SECTION 41-1517.

12           4. AN ADDITIONAL TWO AND ONE-HALF PERCENT OF THE TOTAL AMOUNT OF  
13 QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA COMMERCE AUTHORITY  
14 PURSUANT TO SECTION 41-1517 IF THE MOTION PICTURE PRODUCTION IS PRODUCED  
15 AND FILMED IN ASSOCIATION WITH A LONG-TERM TENANT OF A QUALIFIED  
16 PRODUCTION FACILITY.

17           B. TAX CREDITS UNDER THIS SECTION MAY NOT EXCEED THE AMOUNT  
18 PROVIDED IN THE POSTAPPROVAL ISSUED BY THE ARIZONA COMMERCE AUTHORITY  
19 PURSUANT TO SECTION 41-1517, SUBSECTION H. THE TAXPAYER MUST INCLUDE A  
20 COPY OF THE POSTAPPROVAL WITH THE TAXPAYER'S INCOME TAX RETURN FOR THE  
21 TAXABLE YEAR IN WHICH THE ARIZONA COMMERCE AUTHORITY ISSUED THE  
22 POSTAPPROVAL.

23           C. THE DEPARTMENT MAY NOT ALLOW A TAX CREDIT UNDER THIS SECTION TO  
24 A TAXPAYER WHO HAS A DELINQUENT TAX BALANCE OWED TO THE DEPARTMENT UNDER  
25 THIS TITLE.

26           D. TO QUALIFY FOR A TAX CREDIT UNDER THIS SECTION, THE MOTION  
27 PICTURE PRODUCTION COMPANY MUST:

28           1. DO EITHER OF THE FOLLOWING:

29           (a) USE A QUALIFIED PRODUCTION FACILITY IN THIS STATE TO PRODUCE  
30 THE MOTION PICTURE PRODUCTION.

31           (b) IF THE MOTION PICTURE PRODUCTION IS FILMED PRIMARILY AT A  
32 PRACTICAL LOCATION, PRODUCE AND FILM THE MOTION PICTURE PRODUCTION  
33 PRIMARILY IN THIS STATE AND PERFORM ALL PREPRODUCTION, POSTPRODUCTION AND  
34 EDITING AT AN INDUSTRY STANDARD FACILITY, IF SUCH A FACILITY FOR THOSE  
35 FUNCTIONS IS AVAILABLE.

36           2. MAINTAIN THE MOTION PICTURE PRODUCTION COMPANY'S PRODUCTION  
37 LABOR POSITIONS IN THIS STATE.

38           3. INCLUDE IN THE CREDITS FOR EACH MOTION PICTURE PRODUCTION AN  
39 ACKNOWLEDGMENT THAT THE PRODUCTION WAS FILMED IN ARIZONA.

40           4. RECEIVE PREAPPROVAL AND POSTAPPROVAL FROM THE ARIZONA COMMERCE  
41 AUTHORITY PURSUANT TO SECTION 41-1517.

42           5. CLAIM THE TAX CREDIT BY USING THE FORM PRESCRIBED BY THE  
43 DEPARTMENT AND INCLUDE THE FORM WITH THE MOTION PICTURE PRODUCTION  
44 COMPANY'S INCOME TAX RETURN FOR THE TAXABLE YEAR IN WHICH THE ARIZONA  
45 COMMERCE AUTHORITY ISSUED THE POSTAPPROVAL.



1 E. CO-OWNERS OF A MOTION PICTURE PRODUCTION COMPANY, INCLUDING  
2 PARTNERS IN A PARTNERSHIP, MEMBERS OF A LIMITED LIABILITY COMPANY AND  
3 SHAREHOLDERS OF AN S CORPORATION, AS DEFINED IN SECTION 1361 OF THE  
4 INTERNAL REVENUE CODE, MAY EACH CLAIM THE PRO RATA SHARE OF THE TAX CREDIT  
5 ALLOWED UNDER THIS SECTION BASED ON OWNERSHIP INTERESTS. THE TOTAL OF THE  
6 TAX CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD  
7 HAVE BEEN ALLOWED A SOLE OWNER.

8 F. IF THE ALLOWABLE TAX CREDIT FOR A TAXABLE YEAR EXCEEDS THE  
9 INCOME TAXES OTHERWISE DUE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO  
10 STATE INCOME TAXES DUE ON THE CLAIMANT'S INCOME, THE AMOUNT OF THE CLAIM  
11 NOT USED AS AN OFFSET AGAINST INCOME TAXES SHALL BE PAID TO THE TAXPAYER  
12 IN THE SAME MANNER AS A REFUND UNDER SECTION 42-1118. REFUNDS MADE  
13 PURSUANT TO THIS SUBSECTION ARE SUBJECT TO SETOFF UNDER SECTION  
14 42-1122. IF THE DEPARTMENT DETERMINES THAT A REFUND IS INCORRECT OR  
15 INVALID, THE EXCESS REFUND MAY BE TREATED AS A TAX DEFICIENCY PURSUANT TO  
16 SECTION 42-1108.

17 G. THE DEPARTMENT SHALL MAINTAIN ANNUAL DATA ON THE TOTAL AMOUNT OF  
18 MONIES CREDITED PURSUANT TO THIS SECTION AND SHALL PROVIDE THE DATA TO THE  
19 ARIZONA COMMERCE AUTHORITY ON REQUEST.

20 H. THE DEPARTMENT SHALL ADOPT FEES AND RULES AND PUBLISH AND  
21 PRESCRIBE FORMS AND PROCEDURES AS NECESSARY TO ADMINISTER THIS SECTION AND  
22 PROVIDE ADMINISTRATIVE SUPPORT SERVICES.

23 I. THE TAX CREDIT ALLOWED BY THIS SECTION IS IN LIEU OF ANY  
24 ALLOWANCE FOR STATE TAX PURPOSES OF A DEDUCTION OF THOSE EXPENSES ALLOWED  
25 BY THE INTERNAL REVENUE CODE.

26 J. FOR THE PURPOSES OF THIS SECTION:

27 1. "LONG-TERM TENANT" MEANS A PERSON THAT ENTERS INTO A LEASE OF AT  
28 LEAST FIVE YEARS FOR THE USE OF A QUALIFIED PRODUCTION FACILITY.

29 2. "MOTION PICTURE PRODUCTION" HAS THE SAME MEANING PRESCRIBED IN  
30 SECTION 41-1517.

31 3. "MOTION PICTURE PRODUCTION COMPANY" HAS THE SAME MEANING  
32 PRESCRIBED IN SECTION 41-1517.

33 4. "PRACTICAL LOCATION" HAS THE SAME MEANING PRESCRIBED IN SECTION  
34 41-1517.

35 5. "PRODUCTION COSTS" HAS THE SAME MEANING PRESCRIBED IN SECTION  
36 41-1517.

37 6. "PRODUCTION LABOR" HAS THE SAME MEANING PRESCRIBED IN SECTION  
38 41-1517.

39 7. "QUALIFIED PRODUCTION FACILITY" HAS THE SAME MEANING PRESCRIBED  
40 IN SECTION 41-1517.

41 Sec. 8. Delayed repeal

42 Section 43-1082, Arizona Revised Statutes, as added by this act, is  
43 repealed from and after December 31, 2043.

1       Sec. 9. Section 43-1121, Arizona Revised Statutes, is amended to  
2 read:

3       43-1121. Additions to Arizona gross income; corporations

4       In computing Arizona taxable income for a corporation, the following  
5 amounts shall be added to Arizona gross income:

6       1. The amount of interest income received on obligations of any  
7 state, territory or possession of the United States, or any political  
8 subdivision thereof, located outside this state, reduced, for taxable  
9 years beginning from and after December 31, 1996, by the amount of any  
10 interest on indebtedness and other related expenses that were incurred or  
11 continued to purchase or carry those obligations and that are not  
12 otherwise deducted or subtracted in arriving at Arizona gross income.

13       2. The excess of a partner's share of partnership taxable income  
14 required to be included under chapter 14, article 2 of this title over the  
15 income required to be reported under section 702(a)(8) of the internal  
16 revenue code.

17       3. The excess of a partner's share of partnership losses determined  
18 pursuant to section 702(a)(8) of the internal revenue code over the losses  
19 allowable under chapter 14, article 2 of this title.

20       4. The amount of any depreciation allowance allowed pursuant to  
21 section 167(a) of the internal revenue code to the extent not previously  
22 added.

23       5. The amount of dividend income received from corporations and  
24 allowed as a deduction pursuant to sections 243, 245, 245A and  
25 250(a)(1)(B) of the internal revenue code.

26       6. Taxes that are based on income paid to states, local governments  
27 or foreign governments and that were deducted in computing federal taxable  
28 income.

29       7. Expenses and interest relating to tax-exempt income on  
30 indebtedness incurred or continued to purchase or carry obligations the  
31 interest on which is wholly exempt from the tax imposed by this title.  
32 Financial institutions, as defined in section 6-101, shall be governed by  
33 section 43-961, paragraph 2.

34       8. Commissions, rentals and other amounts paid or accrued to a  
35 domestic international sales corporation controlled by the payor  
36 corporation if the domestic international sales corporation is not  
37 required to report its taxable income to this state because its income is  
38 not derived from or attributable to sources within this state. If the  
39 domestic international sales corporation is subject to article 4 of this  
40 chapter, the department shall prescribe by rule the method of determining  
41 the portion of the commissions, rentals and other amounts that are paid or  
42 accrued to the controlled domestic international sales corporation and  
43 that shall be deducted by the payor. For the purposes of this paragraph,  
44 "control" means direct or indirect ownership or control of fifty percent

1 or more of the voting stock of the domestic international sales  
2 corporation by the payor corporation.

3 9. The amount of net operating loss taken pursuant to section 172  
4 of the internal revenue code.

5 10. The amount of exploration expenses determined pursuant to  
6 section 617 of the internal revenue code to the extent that they exceed  
7 \$75,000 and to the extent that the election is made to defer those  
8 expenses not in excess of \$75,000.

9 11. Amortization of costs incurred to install pollution control  
10 devices and deducted pursuant to the internal revenue code or the amount  
11 of deduction for depreciation taken pursuant to the internal revenue code  
12 on pollution control devices for which an election is made pursuant to  
13 section 43-1129.

14 12. The amount of depreciation or amortization of costs of child  
15 care facilities deducted pursuant to section 167 or 188 of the internal  
16 revenue code for which an election is made to amortize pursuant to section  
17 43-1130.

18 13. The loss of an insurance company that is exempt under section  
19 43-1201 to the extent that it is included in computing Arizona gross  
20 income on a consolidated return pursuant to section 43-947.

21 14. The amount by which the depreciation or amortization computed  
22 under the internal revenue code with respect to property for which a  
23 credit was taken under section 43-1169 exceeds the amount of depreciation  
24 or amortization computed pursuant to the internal revenue code on the  
25 Arizona adjusted basis of the property.

26 15. The amount by which the adjusted basis computed under the  
27 internal revenue code with respect to property for which a credit was  
28 claimed under section 43-1169 and that is sold or otherwise disposed of  
29 during the taxable year exceeds the adjusted basis of the property  
30 computed under section 43-1169.

31 16. The amount by which the depreciation or amortization computed  
32 under the internal revenue code with respect to property for which a  
33 credit was taken under section 43-1170 exceeds the amount of depreciation  
34 or amortization computed pursuant to the internal revenue code on the  
35 Arizona adjusted basis of the property.

36 17. The amount by which the adjusted basis computed under the  
37 internal revenue code with respect to property for which a credit was  
38 claimed under section 43-1170 and that is sold or otherwise disposed of  
39 during the taxable year exceeds the adjusted basis of the property  
40 computed under section 43-1170.

41 18. The deduction referred to in section 1341(a)(4) of the internal  
42 revenue code for restoration of a substantial amount held under a claim of  
43 right.

1        19. The amount by which a capital loss carryover allowable pursuant  
2 to section 1341(b)(5) of the internal revenue code exceeds the capital  
3 loss carryover allowable pursuant to section 43-1130.01, subsection F.

4        20. Any wage expenses deducted pursuant to the internal revenue  
5 code for which a credit is claimed under section 43-1175 and representing  
6 net increases in qualified employment positions for employment of  
7 temporary assistance for needy families recipients.

8        21. Any amount of expenses that were deducted pursuant to the  
9 internal revenue code and for which a credit is claimed under section  
10 43-1178.

11       22. Any amount deducted pursuant to section 170 of the internal  
12 revenue code representing contributions to a school tuition organization  
13 for which a credit is claimed under section 43-1183 or 43-1184.

14       23. If a subtraction is or has been taken by the taxpayer under  
15 section 43-1124, in the current or a prior taxable year for the full  
16 amount of eligible access expenditures paid or incurred to comply with the  
17 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)  
18 or title 41, chapter 9, article 8, any amount of eligible access  
19 expenditures that is recognized under the internal revenue code, including  
20 any amount that is amortized according to federal amortization schedules,  
21 and that is included in computing Arizona taxable income for the current  
22 taxable year.

23       24. For taxable years beginning from and after December 31, 2017,  
24 the amount of any net capital loss included in Arizona gross income for  
25 the taxable year that is derived from the exchange of one kind of legal  
26 tender for another kind of legal tender. For the purposes of this  
27 paragraph:

28       (a) "Legal tender" means a medium of exchange, including specie,  
29 that is authorized by the United States Constitution or Congress to pay  
30 debts, public charges, taxes and dues.

31       (b) "Specie" means coins having precious metal content.

32       25. The amount of any deduction that is claimed in computing  
33 Arizona gross income and that represents a donation of a school site for  
34 which a credit is claimed under section 43-1181.

35       26. THE AMOUNT OF ANY MOTION PICTURE PRODUCTION COSTS THAT WAS  
36 DEDUCTED PURSUANT TO THE INTERNAL REVENUE CODE FOR WHICH A TAX CREDIT IS  
37 CLAIMED UNDER SECTION 43-1165.

38       Sec. 10. Title 43, chapter 11, article 6, Arizona Revised Statutes,  
39 is amended by adding section 43-1165, to read:

40       43-1165. Credit for motion picture production costs;  
41                    qualifications; data maintenance; rules;  
42                    definitions

43       A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2022, A  
44 TAX CREDIT IS ALLOWED AGAINST PRODUCTION COSTS PAID BY A MOTION PICTURE  
45 PRODUCTION COMPANY IN THIS STATE THAT ARE SUBJECT TO TAXATION BY THIS

1 STATE AND THAT ARE DIRECTLY ATTRIBUTABLE TO A MOTION PICTURE PRODUCTION.  
2 THE AMOUNT OF THE CREDIT SHALL BE DETERMINED AS FOLLOWS:

3 1. AN AMOUNT EQUAL TO A PERCENTAGE OF THE TOTAL AMOUNT OF THE  
4 QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA COMMERCE AUTHORITY  
5 PURSUANT TO SECTION 41-1517 AS FOLLOWS:

6 (a) FOR A MOTION PICTURE PRODUCTION COMPANY THAT SPENDS UP TO  
7 \$10,000,000, FIFTEEN PERCENT.

8 (b) FOR A MOTION PICTURE PRODUCTION COMPANY THAT SPENDS MORE THAN  
9 \$10,000,000 BUT LESS THAN \$35,000,000, SEVENTEEN AND ONE-HALF PERCENT.

10 (c) FOR A MOTION PICTURE PRODUCTION COMPANY THAT SPENDS MORE THAN  
11 \$35,000,000, TWENTY PERCENT.

12 2. AN ADDITIONAL TWO AND ONE-HALF PERCENT OF THE MOTION PICTURE  
13 PRODUCTION COMPANY'S PRODUCTION LABOR COSTS RELATED TO POSITIONS HELD BY  
14 RESIDENTS OF THIS STATE AS APPROVED BY THE ARIZONA COMMERCE AUTHORITY  
15 PURSUANT TO SECTION 41-1517.

16 3. IF THE MOTION PICTURE PRODUCTION COMPANY EITHER:

17 (a) USES A QUALIFIED PRODUCTION FACILITY IN THIS STATE TO PRODUCE  
18 THE MOTION PICTURE PRODUCTION, AN ADDITIONAL TWO AND ONE-HALF PERCENT OF  
19 THE TOTAL AMOUNT OF QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA  
20 COMMERCE AUTHORITY PURSUANT TO SECTION 41-1517.

21 (b) FILMS PRIMARILY AT A PRACTICAL LOCATION, PRODUCES AND FILMS THE  
22 MOTION PICTURE PRODUCTION PRIMARILY IN THIS STATE AND PERFORMS ALL  
23 PREPRODUCTION, POSTPRODUCTION AND EDITING AT A QUALIFIED PRODUCTION  
24 FACILITY IN THIS STATE, AN ADDITIONAL TWO AND ONE-HALF PERCENT OF THE  
25 TOTAL QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA COMMERCE  
26 AUTHORITY PURSUANT TO SECTION 41-1517.

27 4. AN ADDITIONAL TWO AND ONE-HALF PERCENT OF THE TOTAL AMOUNT OF  
28 QUALIFIED PRODUCTION COSTS AS APPROVED BY THE ARIZONA COMMERCE AUTHORITY  
29 PURSUANT TO SECTION 41-1517 IF THE MOTION PICTURE PRODUCTION IS PRODUCED  
30 AND FILMED IN ASSOCIATION WITH A LONG-TERM TENANT OF A QUALIFIED  
31 PRODUCTION FACILITY.

32 B. TAX CREDITS UNDER THIS SECTION MAY NOT EXCEED THE AMOUNT  
33 PROVIDED IN THE POSTAPPROVAL ISSUED BY THE ARIZONA COMMERCE AUTHORITY  
34 PURSUANT TO SECTION 41-1517, SUBSECTION H. THE TAXPAYER MUST INCLUDE A  
35 COPY OF THE POSTAPPROVAL WITH THE TAXPAYER'S INCOME TAX RETURN FOR THE  
36 TAXABLE YEAR IN WHICH THE ARIZONA COMMERCE AUTHORITY ISSUED THE  
37 POSTAPPROVAL.

