ALASKA STATE LEGISLATURE
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SUMMARY OF: A Special Report on the Department of Commerce, Community, and Economic Development (DCCED), and Department of Revenue (DOR), Alaska Film Production Tax Incentive Program (AFPTIP), Select Performance Issues, August 8, 2012

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the AFPTIP. The AFPTIP is administered by DCCED's Alaska Film Office (AFO) in cooperation with DOR's Tax Division. The primary objectives of the audit include: identifying the AFPTIP's economic impact in Alaska, determining whether the AFO's application review and approval process adequately protects the State's interests, evaluating the extent to which the AFO is meeting its statutory duties, and determining whether a production tax credit is the most cost effective method for incentivizing film production activity in Alaska.

REPORT CONCLUSIONS

The AFPTIP has generated a net positive economic impact in the State. An AFPTIP economic impact study for the period July 2008 through February 2012 indicates direct spending from AFPTIP approved productions has generated $2 in economic output for every $1 in Alaska Film Production Tax Credits (tax credits) issued. While the study highlights a net positive economic impact, the AFPTIP does not generate tax revenues sufficient to pay for credits issued. Additionally, a significant amount of program benefits are realized outside Alaska.

The AFO's eligibility and application review is adequately designed to ensure the State's best interests are reasonably protected. However, improvements are needed. Necessary improvements include developing written criteria for evaluating whether a production is not in the State's best interests, and strengthening residency verification and documentation requirements to ensure the State is provided the information necessary to adequately review and approve credit calculations.

Except for certifying internship programs, the AFO is meeting its statutory program responsibilities. The AFO is promoting Alaska as a viable film location, cooperating with private entity organizations, and providing production assistance. Although identified as one of its statutory duties, the AFO has not yet certified any internship programs.

Whether the AFPTIP, as compared to other states, is the most cost effective method for incentivizing the film industry cannot be determined. The significant variations in design of film production incentive programs and differences in state tax structures make comparisons between states problematic. Available impact analysis reports of other states' programs indicate that all film production incentive programs create positive economic impacts while in operation.

FINDINGS AND RECOMMENDATIONS

1. The AFO development specialist should strengthen qualified expenditure documentation requirements to ensure tax credit calculations are adequately supported.

2. DCCED's Division of Economic Development director should consider amending AFPTIP regulations to more clearly define *Alaska residency* and provide CPAs a more effective method of verifying expenditures claimed as resident wages.

3. The AFO development specialist should strengthen procedures for collecting and reporting Alaska employment data to ensure reliable information is available for program evaluation.

4. The AFO development specialist should develop film production internship training program certification procedures.

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August 30, 2012

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

DEPARTMENT OF COMMERCE, COMMUNITY, AND
ECONOMIC DEVELOPMENT, AND
DEPARTMENT OF REVENUE
ALASKA FILM PRODUCTION TAX INCENTIVE PROGRAM
SELECT PERFOMANCE ISSUES

August 8, 2012

Audit Control Number
08-30066-12

This performance audit evaluates various aspects of the Alaska Film Production Tax Incentive Program which is co-administered by the Department of Commerce, Community, and Economic Development's Alaska Film Office (AFO) and the Department of Revenue's Tax Division. The audit identifies the economic impact of the program in Alaska, determines whether the AFO's application review and approval process adequately protects the State's interests, and evaluates the extent to which the AFO is meeting its statutory duties.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork procedures utilized in the course of developing the conclusions, findings and recommendations presented in this report are discussed in the Objectives, Scope, and Methodology.

Kris Curtis, CPA, CISA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Alaska Film Production Tax Incentive Program (AFPTIP). The objectives, scope, and methodology of our review were as follows.

Objectives

1. Determine the AFPTIP's economic benefits.

2. Evaluate components of the Alaska Film Production Tax Credit (tax credit) calculation to determine whether vendors and individuals being reported as local spending on film credit applications are Alaska businesses and residents.

3. Identify and evaluate Alaska Film Office (AFO) performance measures and determine if the AFO has been successful in meeting the performance measures.

4. Determine whether the AFO is sufficiently meeting its statutory requirements, including:

    - Cooperating with organizations in the private sector for the expansion and development of film production industries in the State.
    - Promoting Alaska as an appropriate location for film production.
    - Providing production assistance through connecting film directors, makers, and producers with Alaska location scouts and contractors, including contractors providing assistance with permit applications.
    - Certifying Alaska film production internship training programs and promoting the employment of program interns by eligible productions.

5. Determine whether the AFO's eligibility and approval process is sufficiently designed to adequately protect the State's interests by evaluating:

    - The AFO's method of determining a production is not contrary to the State's best interests.
    - The AFO's suggested procedures used by certified public accountants (CPA) when verifying proposed qualified expenditures.
    - The AFO's quality control procedures used to administer the AFPTIP.
    - The disposition of errors or exceptions identified by the AFO during application review.

6. Determine if the AFO developed regulations necessary to meet the AFPTIP's objectives and whether regulations were adopted in accordance with state requirements.

7. Identify complaints made to the Department of Commerce, Community, and Economic Development (DCCED), AFO, Department of Revenue (DOR), and Office of the Ombudsman or other agencies regarding the AFPTIP and whether the complaints have been processed and resolved.

8. Evaluate the statutory list of qualified production expenditures and determine whether the list is sufficiently comprehensive and not overly restrictive to achieve AFPTIP goals. Determine if the AFO's classification of "*Alaska spend*" is reasonable.

9. Determine the average sales price of tax credits and identify the industry groups that purchase the credits.

10. Determine if a tax credit program is the most cost effective method of incentivizing the film industry in Alaska.

<u>Methodology</u>

Our examination of AFPTIP activities covers the period of July 2008 through February 2012. To address the objectives of our audit, we:

- Contracted with a specialist to perform an economic impact analysis of the AFPTIP. The specialist used an industry standard input/output model, IMPLAN, to estimate the AFPTIP's economic benefits in Alaska. The specialist's detailed methodology is described in Appendix B.

- Obtained from DCCED a schedule of productions approved for tax credits through February 2012. Using a non-statistical sampling method, ten of 39 productions were selected for testing credit calculations in detail. The tested productions included the six highest dollar productions and four randomly selected productions. Expenses for the selected productions were separated between wage and non-wage items, stratified, and tested on a sample basis to verify wages were paid to Alaska residents and non-wage items were paid to Alaska businesses. Alaska residency was verified using Alaska Permanent Fund Dividend applications and Division of Motor Vehicles database records. Alaska businesses were verified using DCCED's business license database. Testing results were not projected.

- Examined budget documents to identify AFO performance measures. We obtained and reviewed support for the data reported by the AFO as progress towards meeting performance measures. We evaluated measures to determine if they were properly designed to measure the AFO's effectiveness in meeting statutory duties and the AFPTIP's overall goals.

- Inquired with AFO management to identify specific instances of cooperation with the private sector for the expansion and development of the Alaska film industry, promotional activities regarding Alaska as a location for film production, production assistance provided to producers to connect them with needed services in Alaska, and any Alaska film production internship training programs certified, including how they were certified.

  This testimonial evidence was evaluated and corroborated through examining a combination of documentation and other tangible or intangible items (website, software program, database, etc.), and/or inquiry with specific private sector entities and individuals identified by the AFO.

  Through online research, we identified additional major entities in the film industry in Alaska. We inquired with representatives of these entities for additional instances of AFO cooperation and/or coordination.

- Inquired with AFO management on the current status of the prior audit finding regarding the AFO's need to develop clear and measurable criteria to support "*best interest*" determinations.[1]

- Obtained and reviewed the AFO's suggested review procedures to understand the procedures CPAs used to evaluate qualified expenditures. We inquired with the AFO to identify procedure implementation dates. We evaluated the nature and extent of required procedures to determine whether they are sufficient to ensure certified expenditures adhere to program requirements.

- Inquired with AFO management to identify the nature and extent of any quality control procedures implemented to ensure final credit amounts are issued in accordance with program requirements. This included evaluating the adequacy of procedures and trainings the AFO implemented to verify and ensure CPAs are performing reviews in accordance with established guidelines.

- Inquired with AFO management to identify the errors they discovered when reviewing and approving credit applications, and to understand the AFO's process for resolving errors. Through examination of production files, we verified that known errors or exceptions the AFO identified during the final application review were handled appropriately and resulted in adjustment to the approved credit amount.

[1] *Department of Commerce, Community, and Economic Development, Department of Revenue, Alaska Film Production Tax Incentive Program, Financial Compliance, February 29, 2012,* Audit Control Number 08-30065-12, Recommendation No. 1.

- Evaluated current DCCED and DOR AFPTIP regulations for adequacy in meeting program requirements. Through documentation examination, we verified AFPTIP regulations were implemented in accordance with state requirements including public notice, period of review and comment, and Department of Law approval.

- Inquired with the Office of the Ombudsmen, DCCED, and DOR to identify any complaints made to those agencies regarding AFO and AFPTIP activities. We reviewed agency documentation to verify the complaints were processed and reasonably addressed.

- Identified AFPTIP qualified expenditures listed in AS 44.33.236. Through online research, we identified the qualified expenditures for all other state film incentive programs. We compared the AFPTIP to other states' programs. We identified and evaluated differences to determine the relative restrictiveness of the AFPTIP's qualified/unqualified expenditures list.

- Inquired with AFO management to understand how the AFO defines *Alaska spend*. We examined AFO annual reports to verify Alaska spend is publicly reported in accordance with our understanding. Through online research, we reviewed other states' programs to determine if a generally accepted "*state spend*" classification exists. We compared the AFO's definition to other states' to identify any deviations from the classification generally used.

- Obtained from DOR a schedule of all tax credits issued, transferred, and redeemed as of February 29, 2012.We contacted the production companies that have transferred tax credits to identify the sales price received. We calculated the average sales price and summarized tax credit purchasers by line of business as defined by DCCED business licensing documentation.

- Through online research, we gathered pertinent information regarding methods used for incentivizing film production activity. We compiled a schedule of this information for all states currently operating a program. (See Appendix A.) Information gathered includes type of incentive, benefit parameters and project eligibility. We identified and obtained economic analysis or impact studies done on other states' programs. We examined the results to identify the factors used to support and/or measure program effectiveness. To identify the relative cost effectiveness of the various program alternatives, we summarized impact analysis results based on the common factors identified.

Additional fieldwork included:

- Examining Senate Bill 23 to understand AFPTIP changes that will take effect July 1, 2013.

- Researching news articles and reports regarding the AFPTIP and other states' film incentive programs to understand issues significant to the audit objectives.

- Analyzing AFPTIP annual reports to the legislature for program specific information and issues.

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ORGANIZATION AND FUNCTION

The Department of Commerce, Community, and Economic Development's (DCCED) Alaska Film Office (AFO) and the Department of Revenue's (DOR) Tax Division administer the Alaska Film Production Tax Incentive Program (AFPTIP). The AFO attracts and facilitates film production in Alaska and is responsible for prequalifying and approving Alaska Film Production Tax Credits (tax credit). The Tax Division is responsible for issuing tax credit certificates and monitoring tax credit transfers and redemptions.

The Alaska Film Office

DCCED's mission is to promote a healthy economy and strong communities in Alaska. Within DCCED, the Division of Economic Development (DED) helps businesses and developers navigate the network of available programs; it also offers technical assistance and support for start-ups, expansions, and relocations. The AFO is an office within DED. The AFO was created under AS 44.33.231 to, in part, administer the AFPTIP. The office consists of one development specialist who is supported by one, half-time administrative assistant. Per AS 44.33.231, AFO duties include:

- Cooperating with the private sector to expand and develop the film industry in Alaska;
- Promoting Alaska as a location for film production;
- Assisting productions in connecting with state resources for filming;
- Certifying Alaska film production internship training programs and promoting the employment of program interns by eligible production companies; and
- Cooperating with DOR to administer the AFPTIP.