38 C. THE DEPARTMENT MAY NOT ALLOW A TAX CREDIT UNDER THIS SECTION TO  
39 A TAXPAYER THAT HAS A DELINQUENT TAX BALANCE OWED TO THE DEPARTMENT UNDER  
40 THIS TITLE.

41 D. TO QUALIFY FOR A TAX CREDIT UNDER THIS SECTION, THE MOTION  
42 PICTURE PRODUCTION COMPANY MUST:

43 1. DO EITHER OF THE FOLLOWING:

44 (a) USE A QUALIFIED PRODUCTION FACILITY IN THIS STATE TO PRODUCE  
45 THE MOTION PICTURE PRODUCTION.

1 (b) IF THE MOTION PICTURE PRODUCTION IS FILMED PRIMARILY AT A  
2 PRACTICAL LOCATION, PRODUCE AND FILM THE MOTION PICTURE PRODUCTION  
3 PRIMARILY IN THIS STATE AND PERFORM ALL PREPRODUCTION, POSTPRODUCTION AND  
4 EDITING AT AN INDUSTRY STANDARD FACILITY, IF SUCH A FACILITY FOR THOSE  
5 FUNCTIONS IS AVAILABLE.

6 2. MAINTAIN THE MOTION PICTURE PRODUCTION COMPANY'S PRODUCTION  
7 LABOR POSITIONS IN THIS STATE.

8 3. INCLUDE IN THE CREDITS FOR EACH MOTION PICTURE PRODUCTION AN  
9 ACKNOWLEDGMENT THAT THE PRODUCTION WAS FILMED IN ARIZONA.

10 4. RECEIVE PREAPPROVAL AND POSTAPPROVAL FROM THE ARIZONA COMMERCE  
11 AUTHORITY PURSUANT TO SECTION 41-1517.

12 5. CLAIM THE TAX CREDIT BY USING THE FORM PRESCRIBED BY THE  
13 DEPARTMENT AND INCLUDE THE FORM WITH THE MOTION PICTURE PRODUCTION  
14 COMPANY'S INCOME TAX RETURN FOR THE TAXABLE YEAR IN WHICH THE ARIZONA  
15 COMMERCE AUTHORITY ISSUED THE POSTAPPROVAL.

16 E. CO-OWNERS OF A MOTION PICTURE PRODUCTION COMPANY, INCLUDING  
17 CORPORATE PARTNERS IN A PARTNERSHIP, MAY EACH CLAIM THE PRO RATA SHARE OF  
18 THE TAX CREDIT ALLOWED UNDER THIS SECTION BASED ON OWNERSHIP INTEREST. THE  
19 TOTAL OF THE TAX CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT  
20 THAT WOULD HAVE BEEN ALLOWED A SOLE OWNER.

21 F. IF THE ALLOWABLE TAX CREDIT FOR A TAXABLE YEAR EXCEEDS THE  
22 INCOME TAXES OTHERWISE DUE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO  
23 STATE INCOME TAXES DUE ON THE CLAIMANT'S INCOME, THE AMOUNT OF THE CLAIM  
24 NOT USED AS AN OFFSET AGAINST INCOME TAXES SHALL BE PAID TO THE TAXPAYER  
25 IN THE SAME MANNER AS A REFUND UNDER SECTION 42-1118. REFUNDS MADE  
26 PURSUANT TO THIS SUBSECTION ARE SUBJECT TO SETOFF UNDER SECTION 42-1122.  
27 IF THE DEPARTMENT DETERMINES THAT A REFUND IS INCORRECT OR INVALID, THE  
28 EXCESS REFUND MAY BE TREATED AS A TAX DEFICIENCY PURSUANT TO SECTION  
29 42-1108.

30 G. THE DEPARTMENT SHALL MAINTAIN ANNUAL DATA ON THE TOTAL AMOUNT OF  
31 MONIES CREDITED PURSUANT TO THIS SECTION AND SHALL PROVIDE THE DATA TO THE  
32 ARIZONA COMMERCE AUTHORITY ON REQUEST.

33 H. THE DEPARTMENT SHALL ADOPT FEES AND RULES AND PUBLISH AND  
34 PRESCRIBE FORMS AND PROCEDURES AS NECESSARY TO ADMINISTER THIS SECTION AND  
35 PROVIDE ADMINISTRATIVE SUPPORT SERVICES.

36 I. THE TAX CREDIT ALLOWED BY THIS SECTION IS IN LIEU OF ANY  
37 ALLOWANCE FOR STATE TAX PURPOSES OF A DEDUCTION OF THOSE EXPENSES ALLOWED  
38 BY THE INTERNAL REVENUE CODE.

39 J. FOR THE PURPOSES OF THIS SECTION:

40 1. "LONG-TERM TENANT" MEANS A PERSON THAT ENTERS INTO A LEASE OF AT  
41 LEAST FIVE YEARS FOR THE USE OF A QUALIFIED PRODUCTION FACILITY.

42 2. "MOTION PICTURE PRODUCTION" HAS THE SAME MEANING PRESCRIBED IN  
43 SECTION 41-1517.

44 3. "MOTION PICTURE PRODUCTION COMPANY" HAS THE SAME MEANING  
45 PRESCRIBED IN SECTION 41-1517.

1           4. "PRACTICAL LOCATION" HAS THE SAME MEANING PRESCRIBED IN SECTION  
2 41-1517.

3           5. "PRODUCTION COSTS" HAS THE SAME MEANING PRESCRIBED IN SECTION  
4 41-1517.

5           6. "PRODUCTION LABOR" HAS THE SAME MEANING PRESCRIBED IN SECTION  
6 41-1517.

7           7. "QUALIFIED PRODUCTION FACILITY" HAS THE SAME MEANING PRESCRIBED  
8 IN SECTION 41-1517.

9           Sec. 11. Delayed repeal

10          Section 43-1165, Arizona Revised Statutes, as added by this act, is  
11 repealed from and after December 31, 2043.

12          Sec. 12. Exemption from rulemaking

13          Notwithstanding any other law, for the purposes of this act, the  
14 Arizona commerce authority and the department of revenue are exempt from  
15 the rulemaking requirements of title 41, chapter 6, Arizona Revised  
16 Statutes, for one year after the effective date of this act.

17          Sec. 13. Purpose; intent

18 Pursuant to section 43-223, Arizona Revised Statutes, the legislature  
19 enacts sections 43-1082 and 43-1165, Arizona Revised Statutes, as added by  
20 this act, to create a competitive motion picture production industry  
21 presence and market in this state that will develop a substantial motion  
22 picture production industry workforce and encourage major capital  
23 investment in qualified production facilities in this state, and  
24 accordingly, the intent of the legislature is to provide a program that  
25 creates long-term economic benefits to this state, including the  
26 development of high-paying employment opportunities for residents of this  
27 state.

PRESENTED TO THE GOVERNOR ON JUNE 24, 2022. IN ACCORDANCE WITH ARIZONA  
CONSTITUTION, ARTICLE 5, SECTION 7, ANY BILL NOT RETURNED WITHIN FIVE DAYS  
AFTER PRESENTED TO THE GOVERNOR (SUNDAY EXCEPTED) SUCH BILL SHALL BECOME A  
LAW IN LIKE MANNER AS IF HE [SIC] HAD SIGNED IT.

FILED IN THE OFFICE OF THE SECRETARY OF STATE JULY 6, 2022.

## **Exhibit 8**



# Fiscal Note

**BILL #** SB 1708

**TITLE:** motion picture production; tax credits

**SPONSOR:** Gowan

**STATUS:** Senate Engrossed

**PREPARED BY:** Hans Olofsson

## Description

The bill would create a motion picture production income tax credit, beginning in Tax Year (TY) 2023. The credit program would be implemented and administered by the Arizona Commerce Authority (ACA). The bill would authorize ACA to pre-approve up to \$150 million in refundable credits per calendar year. (Unlike a non-refundable credit, a refundable credit is not limited by the taxpayer's liability.)

Depending on a company's level of Qualified Production Costs (QPC), the "base" credit would vary between 15% and 20% of such costs, as shown in the table below.

<u>Amount of Qualified Production Costs (QPC)</u>	<u>Credit</u>
if ≤ \$10,000,000	15.0%
if \$10,000,001 to \$34,999,999	17.5%
if ≥ \$35,000,000	20.0%

In addition to the "base" credit, a motion picture production company would also be eligible for an additional credit of:

- 2.5% of QPC if it uses a qualified production facility or films "at a practical location" as defined under the bill
- 2.5% of QPC if the film is produced by a long-term tenant of the qualified production facility
- 2.5% of labor costs for Arizona residents holding positions other than actors, writers, directors, producers, or management.

The information above means that the maximum credit percentage that a company would be eligible for is 25% of QPC and 27% of certain resident labor costs. (Labor costs are included in QPC.)

## Estimated Impact

We estimate that the bill will have two General Fund impacts:

1) A loss of General Fund revenue due to the tax credits. This loss could eventually be as great as the maximum \$150 million permitted under the bill. During the 3-year budget forecast window, we anticipate that the credit usage would likely be less than half of the credit cap.

2) "Dynamic" revenues associated with the potential behavioral response of individuals and businesses to the proposed legislation may offset some of the revenue loss. To the extent that a reduction in tax liability incentivizes greater film production, we will experience more economic activity. As a result, state General Fund and other tax collections will increase from the direct and indirect impacts of greater film production. The economic impact would include any new production facilities that may be constructed to take advantage of the film credit. According to industry representatives, 2 large studio complexes could be built in Arizona if the bill is enacted.

(Continued)



Based on the experience of other states, we anticipate that this dynamic revenue impact would be less than the cost of the tax credits for the foreseeable future. An Arizona-based study, however, projects that the dynamic revenues would exceed the cost of the program by year 8 of the tax credit.

## Analysis

Currently, approximately 30 states offer film tax credits with a wide array of programs. As a result, we had difficulty creating a general comparison of SB 1708 to these other states. In certain aspects, SB 1708 may have easier qualifications. For example, SB 1708 does not require that a certain minimum amount be spent by a production company to qualify for the credit. Many other states impose such restrictions (e.g., in California, feature films and TV series must meet a minimum budget requirement of \$1 million to be eligible for their film credit while Georgia has a \$500,000 annual minimum expenditure threshold).

SB 1708 also appears to be more stringent with respect to other provisions. Under the bill, a company that produces a film at a location that does not use a qualified production facility is required to perform all preproduction, postproduction, and editing at an industry standard facility in Arizona, if available. Not all states have a similar requirement. Texas, for example, requires that no more than 60% of total production days be completed in the state.

Most of the other 30 film credit states reduce the cost of production by 20% to 30%, which is comparable to the proposed Arizona program. By itself, the magnitude of the tax credit does not appear to give Arizona a competitive advantage.

The construction of new studio complexes and the spending by production companies would have a direct economic impact on the state. The construction would lead to short term gains in Transaction Privilege Tax (TPT) and Individual Income Tax withholding collections, while the production spending would produce more ongoing revenue gains. In addition, there would also be indirect and induced economic impacts due to the "ripple effects" generated by such spending. Some of these impacts, however, would likely occur absent the credit. For example, local commercials that would have been filmed regardless of the bill would now receive a credit of at least 15% of their production costs.

Evaluations of film tax credits in other states show a varied range in terms of their economic and fiscal impact. The metric typically used is referred to as "return on investment" (ROI), and it is a measure of the ratio between state revenue generated by the incentive and the state credit cost. For example, if the state ROI is 0.20, the credit generates 20¢ in net new revenues for each \$1 in credit given. This means that if the ROI is less than 1, the credit costs the state more than it generates in net new revenues. Conversely, if the ROI is equal to 1 or greater, the credit generates the same amount, or more revenues for the state than the cost of the credit.

In 2019, Pennsylvania's Independent Fiscal Office conducted an [evaluation](#) of their state's film tax credit. As part of their report, they also compiled the result of 14 film tax credit studies in 10 states over the last decade. (While Pennsylvania's analysis was broad based in approach, there are other economic studies outside of these 14.)

Among their findings was that the estimated ROI varied considerably depending on the type of entity that conducted the economic and fiscal impact analysis:

- Government agencies conducted the study in 6 states. The state ROI varied from 0.06 to 0.20;
- 6 states commissioned a private entity to conduct the study. In these circumstances, the ROI ranged from 0.13 to 0.51; and
- Private entities contracted through an industry representative in 2 states. One state had a ROI of 0.21 and the other had an ROI of 0.89.

Another finding of the Pennsylvania study is that most capped credit programs tend to authorize near the maximum allowable amount. While we think that the \$150 million cap would be difficult to achieve in the first 3 years as the film industry develops in Arizona, the Pennsylvania study suggests that we could ultimately achieve that level.

(Continued)

In addition, the Rounds Consulting Group (RCG) conducted an in-state analysis of the SB 1708 proposal. They forecast that the proposal's dynamic revenues would exceed the \$150 million credit cost in year 8 for a ROI more than 1.0. While possible, those findings are not supported by the Pennsylvania analysis. (The RCG study also suggests that construction-related activity will generate state tax revenues in the first 2 years, but that no credits will be taken in those years.)

**Local Government Impact**

As with the General Fund impact, we are not able to determine the bill's impact on local governments.

3/8/22

## **Exhibit 9**



**ARIZONA STATE SENATE**  
*Fifty-Fifth Legislature, Second Regular Session*

**AMENDED**  
FACT SHEET FOR H.B. 2156

~~pharmacy board; information change requirement~~  
(NOW: tax credits; motion picture production)

Purpose

Requires the Arizona Commerce Authority (ACA) to implement an Arizona Motion Picture Production Program (Program). Establishes the individual and corporate Credit for Motion Picture Production Costs (Tax Credits) and outlines requirements for the Tax Credits to be claimed. Repeals the Program and Tax Credits on December 31, 2043.

Background

The ACA promotes economic, community and workforce development and provides private sector leadership in growing and diversifying Arizona's economy through the support of statewide business expansion, retention, attraction, workforce development and job training ([A.R.S. § 41-1502](#)).

The Arizona Department of Revenue (ADOR) is responsible for providing an integrated, coordinated and uniform system of tax administration and revenue collection for the state, including a coordinated electronic method of collecting state and municipal transaction privilege and affiliated excise taxes ([A.R.S. § 42-1004](#)).

The fiscal impact to the state General Fund is unknown at this time.

Provisions

1. Requires the ACA to implement the Program to promote workforce development and expansion of the commercial motion picture industry in Arizona.
2. Requires the ACA to certify motion picture production companies that produce at least one motion picture in Arizona for the purposes of Tax Credit eligibility.
3. Requires a motion picture production company, to qualify for the Program, to:
  - a) use a qualified production facility in Arizona to produce the motion picture production; or
  - b) produce and film the motion picture production primarily in Arizona, if the motion picture production is filmed primarily at a practical location, and perform all preproduction, postproduction and editing at an industry standard facility in Arizona, if a facility for those functions is available.
4. Requires a motion picture production company, to qualify for the Program, to:
  - a) maintain the motion picture production company's production labor positions in Arizona;

- b) include in the credits for each motion picture production an acknowledgment that the filming took place in Arizona;
  - c) submit a completed certification application to the ACA with all requested information; and
  - d) provide supporting statements and records requested by the ACA to demonstrate that the motion picture production company meets the outlined criteria.
5. Requires the certification application to be on an ACA prescribed form and include:
- a) the name, address, telephone number and website address of the motion picture production company;
  - b) the name and address of an individual who maintains records of expenditures in Arizona;
  - c) the projected first preproduction date and last production date in Arizona;
  - d) an Arizona address and telephone number for the production office;
  - e) the estimated total budget of the production and production cost expenditures in Arizona;
  - f) the estimated total percentage of the production that will take place in Arizona;
  - g) the estimated number and duration of full-time production labor employment positions in Arizona;
  - h) the estimated number of employees who are Arizona residents in the cast and crew;
  - i) the estimated median wage of production labor employment positions in Arizona;
  - j) a script or synopsis, the name of the proposed director and a preliminary list of the cast and producer; and
  - k) an affidavit that attests that the motion picture production company will meet the requirements to qualify for the Tax Credits, including that the motion picture production company will use a qualified production facility in Arizona to produce the production or otherwise satisfy the location requirement.
6. Requires the ACA to establish a process to:
- a) review a completed initial application submitted within a time period prescribed by ACA rule, to determine whether the motion picture production company meets all qualification criteria; and
  - b) certify and preapprove a motion picture production company for the Tax Credits.
7. Requires the preapproval priority to be based on the date the motion picture production company files a complete initial certification application to the ACA.
8. Specifies that the preapproved Tax Credit amount applies against the applicable Tax Credit cap for the calendar year in which the application was submitted even if the preapproval period extends into the following year or years.
9. Requires the ACA to deny a certification application if it is determined that:
- a) the motion picture production company does not meet all of the established criteria;
  - b) the production would constitute an obscene motion picture film or obscene pictorial publication;
  - c) the production violates obscenity laws; and
  - d) the production would constitute sexual exploitation of a minor or commercial sexual exploitation of a minor.