The Tax Division

DOR is responsible for administering, enforcing, and collecting state tax, royalty, and assessment revenues. DOR is also responsible for ensuring the proper custody and investment of funds received by the State.

The Tax Division is one of five divisions within DOR. The Tax Division is charged with collecting state taxes and administering tax laws. It also regulates charitable gaming and provides revenue estimates and economic forecasting. Within the Tax Division, an income tax auditor oversees tax credit administration.

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BACKGROUND INFORMATION

Film production incentive programs are used by state and local governments to encourage motion picture and television production within a target locale. As with most government provided economic incentives, the goals of these programs are to generate desired economic activity, create jobs, and develop long-term industry growth. Another potential benefit includes increasing tourism through the broad exposure obtained from film and television productions.

Film production incentive programs in the United States are highly competitive. As of February 2012, 39 states, plus the District of Columbia, offer some type of film production incentive. Appendix A of this report summarizes the state programs that provide film production incentives. Appendix A also includes information on the programs operated by the District of Columbia and Canada's British Columbia.

Of the 11 states not offering film production incentives, three programs recently sunset,[2] and one was suspended. Exhibit 1 lists the 11 states not offering film production incentives.

Exhibit 1

States without Film Incentive Programs as of February 2012

Arizona	sunset 2010
Delaware	
Indiana	sunset 2011
Iowa	suspended 2009
Nebraska	
Nevada	
New Hampshire	
North Dakota	
South Dakota	
Vermont	
Washington	sunset 2011

The incentive amount is usually based on qualified production expenditures applied against rates that may vary based on the nature of the expenditure (for example, wage versus non-wage spending). States often provide bonuses for certain types of expenditures or productions based on program goals and/or to remain competitive. Film production incentives are typically provided in two forms: (1) film production tax credits or (2) direct cash rebates or grants.

Film Production Tax Credit, Rebate, and Grant Incentive Programs

Film production tax credit incentive programs provide production companies film tax credits that can be offset against state income or corporate tax liabilities. Because production companies typically receive credits in excess of any tax liabilities, many states issue transferable film production tax credits. Production companies can sell transferable film production tax credits for cash – usually for less than the value of the credit. The purchasing entity may redeem the credit when filing its state tax return. Some states allow unused credits to be carried forward over a number of years. As shown in Appendix A, 13 states issue transferable film production tax credits and all allow unused credits to be carried forward. Each state's carry forward period is between two to ten years.

[2]*Sunset* is defined as the termination of a particular agency or program on a predetermined date unless justification for continuance is presented to the legislature prior to such occurrence.

As additional incentive, some states provide partially or fully refundable film production tax credits. These credits allow production companies, when filing tax returns, to claim a refund for the portion of the credit in excess of any tax liability. This removes the need for a third party purchaser and allows the production company to retain the full credit benefit. As shown in Appendix A, 14 states and British Columbia issue partially or fully refundable tax credits.

Exhibit 2

> **States with Transferable Tax Credits and Option for Buyback and/or Refund**
>
> **Louisiana –** issues transferable tax credits with a ten year carry-forward and provides an option for state buyback at 85 percent of face value.
>
> **Massachusetts** – issues transferable tax credits with a five year carry - forward. Credits are refundable at 90 percent of face value but must first be applied to taxes.

Except for Louisiana and Massachusetts, states that issue fully refundable film production tax credits do not allow transferability or carry forward. (See Exhibit 2.) Louisiana's partial refund is through state buyback of the credit. State buyback does not require claiming the refund through filing a tax return.

Only two states, Kansas and Maine,[3] provide film production tax credits that are both non-transferable and non-refundable.

Cash rebate and grant incentive programs provide direct payments to production companies based on qualified spending or some other incentivized activity such as local job creation. These programs do not require filing tax returns to receive the incentive benefits. As shown in Appendix A, 16 states and the District of Columbia offer rebates or grants to incentivize film production.

Uniqueness of State Incentive Programs

An examination of film production incentive programs in place as of February 2012 showed that no two programs are exactly alike. Differences in state tax structures, demographics, geography, and budget constraints create a high level of program customization. Differences are also driven by competition as states continually revamp or enhance programs to ensure continued success in attracting film production activity. In addition to film production tax credit, rebate, and grant incentive programs, variations may include: annual funding limits, minimum required production spending, caps placed on non-resident and/or above-the-line (ATL) compensation, providing infrastructure credits, sales or hotel tax relief, and the specific benefit rates applied to qualified spending.

[3]Maine has two incentive programs: tax credits for qualified non-wage production expenses and cash rebates for qualified wages.

The Alaska Film Production Tax Incentive Program (AFPTIP)

The AFPTIP, created in 2008, is an economic incentive program designed to encourage film production activity and long-term industry growth in Alaska by issuing Alaska Film Production Tax Credits (tax credit). The AFPTIP is co-administered by the Department of Commerce, Community, and Economic Development's (DCCED) Alaska Film Office (AFO) and Department of Revenue's (DOR) Tax Division. The AFO is responsible for prequalifying productions and approving tax credits. DOR's Tax Division issues tax credit certificates upon receiving AFO approval and monitors tax credit transfers and redemptions.

In addition to its prequalification and tax credit approval responsibilities, the AFO attracts and facilitates film production in Alaska.

The AFPTIP was initially authorized to issue up to $100 million in tax credits. This funding expires June 30, 2013. During the 2012 legislative session, the legislature reauthorized[4] the AFPTIP and provided an additional $200 million for tax credits to be issued from July 1, 2013, through June 30, 2023. In addition to extending the AFPTIP, the re-authorization amended administrative and programmatic aspects of the AFPTIP. A summary of significant changes to the program, effective July 1, 2013, begins on page 15.

Exhibit 3

Best Interest Considerations

The effect of the production on:

- The film industry in Alaska.
- Alaska employment.
- The state economy.

Additional considerations effective July 1, 2013, include:

- The public perception of state policy with respect to natural resources of the State.
- The fiscal health of the State.

Program Criteria and Tax Credit Rates

To be eligible for a credit under the current program structure, a production project must have incurred at least $100,000 of qualifying expenditures[5] over a consecutive 24-month period.[6] Additionally, the production must not be contrary to the State's best interests based on AFO review. Exhibit 3 lists the areas for consideration in determining whether a production is contrary to the State's best interests. Lastly, the AFO must approve the production.

[4]Chapter 51 of SLA 2012 (Senate Bill 23).
[5]Alaska Statute 44.33.236 lists the qualified expenditures. Alaska Statute 44.25.130, effective July 1, 2013, provides an amended list of qualified expenditures.
[6]Effective July 1, 2013, the minimum is $75,000 over a 36 month period.

Approved productions receive tax credits based on the nature and amount of qualified expenditures. AFPTIP tax credit rates are presented in Exhibit 4. Under the 2012 AFPTIP reauthorization, the tax credit rate structure was changed for compensation and wages paid to ATL and below-the-line (BTL) production cast and crew. The reauthorization defines *ATL* as producers, directors, writers, and the five highest paid actors. *BTL* is all other cast and crew.

Exhibit 4

Alaska Film Production Tax Credit Rates

Credit Type	Rate thru 6/30/13	Rate effective 7/1/2013	Description:
Base Rate	30%	30%	Production expenditures incurred in Alaska and all but non-resident ATL compensation.
Alaska Hire	+10%	+20%	Wages paid to Alaska residents (ATL and BTL) qualifies for an additional credit.
Rural Location	+2%	+6%	Qualified expenditures made in a rural community receive an additional credit.
Seasonal	+2%	+2%	Qualified expenditures made between October 1st and March 30th receive an additional 2 percent credit.
Special	+0%	+6%	First episodic scripted television production.
Base Rate for Non-Resident ATL	30%	5%	Compensation paid to ATL employees not meeting PFD eligibility requirements.
Additional Amount Added to Non-Resident ATL		+ Dollar amount equivalent to 50% of Alaska resident wages.	

Source: *AS 44.33.235, AS 44.25.130 (effective July 1, 2013).*

Exhibit 4 shows that for productions approved after July 1, 2013, the Alaska resident wage rate increased from ten to 20 percent for a total credit of 50 percent when added to the base rate of 30 percent. Additionally, there are limitations on the amount of credits claimed for non-resident ATL compensation.

Compensation for ATL cast and crew that do not meet Alaska Permanent Fund Dividend (PFD) eligibility requirements[7] is limited to a five percent credit rather than the 30 percent base credit. The five percent credit is increased by adding an amount equal to 50 percent of Alaska resident wages. As a result, Alaska resident wages, which already qualify for a 50

[7]Per AS 43.23.005, to be eligible for a PFD an individual must be a state resident during the entire qualifying year.

percent credit, are essentially eligible for a 100 percent total credit rate for productions approved after July 1, 2013.

In the current program, production activities not eligible for tax credits include: news and weather; political, infomercial and other advertising (except for commercial television advertisements produced for national distribution); productions for private or internal use; and productions deemed sexually explicit. These production restrictions are repealed for productions approved after July 1, 2013.

Producer Prequalification Application Procedures

A producer interested in participating in the AFPTIP must file a prequalification application that includes:

- A detailed budget clearly identifying expenditures to be made in Alaska, including expenditure dates;
- A distribution plan that outlines where the film will be distributed and its intended audience;
- A production script or synopsis;
- The producer, director, and proposed cast's names;
- The production's estimated start, completion, and filming dates; and
- An Alaska business license number or proof of a business license application.

Upon approval, the AFO issues a prequalification letter to the producer that estimates the total potential tax credit based on the production company's submitted budget. The letter also communicates to the producer that prequalification does not guarantee a tax credit will be received, and it establishes the 24-month period[8] in which eligible expenditures must be incurred.

Tax Credit Application Procedures

As discussed above, the production must prequalify before a tax credit application may be submitted. Producers are required to submit an application for a tax credit no later than 60 days after the end of the 24-month period for incurring qualifying expenditures. The tax credit application packet must include:

- A detailed identification of the production, including: the production company name, related entities, the production title, and a rough assembly[9] of the production as required by state regulation;

- A final distribution plan;

[8]Effective July 1, 2013, the period extends to 36 months.
[9]*Rough assembly* is defined in 3 AAC 188.050 (b) as "*a sequencing of scenes that will eventually be refined into the final cut of the film*."

- A copy of the Alaska business license valid during production;
- A budget and cost report itemizing Alaska expenditures, including a list of all personnel and cast working in Alaska detailing the dates worked and the salaries earned;
- Lists of names and addresses of entities whose qualified expenditures were included;
- Verification by an independent, Alaska-licensed certified public accountant (CPA) that the costs claimed in the application are qualified expenditures;
- A list of all Alaska principal photography days including dates and locations;
- A list of any tangible personal property for which costs were included that was not transferred or otherwise disposed of at the end of production; and
- A sworn certification by the producer that the producer and the production have fully complied with all applicable state laws and regulations during the production.

The AFO reviews applications for compliance with statutes and regulations. Information requiring further clarification or that was not included with the original submission may be requested. A panel of three to four Division of Economic Development (DED) staff is responsible for reviewing and approving prequalification and final tax credit applications. The AFO provides a notification memo to the Tax Division once a tax credit has been approved and is ready for issuance.

<u>Tax Credit Certificate Issuance and Transfers</u>

Upon receipt of an approved tax credit memo, Tax Division staff prepare a tax credit certificate. The signed certificate is mailed to the producer or production company.

A tax credit may be used by any corporation with an Alaska corporate income tax liability. Tax credits are fully transferable in whole or in part and may be used for a tax period ending on or after the date the credit certificate was issued. A tax credit expires three years after its initial issue date.

Producers typically sell tax credits at a discount to corporations with Alaska corporate tax liabilities. To transfer a tax credit to a purchaser, the official certificate must be returned to the Tax Division, and a new, transferred tax credit certificate is issued to the purchaser. The official tax certificate must be submitted with a corporation's income tax return.

Changes Effective July 1, 2013

In addition to the previously noted changes to project criteria, the 2012 AFPTIP reauthorization by Chapter 51 of SLA 2012 (Senate Bill 23) significantly altered the program and its administration. The significant changes made effective July 1, 2013, include:

- Requiring a nonrefundable prequalification fee equal to 0.2 percent of the estimated total qualified expenditures (minimum $200 and maximum $5,000).

- Authorizing the creation of the Film Production Promotion Program in DCCED. The purpose of this program is to promote and facilitate film production. These activities were previously carried out by the AFO. Prequalifying productions and issuing tax credits remain the AFO's responsibility.

- Moving the AFO from DCCED to DOR. In addition to prequalifying and issuing tax credits, the AFO must annually report its activities to the legislature, design a film office logo that will be required in all film productions receiving tax credits, and provide an onsite liaison for productions subject to the maximum $5,000 application fee. The liaison is intended to provide assistance in meeting program requirements, including ensuring productions are in the State's best interests.

- Placing the AFO under the purview of the Alaska Film Incentive Review Commission. The review commission, established in DOR, will include commissioners from DOR, DCCED, the Department of Natural Resources, and the Department of Labor and Workforce Development. The commission will review all prequalification and final tax credit applications. Approval will require the positive vote of at least three commission members.

- Requiring productions to include the AFO's logo in the end credits and the words "*Filmed in Alaska with the support of the State of Alaska,*" or, on DVDs or other media produced for distribution, include a short, Alaska promotional video or advertisement approved by the Alaska Film Incentive Review Commission.

- Prohibiting CPAs providing expenditure verification services from engaging in the sale, assignment, exchange, conveyance, or other tax credit certificate transfer that includes a credit issued based on qualified expenditures that were verified by that CPA.

- Expanding tax liabilities against which the tax credit may be offset, doubling the period of time the credit may be redeemed from three to six years, and authorizing state tax credit buybacks. The State may purchase unredeemed tax credits for 75 percent of the tax credit certificate amount.

- Requiring the Division of Legislative Audit to conduct periodic audits of the AFPTIP and make the audits available to the legislature on the first day of the regular legislative session in 2015, 2017, and 2021.

REPORT CONCLUSIONS

The Alaska Film Production Tax Incentive Program (AFPTIP) has generated a net positive economic impact in the State. The results of an economic impact study[10] for the period July 2008 through February 2012 indicate direct spending from AFPTIP approved productions has generated $2 in economic output for every $1 in Alaska Film Production Tax Credits (tax credit) issued. Additionally, the study estimates that direct spending by production companies generated 432 Alaska resident full time equivalent (FTE) direct and indirect jobs at a cost, in credits issued, of $56,600 per FTE. While the study highlights a net positive economic impact, the AFPTIP does not generate tax revenues sufficient to pay for credits issued.

The Alaska Film Office's (AFO) eligibility and application review is adequately designed to protect the State's best interests. However, improvements are needed. Necessary improvements include developing written criteria for evaluating whether a production is not in the State's best interests, and strengthening residency verification and documentation requirements to ensure the State is provided the information necessary to adequately review and approve tax credit calculations.

Except for internship certifications, the AFO is sufficiently meeting its statutory program responsibilities. The AFO is promoting Alaska as a viable film location, cooperating with private entity organizations, and providing production assistance. Although identified as one of its statutory duties, the AFO has not yet certified any internship programs.

Whether the AFPTIP, as compared to other states, is the most cost effective method for incentivizing the film industry cannot be determined. The significant variations in the design of film production incentive programs and differences in state tax structures make comparisons between states problematic. Other states' impact analysis reports on film production incentive programs indicate that all film production programs create positive economic impacts while in operation.

<u>The AFPTIP's net economic impact is positive</u>.

To estimate the AFPTIP's economic and fiscal effects, the consulting firm, Northern Economics (consultant), performed an impact analysis for the period July 2008 through February 2012. The primary objectives for the economic analysis are outlined in Exhibit 5 (following page). The consultant's full report, *Economic Analysis of the Alaska Film Production Incentive Program*, is included as Appendix B.

[10]Northern Economics, Inc., *Economic Analysis of the Alaska Film Production Incentive Program*. Prepared for the Division of Legislative Audit, June 2012.

Exhibit 5

<u>Primary Objectives – AFPTIP Economic Analysis</u>

- Use an accepted economic analysis model to determine the AFPTIP's net economic impact on Alaska.
- Estimate the number of FTE Alaska jobs created by the AFPTIP.
- Estimate the net state fiscal impact of the AFPTIP.
- Estimate the multiplier effects of AFPTIP direct spending by year and type.
- Determine the AFPTIP's return on investment: (1) amount of economic benefit for each dollar in tax credit issued and (2) amount of tax credits issued per FTE created in Alaska.

The consultant used the economic analysis model IMPLAN (Impact Analysis for Planning) – an industry recognized input-output model first developed by the United States Department of Agriculture. IMPLAN uses state customized industry specific multipliers to estimate the economic impact of a given amount of initial spending. The spending has three measurable effects: direct, indirect, and induced.

- *Direct effects* are from the direct spending by film production companies on goods and services, and employee wages.
- *Indirect effects* are from spending by local businesses on goods and services as a result of the film production direct spending.
- *Induced effects* are from household spending of income earned by individuals as a result of the direct goods and services, and wage spending.

A detailed description of the consultant's agreed upon methodology for the impact analysis begins on page 58 of Appendix B.

The AFPTIP's estimated benefits significantly exceed the costs. In the consultant's analysis, *net economic impact* is defined as the sum of the economic benefits of the program less the opportunity cost. The formula for this calculation is:

> *[total film production direct spending + the multiplier impact] - [forgone government spending*[11] *due to credits issued + multiplier impact of forgone spending]*

[11]Forgone government spending assumes the tax credit funding would have been appropriated and expended for some other public purpose.

Exhibit 6

The Net Economic Impact of the AFPTIP

	Productions Attributable to the AFPTIP	All Productions
Economic Benefits		
Direct Goods and Services Local Spending	$ 18,875,904	$ 23,043,472
Direct Resident Wages	7,500,697	8,131,417
Total Direct Spending	26,376,601	31,174,889
Multiplier Impact of Goods and Services	13,882,743	17,008,966
Multiplier Impact of Resident Wages	9,907,656	10,193,841
Total Multiplier Impact	23,790,399	27,202,807
Total Economic Benefits	**$ 50,167,000**	**$ 58,377,696**
Opportunity Cost[12]		
Foregone Government Spending	(21,169,777)	(24,415,261)
Multiplier Impact of Foregone Spending	(11,142,027)	(12,824,289)
Total Opportunity Cost	**(32,311,804)**	**(37,239,550)**
Net Economic Impact	**$ 17,855,196**	**$ 21,138,146**

The analysis depicted in the first column of Exhibit 6 identifies the net economic impact for productions attributable to the AFPTIP. Productions attributable to the AFPTIP do not include productions that can be reasonably assumed to have occurred with or without the AFPTIP. Productions excluded are ongoing television series that have filmed in Alaska for at least two years prior to the creation of the AFPTIP. The six productions excluded are identified in Appendix C. The net economic impact of productions attributable to the AFPTIP totals $17.8 million. When all productions receiving tax credits are included, the net economic impact increases to $21.1 million.

The AFPTIP has a positive return on investment.

The overall results of the consultant's analysis indicate the State realizes a positive return on investment from the AFPTIP. The AFPTIP generates an estimated $2 in Alaskan economic output for every $1 dollar in tax credits – an economic multiplier of 2.05 per the consultant's analysis.

[12]Appendix B (page 69) describes the consultant's methodology for calculating opportunity costs.

Total Economic Benefit:	$50,167,000[13]
Total Tax Credits Issued:	$24,415,261
Benefit Dollar per Credit Dollar:	**$2.05**

The consultant's analysis also estimated that direct production spending attributable to the AFPTIP created 432 FTE positions in Alaska. The amount of tax credits issued per FTE positions created in Alaska is $56,517.

Total Tax Credits Issued:	$24,415,261
FTEs Created in Alaska:	432
FTE cost:	**$56,517**

<u>The total economic output generated by AFPTIP approved productions exceeds $58 million</u>.

Film production spending in Alaska from all productions receiving tax credits generated economic output in excess of $58 million. Exhibit 7 summarizes the overall economic benefits generated by AFPTIP qualified spending for all productions receiving a tax credit from July 2008 through February 2012:

Exhibit 7

Economic Benefits of the AFPTIP and Tax Credits Issued through February 2012 – All Productions

Year	Direct: Goods and Services	Multiplier Effects of Goods and Services	Direct: Resident Wages	Multiplier Effects of Wages	Total	Tax Credits Issued
2008	$ 176,686	$ 147,291	$ 94,948	$ 130,716	$ 549,641	$ 0
2009	1,621,520	1,256,278	264,754	299,195	3,441,747	244,547
2010	17,589,082	12,748,313	6,602,942	8,474,062	45,414,399	4,583,865
2011	3,656,184	2,857,083	1,168,773	1,289,868	8,971,909	8,978,969
2012	0	0	0	0	0	10,607,880
Total	**$ 23,043,472**	**$ 17,008,966**	**$ 8,131,417**	**$ 10,193,841**	**$ 58,377,696**	**$ 24,415,261**

The relatively large amount of spending and benefits in 2010 is due to the major motion picture *Big Miracle*.

[13]This figure excludes the productions deemed not attributable to AFPTIP. The six productions excluded are identified in Appendix C.

Significant benefits of the program are realized outside Alaska.

Exhibit 8

Direct Wages Spending by Year for all Productions			
Year	Resident Wages	Non-Resident Wages	Total Direct Wages Spending
2008	$ 94,948	$ 135,008	$ 229,956
2009	264,754	1,765,350	2,030,104
2010	6,602,942	23,863,977	30,466,919
2011	1,168,773	18,026,228	19,195,001
Total	**$ 8,131,417**	**$ 43,790,563**	**$ 51,921,980**

Eighty four percent of direct wages for productions approved for credits was paid to non-Alaska residents. Most highly paid production employees are out-of-state residents. The total amount of qualified direct spending on wages for productions approved for tax credits was $51.9 million. As shown in Exhibit 8, nearly $44 million of this amount were paid to non-residents and qualified for, at a minimum, the 30 percent base credit.

As a result, over half of the tax credits issued resulted from wages and other compensation paid to out-of-state residents as shown below:

Non-Resident Wages:		$43,790,562
Tax Credit Base Rate:		x .30
Credit Attributable to Non-Resident Wages:		13,137,169
Tax Credits Issued through February 2012:	÷	$24,415,261
Percentage credits attributable to Non-resident wages:	=	**54%**

Additionally, the consultant's analysis concluded total direct spending generated an estimated 1,088 FTE[14] positions. However, as shown in Exhibit 9, only 432 of these were in Alaska.

Exhibit 9

FTEs Created by the AFPTIP – All Productions			
Year	Alaska FTEs	Non-Alaska FTEs	Total FTEs
2008	5	2	7
2009	17	42	59
2010	351	358	709
2011	59	254	313
Total	**432**	**656**	**1,088**

The AFPTIP has a negative fiscal impact.

In the consultant's analysis, *fiscal impact* is defined as the difference between the amount of Alaska tax credits issued and the estimated additional Alaska corporate

[14]In Appendix B, the consultant defines *FTE* as working 2,080 hrs a year, or 40 hrs a week.

tax revenues generated. The consultant's analysis estimated that the total $21.2 million in tax credits issued[15] by the State generated economic activity resulting in an estimated $1.2 million in additional taxes and fees.[16] The program does not pay for itself and, through February 2012, has created a fiscal deficit totaling $20 million.

Documentation improvements are needed to adequately demonstrate tax credit calculation accuracy.

There are weaknesses in the documentation requirements placed on qualified producers by the AFO that diminish the ability to verify that tax credit calculations are accurate and supported. These weaknesses include:

- *Alaska residency*, for purposes of determining qualified spending on resident wages, is not clearly defined and cannot be consistently verified.
- Accounting information from production companies does not always provide details necessary to verify goods and services spending was made to Alaska businesses, and resident wages were paid to Alaska residents.