10. Requires the ACA, on determination that a motion picture production company qualifies for the Tax Credits, to issue the motion picture production company a preapproval letter and transmit a copy of the letter to the ADOR.
11. Stipulates that the preapproval letter is effective for a period prescribed by ACA rule and requires the effective period to be stated in the preapproval letter.
12. Allows a motion picture production company to apply to the ACA to extend the preapproval period if the company can demonstrate that an act of force majeure occurred and the preapproval letter will expire before the production is complete.
13. Requires a motion picture production company that is preapproved for the Tax Credits, on competition of the motion picture production, to apply to the ACA for approval of the Tax Credits and provide an audited statement completed by a certified public account in Arizona that certifies the total amount of eligible production costs associated with the production.
14. Requires the ACA to provide postapproval to a motion picture production company that the company has met the eligibility requirements and notify the Director of ADOR that the company may claim the Tax Credits.
15. Prohibits the ACA from preapproving Tax Credits exceeding the following amounts in a calendar year, of which up to \$25,000,000 in each calendar year may be used for motion picture productions that qualify for the Program by filming primarily on location in Arizona:
  - a) in CY 2023, \$75,000,000;
  - b) in CY 2024, \$100,000,000; and
  - c) in CY 2025 and each year thereafter, \$125,000,000.
16. Deems any information gathered from motion picture production companies to be confidential taxpayer information and requires the information to be disclosed to the ACA only for certification of the Tax Credits.
17. Requires the ACA and ADOR to adopt fees and deposit requirements and rules and publish and prescribe forms and procedures necessary to administer the Program and to provide administrative support services.
18. Requires the ACA to submit a report, by December 31 of each year, to the Governor, the President of the Senate (President), the Speaker of the House of Representatives (Speaker) and provide a copy to the Secretary of State (SOS).
19. Requires the ACA to make the annual report available to the public on request.
20. Requires the annual report to include:
  - a) information relating to the Program's activities, receipts and expenditures;
  - b) information comparing the annual amount of monies credited to certified motion picture production companies to the estimated monies spent on in-state production costs by the companies;
  - c) quarterly data on the growth and development of motion picture industry employment and wages in Arizona; and

- d) a third-party review of the relative economic benefits to the state based on an analysis of the following:
  - i. a comparison of the estimated state tax revenues, including the sum of all income taxes, transaction privilege tax and other state taxes, generated by motion picture production activity to the calculated value of the Tax Credit;
  - ii. the direct, indirect and induced inputs that rely on commonly used input-output economic modeling for generating economic multipliers and that measure the direct and indirect impact of the industry and identifiable induced economic activity in Arizona; and
  - iii. the difference between estimated state tax revenues and the amount of monies the Tax Credits, aggregated each year and reported on a cumulative basis each succeeding year.
- 21. Requires the ACA, beginning on the fifth year after the first preapproval letter is issued and at least every five years, to audit the Tax Credit, by June 30th of the applicable year and issue a public report of the audit.
- 22. Requires the ACA to submit the report to the President and the Speaker and provide a copy to the SOS.
- 23. Requires the Auditor General to review each audit performed and report the Auditor General's findings to the President and Speaker and provide a copy to the SOS.
- 24. Requires the audit performed on the 10th year following the first ACA audit to include a recommendation for whether the Program is economically viable and effective.
- 25. Requires each audit report to include:
  - a) the cumulative total number of production labor employment positions and labor costs related to the motion picture production company's production labor costs for positions held by Arizona residents;
  - b) a comparison of the median wage of production labor employment positions in each county and the median wage in the county in which a production labor employment position is located; and
  - c) the cumulative total of worker-days calculated by multiplying the total number of production labor employment positions by the number of days worked for each position during the employment.
- 26. Repeals the Program on December 31, 2043.
- 27. Defines *long-term tenant*, *motion picture production*, *motion picture production company*, *practical location*, *production costs*, *production labor*, *program* and *qualified production facility*.
- 28. Adds the Tax Credits to the Joint Legislative Income Tax Credit Review Schedule for years ending in two and seven.
- 29. Requires, in computing an individual Arizona adjusted gross income, the amount of any motion picture production costs deducted pursuant to the U.S. Internal Revenue Code (U.S. IRC) for which a Tax Credit is claimed to be added to the Arizona gross income.



30. Establishes the Tax Credits for tax years beginning January 1, 2023, allowed against the production costs paid by a motion picture production company in Arizona that are subject to Arizona taxation and that are directly attributable to a motion picture production.
31. Requires the amount of the Tax Credits to be determined as follows:
  - d) an amount equal to a percentage of the total amount of the qualified production costs approved by the ACA;
    - i. 15 percent for a motion picture production company that spends up to \$10,000,000;
    - ii. 17.5 percent for a motion picture production company that spends between \$10,000,000 and \$35,000,000; or
    - iii. 20 percent for a motion picture company that spends more than \$35,000,000;
  - e) an additional 2.5 percent of the motion picture production company's production labor costs for positions held by Arizona residents as approved by the ACA;
  - f) an additional 2.5 percent of the total amount of qualified production costs, if the motion picture production company uses a qualified production facility in Arizona or films primarily on location; and
  - g) an additional 2.5 percent of the total amount of qualified production costs, if the motion picture production is produced and filmed in association with a long-term tenant of a qualified production facility.
32. Repeals the Program and Tax Credits on December 31, 2043.
33. Prohibits the Tax Credit from exceeding the amount provided in the postapproval issued by the ACA and requires a taxpayer to include a copy of the postapproval with the taxpayer's income tax return for the taxable year.
34. Prohibits ADOR from issuing the Tax Credits to a taxpayer that owes delinquent tax.
35. Specifies that, to qualify for the Tax Credits, the motion picture production company must:
  - a) use a qualified production facility in Arizona to produce the motion picture production or produce and film, if filmed primarily at a practical location, the motion picture production in Arizona and perform all preproduction, postproduction and editing at an industry standard facility if available;
  - b) maintain the motion picture production company's full-time production labor positions in Arizona;
  - c) include in the credits for each motion picture production an acknowledgment that production is filmed in Arizona;
  - d) receive preapproval and post approval from the ACA; and
  - e) claim the Tax Credit by using an ADOR-prescribed form and include the form with the motion picture production company's income tax return for the taxable year in which the ACA issued the postapproval.
36. Allows co-owners of a motion picture production company, including partners in a partnership, members of a limited liability company and shareholders of an S Corporation, to each claim the pro rata share of the Tax Credits based on ownership interests.
37. Prohibits the total of allowed Tax Credits to co-owners from exceeding the amount that would have been allowed to a sole owner.

38. Requires the claim amount not used as an offset against income tax to be paid to the taxpayer as a tax refund, if the allowable Tax Credit for a taxable year exceeds the income taxes otherwise due on the claimant's income or, if there are no taxes due, the amount of the claim not used as an offset.
39. Subjects Tax Credit income tax refunds to the ADOR liability setoff program.
40. Stipulates that the excess refund may be treated as a tax deficiency if ADOR determines that a refund is incorrect or invalid.
41. Requires ADOR to maintain annual data on the total amount of Tax Credit monies and provide the data to the ACA, upon request.
42. Asserts that the Tax Credits are in lieu of any allowance for state tax purposes of a deduction of those expenses allowed by the U.S. IRC.
43. Exempts the ACA and ADOR from rulemaking requirements for one year.
44. Contains a purpose statement and a statement of legislative intent.
45. Makes technical and conforming changes.
46. Becomes effective on the general effective date.

Amendments Adopted by Committee

- Adopted the strike-everything amendment.

Senate Action

APPROP      6/22/22      DPA/SE      9-0-1

Prepared by Senate Research

June 23, 2022

LMM/slp

## **Exhibit 10**

December 31, 2024

The Honorable Katie Hobbs  
Governor of Arizona  
1700 West Washington Street  
Phoenix, Arizona 85007

The Honorable Warren Petersen  
Arizona State Senate  
1700 West Washington Street, Room 205  
Phoenix, Arizona 85007

The Honorable Ben Toma  
Arizona House of Representatives  
1700 West Washington Street, Room 223  
Phoenix, Arizona 85007

RE: Arizona Motion Picture Production Program (the "Program")  
Program Annual Report – December 2024

Ladies and Gentlemen:

The Arizona Motion Picture Production Program as established in Arizona Revised Statutes (A.R.S.) 41-1517 directs the Arizona Commerce Authority (the "Authority") to implement a program to promote the workforce development and expansion of the commercial motion picture industry in this state.

Pursuant to A.R.S. 41-1517, the Authority is required to submit to the Governor, the President of the Senate, and the Speaker of the House of Representatives, with a copy to the Secretary of State, on or before December 31<sup>st</sup> of each year, a report including, at a minimum, information relating to the program's activities, receipts, and expenditures; comparison of the annual amount of monies credited to certified motion picture production companies to the estimated amount of monies spent on in-state production costs by motion picture production companies; quarterly data on growth and development of motion picture industry employment and wages in the state; third-party review of the relative economic benefits to the state.

Program Activity 12/1/2023 through 11/26/2024

- 15 initial pre-approval applications received
- 9 initial pre-approval certifications issued totaling \$2,097,561 in reserves credits (\$41,951.22 in processing and administration fees collected)
- 3 initial pre-approval applications under review/pending
- 3 pre-approval applications withdrawn

100 North 7th Avenue, Suite 400  
Phoenix, Arizona 85007  
602.845.1200 • 800.542.5684  
[azcommerce.com](http://azcommerce.com)



- 3 post-approval applications received
- 3 post-approval certifications issued totaling \$264,635 in tax credits covering \$1,659,620 in qualifying production costs

### Annual Comparison of Credits to Production Cost Expenditures

As of the date of this report, the Program has approved \$264,635 in tax credits based on qualified production costs of \$1,659,620. The tax credits represent 15.95% of the qualified production costs.

### Motion Picture Production Industry Growth and Development

<b>Arizona Motion Picture Production Program Employment and Wages</b>				
<b>Metric</b>	<b>2023 Q3</b>	<b>2023 Q4</b>	<b>2024 Q1</b>	<b>2024 Q2</b>
Average Employment	5,595	5,187	5,204	5,199
Employment Change	1.8%	-7.3%	0.3%	-0.1%
Quarterly Wages	\$36,621,902	\$34,439,750	\$35,749,327	\$35,568,142
Quarterly Wage Change	-1.3%	-6.0%	3.8%	-0.5%
<i>Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.</i>				
<i>Based on NAICS Code 5121, Motion Picture and Video Industries.</i>				
<i>The table uses the most current data available due to data lag.</i>				
<i>The table captures private ownership only.</i>				

*Note: Due to the Writers Guild of America strike ending September 2023 and the Screen Actors Guild strike ending November 2023, the overall activity in the U.S. film industry was negatively affected in 2023 and much of 2024.*

### Economic Benefits to the State

#### *Background*

The Arizona legislature established the Arizona Motion Picture Production Program with the intent of incentivizing film and digital media production in Arizona, as well as the construction in Arizona of qualified industry facilities for the production of motion pictures and related preproduction, postproduction and editing of such productions. These activities were negatively affected by nationwide industry challenges in 2024, most notably the negative effects of industry strikes and related negotiations at the end of 2023 and beginning of 2024. Industry reports identified delays in production and construction schedules due to these strikes, with activities initially scheduled for 2024 pushed to 2025 and beyond.

*2024 Economic Benefits*

In 2024, the ACA issued 3 post-approval certifications totaling \$264,635 in tax credits covering \$1,659,620 in qualifying production costs. A third-party economic benefit analysis of these three productions estimates a related tax benefit of \$197,300, with 121 total direct, indirect, and induced jobs created, and a total economic impact in Arizona of \$14.38 million.

Looking ahead, it can be reasonably expected that, should production and soundstage construction activity increase, Arizona can expect additional and enhanced economic benefits resulting from the program. The Legislature's goal in passing the MPPP involved fostering a more expansive and dynamic film and digital media ecosystem in Arizona, complete with state-of-the-art soundstages that attract additional production projects. Increased industry activity will be important to realizing this goal in additional years of the program.

In the event of questions, please contact the Program Manager, Cindy Grogan, at 602-845-1221 or [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Sandra Watson  
President & CEO

cc: The Honorable Adrian Fontes, Arizona Secretary of State



## **Exhibit 11**

# 2023 Credit for Motion Picture Production Costs

## Arizona Form 334

### CONTACTS FOR CREDIT FOR MOTION PICTURE PRODUCTION COSTS

#### Arizona Commerce Authority

•Application forms •Program guidelines

Website: [www.azcommerce.com](http://www.azcommerce.com)

Program Manager (602) 845-1200

#### Arizona Department of Revenue

•Tax forms and instructions •Information and assistance

Website: [www.azdor.gov](http://www.azdor.gov)

Taxpayer assistance (602) 255-3381

From area codes 520 and 928, toll-free (800) 352-4090

### General Instructions

For taxable years beginning from and after December 31, 2022, Arizona Revised Statutes §§ 43-1082 and 43-1165 provide that an individual or corporate refundable tax credit is allowed against production costs paid by a motion picture production company in this state that are subject to taxation in Arizona and that are directly attributable to a motion picture production in Arizona.

A motion picture production company is defined as "...any person that is primarily engaged in the business of producing motion pictures and that has a physical business office in this state."

Motion picture production is defined as "... a single medium or multimedia program, including a feature film, episodic series or commercial advertisement message that:

- Is created by production activities conducted in this state.
- Can be viewed or reproduced.
- Is intended for commercial distribution or licensing in the delivery medium used

The credit is based on the percentage of motion picture production costs a production company has in Arizona that are directly attributable to the production of that motion picture in Arizona.

The tax credit is in lieu of a deduction for the expenses for which the credit is claimed. An addition to Arizona gross income is required for the amount of the expenses included in the computation of federal taxable income for which the Arizona tax credit is claimed.

No credit will be allowed to any taxpayer who has a delinquent tax balance owed to the Arizona Department of Revenue.

To claim this credit, a motion picture production company must have received post-approval from the Arizona Commerce Authority (ACA) prior to claiming the credit. The credit is claimed on the tax return for the taxable year in which the post-approval has been received.

### NOTE:

- The credit for motion picture production costs must be claimed on a timely filed original income tax return, including extensions. The credit may not be claimed on an amended return.
- To claim this credit, the production company must submit a copy of the Post-Approval document with Form 334 and its Arizona income tax return.
- The credit a taxpayer may claim can never exceed the amount that was preapproved.

Co-owners of a business, including partners in a partnership, members of a limited liability company (LLC), and shareholders of an S Corporation, may each claim only their *pro rata* share of the apportioned credit based on ownership interest. The total of the apportioned credits allowed to all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

If the allowable tax credit exceeds the income taxes otherwise due on the taxpayer's income, or if there are no state income taxes due on the taxpayer's income, the amount of the credit not used to offset against income taxes shall be paid to the taxpayer in the same manner as a refund under section 42-1118.

The tax credit is in lieu of a deduction for the expenses for which the credit is claimed. An addition to Arizona gross income is required for the amount of the expenses included in the computation of federal taxable income for which the Arizona tax credit is claimed.

### The amount of the credit is determined as follows:

- An amount equal to a percentage of the total amount of the qualified production costs as approved by ACA pursuant to A.R.S. § 41-1517 as follows:
  - For a motion picture production company that spends up to \$10,000,000, fifteen percent (15%) of production costs.
  - For a motion picture production company that spends more than \$10,000,000 but less than \$35,000,000, seventeen and one-half percent (17.5%) of production costs.
  - For a motion picture production company that spends more than \$35,000,000, twenty percent (20%) of production costs.
- An additional two and one-half percent (2.5%) of the motion picture production company's production labor costs related to positions held by residents of this state as approved by the ACA.
- If the motion picture production company either:
  - Uses a qualified production facility in this state to produce the motion picture production, an additional two and one-half percent (2.5%) of the total amount of qualified production costs as approved by ACA; or,



- b. Films primarily at a practical location, produces and films the motion picture production primarily in this state and performs all preproduction, postproduction and editing at a qualified production facility in this state, an additional two and one-half percent (2.5%) of production costs.
4. An additional two and one-half percent (2.5%) of the total amount of qualified production costs as approved by ACA if the motion picture production is produced and filmed in association with a long-term tenant of a qualified production facility.

**To qualify for this credit, the motion picture production company must:**

1. Do either of the following:
  - a. Use a qualified production facility in this state to produce the motion picture production,
  - b. If the motion picture production is filmed primarily at a practical location, produce and film the motion picture production primarily in this state and perform all preproduction, postproduction and editing at an industry standard facility, if such a facility for those functions is available.
2. Maintain the motion picture production company's labor positions in this state.
3. Include in the credits for each motion picture production an acknowledgement that the production was filmed in Arizona.
4. Submit a completed application to ACA.
5. Provide supporting statements and records requested by ACA to demonstrate the motion picture production company satisfies the criteria necessary for qualification.

**Preapproval letter**

On determination by ACA that a motion picture production company qualifies for the credit, ACA shall issue a preapproval letter and provide a copy of that letter to the department. The preapproval letter is effective for a time period (Pre-Approval Period) prescribed by ACA. A motion picture production company may apply to ACA to extend the preapproval period if the company can demonstrate that an act of force majeure occurred and that the preapproval letter will expire before the production is complete.

The ACA may not preapprove tax credits exceeding the following amounts in a calendar year:

- \$ 75,000,000 in calendar year 2023:
- \$100,000,000 in calendar year 2024:
- \$125,000,000 in calendar year 2025 and each calendar year following.

Up to \$25,000,000 of the credit in each calendar year may be used for a motion picture production that qualifies for the program if:

- The motion picture production is filmed at a practical location;
- The motion picture production is produced and filmed primarily in this state, and;
- The motion picture production company performs all preproduction, postproduction and editing is performed

at an industry standard facility in this state, if such a facility for those functions is available.

**Postapproval letter**

On completion of the motion picture production, a motion picture production company that is preapproved for the credit shall apply to ACA for approval of the credit and provide an audited statement completed by a certified public accountant in this state certifying the total amount of eligible production costs associated with the production. ACA shall provide postapproval to the motion picture production company stating it has met the eligibility requirements, and notify this department that the motion picture production company may claim the tax credit.

**Specific Instructions**

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an S corporation, or a partnership is the taxpayer's employer identification number. The TIN for an individual is the taxpayer's social security number or an Internal Revenue Service individual taxpayer identification number. A taxpayer that fails to include its TIN may be subject to a penalty.

**Part 1 - Listing of Post-Approved Motion Picture Productions and Approved Credit Amount**

**Lines 1 through 6**

List all of your productions that ACA has issued a post-approval for this taxable year.

**Lines 1 and 2**

- Enter the Program Calendar Year in column (A). The allocation year is the calendar year for which you were pre-approved for the credit and it was applied to the annual credit cap. This date will be indicated on the post-approval letter received from ACA.
- Enter the Name of the Production in column (B).
- Enter the Priority Placement Number in column (C).
- Enter the approved credit amount in column (D).

**Line 3**

Enter the total approved credit amount from all included schedules.

**NOTE:** *If there are not enough lines on the form to enter all productions eligible to be claimed this year, include a schedule that shows all of the information Part 2 requires.*

**Line 4**

Enter the total amount of credit passed through from partnerships on Form 334-P, line 3c,

### Line 5

Enter the total amount of credit passed through from S Corporations on Form 334-S, line 3c.

### Line 6

Add lines 1 through 5. Enter the total. This is your total credit amount.

## Part 2 – Credit Recapture

### Line 7

Enter the Priority Placement Number from the ACA for the motion picture production that is being recaptured.

### Line 8

Enter the date on which the Priority Placement Number was recaptured.

### Line 9

Enter the total recapture of the credit for Motion Picture Production Costs. Enter the total amount(s) of the credit(s) to be recaptured. If more than one Post-Approval has been recaptured, enter the total amount of all credits that were recaptured. (Include a schedule.)

### Line 10

If the credit was previously passed through from a partnership, enter the partner's portion of the credit to be recaptured from Form 334-P, Part 3, line 5d.

### Line 11

If the credit was previously passed through from an S Corporation, enter the shareholder's portion of the credit to be recaptured from Form 334-S, Part 3, line 5d.

### Line 12

Add lines 9 through 11. Enter the total. This is the total amount of the credit to be recaptured.

## Part 3 – Partners' Share of the Credit

A partnership<sup>1</sup> claiming this credit *must* pass it through to its partners. Skip to the instructions for completing Form 334-P on page 5.

- Complete Form 334-P for each partner.
- Provide a completed copy of Form 334-P to each partner.
- Provide a copy of the Post-Approval received from ACA to each partner.
- Include a copy of each completed Form 334-P with your tax return.
- Keep a copy of each completed Form 334-P for your records.
- Do not complete the remainder of this form.

Each partner is entitled to only a *pro rata* share of each credit based on the partner's ownership interest in the partnership. The total of each credit allowed to all partners may not exceed the amount that would have been allowed for a sole owner.

<sup>1</sup> Including an LLC that is classified as a partnership for federal income tax purposes.

**NOTE:** *Trusts and estates that are partners in a partnership are not eligible to claim this credit. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

## Part 4 – S Corporation Credit Election and Shareholder's Share of Credit

### Lines 13, 13a, & 13b – S Corporation Credit Election

The S Corporation<sup>2</sup> must complete line 7 and line 7a or line 7b. The S Corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level or to pass the credit through to its shareholders. To make the S Corporation election:

- Enter the date the S Corporation taxable year ends in the box provided.
- Check the box on line 7a electing to claim the current taxable year credit at the corporate level; or,
- Check the box on line 7b electing to pass the current taxable year credit through to its shareholders.
- The election statement must be signed by one of the officers of the S Corporation who is also a signatory to Arizona Form 120S.

If the S Corporation elects to claim the credit at the corporate level, continue to Part 4.

If the S Corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 334-S on page 6.

If passing this credit through to the shareholders:

- Complete Form 334-S for each shareholder.
- Provide each shareholder with a copy of his or her completed Form 334-S.
- Provide a copy of the Post-Approval received from ACA to each shareholder.
- Include a copy of each completed Form 334-S with your tax return.
- Keep a copy of each completed Form 334-S for your records.

Each S Corporation shareholder is entitled to only a *pro rata* share of pass-through credit based on ownership interest in the S Corporation. The total of the credit allowed to all shareholders may not exceed the amount that would have been allowed for a sole owner.

**NOTE:** *Trusts and estates that are shareholders of S Corporations, are not eligible to claim this credit. However, the share of an S Corporation owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

<sup>2</sup> Including an LLC that makes a valid federal election to be taxed as an S Corporation for federal income tax purposes.

## Part 5 – Credit Recapture Summary

### Line 14

Enter the taxable years(s) for which you claimed the credit that are being recaptured.

### Line 15

*Individuals, C Corporations, S Corporations that claimed the credit at the corporate level, and exempt organizations with UBTI*, enter the amount from Part 2, line 12.

- *Individuals that **did not make the Small Business Income election***: Also enter this amount on Form 301, Part 2, line 28.
- *Individuals that **made the Small Business Income election***: Also enter this amount on Form 301-SBI, Part 2, line 21.
- *C Corporations, S Corporations that claimed the credit at the corporate level, and exempt organizations with UBTI*: Also enter this amount on Form 300, Part 2, line 19.

## Part 6 - Total Credit for Motion Picture Production Costs

### Line 16

Individuals, C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI: Enter the amount from Part 1, line 6.

Partnerships: Enter "0".

S Corporations electing to pass this credit through to individual shareholders: Enter "0".

Individuals that **did not make the Small Business Income election**: Also, enter this amount on Form 140, line 58; or Form 140NR, line 65; or Form 140PY, line 67; or Form 140X, line 45.

Individuals that **made the Small Business Income election**: Also, enter this amount on Form 140-SBI, line 61; or Form 140NR-SBI, line 59; or Form 140PY-SBI, line 61; or Form 140X-SBI, line 61.

C Corporations: Also, enter this amount on Form 120, line 22; or Form 120A, line 14; or Form 120X, line 22(c).

Exempt organizations with UBTI: Also, enter this amount on Form 99T, line 12.

S Corporations *claiming* this credit at the corporate level: Also, enter this amount on Form 120S, line 20.

## Form 334-P, Distribution to Partners of a Partnership

Enter the taxable year for which this credit is being passed through to your partners.

Complete Form 334-P for each partner of the partnership, *except for* trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 334-P, including additional schedules as needed.

### Part 1 - Distribution of the Credit

*Complete Part 1 to distribute the credit to the partners of the partnership (complete lines 1 through 3).*

#### Line 1

Enter the partnership name, EIN, and the Priority Placement Number received from ACA in the spaces provided.

#### Line 2

Enter the partner's name and TIN in the spaces provided.

#### Line 3a

Enter the amount of this credit from the partnership's Form 334, Part 1, line 6.

#### Line 3b

Enter the partner's ownership percentage.

#### Line 3c

Multiply line 3a by line 3b and enter the result. **This is the partner's portion of the credit.**

## Part 2 - Distribution of Motion Picture Production Expenses

*Complete Part 2 to notify each partner of their share of the motion picture production expenses to be added back to their calculation of Arizona taxable income (complete lines 4a and 4b).*

#### Line 4a

Enter the amount of the partnership's approved motion picture production expenses.

#### Line 4b

Multiply the amount on line 4a by the percentage on line 3b. Enter the result. This is the partner's portion of the motion picture production expenses to be added back to their calculation of Arizona taxable income. **This is the partner's portion of the motion picture production expenses.**

### Part 3 - Recapture of the Credit

*Complete Part 3 to notify each partner of their share of the recapture of the Credit for Motion Picture Production Costs which has been determined to be incorrect (complete lines 5a through 5d).*

#### Line 5a

Enter the Priority Placement Number of the credit that was recaptured.

#### Line 5b

Enter the date the Priority Placement Number was recaptured.

#### Line 5c

Enter the amount of the credit to be recaptured from the partnership's Form 334, Part 2, line 12.

Multiply the amount on line 5a by the percentage on line 3b. Enter the result. **This is the partner's portion of the credit to be recaptured.**

## Form 334-S, Distribution to Shareholders of an S Corporation

Enter the taxable year for which this credit is being passed through to your shareholders.

Complete Form 334-S for each shareholder of the S Corporation, *except for* trust or estate shareholders. However, an S Corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S Corporation must furnish each shareholder with a completed copy of Form 334-S, including additional schedules as needed.

### Part 1 Distribution of the Credit

*Complete Part 1 to distribute the credit to the S Corporation shareholders (complete lines 1 through 3).*

#### Line 1

Enter the S Corporation name, EIN, and the Priority Placement Number received from ACA in the spaces provided.

#### Line 2

Enter the shareholder's name and TIN in the spaces provided.

#### Line 3a

Enter the amount of this credit from the S Corporation's Form 334, Part 1, line 6.

#### Line 3b

Enter the shareholder's ownership percentage.

#### Line 3c

Multiply line 3a by line 3b and enter the result. **This is the shareholder's portion of the credit.**

## Part 2 Distribution of Motion Picture Production Expenses

*Complete Part 2 to notify each shareholder of their share of the motion picture production expenses to be added back to their calculation of Arizona taxable income (complete lines 4a and 4b).*

#### Line 4

Enter the amount of the S Corporation's approved motion picture production expenses.

#### Line 4b

Multiply the amount line 4a by the percentage on line 3b. Enter the result. This is the shareholder's portion of the motion picture production expenses to be added back to their calculation of Arizona taxable income. **This is the shareholder's portion of the credit to be recaptured.**

### Part 3 Recapture of the Credit

*Complete Part 3 to notify each shareholder of their share of the recapture of the Credit for Motion Picture Production Costs which has been determined to be incorrect (complete lines 5a through 5d).*

#### Line 5a

Enter the Priority Placement Number of the credit that was recaptured.

#### Line 5b

Enter the date the Priority Placement Number was recaptured.

#### Line 5c

Enter the amount of the credit to be recaptured from the partnership's Form 334, Part 2, line 12.

Multiply the amount on line 5a by the percentage on line 3b. Enter the result. **This is the shareholder's portion of the credit to be recaptured.**

*Include this completed form and the Post-Approval from the Arizona Commerce Authority with your return.*

For the calendar year 2023 or fiscal year beginning MM,DD,2023 and ending MM,DD,YYYY.

Name as shown on Form 140, 140PY, 140NR, 140X, 140-SBI, 140PY-SBI, 140NR-SBI, 140X-SBI, 99T, 120, 120A, 120S, 120X, or 165

Social Security or  
Employer Identification Number

### Part 1 Listing of Post-Approved Motion Pictures and Approved Credit Amount

List motion picture(s) for which you are entitled to claim a credit during this taxable year. If you have more than two motion pictures, include additional schedules. See instructions.

Arizona Commerce Authority Post-Approval Information				
(A) Program Calendar Year	(B) Name of Production	(C) Priority Placement Number	(D) Post-Approved Tax Credit Amount	
1 YYYY				00
2 YYYY				00
3	Enter the total from all additional schedules.....	3		00
4	Enter the total amount of this credit passed through from partnerships on Form 334-P, Part 1, line 3c.....	4		00
5	Enter the total amount of this credit passed through from S Corporations on Form 334-S, Part 1, line 3c.....	5		00
6	Subtotal: Add lines 1 through 5, column (d). Enter the total. This is your total credit amount.....	6		00

### Part 2 Credit Recapture

7	Priority Placement Number of the recaptured credit.....	7		
8	Date the Priority Placement Number was recaptured. ....	8	MM,DD,YYYY	
9	Total recapture of the Credit for Motion Picture Production Costs. Enter the total amount(s) of the credit(s) to be recaptured. If more than one credit has been recaptured, enter the total amount of all credits that were recaptured. (Include schedule.).....	9		00
10	If the credit was previously passed through from a partnership, enter the partner's portion of this credit to be recaptured from Form 334-P, Part 3, line 5d. ....	10		00
11	If the credit was previously passed through from an S Corporation, enter the S Corporation shareholder's portion of this credit to be recaptured from Form 334-S, Part 3, line 5d.....	11		00
12	Add lines 9 through 11 Enter the total. <b>This is your total recapture amount</b> .....	12		00

### Part 3 Partnerships - Partners' Share of the Credit

Partnerships and limited liability companies taxed as partnerships passing the credit through to its partners, complete Form 334-P for each partner.

- Provide a completed copy of Form 334-P to each partner.
- Include a copy of each completed Form 334-P with your tax return.
- Keep a copy of each completed Form 334-P for your records.

Continued on page 2 →

Name (as shown on page 1)	EIN
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#### Part 4 S Corporation Credit Election

**13** The S Corporation or limited liability company taxed as an S Corporation has made an irrevocable election for the taxable year ending MM, DD, YYYY to

(check only one box):

**13a** ☐ Claim the Credit for Motion Picture Production Costs as shown in Part 1, line 6 (for the taxable year indicated above);

OR

**13b** ☐ Pass the Credit for Motion Picture Production Costs as shown in Part 1, line 6 (for the taxable year indicated above), through to its shareholders.

Signature \_\_\_\_\_ Title \_\_\_\_\_ Date \_\_\_\_\_

If passing the credit through to the shareholders, complete Form 334-S for each shareholder.

- Provide a completed copy of Form 334-S to each shareholder.
- Include a copy of each completed Form 334-S with your tax return.
- Keep a copy of each completed Form 334-S for your records.

#### Part 5 Credit Recapture Summary

**14** Enter the taxable year(s) for which you claimed the Credit for Motion Picture Production Costs that are subject to recapture:

**15** Total amount of credit recaptured:

- *Individuals, C Corporations, S Corporations that claimed the credit at the corporate level, and exempt organizations with UBTI:* Enter the amount from Part 2, line 12.
- *Individuals that **did not make the Small Business Income election**:* Also, enter this amount on Form 301, Part 2, line 28.
- *Individuals that **made the Small Business Income election**:* Also, enter this amount on Form 301-SBI, Part 2, line 21.
- *C Corporations, S Corporations that claimed this credit at the corporate level, and exempt organizations with UBTI:* Also, enter this amount on Form 300, Part 2, line 19.....

**15** 00

#### Part 6 Total Approved Credit Claimed This Taxable Year

**16** Total approved credit for Motion Picture Production Costs:

- *Individuals, C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI:* Enter the amount from Part 1, line 6.
- *Partnerships:* Enter "0".
- *S Corporations electing to pass this credit through to individual shareholders:* Enter "0".
- *Individuals that **did not make the Small Business Income election**:* Also, enter this amount on Form 140, line 58; or Form 140NR, line 65; or Form 140PY, line 67; or Form 140X, line 45.
- *Individuals that **made the Small Business Income election**:* Also, enter this amount on Form 140-SBI, line 61; or Form 140NR-SBI, line 59; or Form 140PY-SBI, line 61; or Form 140X-SBI, line 61.
- *C Corporations:* Also, enter this amount on Form 120, line 22; or Form 120A, line 14; or Form 120X, line 22(c).
- *Exempt organizations with UBTI:* Also, enter this amount on Form 99T, line 12.
- *S Corporations that claimed this credit at the corporate level:* Also, enter this amount on Form 120S, line 20.....

**16** 00

For the calendar year 2023 or fiscal year beginning MM/DD/2023 and ending MM/DD/YYYY.

**Partnerships:**

- Complete Form 334-P for each partner in the partnership **except for** trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.
- Provide a copy of the completed form and the Post-Approval received from the Arizona Commerce Authority to each partner.
- Keep a copy of each completed Form 334-P for your records.
- Include a copy of each completed Form 334-P with your partnership return.

**Partners:**

- Use this form to complete your own Form 334.
- Include this completed form and a copy of the Post-Approval received from the Arizona Commerce Authority with your return.
- Keep a copy of this form and Post-Approval for your records.

**NOTE:** If you file your tax return on a calendar year basis but this entity files a return on a fiscal year basis (see above), claim this credit on your tax return for the year in which this entity's fiscal year ends.

**Part 1 Distribution of the Credit**

Complete Part 1 to distribute the credit to each partner in the partnership.

<b>1</b>	(a) Partnership Name	(b) Employer Identification Number (EIN)	(c) Priority Placement Number
<b>2</b>	(a) Partner Name	(b) Taxpayer Identification Number (TIN)	
<b>3a</b>	Partnership credit amount from Form 334, Part 1, line 6.....		<b>3a</b> \$ 00
<b>3b</b>	Partner's ownership percentage.....		<b>3b</b> %
<b>3c</b>	Multiply the amount on line 3a by the percentage on line 3b. Enter the result. <b>This is the partner's portion of the Credit for Motion Picture Production Costs.</b> .....		<b>3c</b> \$ 00

**Partners:** The amount reported on line 3c is your portion of this credit. Enter the amount from line 3c on Part 1, line 4 of your own Form 334 to claim the Credit for Motion Picture Production Costs.

**Part 2 Distribution of Motion Picture Production Expenses**

Complete Part 2 to notify each partner in the partnership of their share of the motion picture production expenses.

<b>4a</b>	Enter the partnership's approved motion picture production expenses.....	<b>4a</b> \$ 00
<b>4b</b>	Multiply the amount on line 4a by the percentage on line 3b. Enter the result. <b>This is the partner's portion of the motion picture production expenses.</b> .....	<b>4b</b> \$ 00

**Partners:** The amount reported on line 4b is your portion of the motion picture production expenses. Add back this amount in the calculation of your Arizona taxable income.

**Part 3 Recapture of the Credit**

Complete Part 3 to notify each partner of their share of the credit that has been determined to be incorrect.