These weaknesses were identified when testing the expenditure support for a sample of ten out of the 37 approved productions receiving tax credits and by the consultant during the course of performing the economic impact analysis. See Recommendation Nos. 1 and 2 for additional discussion.

The AFO has adopted reasonable performance goals but lacks reliable data for measuring progress in meeting employment goals.

The AFO developed performance goals at the end of FY 11. The performance goals focus on employment and production activity. Specific goals include:

- Increasing the number of film and television productions active in Alaska.
- Increasing Alaskan employment resulting from film and television production in Alaska.
- Increasing the number of production crew members, support service providers, and talent listed on the AFO's online service provider database.

Measurement data for the three goals listed above was first reported in the FY 13 proposed operating budget prepared by the Office of Management and Budget. Review of this data found that the AFO reported success in meeting performance goals. However, the information related to Alaskan employment resulting from film and television production is not reliable. For employment data, the AFO relies on film producers' tax credit application information but does not adequately define what film producers must report. The lack of

[15]This figure excludes the productions deemed not attributable to the AFPTIP. The six productions excluded are identified in Appendix C.
[16]See Appendix B for fiscal impact analysis.

guidance on what to report resulted in production companies inconsistently reporting the number of jobs created by approved productions. See Recommendation No. 3 for additional discussion.

<u>With the exception of certifying internships, the AFO is meeting its statutory program requirements</u>.

With one exception, the AFO has been successful in meeting its primary statutory duties, including cooperating with private entities, promoting Alaska as a filming location, and providing production assistance. The AFO is cooperating with private entities in the Alaska film industry and promoting Alaska by staffing booths at location trade shows and providing updates at trade meetings. The AFO also places notices and advertisements in newsletters and social media concerning Alaska film industry opportunities.

The AFO provides assistance to producers primarily through ReelScout, a commonly used, industry accepted online database. The AFO's ReelScout database identifies Alaska based support services, talent, and crew members available to work in the film industry. Any person may create an account and enter their employment experience and contact information into the database. Producers can, by querying the database, identify available local resources. Additionally, the AFO's website allows Alaska businesses to indicate interest in purchasing tax credits. The listing of interested businesses is provided to production companies receiving tax credits to assist them in transferring credits.

The AFO has not met its statutory requirement to certify Alaska film production internship training programs. According to AFO management, the AFO is in the process of developing internship program requirements and has completed an application form and review checklist. See Recommendation No. 4 for additional discussion.

<u>The AFO's eligibility process is designed to reasonably protect the State's best interests but improvements are needed</u>.

Improvements are needed in the AFO's eligibility process in regard to "*best interest*" determinations, certified public accountant (CPA) review procedures and monitoring, and tax credit application review.

As noted in the background section of this report, to be eligible for a tax credit, the production must not be contrary to the State's best interests based on the AFO's review. Alaska Statutes do not define *best interest* for purposes of AFPTIP production approval. Statutes do, however, identify the specific areas for consideration as shown in Exhibit 3 (page 11).

The AFO has not developed written criteria or policy and procedures for "*best interest*" determinations. To ensure compliance with statute, transparency, and consistency in reviewing applications, the AFO should consider developing written criteria for evaluating a proposed productions' impact on the State economy, employment, and overall effect on the film industry in Alaska.

The AFO relies on CPAs verifying qualified expenditures for final tax credit application approval. From 2008 through 2011, the guidance the AFO provided to CPA firms performing verification services was not sufficient to ensure accuracy and consistency. The AFO provided no firm requirements or training to CPA firms.

The AFO made significant improvements for 2012 that include written, "*agreed upon procedures*" required to be used by the CPA firms verifying production expenditures in tax credit applications received after February 2012. Additionally, the AFO provided checklists and training to participating firms to ensure consistency. To further improve the application review process, the AFO should consider periodically reviewing CPA firms' verification work to ensure compliance with the agreed upon procedures. See Recommendation Nos. 1 and 2 for improvements needed in expenditure documentation and residency verification.

The AFO has reduced credits for errors identified during tax credit application reviews, but the process lacks transparency. The AFO lacks formal procedures for documenting the disallowed costs identified during the review process. To improve transparency and ensure AFO decisions are adequately recorded and maintained, a detailed listing of disallowed costs should be prepared and retained.

<u>The AFO has developed regulations necessary to meet program requirements</u>.

The AFO has been active in developing, implementing, and amending regulations as necessary for AFTPIP administration. Furthermore, regulations have been implemented in accordance with state requirements. The AFO is currently in the process of updating regulations. The update will include changes precipitated by the passage of Senate Bill 23 which significantly altered the AFPTIP.

<u>Complaints made to the State regarding the AFO or the AFPTIP have been processed and resolved</u>.

Complaints made to the Department of Commerce, Community, and Economic Development and the AFO have been processed and reasonably resolved. No complaints regarding the AFO or the AFPTIP have been made to either the Office of the Ombudsmen or the Department of Revenue.

<u>Under the AFO's definition of *Alaska spend*, significant program benefits are realized out of state</u>.

In its FY 11 annual report to the legislature, the AFO reported Alaska spend at an amount that included all qualified expenditures. In this report, the AFO calculated a credit issued/Alaska spend ratio of 0.33. That is, the State issues 33 cents in tax credits for every dollar in production spending in Alaska. As noted previously, qualified expenditures include a significant amount of non-resident wages. Including non-resident wages as state spending overstated the AFPTIP's direct economic benefits to Alaska.

Beginning in FY 12, the AFO defined *Alaska spend* as the amount of production spending to state residents and Alaska vendors. This is a reasonable definition of state spending for evaluating the direct economic benefits of the program. Under this definition of *Alaska spend*, through February 2012, the AFPTIP has a credit issued/Alaska spend ratio of 0.78.[17] That is, the State issues 78 cents in tax credits for every dollar in production spending in Alaska. This calculation does not include any multiplier effects – only direct spending.

<u>AFPTIP qualified expenditures are comparable to other states' programs</u>.

Based on an analysis of the 41 other film production incentive programs listed in Appendix A, with one exception, all programs allow in-state production expenditures and resident wages to qualify for an incentive benefit. Furthermore, none allow out-of-state production expenditures to qualify. The majority of programs (78 percent) allow non-resident wages as qualified expenditures though most place limitations on the amount of non-resident and/or ATL wages that can be claimed.

Alaska has a very competitive program and has been successful in attracting productions to the State – including two major motion pictures. Overall, AFPTIP qualified expenditures are not too broad or restrictive and not unusual compared to other state programs.

<u>Based on available information, production companies selling tax credits have received an average of 82 percent of the credits' value</u>.

As noted in the background section of this report, tax credits are fully transferable and available for use by any corporation with an Alaska corporate income tax liability. In transfer transactions, producers typically sell tax credits at a discount. As of February 2012, 36 of the 39 tax credits issued have been transferred to corporations. Appendix C lists the tax credits issued through February 2012. Based on sales price information covering 33 percent of the total dollar value of credits transferred,[18] the average sales price received for a tax credit was 82 percent of the credit amount. The highest sales price was 90 percent, and the lowest was 75 percent. Exhibit 10 (following page) shows the entities, summarized by line of business, that have purchased tax credits.

[17]Calculated as: total credits issued divided by the sum of total direct spending on goods and services and resident wages ($24,415,261 / ($23,043,472 + 8,131,417) = $0.78).
[18]We received information on the tax credit sales price for 24 of the 36 credits transferred (67 percent).

Exhibit 10

Status of Tax Credits Issued through February 2012

Industries Purchasing Tax Credits (Line of Business)	Number of Credits	Amount of Credits Purchased
Arts, Entertainment and Recreation	10	$ 5,571,912
Finance and Insurance	8	5,783,106
Professional and Technical Services	1	617,230
Food Manufacturing	16	1,320,860
Retail Trade	3	1,327,668
Not transferred through February 2012	3	9,794,485
Total		**$ 24,415,261**

As noted in the Background Information section of this report, Senate Bill 23, effective July 2013, significantly expands tax credit transferability. Senate Bill 23 expands the tax types against which the film production tax credit may be offset, doubles the period of time over which the credit may be redeemed, and authorizes state buyback of the tax credit for 75 percent of the credit certificate amount.

<u>Whether Alaska's film incentive program is the most cost effective method for incentivizing the state film industry cannot be determined</u>.

An examination of available economic impact reports for other states' programs could not conclude on the relative benefits of the various types of film incentive programs. Too much variation exists in individual program design, state economies, tax structures, demographics, and economic analysis methodologies for reliable comparison.

A common conclusion from all studies, however, is that film incentive programs produce positive economic benefits. Some reports recommended increases to remain competitive. None suggested that state programs should be eliminated despite the fact that the majority of state programs do not generate tax revenues sufficient to pay for credits issued.

The AFPTIP is competitive with other states. With a maximum credit of 44 percent on qualified expenses, the AFPTIP is one of the more attractive programs available. The high credit maximum, no cap on qualified expenditures, and no limitations on ATL and non-resident wages make AFPTIP very competitive. However, as noted previously, this results in much of the AFPTIP's economic benefits occurring outside of Alaska. Additionally, non-refundable tax credits reduce the benefits available to film producers lacking sufficient tax liability to redeem a tax credit. As a result, a small number of corporations are buying and utilizing the tax credits at a discount.

Finding a balance between maximizing benefits to the State and remaining attractive to film producers is challenging. Senate Bill 23 attempts to strike a balance by reducing the tax credit rate available for non-resident ATL wages while adding significant incentives to hire resident talent. Additionally, Senate Bill 23 adds a buyback option at 75 percent of the credit value making Alaska one of only two states issuing transferable tax credits with a state buyback option.

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FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The Alaska Film Office (AFO) development specialist should strengthen qualified expenditure documentation requirements to ensure Alaska Film Production Tax Credit (tax credit) calculations are adequately supported.

The State lacks sufficient documentation to fully demonstrate tax credit calculations are accurate. In many cases, information submitted to the AFO by production companies did not provide sufficient details to verify non-wage goods and services spending was made to Alaska businesses, and resident wages were paid to Alaska residents.

Sample basis testing of the resident wage and non-wage qualified expenditures for ten of the 37 productions (totaling $22 million out of $31 million in Alaska spending) identified the following documentation issues.

Non-Wage Goods and Services Made to Alaska Businesses

- Seventy-two non-wage items totaling $883,000 did not identify a business name. Description of payments included items such as: "*per diem*," "*hotels*," and "*other*."
- Five hundred seventy-eight non-wage items totaling $3.7 million identified an individual's name rather than a business name. Of these, 234 were also individuals listed as receiving non-resident wages.
- Forty-eight non-wage items totaling $277,000 were made to vendors with non-Alaska business addresses.

Wages Paid to Residents

- One hundred forty-five resident wage items totaling $135,000 did not include an employee address.
- One hundred thirty-four resident wage items totaling $286,000 were made to individuals with non-Alaska addresses.
- Eighteen resident wage items totaling $367,000 did not identify an individual. Descriptions of payments appear to be business names.
- Forty-two of 132 tested individuals could not be verified as Alaska residents through querying the Alaska Permanent Fund Dividend (PFD) and the Division of Motor Vehicles database.

It is likely that a portion of the documentation issues noted above were identified during certified public accountant (CPA) verification. A total of $240,000 and $660,000 of non-wage and resident wage spending was disallowed or re-classified during CPA verification of the qualified spending for these productions. However, the specific items disallowed or re-classified are not identified in the support provided to the AFO so this cannot be confirmed.

As noted in Appendix B, Northern Economics (consultant) identified similar expenditure documentation issues during review of direct spending used in the economic impact analysis.