<b>5a</b>	Priority Placement Number of the recaptured credit.....	<b>5a</b>	
<b>5b</b>	Date the Priority Placement Number was recaptured. ....	<b>5b</b>	
<b>5c</b>	Enter the amount to be recaptured from the partnership's Form 334, Part 2, line 12. ....	<b>5c</b>	\$ 00
<b>5d</b>	Multiply the amount on line 5a by the percentage on line 3b. Enter the result. <b>This is the partner's portion of the motion picture credit to be recaptured.</b> .....	<b>5d</b>	\$ 00

**Partners:** The amount reported on line 5d is your portion of the Credit for Motion Picture Production Costs that has been determined to be incorrect. Enter the amount from line 5d on **line 10 of your Form 334**.



For the calendar year 2023 or fiscal year beginning [M,M,D,D]2,0,2,3 and ending [M,M,D,D]Y,Y,Y,Y.

**S Corporations:**

- Complete Form 334-P for each shareholder of the S Corporation **except for** trust or estate partners. However, an S Corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.
- Provide a copy of the completed form and the Post-Approval received from the Arizona Commerce Authority to each shareholder.
- Keep a copy of each completed Form 334-P for your records.
- Include a copy of each completed Form 334-P with your S Corporation return.

**Shareholders:**

- Use this form to complete your own Form 334.
- Include this completed form and a copy of the Post-Approval received from the Arizona Commerce Authority with your return.
- Keep a copy of this form and Post-Approval for your records.

**NOTE:** If you file your tax return on a calendar year basis but this entity files a return on a fiscal year basis (see above), claim this credit on your tax return for the year in which this entity's fiscal year ends.

**Part 1 Distribution of the Credit for Motion Picture Production Costs**

Complete Part 1 to distribute the credit to each shareholder in the S Corporation.

<b>1</b>	(a) S Corporation Name	(b) Employer Identification Number (EIN)	(c) Priority Placement Number
<b>2</b>	(a) Shareholder Name	(b) Taxpayer Identification Number (TIN)	
<b>3a</b>	S Corporation credit amount from Form 334, Part 1, line 6.....		<b>3a</b> \$ 00
<b>3b</b>	Shareholder's ownership percentage.....		<b>3b</b> %
<b>3c</b>	Multiply the amount on line 3a by the percentage on line 3b. Enter the result. <b>This is the shareholder's portion of the Credit for Motion Picture Production Costs</b> .....		<b>3c</b> \$ 00

**Shareholders:** The amount reported on line 3c is your portion of this credit. Enter the amount from line 3c on Part 1, line 5 of your own Form 334 to claim this credit.

**Part 2 Distribution of Motion Picture Production Expenses**

Complete Part 2 to notify each shareholder of the S Corporation of their share of the motion picture production expenses.

<b>4a</b>	Enter the S Corporation's approved motion picture production expenses .....	<b>4a</b> \$ 00
<b>4b</b>	Multiply the amount on line 4a by the percentage on line 3b. Enter the result. <b>This is the shareholder's portion of the motion picture production expenses</b> .....	<b>4b</b> \$ 00

**Shareholders:** The amount reported on line 4b is your portion of the motion picture production expenses. Add back this amount in the calculation of your Arizona taxable income.

**Part 3 Recapture of the Credit**

Complete Part 3 to notify each shareholder of their share of the credit that has been determined to be incorrect. .

<b>5a</b>	Priority Placement Number of the recaptured credit.....	<b>5a</b>	
<b>5b</b>	Date Priority Placement Number was recaptured. ....	<b>5b</b>	
<b>5c</b>	Enter the amount to be recaptured from the S Corporation's Form 334, Part 2, line 12. ....	<b>5c</b>	\$ 00
<b>5d</b>	Multiply the amount on line 5a by the percentage on line 3b. Enter the result. <b>This is the shareholders portion of the motion picture credit to be recaptured</b> .....	<b>5d</b>	\$ 00

**Shareholders:** The amount reported on line 5d is your portion of the Credit for Motion Picture Production Costs that has been determined to be incorrect. Enter the amount from line 5d on **line 11 of your Form 334**.

## **Exhibit 12**

# 2024 Credit for Motion Picture Production Costs

## Arizona Form 334

### CONTACTS FOR CREDIT FOR MOTION PICTURE PRODUCTION COSTS

#### Arizona Commerce Authority

•Application forms •Program guidelines

Website: [www.azcommerce.com](http://www.azcommerce.com)

Program Manager (602) 845-1200

#### Arizona Department of Revenue

•Tax forms and instructions •Information and assistance

Website: [www.azdor.gov](http://www.azdor.gov)

Taxpayer assistance (602) 255-3381

From area codes 520 and 928, toll-free (800) 352-4090

### General Instructions

For taxable years beginning from and after December 31, 2022, Arizona Revised Statutes §§ 43-1082 and 43-1165 provide that an individual or corporate refundable tax credit is allowed against production costs paid by a motion picture production company in this state that are subject to taxation in Arizona and that are directly attributable to a motion picture production in Arizona.

A motion picture production company is defined as "...any person that is primarily engaged in the business of producing motion pictures and that has a physical business office in this state."

Motion picture production is defined as "... a single medium or multimedia program, including a feature film, episodic series or commercial advertisement message that:

- Is created by production activities conducted in this state;
- Can be viewed or reproduced; or,
- Is intended for commercial distribution or licensing in the delivery medium used.

The credit is based on the percentage of motion picture production costs a production company has in Arizona that are directly attributable to the production of that motion picture in Arizona.

The tax credit is in lieu of a deduction for the expenses for which the credit is claimed. An addition to Arizona gross income is required for the amount of the expenses included in the computation of federal taxable income for which the Arizona tax credit is claimed.

No credit will be allowed to any taxpayer who has a delinquent tax balance owed to the Arizona Department of Revenue.

To claim this credit, a motion picture production company must have received post-approval from the Arizona Commerce Authority (ACA) prior to claiming the credit. The credit is claimed on the tax return for the taxable year in which the post-approval has been received.

### NOTE:

- The credit for motion picture production costs must be claimed on a timely filed original income tax return, including extensions. The credit may not be claimed on an amended return.
- To claim this credit, the production company must submit a copy of the Post-Approval document with Form 334 and its Arizona income tax return.
- The credit a taxpayer may claim can never exceed the amount that was preapproved.

Co-owners of a business, including partners in a partnership, members of a limited liability company (LLC), and shareholders of an S Corporation, may each claim only their *pro rata* share of the apportioned credit based on ownership interest. The total of the apportioned credits allowed to all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

If the allowable tax credit exceeds the income taxes otherwise due on the taxpayer's income, or if there are no state income taxes due on the taxpayer's income, the amount of the credit not used to offset against income taxes shall be paid to the taxpayer in the same manner as a refund under section 42-1118.

The tax credit is in lieu of a deduction for the expenses for which the credit is claimed. An addition to Arizona gross income is required for the amount of the expenses included in the computation of federal taxable income for which the Arizona tax credit is claimed.

### The amount of the credit is determined as follows:

- An amount equal to a percentage of the total amount of the qualified production costs as approved by ACA pursuant to A.R.S. § 41-1517 as follows:
  - For a motion picture production company that spends up to \$10,000,000, fifteen percent (15%) of production costs.
  - For a motion picture production company that spends more than \$10,000,000 but less than \$35,000,000, seventeen and one-half percent (17.5%) of production costs.
  - For a motion picture production company that spends more than \$35,000,000, twenty percent (20%) of production costs.
- An additional two and one-half percent (2.5%) of the motion picture production company's production labor costs related to positions held by residents of this state as approved by the ACA.
- If the motion picture production company either:
  - Uses a qualified production facility in this state to produce the motion picture production, an additional two and one-half percent (2.5%) of the total amount of qualified production costs as approved by ACA; or,
  - Films primarily at a practical location, produces and films the motion picture production primarily in this

state and performs all preproduction, postproduction and editing at a qualified production facility in this state, an additional two and one-half percent (2.5%) of production costs.

4. An additional two and one-half percent (2.5%) of the total amount of qualified production costs as approved by ACA if the motion picture production is produced and filmed in association with a long-term tenant of a qualified production facility.

**To qualify for this credit, the motion picture production company must:**

1. Do either of the following:
  - a. Use a qualified production facility in this state to produce the motion picture production,
  - b. If the motion picture production is filmed primarily at a practical location, produce and film the motion picture production primarily in this state and perform all preproduction, postproduction and editing at an industry standard facility, if such a facility for those functions is available.
2. Maintain the motion picture production company's labor positions in this state.
3. Include in the credits for each motion picture production an acknowledgement that the production was filmed in Arizona.
4. Submit a completed application to ACA.
5. Provide supporting statements and records requested by ACA to demonstrate the motion picture production company satisfies the criteria necessary for qualification.

### Preapproval letter

On determination by ACA that a motion picture production company qualifies for the credit, ACA shall issue a preapproval letter and provide a copy of that letter to the department. The preapproval letter is effective for a time period (Pre-Approval Period) prescribed by ACA. A motion picture production company may apply to ACA to extend the preapproval period if the company can demonstrate that an act of force majeure occurred and that the preapproval letter will expire before the production is complete.

The ACA may not preapprove tax credits exceeding the following amounts in a calendar year:

- \$ 75,000,000 in calendar year 2023;
- \$100,000,000 in calendar year 2024;
- \$125,000,000 in calendar year 2025 and each calendar year following.

Up to \$25,000,000 of the credit in each calendar year may be used for a motion picture production that qualifies for the program if:

- The motion picture production is filmed at a practical location;
- The motion picture production is produced and filmed primarily in this state, and;
- The motion picture production company performs all preproduction, postproduction and editing is performed at an industry standard facility in this state, if such a facility for those functions is available.

### Post-approval letter

On completion of the motion picture production, a motion picture production company that is preapproved for the credit shall apply to ACA for approval of the credit and provide an audited statement completed by a certified public accountant in this state certifying the total amount of eligible production costs associated with the production. ACA shall provide post-approval to the motion picture production company stating it has met the eligibility requirements, and notify this department that the motion picture production company may claim the tax credit.

### Specific Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an S corporation, or a partnership is the taxpayer's employer identification number. The TIN for an individual is the taxpayer's social security number or an Internal Revenue Service individual taxpayer identification number. A taxpayer that fails to include its TIN may be subject to a penalty.

### Part 1 - Listing of Post-Approved Motion Picture Productions and Approved Credit Amount

#### Lines 1 through 6

List all of your productions that ACA has issued a post-approval for this taxable year.

#### Lines 1 and 2

- Enter the Program Calendar Year in column (A). The allocation year is the calendar year for which you were pre-approved for the credit and it was applied to the annual credit cap. This date will be indicated on the post-approval letter received from ACA.
- Enter the Name of the Production in column (B).
- Enter the Priority Placement Number in column (C).
- Enter the approved credit amount in column (D).

#### Line 3

Enter the total approved credit amount from all included schedules.

**NOTE:** *If there are not enough lines on the form to enter all productions eligible to be claimed this year, include a schedule that shows all of the information Part 2 requires.*

#### Line 4

Enter the total amount of credit passed through from partnerships on Form 334-P, line 3c,

## Line 5

Enter the total amount of credit passed through from S Corporations on Form 334-S, line 3c.

## Line 6

Add lines 1 through 5. Enter the total. This is your total credit amount.

## Part 2 – Credit Recapture

### Line 7

Enter the Priority Placement Number from the ACA for the motion picture production that is being recaptured.

### Line 8

Enter the date on which the Priority Placement Number was recaptured.

### Line 9

Enter the total recapture of the credit for Motion Picture Production Costs. Enter the total amount(s) of the credit(s) to be recaptured. If more than one Post-Approval has been recaptured, enter the total amount of all credits that were recaptured. (Include a schedule.)

### Line 10

If the credit was previously passed through from a partnership, enter the partner's portion of the credit to be recaptured from Form 334-P, Part 3, line 5d.

### Line 11

If the credit was previously passed through from an S Corporation, enter the shareholder's portion of the credit to be recaptured from Form 334-S, Part 3, line 5d.

### Line 12

Add lines 9 through 11. Enter the total. This is the total amount of the credit to be recaptured.

## Part 3 – Partners' Share of the Credit

A partnership<sup>1</sup> claiming this credit *must* pass it through to its partners. Skip to the instructions for completing Form 334-P on page 5.

- Complete Form 334-P for each partner.
- Provide a completed copy of Form 334-P to each partner.
- Provide a copy of the Post-Approval received from ACA to each partner.
- Include a copy of each completed Form 334-P with your tax return.
- Keep a copy of each completed Form 334-P for your records.
- Do not complete the remainder of this form.

Each partner is entitled to only a *pro rata* share of each credit based on the partner's ownership interest in the partnership. The total of each credit allowed to all partners may not exceed the amount that would have been allowed for a sole owner.

<sup>1</sup> Including an LLC that is classified as a partnership for federal income tax purposes.

**NOTE:** *Trusts and estates that are partners in a partnership are not eligible to claim this credit. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

## Part 4 – S Corporation Credit Election and Shareholder's Share of Credit

### Lines 13, 13a, & 13b – S Corporation Credit Election

The S Corporation<sup>2</sup> must complete line 7 and line 7a or line 7b. The S Corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level or to pass the credit through to its shareholders. To make the S Corporation election:

- Enter the date the S Corporation taxable year ends in the box provided.
- Check the box on line 7a electing to claim the current taxable year credit at the corporate level; or,
- Check the box on line 7b electing to pass the current taxable year credit through to its shareholders.
- The election statement must be signed by one of the officers of the S Corporation who is also a signatory to Arizona Form 120S.

If the S Corporation elects to claim the credit at the corporate level, continue to Part 4.

If the S Corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 334-S on page 6.

If passing this credit through to the shareholders:

- Complete Form 334-S for each shareholder.
- Provide each shareholder with a copy of his or her completed Form 334-S.
- Provide a copy of the Post-Approval received from ACA to each shareholder.
- Include a copy of each completed Form 334-S with your tax return.
- Keep a copy of each completed Form 334-S for your records.

Each S Corporation shareholder is entitled to only a *pro rata* share of pass-through credit based on ownership interest in the S Corporation. The total of the credit allowed to all shareholders may not exceed the amount that would have been allowed for a sole owner.

**NOTE:** *Trusts and estates that are shareholders of S Corporations, are not eligible to claim this credit. However, the share of an S Corporation owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

<sup>2</sup> Including an LLC that makes a valid federal election to be taxed as an S Corporation for federal income tax purposes.

## Part 5 – Credit Recapture Summary

### Line 14

Enter the taxable years(s) for which you claimed the credit that are being recaptured.

### Line 15

*Individuals, C Corporations, S Corporations that claimed the credit at the corporate level, and exempt organizations with UBTI*, enter the amount from Part 2, line 12.

- *Individuals that **did not make the Small Business Income election***: Also enter this amount on Form 301, Part 2, line 27.
- *Individuals that **made the Small Business Income election***: Also enter this amount on Form 301-SBI, Part 2, line 20.
- *C Corporations, S Corporations that claimed the credit at the corporate level, and exempt organizations with UBTI*: Also enter this amount on Form 300, Part 2, line 18.

## Part 6 - Total Credit for Motion Picture Production Costs

### Line 16

Individuals, C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI: Enter the amount from Part 1, line 6.

Partnerships: Enter "0".

S Corporations electing to pass this credit through to individual shareholders: Enter "0".

Individuals that **did not make the Small Business Income election**: Also, enter this amount on Form 140, line 58; or Form 140NR, line 65; or Form 140PY, line 67; or Form 140X, line 45.

Individuals that **made the Small Business Income election**: Also, enter this amount on Form 140-SBI, line 61; or Form 140NR-SBI, line 59; or Form 140PY-SBI, line 61; or Form 140X-SBI, line 61.

C Corporations: Also, enter this amount on Form 120, line 22; or Form 120A, line 14; or Form 120X, line 22(c).

Exempt organizations with UBTI: Also, enter this amount on Form 99T, line 12.

S Corporations *claiming* this credit at the corporate level: Also, enter this amount on Form 120S, line 20.

## Form 334-P, Distribution to Partners of a Partnership

Enter the taxable year for which this credit is being passed through to your partners.

Complete Form 334-P for each partner of the partnership, *except for* trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 334-P, including additional schedules as needed.

### Part 1 - Distribution of the Credit

*Complete Part 1 to distribute the credit to the partners of the partnership (complete lines 1 through 3).*

#### Line 1

Enter the partnership name, EIN, and the Priority Placement Number received from ACA in the spaces provided.

#### Line 2

Enter the partner's name and TIN in the spaces provided.

#### Line 3a

Enter the amount of this credit from the partnership's Form 334, Part 1, line 6.

#### Line 3b

Enter the partner's ownership percentage.

#### Line 3c

Multiply line 3a by line 3b and enter the result. **This is the partner's portion of the credit.**

## Part 2 - Distribution of Motion Picture Production Expenses

*Complete Part 2 to notify each partner of their share of the motion picture production expenses to be added back to their calculation of Arizona taxable income (complete lines 4a and 4b).*

#### Line 4a

Enter the amount of the partnership's approved motion picture production expenses.

#### Line 4b

Multiply the amount on line 4a by the percentage on line 3b. Enter the result. This is the partner's portion of the motion picture production expenses to be added back to their calculation of Arizona taxable income. **This is the partner's portion of the motion picture production expenses.**

## Part 3 - Recapture of the Credit

*Complete Part 2 to notify each partner of their share of the recapture of the Credit for Motion Picture Production Costs which has been determined to be incorrect (complete lines 5a through 5d).*

#### Line 5a

Enter the Priority Placement Number of the credit that was recaptured.

#### Line 5b

Enter the date the Priority Placement Number was recaptured.

#### Line 5c

Enter the amount of the credit to be recaptured from the partnership's Form 334, Part 2, line 12.

#### Line 5d

Multiply the amount on line 5c by the percentage on line 3b. Enter the result. **This is the partner's portion of the credit to be recaptured.**

## Form 334-S, Distribution to Shareholders of an S Corporation

Enter the taxable year for which this credit is being passed through to your shareholders.

Complete Form 334-S for each shareholder of the S Corporation, *except for* trust or estate shareholders. However, an S Corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S Corporation must furnish each shareholder with a completed copy of Form 334-S, including additional schedules as needed.

### Part 1 Distribution of the Credit

*Complete Part 1 to distribute the credit to the S Corporation shareholders (complete lines 1 through 3).*

#### Line 1

Enter the S Corporation name, EIN, and the Priority Placement Number received from ACA in the spaces provided.

#### Line 2

Enter the shareholder's name and TIN in the spaces provided.

#### Line 3a

Enter the amount of this credit from the S Corporation's Form 334, Part 1, line 6.

#### Line 3b

Enter the shareholder's ownership percentage.

#### Line 3c

Multiply line 3a by line 3b and enter the result. **This is the shareholder's portion of the credit.**

### Part 2 Distribution of Motion Picture Production Expenses

*Complete Part 2 to notify each shareholder of their share of the motion picture production expenses to be added back to their calculation of Arizona taxable income (complete lines 4a and 4b).*

#### Line 4

Enter the amount of the S Corporation's approved motion picture production expenses.

#### Line 4b

Multiply the amount line 4a by the percentage on line 3b. Enter the result. This is the shareholder's portion of the motion picture production expenses to be added back to their calculation of Arizona taxable income. **This is the shareholder's portion of the credit to be recaptured.**

### Part 3 Recapture of the Credit

*Complete Part 3 to notify each shareholder of their share of the recapture of the Credit for Motion Picture Production Costs which has been determined to be incorrect (complete lines 5a through 5d).*

#### Line 5a

Enter the Priority Placement Number of the credit that was recaptured.

#### Line 5b

Enter the date the Priority Placement Number was recaptured.

#### Line 5c

Enter the amount of the credit to be recaptured from the partnership's Form 334, Part 2, line 12.

#### Line 5d

Multiply the amount on line 5c by the percentage on line 3b. Enter the result. **This is the shareholder's portion of the credit to be recaptured.**



*Include this completed form and the Post-Approval from the Arizona Commerce Authority with your return.*

For the calendar year 2024 or fiscal year beginning MM/DD/2024 and ending MM/DD/YYYY.

Name as shown on Form 140, 140PY, 140NR, 140X, 140-SBI, 140PY-SBI, 140NR-SBI, 140X-SBI, 99T, 120, 120A, 120S, 120X, or 165

Social Security or  
Employer Identification Number

### Part 1 Listing of Post-Approved Motion Pictures and Approved Credit Amount

List motion picture(s) for which you are entitled to claim a credit during this taxable year. If you have more than two motion pictures, include additional schedules. See instructions.

Arizona Commerce Authority Post-Approval Information				
(A) Program Calendar Year	(B) Name of Production	(C) Priority Placement Number	(D) Post-Approved Tax Credit Amount	
1 YYYY				00
2 YYYY				00
3	Enter the total from all additional schedules.....	3		00
4	Enter the total amount of this credit passed through from partnerships on Form 334-P, Part 1, line 3c.....	4		00
5	Enter the total amount of this credit passed through from S Corporations on Form 334-S, Part 1, line 3c.....	5		00
6	Subtotal: Add lines 1 through 5, column (d). Enter the total. This is your total credit amount.....	6		00

### Part 2 Credit Recapture

7	Priority Placement Number of the recaptured credit.....	7		
8	Date the Priority Placement Number was recaptured. ....	8	MM/DD/YYYY	
9	Total recapture of the Credit for Motion Picture Production Costs. Enter the total amount(s) of the credit(s) to be recaptured. If more than one credit has been recaptured, enter the total amount of all credits that were recaptured. (Include schedule.).....	9		00
10	If the credit was previously passed through from a partnership, enter the partner's portion of this credit to be recaptured from Form 334-P, Part 3, line 5d. ....	10		00
11	If the credit was previously passed through from an S Corporation, enter the S Corporation shareholder's portion of this credit to be recaptured from Form 334-S, Part 3, line 5d.....	11		00
12	Add lines 9 through 11 Enter the total. <b>This is your total recapture amount</b> .....	12		00

### Part 3 Partnerships - Partners' Share of the Credit

Partnerships and limited liability companies taxed as partnerships passing the credit through to its partners, complete Form 334-P for each partner.

- Provide a completed copy of Form 334-P to each partner.
- Include a copy of each completed Form 334-P with your tax return.
- Keep a copy of each completed Form 334-P for your records.

Continued on page 2 →

Name (as shown on page 1)	EIN
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#### Part 4 S Corporation Credit Election

**13** The S Corporation or limited liability company taxed as an S Corporation has made an irrevocable election for the taxable year ending MM, DD, YYYY to

(check only one box):

**13a** ☐ Claim the Credit for Motion Picture Production Costs as shown in Part 1, line 6 (for the taxable year indicated above);

OR

**13b** ☐ Pass the Credit for Motion Picture Production Costs as shown in Part 1, line 6 (for the taxable year indicated above), through to its shareholders.

Signature	Title	Date
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If passing the credit through to the shareholders, complete Form 334-S for each shareholder.

- Provide a completed copy of Form 334-S to each shareholder.
- Include a copy of each completed Form 334-S with your tax return.
- Keep a copy of each completed Form 334-S for your records.

#### Part 5 Credit Recapture Summary

<b>14</b> Enter the taxable year(s) for which you claimed the Credit for Motion Picture Production Costs that are subject to recapture:		
<b>15</b> Total amount of credit recaptured:		
<ul style="list-style-type: none"> <li>• <i>Individuals, C Corporations, S Corporations that claimed the credit at the corporate level, and exempt organizations with UBTI:</i> Enter the amount from Part 2, line 12.</li> <li>• <i>Individuals that <b>did not make the Small Business Income election</b>:</i> Also, enter this amount on Form 301, Part 2, line 27.</li> <li>• <i>Individuals that <b>made the Small Business Income election</b>:</i> Also, enter this amount on Form 301-SBI, Part 2, line 20.</li> <li>• <i>C Corporations, S Corporations that claimed this credit at the corporate level, and exempt organizations with UBTI:</i> Also, enter this amount on Form 300, Part 2, line 18.....</li> </ul>	<b>15</b>	00

#### Part 6 Total Approved Credit Claimed This Taxable Year

<b>16</b> Total approved credit for Motion Picture Production Costs:		
<ul style="list-style-type: none"> <li>• <i>Individuals, C Corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI:</i> Enter the amount from Part 1, line 6.</li> <li>• <i>Partnerships:</i> Enter "0".</li> <li>• <i>S Corporations electing to pass this credit through to individual shareholders:</i> Enter "0".</li> <li>• <i>Individuals that <b>did not make the Small Business Income election</b>:</i> Also, enter this amount on Form 140, line 58; or Form 140NR, line 65; or Form 140PY, line 67; or Form 140X, line 45.</li> <li>• <i>Individuals that <b>made the Small Business Income election</b>:</i> Also, enter this amount on Form 140-SBI, line 61; or Form 140NR-SBI, line 59; or Form 140PY-SBI, line 61; or Form 140X-SBI, line 61.</li> <li>• <i>C Corporations:</i> Also, enter this amount on Form 120, line 22; or Form 120A, line 14; or Form 120X, line 22(c).</li> <li>• <i>Exempt organizations with UBTI:</i> Also, enter this amount on Form 99T, line 12.</li> <li>• <i>S Corporations that claimed this credit at the corporate level:</i> Also, enter this amount on Form 120S, line 20.....</li> </ul>	<b>16</b>	00

For the calendar year 2024 or fiscal year beginning MM/DD/2024 and ending MM/DD/YYYY.

**Partnerships:**

- Complete Form 334-P for each partner in the partnership **except for** trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.
- Provide a copy of the completed form and the Post-Approval received from the Arizona Commerce Authority to each partner.
- Keep a copy of each completed Form 334-P for your records.
- Include a copy of each completed Form 334-P with your partnership return.

**Partners:**

- Use this form to complete your own Form 334.
- Include this completed form and a copy of the Post-Approval received from the Arizona Commerce Authority with your return.
- Keep a copy of this form and Post-Approval for your records.

**NOTE:** If you file your tax return on a calendar year basis but this entity files a return on a fiscal year basis (see above), claim this credit on your tax return for the year in which this entity's fiscal year ends.

**Part 1 Distribution of the Credit**

Complete Part 1 to distribute the credit to each partner in the partnership.

<b>1</b>	(a) Partnership Name	(b) Employer Identification Number (EIN)	(c) Priority Placement Number
<b>2</b>	(a) Partner Name	(b) Taxpayer Identification Number (TIN)	
<b>3a</b>	Partnership credit amount from Form 334, Part 1, line 6.....		<b>3a</b> \$ 00
<b>3b</b>	Partner's ownership percentage.....		<b>3b</b> %
<b>3c</b>	Multiply the amount on line 3a by the percentage on line 3b. Enter the result. <b>This is the partner's portion of the Credit for Motion Picture Production Costs.</b> .....		<b>3c</b> \$ 00

**Partners:** The amount reported on line 3c is your portion of this credit. Enter the amount from line 3c on Part 1, line 4 of your own Form 334 to claim the Credit for Motion Picture Production Costs.

**Part 2 Distribution of Motion Picture Production Expenses**

Complete Part 2 to notify each partner in the partnership of their share of the motion picture production expenses.

<b>4a</b>	Enter the partnership's approved motion picture production expenses.....	<b>4a</b> \$ 00
<b>4b</b>	Multiply the amount on line 4a by the percentage on line 3b. Enter the result. <b>This is the partner's portion of the motion picture production expenses.</b> .....	<b>4b</b> \$ 00

**Partners:** The amount reported on line 4b is your portion of the motion picture production expenses. Add back this amount in the calculation of your Arizona taxable income.

**Part 3 Recapture of the Credit**

Complete Part 3 to notify each partner of their share of the credit that has been determined to be incorrect.

<b>5a</b>	Priority Placement Number of the recaptured credit.....	<b>5a</b>	
<b>5b</b>	Date the Priority Placement Number was recaptured. ....	<b>5b</b>	
<b>5c</b>	Enter the amount to be recaptured from the partnership's Form 334, Part 2, line 12. ....	<b>5c</b>	\$ 00
<b>5d</b>	Multiply the amount on line 5c by the percentage on line 3b. Enter the result. <b>This is the partner's portion of the motion picture credit to be recaptured.</b> .....	<b>5d</b>	\$ 00

**Partners:** The amount reported on line 5d is your portion of the Credit for Motion Picture Production Costs that has been determined to be incorrect. Enter the amount from line 5d on **line 10 of your Form 334**.

For the calendar year 2024 or fiscal year beginning MM/DD/2024 and ending MM/DD/YYYY.

**S Corporations:**

- Complete Form 334-P for each shareholder of the S Corporation **except for** trust or estate partners. However, an S Corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.
- Provide a copy of the completed form and the Post-Approval received from the Arizona Commerce Authority to each shareholder.
- Keep a copy of each completed Form 334-P for your records.
- Include a copy of each completed Form 334-P with your S Corporation return.

**Shareholders:**

- Use this form to complete your own Form 334.
- Include this completed form and a copy of the Post-Approval received from the Arizona Commerce Authority with your return.
- Keep a copy of this form and Post-Approval for your records.

**NOTE:** If you file your tax return on a calendar year basis but this entity files a return on a fiscal year basis (see above), claim this credit on your tax return for the year in which this entity's fiscal year ends.

**Part 1 Distribution of the Credit for Motion Picture Production Costs**

Complete Part 1 to distribute the credit to each shareholder in the S Corporation.

<b>1</b>	(a) S Corporation Name	(b) Employer Identification Number (EIN)	(c) Priority Placement Number
<b>2</b>	(a) Shareholder Name	(b) Taxpayer Identification Number (TIN)	
<b>3a</b>	S Corporation credit amount from Form 334, Part 1, line 6.....		<b>3a</b> \$ 00
<b>3b</b>	Shareholder's ownership percentage.....		<b>3b</b> %
<b>3c</b>	Multiply the amount on line 3a by the percentage on line 3b. Enter the result. <b>This is the shareholder's portion of the Credit for Motion Picture Production Costs</b> .....		<b>3c</b> \$ 00

**Shareholders:** The amount reported on line 3c is your portion of this credit. Enter the amount from line 3c on Part 1, line 5 of your own Form 334 to claim this credit.

**Part 2 Distribution of Motion Picture Production Expenses**

Complete Part 2 to notify each shareholder of the S Corporation of their share of the motion picture production expenses.

<b>4a</b>	Enter the S Corporation's approved motion picture production expenses. ....	<b>4a</b> \$ 00
<b>4b</b>	Multiply the amount on line 4a by the percentage on line 3b. Enter the result. <b>This is the shareholder's portion of the motion picture production expenses</b> .....	<b>4b</b> \$ 00

**Shareholders:** The amount reported on line 4b is your portion of the motion picture production expenses. Add back this amount in the calculation of your Arizona taxable income.

**Part 3 Recapture of the Credit**

Complete Part 3 to notify each shareholder of their share of the credit that has been determined to be incorrect.

<b>5a</b>	Priority Placement Number of the recaptured credit.....	<b>5a</b>	
<b>5b</b>	Date Priority Placement Number was recaptured. ....	<b>5b</b>	
<b>5c</b>	Enter the amount to be recaptured from the S Corporation's Form 334, Part 2, line 12. ....	<b>5c</b>	\$ 00
<b>5d</b>	Multiply the amount on line 5c by the percentage on line 3b. Enter the result. <b>This is the shareholders portion of the motion picture credit to be recaptured</b> .....	<b>5d</b>	\$ 00

**Shareholders:** The amount reported on line 5d is your portion of the Credit for Motion Picture Production Costs that has been determined to be incorrect. Enter the amount from line 5d on **line 11 of your Form 334**.

## **Exhibit 13**

**NOTICE OF ADOPTION**

**RULE NO. 23-01**

**1. Rule.**

Arizona Motion Picture Production Program

**2. Date of Posting Notice of Rule Making.**

January 23, 2023

**3. Public Comment Period.**

January 23, 2023 to February 22, 2023

**4. Hearing Date.**

None

**5. The deadline for the Authority to file a Notice of Adoption.**

July 22, 2023

**6. Notice of Adoption Posting Date.**

May 17, 2023

**7. Preamble.**

**An explanation of the agency's action pertaining to the Rule**

The proposed Rules will govern the Arizona Motion Picture Production Program. The Rules are necessary to implement the program, created by the Legislature in 2022. Eleven (11) comments were received from nine (9) submitters.

**8. Amendments.**

Eleven (11) comments were received; changes were required to: clarify definitions and consistent use of defined terms, provide further explanation of tax incentive limitations and calendar year cap management considerations, further explanation of program eligibility requirements, update the pre-approval and post-approval process based on industry-specific terminology, more clearly define program eligible production costs. Additional administrative changes were made for clarity and readability.

The Arizona Commerce Authority hereby gives notice that Rule 23-01, as amended, has been adopted. The effective date of the Rule is May 17, 2023.



Nathan A. Prince  
General Counsel



**ARIZONA MOTION PICTURE PRODUCTION PROGRAM  
RULES & GUIDELINES**

**SECTION 1. OVERVIEW**

The Arizona Motion Picture Production Program (A.R.S. § 41-1517) was established by the Arizona state legislature in 2022 to promote the workforce development and expansion of the commercial motion picture industry in Arizona. The goal of the Program is to create a competitive Motion Picture production industry presence and market in Arizona that will develop a substantial Motion Picture production industry workforce and encourage major capital investment in Qualified Production Facilities in Arizona. The Program accomplishes this goal by providing a refundable income tax credit under A.R.S. § 43-1082 or § 43-1165 to qualified Motion Picture Production Companies.

The Arizona Commerce Authority (the “Authority”) may certify Motion Picture Production Companies that produce one or more Motion Pictures in Arizona beginning from and after December 31, 2022 through December 31, 2043.

**SECTION 2. ELIGIBILITY REQUIREMENTS**

- A. A Motion Picture Production Company is eligible for tax credits upon Completion of the Motion Picture Production and compliance with the requirements of A.R.S. § 41-1517.
- B. To qualify for tax credits, a Motion Picture Production Company must:
  - 1. Do either of the following:
    - a. Use a Qualified Production Facility in Arizona to produce the Motion Picture Production or
    - b. If the portion of the Motion Picture Production filmed in Arizona, is filmed primarily at a Practical Location, produce and film the Motion Picture Production primarily in Arizona and perform **all** preproduction, postproduction and editing at an Industry Standard Facility in Arizona, if such a facility for those functions is available. For the purpose of this section, “primarily” shall mean more than fifty percent (50%) of the total filming activity.

In the event the Motion Picture Production Company believes that an Industry Standard Facility is unavailable within the state, it may request, in writing, an



exception to this requirement. An Industry Standard Facility will be deemed unavailable if: (i) consideration has been paid for its use or is currently under an agreement with an option for use by another business, entity, or person and, in either circumstance, such period of use includes the applicant's estimated start date of principal photography; or (ii) such facility does not possess capacity, due to personnel or equipment, reasonably necessary to satisfy the pre-production, post-production or editing requirements of the Motion Picture Production Company.