Alaska Statute 44.33.236(a) requires qualified expenditures be directly related to the production and be incurred in the State. Various qualified expenditures require that payments be to an Alaska business. Wages and salaries paid to Alaska residents receive a tax credit of ten percent in addition to the 30 percent base rate. The inability to verify that spending for goods and services was made to Alaska businesses, and resident wages were paid to Alaska residents, increases the likelihood that credits were issued in excess of allowable amounts.

When approving tax credit applications, the AFO relies on independent CPAs verifying qualified expenditures. The AFO does not require production companies, or the CPAs performing verifications, to provide the detailed expenditure support necessary to verify amounts approved as resident wages and payments to Alaska vendors. Without an adequate audit trail, the accuracy of AFO tax credit calculations cannot be independently verified.

We recommend the AFO development specialist strengthen qualified expenditure documentation requirements to ensure production companies and CPA firms provide details necessary to support the accuracy of tax credit calculations. At a minimum, this should include ensuring that wage payment support identifies the payee's full name and address, and vendor payments identify a valid business name and address.

Recommendation No. 2

The Department of Commerce, Community, and Economic Development's (DCCED) Division of Economic Development (DED) director should consider amending Alaska Film Production Tax Incentive Program (AFPTIP) regulations to more clearly define *Alaska residency* and provide CPAs a more effective method of verifying expenditures claimed as resident wages.

Alaska residency, for purposes of determining qualified spending on resident wages, is not clearly defined in AFPTIP regulation and cannot be readily verified.

AFPTIP regulation defines *Alaska residency* per reference to AS 01.10.055 as:

> *(a) A person establishes residency in the state by being physically present in the state with the intent to remain in the state indefinitely and to make a home in the state.*

> *(b) A person demonstrates the intent required under (a) of this section*
>
> > *(1) By maintaining a principal place of abode in the state for at least 30 days or for a longer period if a longer period is required by law or regulation; and*
> >
> > *(2) By providing other proof of intent as may be required by law or regulation, which may include proof that the person is not claiming residency outside the state or obtaining benefits under a claim of residency outside the state.*
>
> *(c) A person who establishes residency in the state remains a resident during an absence from the state unless during the absence the person establishes or claims residency in another state, territory, or country, or performs other acts or is absent under circumstances that are inconsistent with the intent required under (a) of this section to remain a resident of this state.*

To qualify as a resident, a person must be physically present in the State, intend to remain, and have maintained a home for at least 30 days. Currently, AFO regulations do not require a longer period of physical presence or any proof of intent as described under AS 01.10.055(b).

The AFO relies on independent CPAs verifying qualified expenditures. From 2008 through 2011, the AFO's suggested guidelines for CPA verification of Alaska residency were to:

1. Search the online PFD applicant database.
2. Search online phone books and/or the internet.

These guidelines are not well suited for verifying residency as defined in current AFPTIP regulations. The PFD online database only includes names of applicants and does not distinguish between individuals approved or denied. Additionally, PFD eligibility requires living in Alaska for the entire one year qualifying period. Phone book and internet searches are inherently unreliable due to timing differences and non-participation. AFO compliance guidance for CPA verifications made effective 2012 requires CPAs to verify residency for all Alaska resident wages claimed but does not specify how this can be accomplished.

Wages and salaries paid to Alaska residents receive a minimum 40 percent tax credit. A clear and specific definition of *residency* would increase CPAs' ability to verify amounts claimed as Alaska wages and decrease the State's risk of issuing credits in excess of allowable amounts.

We recommend DED's director consider amending AFPTIP regulations to more clearly define *Alaska residency* and provide CPAs a more effective method of verifying expenditures claimed as resident wages.

Recommendation No. 3

The AFO development specialist should strengthen procedures for collecting and reporting Alaska employment data to ensure reliable information is available for program evaluation.

AFO performance measures, established at the end of 2011, include the goal to: "*Increase Alaska employment resulting from film and television production in Alaska.*" The data for measuring progress towards this goal is provided by production companies reporting Alaska employment as required by the tax credit application. Obtaining consistent data is needed for effective program evaluation.

From 2008 through 2011, the AFO's method of obtaining employment data from film production companies did not provide reliable information due to inconsistency in reporting the number of jobs created and lack of specificity as to the year jobs were created.

The AFO collects employment information from each production as part of the tax credit application process. Until 2012, the tax credit final application form required production companies to report the "*Number of Alaska jobs created (full time equivalent).*" However, no *full time equivalent* (FTE) definition was provided. Due to this ambiguity, production companies' calculation of Alaska FTEs was inconsistent. Production companies appear to have not fully understood what to report as illustrated by the examples provided below:

Production	Alaska FTEs	Alaska Wages	Alaska Wages/FTE
A	2	$ 135,000	$ 67,500
B	38	$ 275,000	$ 7,237
C	8	$ 9,000	$ 1,125

As noted previously, the consultant defined *FTE* as a job that equates to working 2,080 hrs a year, or 40 hrs a week. In example C above, based on this definition, wages paid per FTE totaling $1,125 amounts to an hourly wage of 54 cents. Alternatively, the hourly wage for example A amounts to $32. Example A appears to be a more reasonable estimate of FTEs created when compared to example C.

In 2012, the AFO revised the tax credit application form and now requires a count of Alaska production personnel hired and the average number of weeks worked. This simplifies the reporting requirements and may provide the AFO with information necessary to evaluate the AFPTIP's employment benefits and accurately measure progress in meeting established performance goals.

We recommend the AFO development specialist strengthen procedures for collecting and reporting Alaska employment data to ensure reliable information is available for program evaluation.

Recommendation No. 4

The AFO development specialist should develop film production internship training program certification procedures.

The AFO has not certified any Alaska film production internship training programs.

Alaska Statute 44.33.231 creates the AFO and establishes its duties. One of the AFO's statutory duties is to certify Alaska film production internship training programs and promote program interns' employment by eligible productions.

The AFO lacks fully documented procedures for certifying Alaska film production internship training programs. According to AFO management, this was due to competing priorities and minimal interest from outside entities. In 2012, the AFO has made progress in creating a certification framework including developing an internship provider application. However, efforts to create a fully developed certification program remain a work-in-progress.

Film production internship programs may create opportunities for developing local film industry resources and contribute to long-term industry growth. Without written procedures outlining requirements for certification, entities interested in sponsoring an internship program lack the guidance necessary to proceed. Furthermore, without documenting criteria necessary for certification as an Alaska film production internship training program, the AFO's decisions to approve or deny applicants may lack transparency.

We recommend the AFO development specialist develop film production internship training program certification procedures.

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Appendix A

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Alabama	Tax Credit	Y	N	N	25% of Spend Plus 35% of Residential Labor		There is no project cap. Minimum spend is $500,000. Maximum spend is $10 million. Annual funding is $10 million. CPA review is required.
Alaska	Tax Credit	N	Y	3 yrs	30% of Spend Plus 10% of Resident Labor Plus 2% of Seasonal Plus 2% of Rural		There is no project cap. Minimum spend is $100,000. The aggregate funding cap is $100 million through June 2013. An additional $200 million is available through June 2023. CPA review is required.
Arizona - Sunset 2010							
Arkansas	Rebate	Y	N	N	15% Plus 10% of BTL Resident Labor	Salaries over $500,000 are excluded.	There is no project cap. Minimum spend is $50,000. Annual cap per fiscal year is $5 million. An Arkansas financial institution must be used for all qualified spending. CPA review is required.
British Columbia, Canada	Tax Credit	Y	N	N	33% of Residential Labor Plus 6% of Regional Plus 6% of Distant plus 17.5% of DAVE	Non-resident wages are excluded.	There is no project cap. Minimum spend is $1 million for film, $100,000 if less than 30 minutes and $200,000 if more than 30 minutes for TV. There is no annual funding cap. Production companies must have a permanent establishment in British Columbia. No CPA review is required.
California	Tax Credit	N	Y	5 yrs	20% or 25% of Local Spend	ATL is excluded.	There is no project cap. Minimum spend is $1 million for TV or film and $500,000 for miniseries or movies of the week. Annual funding cap is $100 million. At least 75% of production days or of the total budget must be in-state. CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Colorado	Rebate	Y	N	N	10% Base Rate	Up to $3 million are permitted for each resident and non-resident wage.	There is no project cap. Minimum spend is $100,000 for CO companies and $250,000 for non CO companies. Available funding is $1million. More than 25% of crew must be residents. No CPA review is required.
Connecticut	Tax Credit	N	Y	3 yrs	10% for $100,000-$500,000 of Spend; 15% for $500,000-$1 Million of Spend; 30% for More Than $1 Million of Spend	Star talent cap is $20 million per project.	There is no project cap. Minimum spend is $100,000. An infrastructure investment credit of 20% is available for state certified projects of $3 million or more. CPA review is required.
Delaware - Currently no program							
District of Columbia	Rebate	Y	N	N	21% of Untaxed Expenditures; 30% of Wages; 42% of Taxed Expenditures	ATL is excluded.	There is no project cap. Minimum spend is $250,000. Annual funding is subject to availability. No CPA review is required.
Florida	Tax Credit	N	Y	5 yrs	20% Base Rate Plus 5% of Off Season Plus 5% of Family-Friends	Up to $400,000 are permitted for each resident wage. Non-residents are excluded.	Project caps are $8 million for film and $500,000 commercials and/or music. Minimum spend is $625,000 for film, $100,000 for independent production, $500,000 for commercials and/or music; $242 million are available through June 2015. CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Georgia	Tax Credit	N	Y	5 yrs	20% Base Rate Plus 10% of Qualified Promotion	Up to $500,000 are permitted on each resident and non-resident wage.	There is no project cap. Minimum local spend is $500,000. There is no maximum spend. There is no cap on annual funding. CPA review is voluntary.
Hawaii	Tax Credit	Y	N	N	15% of Spend in Counties ≥ 700,000 Population; 20% of Spend in Counties < 700,000 Population		Project cap is $8 million. Minimum spend is $200,000. There is no annual funding cap. No CPA review is required.
Idaho	Rebate	Y	Y	N	20% Base Rate	ATL is excluded.	There is a $500,000 rebate per project cap. Minimum spend is $200,000. Residents must compose 30% of the crew. Annual funding cap is $1 million, but not yet funded. No CPA review is required.
Illinois	Tax Credit	N	Y	5 yrs	30% of Spend Plus 15% of Resident Labor from High Poverty/ Unemployed Areas	Up to $100,000 are permitted for each resident. Non-residents are excluded.	There is no project cap. Minimum spend is $50,000 if the production is less than 30 minutes and $100,000 if the production is over 30 minutes. There is no annual funding cap. CPA review is required.
Indiana - Sunset 2011							
Iowa - Suspended 2009							