2. Maintain the Motion Picture Production Company's Production Labor positions in Arizona.
3. Include in the on-screen credits for each Motion Picture Production an acknowledgment that the production was filmed in Arizona, except in the case of a Motion Picture Production, such as a Commercial advertisement message, when on-screen credits are not practicable. The Motion Picture Production Company will coordinate with the Authority's Film Office to utilize any necessary artwork, files, logos, releases, etc. to provide acknowledgement that the production was filmed in Arizona in the Motion Picture's credits.
4. Submit a Substantially Complete Application and receive a pre-approval certification from the Authority.
5. Provide supporting statements and records requested by the Authority to demonstrate that the Motion Picture Production Company satisfies the requirements of A.R.S. § 41-1517(B).
6. Begin production on the Motion Picture Production listed in the pre-approval application within nine (9) months of approval and include the Authority's Film Program Director on the daily call sheet distribution list.
7. Submit a post-approval application and receive approval from the Authority.
8. Once post-approval is received, the tax credits may be claimed by filing a tax return with the Arizona Department of Revenue ("Revenue").

### **SECTION 3. TAX CREDIT CALCULATION**

- A. Under A.R.S. § 43-1082 and 43-1165, for years beginning from and after December 31, 2022, a tax credit is allowed against the Production Costs paid by a Motion Picture Production Company in Arizona that are subject to taxation and that are directly attributable to a Motion Picture Production under A.R.S. § 41-1517.





- B. The amount of the tax credit for a qualified Motion Picture Production Company shall be determined as follows:
1. An amount equal to a percentage of the total amount of the Qualified Production Costs as approved by the Authority, as follows:
    - a. 15% tax credit for Production Costs up to \$10,000,000
    - b. 17.5% tax credit for Production Costs more than \$10,000,000 but less than \$35,000,000
    - c. 20% tax credit for Production Costs more than \$35,000,000
  2. An additional 2.5% of the Motion Picture Production Company's Production Labor costs related to positions held by residents of Arizona as approved by the Authority.
    - a. For the purpose of these Rules and Guidelines, Arizona residency shall mean an employee residing in Arizona who is legally authorized to work in the U.S.
  3. An additional 2.5% of the Motion Picture Production Company's Qualified Production Costs if the Motion Picture Production Company either:
    - a. Uses a Qualified Production Facility in Arizona to produce the Motion Picture Production.
    - b. Films primarily at a Practical Location, produces and films the Motion Picture Production primarily in Arizona and performs all preproduction, postproduction and editing at a Qualified Production Facility in Arizona.
  4. An additional 2.5% of the total amount of Qualified Production Costs as approved by the Authority if the Motion Picture Production is produced and filmed in association with a Long-Term Tenant of a Qualified Production Facility. Claiming of this additional credit excludes eligibility for the credit described in Section 3(B)(3).

#### **SECTION 4. TAX INCENTIVE LIMITATIONS AND CALENDAR YEAR CAP MANAGEMENT**

- A. The Authority may not pre-approve tax credits exceeding the following amounts in a calendar year, of which up to \$25,000,000 in each calendar year may be used for Motion Picture Productions that qualify for the Program pursuant to A.R.S. § 41-1517 (B)(1)(b):
1. In calendar year 2023, \$75,000,000.



2. In calendar year 2024, \$100,000,000.
  3. In calendar year 2025, and each calendar year thereafter, \$125,000,000.
- B. The pre-approval priority shall be based on the date and time that the Motion Picture Production Company submits an initial Substantially Complete Application to the Authority. The date and time stamp on an application determines the order in which the Authority approves and allocates the calendar year cap.
- C. The pre-approval amount applies against the applicable dollar limit for the calendar year in which the Initial Application was submitted regardless of whether the pre-approval period extends into the following year or years.
1. If sufficient cap is unavailable when an initial Application is submitted to the Authority, the qualified Motion Picture Production Company may receive any remaining cap amount.
  2. The pre-approval amount shall not apply against expenses accrued prior to the calendar year in which the pre-approval application was received. Expenses accrued prior to the date of pre-approval, and within the same calendar year as the date of application, are eligible for tax credit consideration.

#### **SECTION 5. INITIAL APPLICATION PROCESS FOR PRE-APPROVAL CERTIFICATION**

- A. All pre-approval certification applications must be submitted through the Authority's electronic application system.
- B. The application shall include:
1. The name, address, telephone number and website of the Motion Picture Production Company.
  2. The name, and address of an individual who will maintain records of expenditures in Arizona.
  3. The projected first pre-production date and last production date in Arizona.
  4. The production office address and office telephone number in Arizona.
  5. The estimated total budget of the production.
  6. The estimated total Production Cost expenditures in Arizona.



7. The estimated total percentage of the production that will take place in Arizona.
  8. The estimated number and duration of full-time Production Labor employment positions in Arizona based on industry standard for the type of production.
  9. The estimated number of employees who are residents of Arizona in the cast and crew.
  10. The estimated median wage of Production Labor employment positions in Arizona.
  11. A script or synopsis, the name of the proposed director and a preliminary list of the cast and producer.
  12. An affidavit that the Motion Picture Production Company will meet all of the requirements to qualify for the tax credits, including that the Motion Picture Production Company will use a Qualified Production Facility in Arizona to produce the Motion Picture Production **or** the Motion Picture Production will film primarily at a Practical Location in Arizona and use an Industry Standard Facility or the Motion Picture Production will film primarily at a Practical Location in Arizona and has received an exception from using an Industry Standard Facility as no facility is available to meet the Motion Picture Production's schedule and, or requirements as provided in A.R.S. § 41-1517 (B)(1).
- C. During the review of a Substantially Complete Application, the Authority may request additional information, conduct a site visit, or discuss the Application with the Motion Picture Production Company. If the Motion Picture Production Company does not satisfy the request within the allotted timeframe (maximum 28 calendar days), the Application will be considered inactive and withdrawn by the Motion Picture Production Company.
- D. If a Motion Picture Production Company fails to provide any requested additional information by the end of the term of an extension granted by the Authority, the application will be deemed denied.
- E. The Authority shall deny an Application if the Authority determines that:
1. The Motion Picture Production Company does not meet all the established criteria in A.R.S. § 41-1517 (B).
  2. The Production would constitute an obscene motion picture film or obscene pictorial publication under Title 12, Chapter 7, Article 1.1.
  3. The Production violates the obscenity Laws under Title 13, Chapter 35.



4. The Production would constitute sexual exploitation of a minor or commercial sexual exploitation of a minor under Title 13, Chapter 35.1.
- F. If the Authority denies an Application, the applicant may first request a reconsideration, and then if the decision remains a denial, the applicant may appeal the decision in accordance with A.R.S. Title 41, Chapter 6, Article 10.
- G. If the Authority determines that a Motion Picture Production Company qualifies for the Motion Picture Production Tax Credits, the Authority shall issue the Motion Picture Production Company a pre-approval certification and transmit a copy of the pre-approval certification to the Arizona Department of Revenue (“Revenue”).
- H. Prior to issuing a pre-approval certification, the Program Manager will request the company remit a non-refundable processing fee equal to one percent (1%) of the pre-approved credit amount, not to exceed \$100,000, and an additional administration fee equal to one percent (1%) of the pre-approved credit amount. The administration fee is refundable if the Authority is notified within 90 days from the pre-approval certification date that production will not commence. The fee payments may be made by credit card by accessing the Authority’s payment portal or made by check, ACH, or wire transfer.
- I. After receipt of the requested processing and administration fees, the Authority will issue a pre-approval certification to the Motion Picture Production Company, and the Authority shall send a copy of the pre-approval certification to Revenue.
- J. A pre-approval certification does not guarantee a company’s ability to claim tax credits. Final eligibility for tax credits is determined in accordance with the post-approval completion process.
- K. Any information gathered from Motion Picture Production Companies is considered confidential taxpayer information.

## **SECTION 6. PRE-APPROVAL PERIOD**

- A. Within nine (9) months after pre-approval the Motion Picture Production Company must begin production and notify the Authority that the pre-approved production has begun on the Motion Picture Production, which the Authority may verify through a site visit. To verify production has begun, and avoid lapse of pre-approval, the Motion Picture Production Company shall provide one of the following:
  1. Notice and declaration of Commencement of Principal Photography with an estimated start date signed by the producer, the shooting schedule (when available).



2. Documentation of its Arizona expenditure of the lesser of:
  - a. Ten percent (10%) of the estimated total Arizona budget of the pre-approved production.
  - b. Two hundred fifty thousand dollars (\$250,000).
3. A Certificate of Insurance for the pre-approved Motion Picture Production. In addition, the Motion Picture Production Company must provide one of the following to the Authority:
  - a. A copy of a contract, loan out agreement, or deal memo with cameraperson(s) and crew.
  - b. A copy of the crew call sheet for the first day of production.
  - c. Evidence that residents of this state have been paid a total of at least five thousand dollars (\$5,000) for work on the pre-approved Motion Picture Production.
  - d. A copy of the contract or agreement directly attributable to the pre-approved Motion Picture.
- B. If the company fails to begin production and notify the Authority within nine (9) months, the pre-approval shall lapse, all applicable fees collected will be forfeited, and the company will not be eligible for tax credits. Any such reserved credits may then be eligible for distribution for other applicants.
- C. A pre-approval certification is effective for nine (9) months from the date of issuance of the pre-approval certification, and the expiration date shall be stated in the pre-approval certification.
- D. A Motion Picture Production Company may apply to the Authority to extend the pre-approval certification period if the Motion Picture Production Company can demonstrate that an act of force majeure occurred, and that the pre-approval certification will expire before the production activities begin.

## **SECTION 7. POST-APPROVAL APPLICATION SUBMITTAL AND PROCESSING**

- A. On Completion of the Motion Picture Production, a Motion Picture Production Company that is pre-approved for the Motion Picture Production tax credits must submit a post-approval application through the Authority's electronic application system. A production does not need to be released or distributed to be considered complete and to generate tax credits.



- B. The post-approval application shall include:
1. A complete and viewable copy of the pre-approved Motion Picture Production, in a format acceptable by the Authority (e.g., final picture locked viewing copy)
  2. An audited statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of Qualified Production Costs associated with the production. This statement shall include, but is not limited to the following information:
    - a. The total amount of Qualified Production Costs associated with the production.
    - b. Labor costs related to positions held by residents of Arizona as approved by the Authority, if applicable.
    - c. Any other information or combinations of information requested by the ACA.
- C. The Authority will endeavor to process post-approval within sixty (60) days, however, during the review of an application for post-approval, the Authority may request additional information, conduct a site visit, or otherwise discuss with the Motion Picture Production Company any issue related to or arising during the review.
- D. If a Motion Picture Production Company fails to provide any requested additional information by the earlier of (i) 14 calendar days after request by the Authority (or up to the number of additional days that may be expressly granted by the Authority if the Motion Picture Production Company seeks and receives an extension within the initial 14-day period.)
- E. The Authority shall provide post-approval to the Motion Picture Production Company that the company has met the eligibility requirements of A.R.S. § 41-1517(H) and notify the Arizona Department of Revenue ("Revenue") that the Motion Picture Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1165.
- F. Co-owners of a Motion Picture Production Company, including partners in a partnership, members of a limited liability company and shareholders of an S corporation, as defined in Section 1361 of the IRC, may each claim the pro rata share of the tax credit allowed based on ownership interests. The total of the tax credits allowed for all such owners may not exceed the amount that would have been allowed a sole owner.
- G. The amount of the tax credits not used to offset Arizona income tax liability shall be paid pursuant to A.R.S. §43-1082(F).

- H. If the Authority denies a post-approval Application, the applicant may first request a reconsideration, and then if the decision remains a denial, the applicant may appeal the decision in accordance with A.R.S. Title 41, Chapter 6, Article 10.

**SECTION 8. DEFINITION OF PROGRAM TERMS**

- A. For purposes of applying for and maintaining eligibility for the Motion Picture Production Tax Program, the following terms are defined by the Authority, and/or defined by A.R.S. § 41-1517. If a term is not defined, the most commonly accepted meaning will apply.
1. “Application” means the electronic application system form, and all required uploads an applicant must submit to apply for the tax credit.
  2. “Begin production” means a production company has either:
    - a. Notice and declaration of Commencement of Principal Photography with an estimated start date signed by the producer, the one-liner shooting schedule (when available), and the commitment to include the Authority’s Film Program Director on the daily call sheet distribution list.
    - b. Has Arizona expenditures of the lesser of:
      - i. Ten percent of the estimated total Arizona budget of the production.
      - ii. Two hundred fifty thousand dollars.
    - c. Attained a Certificate of Insurance demonstrating coverages and policies are in place on behalf of an Insured/Production. In addition, one of the following must have occurred:
      - i. Entered into a contract, loan out agreement or deal memo with cameraperson(s) and crew.
      - ii. The crew call has completed the first day of production.
      - iii. Has paid residents of Arizona a total of at least five thousand dollars for work on the pre-approved Motion Picture.
      - iv. Entered into a contract or agreement directly attributable to the pre-approved Motion Picture.



3. "Certificate of Insurance" is a document which serves as the demonstration of coverages and policies in place on behalf of an Insured/Production and is often issued to 3rd Parties to provide proof of coverage. The certificate is issued on a standard form (ACORD 25) and should include the Insured/Production Company name, legal address, the broker/producer name, address, and contact information, applicable carriers, coverages and limits, policy numbers, and effective dates of all relevant policies and be signed by a responsible party for the broker/carrier.
4. "Commencement of Principal Photography" means the first date within Arizona of principal ongoing filming of significant portions of a qualified film which is intended to be incorporated into the final product.
5. "Commercial advertisement" means an advertising message designed for delivery through either:
  - a. A Motion Picture film or video medium to attract the attention of consumers or influence consumers' feelings toward a particular product, service, event, or cause.
  - b. Still photography that is used in national or international print media to attract the attention of consumers or influence consumers' feelings toward a particular product, service, event, or cause.
6. "Completion of the Motion Picture Production" means the completion of Principal Photography and a complete and viewable copy of the Motion Picture (e.g., final picture locked viewing copy) is available.
7. "Full-time employee" means an individual who works an average of at least 8 hours a day (during his/her employment periods) on productions identified in the pre-approval application throughout the pre-approval period and for whom a qualified company or its authorized payroll service company is required to remit federal or state withholding tax.
8. "Industry Standard Facility" means a facility that, in the judgment of the Authority, has the required equipment and capabilities that meet generally minimal requirements followed by establishments primarily engaged in producing motion pictures, videos, television programs, or commercial advertisement messages. These specialized capabilities may include but are not limited to mixing facilities, Automated Dialogue Replacement (ADR) rooms, screening facilities, flexible technical creative spaces designed to support picture, sound, visual effects, color or sound workflows, pre-production and post-production support office spaces, secure data centers/technical hubs, operations support centers and





maintenance facilities, and is supported by appropriate power, connectivity, water, security and related technical infrastructure. The Authority will maintain a non-exhaustive list of qualifying facilities for reference.

9. “Long-Term Tenant” means a person that enters into a lease of at least five years for the use of a Qualified Production Facility.
10. “Motion Picture” means a single medium or multimedia program, including a commercial advertisement, music video or television series.
  - a. Motion Picture does not include any production featuring actual news, current events, weather, locally produced and locally broadcast television productions, financial market reports, concerts, internet broadcasts, talk shows and interviews, game shows, sporting events, award or other gala events, a production whose sole purpose is fundraising, podcast, a production used for corporate or organizational training or in-house corporate advertising or other similar production activities.
11. “Motion Picture Production” means a single medium or multimedia program, including a feature film, episodic series, or commercial advertisement message, that:
  - a. Is created by production activities conducted in this state.
  - b. Can be viewed or reproduced.
  - c. Is intended for commercial distribution or licensing in the delivery medium used.
12. “Motion Picture Production Company” means any person or business entity primarily engaged in the business of producing motion pictures and that has a physical business office in this state.
13. “Music video” means a filmed or videotaped rendition of a song or songs, portraying musicians performing the song or other visual images set to the lyrics of the song.
14. “Practical Location” means a physical location at which a Motion Picture Production is filmed, that is not and that does not use an industry standard sound stage or production facility to produce and film the Motion Picture Production.
15. “Production Costs” means the following costs that are incurred and taxable in Arizona:



- a. All compensation paid to talent, writers, directors, and management; paid via payroll or loan out business entity
  - b. All compensation paid for Production Labor; paid via payroll or loan out business entity
  - c. Set construction and operation costs paid pursuant to construction contracts with contractors who are licensed under Title 32, Chapter 10
  - d. Wardrobe, props, accessories, and related services.
  - e. Photography, sound synchronization, lighting, and related costs.
  - f. Editing and related services.
  - g. Rental of Qualified Production Facilities.
  - h. Rental of equipment.
  - i. Catered food, drink and condiment purchased from a Qualified Production Facility, while production is taking place at a Qualified Production Facility.
  - j. Catered food, drink and condiment purchased from a licensed caterer when production activities are taking place at a Practical Location.
  - k. Insurance loss and damage expenses.
  - l. Other direct in-state costs of producing the Motion Picture Production pursuant to Rules adopted by the Authority.
  - m. Does not include payments for penalties and fines or fees or deposits established by the Authority or the Revenue to administer the Program.
16. "Production Labor" means all laborers working on a production that are not talent, writers, producers, or management.
17. "Program" means the Arizona Motion Picture Production Program implemented pursuant to A.R.S. § 41-1517
18. "Qualified Production Facility" means a structure that is built for film industry purposes, is located in this state, and contains dedicated soundstage space that at least ten thousand (10,000) contiguous square feet which may be partitionable, and meets generally accepted



industry standards, including standards for soundproofing, lighting, air conditioning, and Motion Picture Production quality technology for producing, filming or otherwise creating a Motion Picture Production.