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Kansas	Tax Credit	N	N	3 yrs	30% Base Rate	Non-residents are excluded except for performing artists paying state tax.	There is no project cap. Minimum spend is $50,000 if the production is less than 30 minutes and $100,000 if the production is over 30 minutes. Annual funding cap is $2 million. No CPA review is required.
Kentucky	Tax Credit	Y	N	N	20% Base Rate	Up to $100,000 are permitted for each ATL resident and non-resident.	There is no project cap. Minimum spend is $50,000 for documentaries, $200,000 for commercials, and $500,000 for film and TV. FY 12 funding is $7.5 million. No CPA review is required.
Louisiana	Tax Credit	Y	Y	10 yrs	30% Plus 5% of Resident Wages	There is an additional 5% bonus on the first $1 million for each resident.	There is no project cap. Minimum spend is $300,000. There is no annual funding cap. State buyback is 85% of the credit face value. CPA review is required.
Maine	Rebate	Y	N	N	10% of Non-Resident Wages; 12% of Resident Wages	Up to $50,000 are permitted for each resident and non-resident.	There is no project cap. Minimum spend is $75,000. There is no annual funding cap. No CPA review is required.
	Tax Credit	N	N	N	5% of Non-Wage Spending		There is no project cap. Minimum spend is $75,000. There is no annual funding cap. No CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Maryland	Tax Credit	Y	N	N	25% or 27% of TV Production Expenses	Salaries over $500,000 are excluded.	There is no project cap. Minimum spend is $500,000. Fifty percent or more of filming must be in-state. The annual funding cap is $7.5 million. CPA review is required.
Massachusetts	Tax Credit	Y	Y	5 yrs	25% Base Rate	Salaries over $1 million are excluded unless 50% of production is in-state.	There is no project cap. Minimum spend is $50,000. There is no annual funding cap. The state will buy the credit for 90% of face value remaining after the credit is applied to taxes. CPA review is required.
Michigan	Rebate	Y	N	N	27% of Production Expenditures; 32% of Resident Labor; or 25% of Non-Resident BTL; or 27% of Non Resident ATL	The first $2 million of each crew member's wages are eligible for a 32% credit.	There is no project cap. Minimum spend is $100,000. Annual funding cap is $25 million. CPA review is required.
Minnesota	Rebate	Y	N	N	15% of Spend under $5 Million; 20% of Spend over $5 Million	Non-resident wages are excluded.	There is no project cap. Minimum budget is $625,000 for film, $200,000 for documentary, $75,000 for postproduction. Films must be longer than 80 minutes and 60% of production done in-state. Biennial funding is $500,000. CPA review is required if budget exceeds $1 million.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Mississippi	Rebate	Y	N	N	25% of Spend and Non-Resident Wages; 30% of Resident Wages	Only the first $1 million are permitted for each resident wage and non-resident wage if subject to state withholding.	Project cap is $8 million. Minimum spend is $50,000. Annual cap is $20 million. Qualified wages must be subject to state income tax withholding. No CPA review is required.
Missouri	Tax Credit	N	Y	5 yrs	35% or 30% of Non-Resident Labor	Salaries over $1 million are excluded.	There is no project cap. Minimum spend for productions under 30 minutes is $50,000, longer than 30 minutes is $100,000. Annual funding is $4.5 million. Qualified wages must be subject to state income tax withholding. No CPA review is required.
Montana	Tax Credit	Y	N	4 yrs	14% of Resident Labor; 9% of Spend	Up to $50,000 per resident is permitted for the 14% credit. Non-resident wages are excluded.	There is no project cap. There is no minimum spend. There is no annual funding cap. No CPA review is required.
Nebraska - Currently no program							
Nevada - Currently no program							
New Hampshire - Currently no program							

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
New Jersey	Tax Credit	N	Y	7 yrs	20% Base Rate		There is no project cap. There is no minimum spend. Annual funding is $10 million. Qualified wages must be subject to state income tax. Sixty percent of spending must be local. Tax credits cannot exceed 50% of taxpayer liability. CPA review is required.
New Mexico	Tax Credit	Y	N	N	25% Base Rate	Performing artists are capped at $20 million per project.	There is no project cap. There is no minimum spend. Annual funding is $50 million. Credits under $2 million are paid immediately; credits over $2 million are paid in 2 to 3 installments over a 2 year period. CPA review is required if a credit is greater than $5 million.
New York	Tax Credit	Y	N	N	30% Base Rate	ATL resident and non-resident wages are excluded	There is no project cap. There is no minimum spend. Annual funding is $420 million. Credits less than $1 million are claimed in full. Credits between $1 million and $5 million are paid equally over two years. Credits over $5 million are paid equally over three years. No CPA review is required.
North Carolina	Tax Credit	Y	N	N	25% Base Rate	Up to $1 million are permitted for each crew member.	Project cap is $20 million except for episodic TV. Minimum spend is $250,000. There is no annual funding cap. No CPA review is required.
North Dakota - Currently no program							
Ohio	Tax Credit	Y	N	N	25% of Spend and Non-Resident Labor; 35% of Resident Labor		Project cap is $5 million. Minimum spend is $300,000. Biennium funding cap is $20 million. CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Oklahoma	Rebate	Y	N	N	35% Plus 2% of Local Music ($20,000 Minimum)	ATL resident and non-resident are capped at 25% of total rebate.	There is no project cap. Minimum budget is $50,000, and local spend is $25,000. Annual funding cap is $5 million. Infrastructure credit is 10% to 25% of music and/or film production facility construction in-state. Non-resident ATL must be paid through a loan-out company registered to do business in-state. CPA review is required.
Oregon	Rebate	Y	N	N	20% of Goods and 10% of Resident Wages Plus 6.2% of Wages Subject to State Withholding	Resident and non-resident salaries over $1 million are excluded.	There is no project cap. Minimum spend is $750,000. Minimum spend is $1 million to receive the 6.2% bonus credit. There is an additional 6.2% of minimum spend on $1 million. Annual funding is $7.5 million. No CPA review is required.
Pennsylvania	Tax Credit	N	Y	3 yrs	25% Base Rate	ATL performing artists are capped at $15 million per project.	Projects may be capped at 20% of annual funding. Minimum spend is 60% of total expenditures occurring in-state. Annual program funding is $60 million. CPA review is required.
Rhode Island	Tax Credit	N	Y	3 yrs	25% Base Rate		There is no project cap. Minimum budget is $300,000 with more than 51% principal photography days in-state. Production companies must be incorporated or formed in-state. Annual funding is $15 million. CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
South Carolina	Rebate	Y	Y	N	30% of Supplier Non-Wage Spending; 20% of Resident Wages (and Actors and Stunt Performers Regardless of Residency); 10% of Non-Resident Wages	Up to $35,000 is permitted for each non-resident crew member. Resident and non-resident salaries over $1 million are excluded.	There is no project cap. Minimum spend is $1 million per tax year. Annual funding is $10 million for the wage rebate and a minimum of $5.5 million for supplier rebate. No CPA review is required.
South Dakota - Currently no program							
Tennessee	Grant	Y	N	N	17% Base Rate	Up to $250,000 are permitted for each resident. Non-residents are excluded.	Project cap is $4 million. Minimum spend is $150,000 for in-state producers and $500,000 for out-of-state producers. No CPA review is required.
	Rebate	Y	N	N	15% Base Rate		There is no project cap. Minimum spend is $1 million. Production companies establishing headquarters in-state qualify for the 15% bonus. No CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Texas	Grant	Y	N	N	5% to 25% Plus 2.5% to 4.25% of Shooting in Underutilized Areas	The first $1 million are permitted for each resident. Non-resident wages are excluded.	There is no project cap. Minimum spend is $250,000 for film and TV and $100,000 for commercials. Grant percentage is based on local spend amount. Annual funding is $15 million. Seventy percent of cast and crew must be residents. CPA review is required if grant exceeds $300,000.
Utah	Tax Credit	Y	N	N	20% Base Rate Plus 5%	Up to the amount of income tax paid on earnings is permitted for non-residents.	There is no project cap. Minimum spend is $1 million. Annual funding is $6.7 million. The 5% bonus is based on requirements and agreements between a production company and the state. CPA review is required.
	Rebate	Y	N	N	20% Base Rate Plus 5%	Up to the amount of income tax paid on earnings is permitted for non-residents.	Project cap is $500,000. Minimum spend is $1 million. Program has $2 million remaining. The 5% bonus is based on requirements and agreements between a production company and the state. CPA review is required.
Vermont - Currently no program							
Virginia	Tax Credit	Y	N	N	15% or 20% Base Rate Plus 10% or 20% Resident Wages	The first $1 million are permitted for each resident and non-resident wages.	There is no project cap. Minimum spend is $250,000. Biennial funding is $2.5 million. Base credit is 15% or 20% if filmed in a distressed area. If resident wages exceed $250,000, 10% is added, or exceed $1 million, 20% is added. No CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

State	Incentive Type	Rfd	Trnsf	Carry Fwd	Incentive Rates	Limits on Qualified Labor	Program Description
Virginia *(Continued)*	Grant	N	N	N	Discretionary Cash Grant		There is no project cap. There is no minimum spend. Biennial funding is $2 million. No CPA review is required.
Washington - Sunset 2011							
West Virginia	Tax Credit	N	Y	2 yrs	27% Base Rate Plus 4% of Spend If 10 or More Residents Are Full-Time	Wages are subject to state tax for residents and non-residents.	There is no project cap. Minimum spend is $25,000. Annual funding cap is $10 million. CPA review is required.
Wisconsin	Tax Credit	Y	N	N	25% Base Rate	Residents earning $250,000 or more and all non-residents are excluded.	Project cap is $100,000 (20% of annual funding). Minimum spend is $50,000 for salary and wages. Thirty-five percent of the spending must be in-state. Annual funding is $500,000. CPA review is required.
Wyoming	Rebate	Y	N	N	12% to 15% Base Rate	Non-resident wages are excluded	There is no project cap. Minimum spend is $200,000. Biennium funding is $900,000. Rebate percentage varies based on how much state is showcased in production. No CPA review is required.

Appendix A
(*Continued*)

Film Production Incentive Program
Unites States, District of Columbia, and British Columbia
Program Parameters – February 29, 2012

Attachment 1 Legend:

ATL - Above-the-line personnel
BTL - Below-the-line personnel

DAVE - Digital Animation or Visual Effects

Rfd - Refundable - entity has to submit tax return and receives amount greater than liability as a refund

Trnsf - Transferable

Loan-out company – a corporation (such as an LLC) that is set up as a separate and legal entity usually for an actor, recording artist or other individual for the purposes of using the loan-out company's corporate legal protection.

Sources: Cast & Crew Entertainment Services "TIP - The Incentives Program" Winter 2012; Entertainment Partners "Basic Overview of US and International Production Incentives" January 2012; State Film Office Websites

Appendix B

Economic Analysis of the Alaska Film Production Incentive Program

Final Report

Prepared for

Division of Legislative Audit

June 2012

Prepared by

Northern Economics
2012

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Abbreviations

AFO	Alaska Film Office
AFPIP	Alaska Film Production Incentive Program
BEA	Bureau of Economic Analysis
BLS	Bureau of Labor Statistics
DCCED	Alaska Department of Commerce, Community, and Economic Development
DOR	Alaska Department of Revenue
FTE	Full-Time Equivalent
MIG, Inc.	Minnesota IMPLAN Group, Inc.
NAICS	North American Industry Classification System
NEI	Northern Economics, Inc.
QCEW	Quarterly Census of Employment and Wages
SOA	State of Alaska

Executive Summary

The purpose of this study is to evaluate the economic and fiscal impacts of the Alaska Film Production Incentive Program (AFPIP) which was signed into law in June of 2008. The Program is designed to create economic development in Alaska and to expand the film industry in the state.

The analysis shows that since the Program started, the Program benefits outweigh the Program costs in terms of value of economic output generated and lost. The table below shows the comparison of economic benefits and costs of the Program.

The economic impact analysis indicates that the Program results in an increase of $2 in economic output in the state for every dollar of tax credit issued. Furthermore, the amount of tax credits issued per FTE created in Alaska is $56,600.

Table ES-1. Net Annual Economic Impact of the Alaska Film Incentive Program

Year	Economic Benefits	Economic Costs	Net Economic Effect
2008	$549,641	$0	$549,641
2009	$1,733,475	$368,083	$1,365,391
2010	$41,266,992	$4,095,157	$37,171,835
2011	$6,616,893	$12,333,415	-$5,716,523
2012	$0	$15,515,149	-$15,515,149
Total:	**$50,167,000**	**$32,311,804**	**$17,855,196**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

With respect to the fiscal impacts of the Program, the analysis shows that the Program does not pay for itself. As shown in the table below, the State of Alaska does not generate the same level of additional tax revenues as the amount of tax credits issued to date.

Table ES-2. Net Annual State Fiscal Impact of the Alaska Film Incentive Program

Year	Amount of Tax Credits Issued	Additional Corporate Income Taxes Generated	Net Fiscal Effect	Additional Total Taxes and Fees	Net Fiscal Effect
2008	$0	$4,012	$4,012	$13,191	$13,191
2009	$244,547	$12,654	-$231,892	$41,603	-$202,943
2010	$2,707,675	$301,249	-$2,406,426	$990,408	-$1,717,267
2011	$8,101,448	$48,303	-$8,053,144	$158,805	-$7,942,642
2012	$10,116,109	$0	-$10,116,109	$0	-$10,116,109
Total:	**$21,169,778**	**$366,219**	**-$20,803,558**	**$1,204,008**	**-$19,965,770**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

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1 Introduction

The State of Alaska Division of Legislative Audit (Division) commissioned this study to evaluate the Alaska Film Production Incentive Program (AFPIP).

The Program is designed to attract production companies by way of tax credits to come to Alaska to increase economic activity by creating jobs, supporting local businesses, and potentially increase tourism activities from outside exposure through the films.

The study weighs the economic costs and benefits of the Program to the state. Economic benefits are measured in terms of the amount of direct business sales generated, the number of jobs created, and the subsequent spin-off or multiplier effects resulting from production activity. The economic benefits are compared to the opportunity cost to the state which is measured in terms of foregone economic activity from government spending due to the tax incentives provided. In addition to the economic impact analysis, the study also evaluates the fiscal impacts to the State of Alaska by comparing the amount of tax credits issued with estimates of additional taxes generated as a result of the Program.

This report informs the Division of the findings of the study.

1.1 Background

The Alaska Film Production Incentive Program was signed into law on June 4, 2008 under AS 44.33.231-AS 44.33.239. The Program was designed as an economic development initiative to promote Alaska as a location for film production and allow the expansion and development of the film industry in the state.

The Alaska Film Office (AFO), which is under the Alaska Department of Commerce, Community, and Economic Development (DCCED), was established to administer the Program in cooperation with the Alaska Department of Revenue (DOR).

The Program provides incentives for companies that incur qualified film production expenditures in the state by providing tax credits. Eligible projects include film, documentary, commercial, and video productions with a minimum of $100,000 in qualified Alaska expenditures. Applicants can qualify for up to 44 percent in a transferable tax credit on qualified production expenditures in Alaska, as follows:

- 30 percent base credit on production spending in Alaska, *plus*
- 10 percent credit for wages paid to Alaska residents (Alaska Hire incentive), *plus*
- 2 percent credit for production expenditures made between October 1 and March 30 (off-season incentive), *plus*
- 2 percent for production expenditures made in a rural area (rural location incentive).

Since production companies do not usually owe taxes in Alaska, the law allows the tax credit to be *"sold, assigned, exchanged, conveyed, or otherwise transferred in whole or in part."*

Since the Program's inception, the AFO has received and approved 84 prequalification applications (6 in FY09, 25 in FY10, 33 in FY11, and 20 in FY12) and as of February 29 this year, has approved 37 final applications for an Alaska Film Industry Tax Credit, amounting to $24,415,261 (Alaska Division of Legislative Audit and Alaska Film Office, 2012).

1.2 Study Objectives

The Division specified the following study objectives:

- Define the direct spending data input categories required by IMPLAN and necessary to perform the economic impact analysis.
- Through the use of the economic model, IMPLAN, analyze the data provided by the Division to determine AFPIP's net economic impact on Alaska.
- As part of the economic impact analysis, estimate the number of full-time equivalent (FTE) Alaska jobs created by AFPIP.
- In conjunction with the economic impact analysis, estimate the net state fiscal impact of AFPIP (the difference between the amount of Alaska film tax credits issued and the estimated additional Alaska corporate tax revenues generated by AFPIP).
- Submit a draft report which should include, at a minimum, the results of the analysis performed in addition to the following components:
    1. Executive Summary.
    2. Detailed methodology used by the Contractor in determining the economic and fiscal impacts of AFPIP.
    3. Description of any assumptions used by the Contractor in determining the economic and fiscal impacts of AFPIP.
    4. To provide context, a listing of the multipliers for all industries in Alaska. This will include identifying the top ten and bottom ten multipliers in Alaska, and where the calculated AFPIP multiplier is ranked. (*Note: the Alaska multipliers are provided in the Excel spreadsheet file submitted; the multipliers are not included in the Report due to the proprietary nature of the information*).
    5. Description and amount of Alaska wage and non-wage direct spending on film production activity generated by the AFPIP.
    6. Multiplier effects of spending by year and type (wages vs. goods and services): i. Indirect benefits; ii. Induced benefits; and iii. FTEs created in Alaska (broken out between direct, indirect, and induced).
    7. AFPIP's return on investment: i. Amount of benefit (the sum of direct, indirect, and induced spending) for each dollar in tax credit issued; and ii. Amount of tax credits issued per FTE created in Alaska.
- Provide supporting documents and electronic files to the Division including the actual data input into IMPLAN, a listing of all IMPLAN multipliers for Alaska, all worksheets supporting the calculations and assumption required, and any other support determined necessary for the Division to evaluate the economic impact analysis and report.

1.3 Organization of the Report

The rest of the report is organized into 4 main sections as follows:

- **Methodology Section**: this section provides a detailed description of the approach used in determining the economic and fiscal impacts of the Program including a description of the

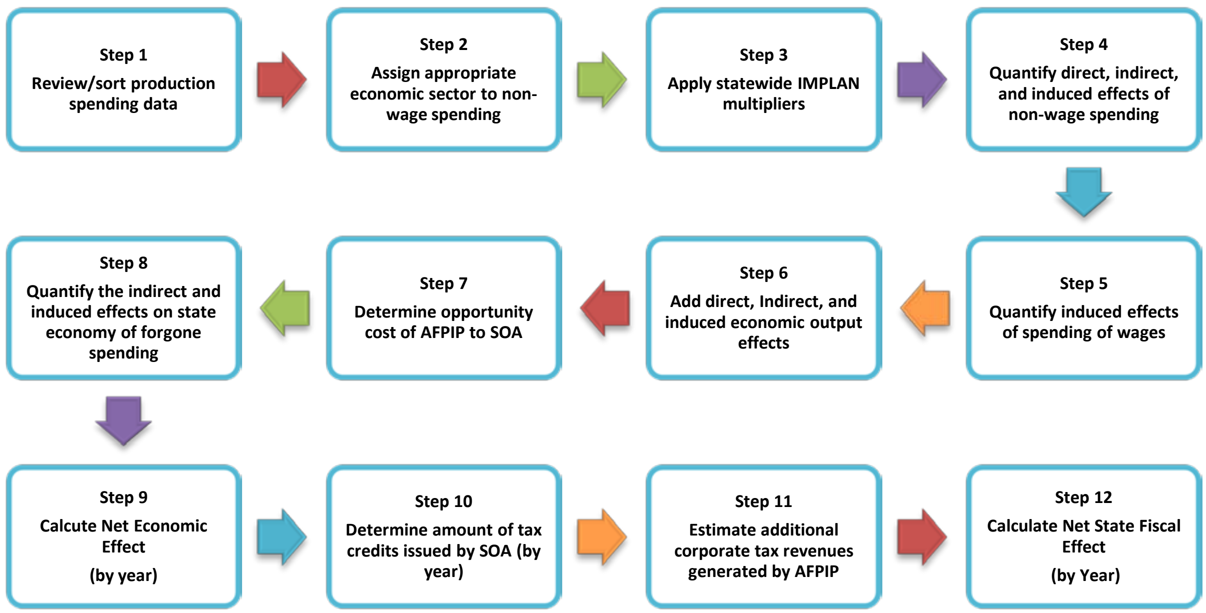
IMPLAN software and multipliers, a description of the spending data provided by the Division, assumptions used in the analysis, a description of the approach in determining full-time equivalent employment estimates; and data constraints and issues.

- **Economic Impacts of AFPIP:** This section discusses the results of the economic impact analysis considering all the productions that received tax credits to date. The estimated direct economic benefits, multiplier effects, opportunity costs and the resulting economic impact are provided.
- **Evaluation of the Program:** This section discusses the results of the analysis that only considers those production activities that can be attributed to the Program. The net economic and state fiscal impact results of the Program are presented in this section.
- **References and Data Sources:** This section provides a list of data sources and documents cited in the report.

2 Methodology

The approach used in evaluating the economic and fiscal impacts of the Program generally follows the steps depicted in Figure 1.

Figure 1. Determining the Net Economic and Fiscal Impacts of AFPIP



Step 1: Review/sort production spending data

The Alaska Division of Legislative Audit provided Excel spreadsheets that contained information on wage and non-wage spending of 37 productions that received Program tax credits. The information contained in the spreadsheets was reviewed. The first spreadsheet sent by the Division contained 5,137 non-wage spending entries and 1,976 wage spending entries; the additional spending data sent contained 2,227 non-wage spending entries and 588 wage spending entries.

Data issues were raised and discussed with Division staff. These include: 1) blank and negative values; 2) entries that are difficult to classify given the description provided (i.e. fringes, unknown, strike day, hold day, location fee, services) 3) non-local businesses; and 4) entries in wage spending that were paid to business.

Step 2: Assign appropriate economic sector to non-wage spending

The data provided by the Division on non-wage items, consisted of entries/items that had NAICS codes (4,148 entries) and entries that did not have assigned NAICS codes (3,216 entries). NAICS stands for North American Industry Classification System. Every business falls under a particular type of industry or sector as defined by NAICS. 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.

The Division staff provided NAICS categories to items that had names of Alaska Businesses. The Alaska business names were matched with the DCCED business license database, which contains the NAICS code associated with the business license. The database contains a primary and a secondary NAICS code which is reported by the applicant. The NAICS codes are not verified by DCCED.

The primary NAICS code of the business was used for this analysis. A limited review of the primary NAICS codes was done by looking at the top 20 items with the highest amounts. The review resulted in some changes in sector assignments. For example, a gas purchase entry showed ExxonMobil as the Alaska business, and this was coded in the oil and gas extraction sector. This entry was changed to Retail Sector- gasoline stations. More examples can be provided if requested.

All the other entries that did not have NAICS code assignments were reviewed by looking at the names of the items and associated line item description. A second round of matching with the DCCED business license database was done and the primary NAICS codes were obtained for those that had a match. For those that did not have a match, the Google internet search engine was used to look up the business names and to get information about the businesses, particularly to determine whether the business is local. Company websites were also reviewed to determine what type of products or services the company provides in order to assign the appropriate NAICS code to the entry.

Other entries did not have a company or a business name, instead the item names were descriptive in nature, for example, air travel, airfare, aquarium, bike rental, boat charter, bus, car rental, catering, food, hotel, fuel, gas, and services, to name a few. Each of these descriptive items was assigned a specific IMPLAN sector. The IMPLAN data has 440 economic sectors; each of these sectors can be mapped to a corresponding NAICS code. The assigned NAICS codes were matched to the corresponding IMPLAN sector.

The line item descriptions were sometimes used as a guide in assigning the appropriate IMPLAN economic sector to the entries that did not have a NAICS code. It should be noted however that there are errors in item descriptions or differences in applicants' interpretation of the item descriptions. For example, an entry was coded as "inter-state transportation" while an internet search on the business name indicated that the company provided audio-visual production services. There were also cases were a business was coded differently (Holiday Station was coded as L, S, and O).

When entries only have a general description of the expense item, like (transportation), (per diem), or (in-state), it is difficult to assign specific or unique IMPLAN sectors. In these cases, averages of various economic sectors' multipliers were used.

Step 3: Apply statewide IMPLAN Multipliers

After assigning the appropriate IMPLAN sector to every single entry in the spending data, the IMPLAN output, employment, and labor income multipliers for those sectors were applied to the dollar amounts to estimate the multiplier effects of additional business sales to those sectors. Because the spending occurred over the course of four years, from 2008 to 2011, historical IMPLAN multipliers were used for years prior to 2010. The latest available data from IMPLAN is for year 2010. The 2010 multipliers were therefore applied to the 2011 spending data, but the results are expressed in 2011 dollars, in keeping with presenting the results in nominal dollars (or money of the day).