19. "Script" means the storyline, dialogue, scenes and directions written for a Motion Picture.
20. "Substantially complete" means all questions in the initial application are fully addressed by the company and all documents required by the Authority are attached or can be supplied within a timely manner after receipt of notification by the Authority of any deficiencies, as described in Section 5(C).
21. "Synopsis" means a condensed written outline or summary of the Motion Picture.
22. "Television series" means a group of productions created or adapted for television broadcast with a common series title, related to each other in subject or theme, which is produced seasonally for and with or without a predetermined number of episodes. Such programming is broadcast or distributed via over-the-air, satellite, cable, or streaming service. Television series includes a pilot production for promotion or introduction of a television series.



## **Exhibit 14**

August 10, 2023

**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-002  
**Pre-Approved Tax Credit:** \$110,000

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **one hundred and ten thousand dollars (\$110,000)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 10, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:


- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

August 11, 2023

RE: **Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-003  
**Pre-Approved Tax Credit:** \$47,475

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **forty-seven thousand four hundred seventy-five dollars (\$47,475)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 11, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

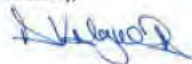
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



August 17, 2023

RE: **Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-001  
**Pre-Approved Tax Credit:** \$45,250

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **forty-five thousand two hundred fifty dollars (\$45,250)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 17, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

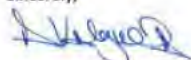
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

August 21, 2023

**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Year Cap:** 2023  
**Priority Placement Number:** MoPic-2023-005  
**Pre-Approved Tax Credit:** \$39,629

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **thirty-nine thousand six hundred twenty-nine dollars (\$39,629)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 21, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

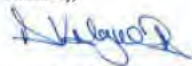
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

August 30, 2023

RE: **Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-007  
**Pre-Approved Tax Credit:** \$24,576

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **twenty-four thousand five hundred seventy-six dollars (\$24,576)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 30, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

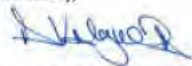
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

October 26, 2023

**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-011  
**Pre-Approved Tax Credit:** \$31,065

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **Thirty One Thousand Sixty Five Dollars (\$31,065)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **July 26, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.



To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

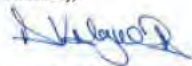
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



October 26, 2023

**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-012  
**Pre-Approved Tax Credit:** \$8,988

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **Eight Thousand Nine Hundred Eighty Eight Dollars (\$8,988)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **July 26, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

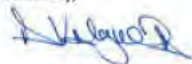
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

November 7, 2023

**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**

**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-008  
**Pre-Approved Tax Credit:** \$464,582

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **four hundred sixty four thousand five hundred eighty two dollars (\$464,582)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **August 7, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

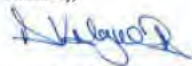
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

January 11, 2024



**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**



**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-013  
**Pre-Approved Tax Credit:** \$115,006



Dear 

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **One Hundred Fifteen Thousand Six Dollars (\$115,006)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **October 11, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.



To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



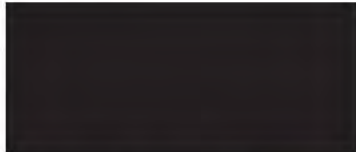
Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue





January 22, 2024



RE: Pre-Approval Certification for Motion Picture Production Tax Credits



Program Cap Year: 2023  
Priority Placement Number: MoPic-2023-015  
Pre-Approved Tax Credit: \$152,361

Dear 

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **One Hundred Fifty-Two Thousand Three Hundred Sixty-One Dollars (\$152,361)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **October 22, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.



To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

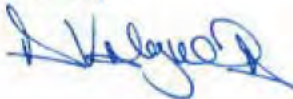
- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the 2023 calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



January 25, 2024



**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**



**Program Cap Year: 2023**  
**Priority Placement Number: MoPic-2023-016**  
**Pre-Approved Tax Credit: \$397,697**

Dear 

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **Three Hundred Ninety-Seven Thousand, Six Hundred Ninety-Seven Dollars (\$397,697)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **October 25, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.



To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

February 20, 2024



**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**



**Program Cap Year: 2023**  
**Priority Placement Number: MoPic-2023-017**  
**Pre-Approved Tax Credit: \$101,707**

Dear 

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **One Hundred One Thousand, Seven Hundred Seven Dollars (\$101,707)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **November 20, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.



To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

February 20, 2024

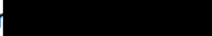


**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**

**Motion Picture**



**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-019  
**Pre-Approved Tax Credit:** \$6,000

Dear 

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **Six Thousand Dollars (\$6,000)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **November 20, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.



To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2023** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

## **Exhibit 15**

February 5, 2024



**RE: Pre-Approval Certification for Motion Picture Production Tax Credits**



**Program Cap Year:** 2024  
**Priority Placement Number:** MoPic-2024-001  
**Pre-Approved Tax Credit:** \$6,425

Dear 

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **six thousand four hundred twenty-five dollars (\$6,425)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **November 5, 2024**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.





To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2024** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



August 5, 2024

[REDACTED]

RE: Pre-Approval Certification for Motion Picture Production Tax Credits

[REDACTED]

[REDACTED]

Program Cap Year: 2024  
Priority Placement Number: MoPic-2024-005  
Pre-Approved Tax Credit: \$110,750

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **One Hundred Ten Thousand Seven Hundred Fifty Dollars (\$110,750)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 5, 2025**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

[REDACTED]

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2024** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, at [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

August 12, 2024

[REDACTED]

RE: Pre-Approval Certification for Motion Picture Production Tax Credits

[REDACTED]

[REDACTED]

[REDACTED]

Program Cap Year: 2024  
Priority Placement Number: MoPic-2024-004  
Pre-Approved Tax Credit: \$1,220,624

Dear [REDACTED]

Thank you for submitting an initial pre-approval application request for tax credits under the Arizona Motion Picture Production Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Production Company referenced above has met the requirements for pre-approval under the Program, pursuant to which the Authority is reserving **One Million Two Hundred Twenty Thousand Six Hundred Twenty- Four Dollars (\$1,220,624)** in refundable tax credits for the Production Company. This Pre-Approval Certification ("Certification") does not guarantee the receipt of tax credits.

To maintain Certification, the Production Company must begin production within nine (9) months after this Certification letter. To verify production has begun and avoid lapse of Certification, the Production Company must submit a nine (9) month notification report via the Authority's electronic application system and required documentation, no later than **May 12, 2025**.

Failure to maintain Certification will void the Production Company's pre-approval for this tax incentive and return the reserved pre-approved tax credit amount to the calendar year's fund.

[REDACTED]

To receive post-approval, the Production Company must submit an application for post-approval via the Authority's electronic application system and demonstrate that the Production Company has satisfied the eligibility requirements of A.R.S. §41-1517(H), including, among other matters:

- A statement completed by a Certified Public Accountant, who is licensed in Arizona and who is approved by the Authority, to certify the total amount of eligible Production Costs associated with the Production including applicable labor costs and any other information requested by the Authority.
- A viewable copy of the pre-approved Production, that verifies the Production Company has included in the on-screen credits an acknowledgement the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).

The reserved tax credit amount specified above is the maximum pre-approved tax credit amount for the Production from the **2024** calendar year cap. The post-approved amount of tax credits will be determined by the amount of qualified production costs documented after completion of the production and confirmation of compliance with other Program requirements. You are strongly encouraged to thoroughly review the Authority's Rules and Guidelines for the Program to ensure a complete understanding of all requirements for final post-approval of the tax credits offered by the Program.

Upon receipt of post-approval, the Production Company may claim the tax credits under A.R.S. §43-1082 or 43-1162 by filing an original income tax return with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of the Post-Approval Certification letter.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

## **Exhibit 16**

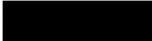
August 8, 2024



**RE: Post-Approval for Motion Picture Production Tax Credits**



**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-002  
**Post Approved Tax Credit:** \$110,000

Dear 

Thank you for submitting an application for post-approval on June 27, 2024, for tax credits under the Motion Picture Production Tax Credit Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Motion Picture Production Company as referenced above has met the requirements for post-approval under the Program. The post-approval applies to the Production as identified above and listed in the initial pre-approval.

The Motion Picture Production Company is eligible to claim **one hundred ten thousand dollars (\$110,000)** in income tax credits with the Arizona Department of Revenue ("Revenue") for the taxable year in which post-approval was issued. The allocation applies against the **2023** calendar year cap.

The Motion Picture Production Company has successfully demonstrated through the submission of the post-approval application that it has satisfied the eligibility requirements of A.R.S. §41-1517(H).

In addition, the Motion Picture Production Company submitted a viewable copy of the pre-approved Production, that verified the Motion Picture Production Company had included in the on-screen credits an acknowledgement that the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).



The tax credits may be claimed by the Production Company by filing an original tax return for the taxable year in which this post-approval has been issued, with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of this Post-Approval Certification.

Please note that this Post-Approval Letter does not guarantee the receipt of tax credits. Further, the calculation of any refund due to the Motion Picture Production Company from Revenue will be based on the allowable tax credits and the income tax liability of the Motion Picture Production Company for the current tax year.

Any refund otherwise payable by Revenue is subject to setoff under A.R.S. §42-1122. Additionally, if Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. §42-1108.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



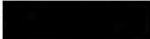
October 23, 2024



**RE: Post-Approval for Motion Picture Production Tax Credits**



**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-005  
**Post Approved Tax Credit:** \$39,629

Dear 

Thank you for submitting an application for post-approval on August 30, 2024, for tax credits under the Motion Picture Production Tax Credit Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Motion Picture Production Company as referenced above has met the requirements for post-approval under the Program. The post-approval applies to the Production as identified above and listed in the initial pre-approval.

The Motion Picture Production Company is eligible to claim **thirty-nine thousand six hundred twenty-nine dollars (\$39,629)** in income tax credits with the Arizona Department of Revenue ("Revenue") for the taxable year in which post-approval was issued. The allocation applies against the **2023** calendar year cap.

The Motion Picture Production Company has successfully demonstrated through the submission of the post-approval application that it has satisfied the eligibility requirements of A.R.S. §41-1517(H).

In addition, the Motion Picture Production Company submitted a viewable copy of the pre-approved Production, that verified the Motion Picture Production Company had included in the on-screen credits an acknowledgement that the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).



The tax credits may be claimed by the Production Company by filing an original tax return for the taxable year in which this post-approval has been issued, with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of this Post-Approval Certification.

Please note that this Post-Approval Letter does not guarantee the receipt of tax credits. Further, the calculation of any refund due to the Motion Picture Production Company from Revenue will be based on the allowable tax credits and the income tax liability of the Motion Picture Production Company for the current tax year.

Any refund otherwise payable by Revenue is subject to setoff under A.R.S. §42-1122. Additionally, if Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. §42-1108.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED] via email at [cindyg@azcommerce.com](mailto:cindyg@azcommerce.com).

Sincerely,

[REDACTED]

Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

December 12, 2024



**RE: Post-Approval for Motion Picture Production Tax Credits**



**Program Cap Year:** 2023

**Priority Placement Number:** MoPic-2023-013

**Post Approved Tax Credit:** \$115,006



Dear 

Thank you for submitting an application for post-approval on October 11, 2024, for tax credits under the Motion Picture Production Tax Credit Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Motion Picture Production Company as referenced above has met the requirements for post-approval under the Program. The post-approval applies to the Production as identified above and listed in the initial pre-approval.

The Motion Picture Production Company is eligible to claim **one hundred fifteen thousand six dollars (\$115,006)** in income tax credits with the Arizona Department of Revenue ("Revenue") for the taxable year in which post-approval was issued. The allocation applies against the **2023** calendar year cap.

The Motion Picture Production Company has successfully demonstrated through the submission of the post-approval application that it has satisfied the eligibility requirements of A.R.S. §41-1517(H).

In addition, the Motion Picture Production Company submitted a viewable copy of the pre-approved Production, that verified the Motion Picture Production Company had included in the on-screen credits an acknowledgement that the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).



The tax credits may be claimed by the Production Company by filing an original tax return for the taxable year in which this post-approval has been issued, with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of this Post-Approval Certification.

Please note that this Post-Approval Letter does not guarantee the receipt of tax credits. Further, the calculation of any refund due to the Motion Picture Production Company from Revenue will be based on the allowable tax credits and the income tax liability of the Motion Picture Production Company for the current tax year.

Any refund otherwise payable by Revenue is subject to setoff under A.R.S. §42-1122. Additionally, if Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. §42-1108.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED]  
[REDACTED]

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



December 20, 2024



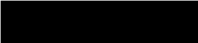
**RE: Post-Approval for Motion Picture Production Tax Credits**



**Program Cap Year:** 2023  
**Priority Placement Number:** MoPic-2023-008  
**Post Approved Tax Credit:** \$394,113



Dear



Thank you for submitting an application for post-approval on December 19, 2024, for tax credits under the Motion Picture Production Tax Credit Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Motion Picture Production Company as referenced above has met the requirements for post-approval under the Program. The post-approval applies to the Production as identified above and listed in the initial pre-approval.

The Motion Picture Production Company is eligible to claim **Three Hundred Ninety-Four Thousand One Hundred Thirteen Dollars (\$394,113)** in income tax credits with the Arizona Department of Revenue ("Revenue") for the taxable year in which post-approval was issued. The allocation applies against the **2023** calendar year cap.

The Motion Picture Production Company has successfully demonstrated through the submission of the post-approval application that it has satisfied the eligibility requirements of A.R.S. §41-1517(H).

In addition, the Motion Picture Production Company submitted a viewable copy of the pre-approved Production, that verified the Motion Picture Production Company had included in the on-screen credits an acknowledgement that the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).



The tax credits may be claimed by the Production Company by filing an original tax return for the taxable year in which this post-approval has been issued, with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of this Post-Approval Certification.

Please note that this Post-Approval Letter does not guarantee the receipt of tax credits. Further, the calculation of any refund due to the Motion Picture Production Company from Revenue will be based on the allowable tax credits and the income tax liability of the Motion Picture Production Company for the current tax year.

Any refund otherwise payable by Revenue is subject to setoff under A.R.S. §42-1122. Additionally, if Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. §42-1108.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED]  
[REDACTED]

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue

December 20, 2024



**RE: Post-Approval for Motion Picture Production Tax Credits**



**Program Cap Year:**

**2023**



**Priority Placement Number: MoPic-2023-017**

**Post Approved Tax Credit: \$101,707**

Dear 

Thank you for submitting an application for post-approval on December 12, 2024, for tax credits under the Motion Picture Production Tax Credit Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Motion Picture Production Company as referenced above has met the requirements for post-approval under the Program. The post-approval applies to the Production as identified above and listed in the initial pre-approval.

The Motion Picture Production Company is eligible to claim **One Hundred One Thousand, Seven Hundred Seven Dollars (\$101,707)** in income tax credits with the Arizona Department of Revenue ("Revenue") for the taxable year in which post-approval was issued. The allocation applies against the **2023** calendar year cap.

The Motion Picture Production Company has successfully demonstrated through the submission of the post-approval application that it has satisfied the eligibility requirements of A.R.S. §41-1517(H).

In addition, the Motion Picture Production Company submitted a viewable copy of the pre-approved Production, that verified the Motion Picture Production Company had included in the on-screen credits an acknowledgement that the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).



The tax credits may be claimed by the Production Company by filing an original tax return for the taxable year in which this post-approval has been issued, with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of this Post-Approval Certification.

Please note that this Post-Approval Letter does not guarantee the receipt of tax credits. Further, the calculation of any refund due to the Motion Picture Production Company from Revenue will be based on the allowable tax credits and the income tax liability of the Motion Picture Production Company for the current tax year.

Any refund otherwise payable by Revenue is subject to setoff under A.R.S. §42-1122. Additionally, if Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. §42-1108.

If you have any questions, please contact the Program Manager, Cindy Grogan, at [REDACTED]  
[REDACTED]

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue



December 23, 2024



**RE: Post-Approval for Motion Picture Production Tax Credits**



**Program Cap Year:**

**2023**

**Priority Placement Number: MoPic-2023-015**

**Post Approved Tax Credit: \$141,360**



Dear 

Thank you for submitting an application for post-approval on December 18, 2024, for tax credits under the Motion Picture Production Tax Credit Program (the "Program") pursuant to A.R.S. §41-1517. The Arizona Commerce Authority (the "Authority") is pleased to advise that the Motion Picture Production Company as referenced above has met the requirements for post-approval under the Program. The post-approval applies to the Production as identified above and listed in the initial pre-approval.

The Motion Picture Production Company is eligible to claim **One Hundred Forty-One Thousand Three Hundred Sixty Dollars (\$141,360)** in income tax credits with the Arizona Department of Revenue ("Revenue") for the taxable year in which post-approval was issued. The allocation applies against the **2023** calendar year cap.

The Motion Picture Production Company has successfully demonstrated through the submission of the post-approval application that it has satisfied the eligibility requirements of A.R.S. §41-1517(H).

In addition, the Motion Picture Production Company submitted a viewable copy of the pre-approved Production, that verified the Motion Picture Production Company had included in the on-screen credits an acknowledgement that the Production was filmed in Arizona and meets the content restrictions set forth in A.R.S. §41-1517(F).



The tax credits may be claimed by the Production Company by filing an original tax return for the taxable year in which this post-approval has been issued, with the Arizona Department of Revenue ("Revenue") accompanied by Revenue Form 334 and a copy of this Post-Approval Certification.

Please note that this Post-Approval Letter does not guarantee the receipt of tax credits. Further, the calculation of any refund due to the Motion Picture Production Company from Revenue will be based on the allowable tax credits and the income tax liability of the Motion Picture Production Company for the current tax year.

Any refund otherwise payable by Revenue is subject to setoff under A.R.S. §42-1122. Additionally, if Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. §42-1108.

If you have any questions, please contact the Program Manager, Cindy Grogan, [REDACTED]  
[REDACTED]

Sincerely,



Angie R. Valenzuela  
Director, Financial Programs

CC: Alexandra Kusen, Arizona Department of Revenue