IMPLAN is an input-output (I-O) model. I-O analysis is an economic tool used to measure the effects of an economic activity on a region and is typically used to evaluate the benefits of a project. The analysis is based on a model of the inter-industry transactions within a community, a region, or a state. The I-O model is a matrix that tracks the flow of money between the industries within a specified economic region of interest.

IMPLAN uses specific data on what inputs are needed to produce the goods or services for over 400 industries, and state-specific data on what industries are available locally from which to purchase those inputs.

The model can measure how many times a dollar is re-spent in, or "ripples" through, the economic region before it leaks out. The I-O model yields multipliers that are used to calculate the indirect and induced effects on jobs, income, and business sales/output generated per dollar of spending on various types of goods and services in the study area. To evaluate the economic effects to the state, only the "local" (i.e., within the state or within the region) expenditures are used in the model; the rest are considered leakages. More leakages mean smaller multipliers; and the larger the local expenditures, the greater the multiplier effects. The multipliers for any given industry in any given location are unique, based on industry composition and geographic area.

Step 4: Quantify direct, indirect, and induced effects of non-wage spending

In Input-Output (I/O) analysis convention, direct effects take place only in the industry immediately affected; it is the set of initial expenditures applied to the predictive model (i.e., I-O multipliers) for impact analysis. In this analysis, the wage and non-wage spending by the production companies are the direct effects. Applying these initial spending to the multipliers in the IMPLAN model then shows how the state responds, economically to these initial changes. The indirect effects are the impact of local industries buying goods and services from other local industries. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to value added. The induced effects measure the response by an economy to an initial change (direct effect) that occurs through re-spending of income received. This money is re-circulated through the household spending patterns causing further local economic activity.

Step 5: Quantify induced effects of spending of wages

The IMPLAN model also allows the user to estimate the economic effects of spending of wages in the Alaska economy, by modeling this economic activity as a change in household income. The IMPLAN model has information on the typical household's spending pattern in Alaska and distributes the spending on wages based on this spending pattern. Note that not all of the wages are spent; the model assumes a reasonable amount is saved and a portion of the amount is used to pay personal taxes (specifically federal income tax). Hence, only disposable income is spent on groceries, utilities, personal care services, transportation and other typical household expenditures. This approach was used for wages paid to Alaska residents.

To estimate the economic effects of wages paid to non-Alaska residents, information from the Alaska Visitors Statistics Program was used to get a conservative estimate of the level of spending by visitors on gifts, clothing, activities, and other items. The spending data for visitors that noted their primary purpose of the visit as "for business" was used. The average visitor spending (for summer, fall, and winter) was $250 per visitor. This does not include spending on lodging, transportation, and food, as these types of spending are already included in the non-wage spending data. IMPLAN multipliers for the appropriate sectors were then applied to this conservative estimate of visitor spending. The count of non-residents was derived from the data provided by the Division.

Step 6: Add direct, indirect, and induced economic output effects

This step simply adds the estimates of the direct, indirect and induced economic output effects resulting from steps 4 and 5 to determine the total economic benefits of the Program.

Step 7: Determine opportunity cost of AFPIP to SOA

The opportunity cost of AFPIP to State of Alaska (SOA) is the amount of tax credits issued per year. This information was provided by the Alaska Division of Legislative Audit.

Step 8: Quantify the indirect and induced effects on state economy of forgone spending

This step involves using the IMPLAN model to calculate the indirect and induced effects of state spending on education and non-education programs. The IMPLAN model contains information on state spending patterns for these programs. The tax credits issued per year are considered the direct effects in this analysis. The direct, indirect, and induced effects in this analysis are in effect the economic costs of the Program.

Step 9: Calculate net economic effect (by year)

Estimating the net economic impact involves the following formula:

Amount of Alaska wage and non-wage direct spending on film production activity generated by AFPIP *plus* economic activity generated by the direct spending (positive multiplier impact) *less* government spending foregone due to incentives paid (opportunity cost) and economic impact of the opportunity cost (negative multiplier impact).

Result of Step 6 minus result of Step 8.

Step 10: Determine amount of tax credits issued by SOA (by year)

This information was provided by the Alaska Division of Legislative Audit (same as Step 7).

Step 11: Estimate additional corporate tax revenues generated by AFPIP

Estimating state corporate income taxes is difficult as it is hard to project the level of profits of most businesses. The additional corporate income taxes that could be generated as a result of the additional economic activity associated with production spending was estimated by looking at the relationship between historical State gross domestic product as reported by the Bureau of Economic Analysis and the historical state corporate income taxes received by the State of Alaska from non-oil and gas sectors. State corporate income taxes from the oil and gas industry dwarfs corporate income taxes paid by all the other industries in the state combined.

A regression analysis of the historical data indicates that for every million dollar increase in economic output (in non-oil and gas sectors) in the state, only $7,500 dollars are generated in state corporate income taxes. A similar regression analysis was done to estimate total state non-oil and gas revenues from taxes and fees, including corporate income tax revenues, given an increase in economic output of non-oil and gas sectors. This regression analysis indicates that the State of Alaska would generate $24,000 in additional revenues from state taxes and fees for every million dollar increase in economic output in the state.

Step 12: Calculate net state fiscal effect (by year)

Estimating the net state fiscal impact involves the following formula:

Estimated additional Alaska corporate tax revenues generated by AFPIP *less* amount of tax credits issued per year.

Result of Step 11 minus result of Step 10.

3 Economic Impacts of AFPIP

This section presents the results of the economic impact analysis. The direct, indirect, and induced benefits are discussed first, followed by the section on economic costs, and finally, the resulting net economic impact.

Note that the results presented in the first four sub-sections include the estimated benefits and costs of all productions that have benefited from the Program to date, a total of 37 productions including 31 that have been identified as activities that resulted because of the Program and the 6 productions that have been identified as activities that would have occurred even without the Program. In evaluating the effectiveness of the Program however, only those activities that can be attributed to the Program are considered. This subset of economic impacts is presented in Section 4: Evaluation of the Program.

3.1 Direct Economic Benefits of AFPIP

All production activities that qualified for tax credits under AFPIP generated a total of $24.3 million in business sales (or statewide economic output) since the inception of the Program in 2008. Table 1 presents the amount of direct spending by the production companies on goods and services by year. The count is the number of business transactions or business sales that have occurred per year, and provides a rough approximation of the number of Alaska businesses that benefitted from industry spending. The actual number of Alaska businesses that received payments cannot be readily determined because of the way the expenditures were recorded.

As shown in the table, year 2010 has been the best year for Alaska businesses in terms of film industry spending. That year, Alaska attracted the production of the movie, the Big Miracle.

Table 1. Number and Amount of Direct Spending on Goods and Services by Year

Year	Count	Amount
2008	180	$219,361
2009	816	$1,800,681
2010	4,691	$18,475,940
2011	1,677	$3,838,811
Total:	**7,364**	**$24,334,793**

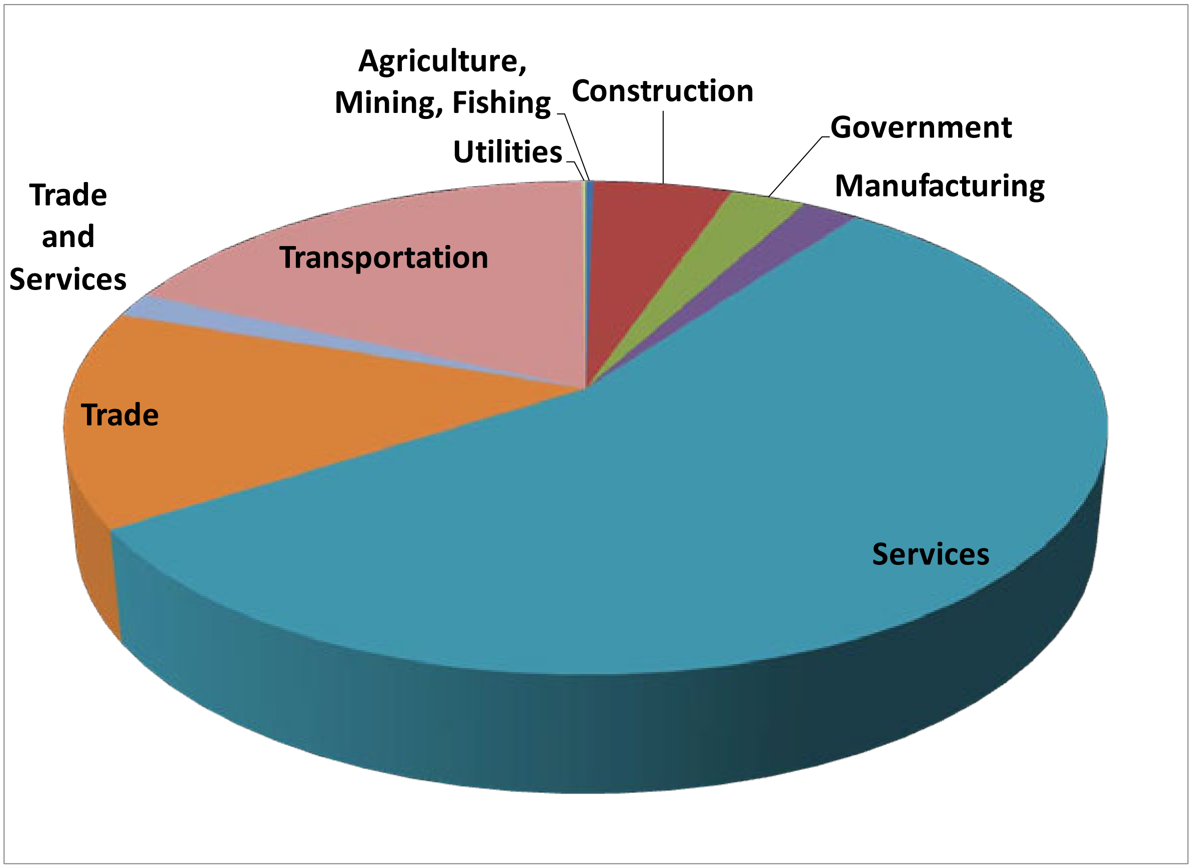
Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

Production spending was spread across 136 different sectors or industries in Alaska. Figure 2 shows the distribution of spending by major economic sectors. The film industry has created the highest economic activity in the services (56 percent), transportation (18 percent), and trade (14 percent) sectors.

The Air Transportation sector has received the highest amount of sales totaling $3.2 million since 2008. Table 2 presents the top 25 economic sectors in terms of business sales resulting from the film production activities. Note that the list includes a sector called “Combined Food Services and Hotel”. This is because several transactions were recorded as a combination of these two sectors-- “food and hotel”, for example was a common entry in the data set.

Figure 2. Allocation of Spending on Goods and Services by Economic Sector



Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Table 2. Leading Economic Sectors in Amount of Direct Spending on Goods and Services

Economic Sector	Amount	Count
Transport by air	$3,182,330	1,156
Hotels and motels, including casino hotels	$2,756,998	604
Other amusement and recreation industries	$2,260,063	63
Combined Food Services and Hotel	$1,835,068	426
Motion picture and video industries	$1,545,625	104
Transport by truck	$1,183,031	187
Retail Stores - General merchandise	$1,136,748	501
Maintenance and repair construction of nonresidential structures	$964,531	85
Automotive equipment rental and leasing	$903,821	338
Scenic and sightseeing transportation and support activities for transportation	$578,541	167
Real estate establishments	$538,926	57
Household Sector	$524,375	254
Retail Stores - Building material and garden supply	$499,454	59
Wholesale trade businesses	$462,941	220
Commercial and industrial machinery and equipment rental and leasing	$438,068	50
Food services and drinking places	$345,138	652
State and local government passenger transit	$343,037	4
Combined Retail and Services Sectors	$303,454	2
Transport by water	$279,317	9
Travel arrangement and reservation services	$274,823	30
Retail Stores - Motor vehicle and parts	$259,255	47
Independent artists, writers, and performers	$218,039	28
Services to buildings and dwellings	$210,751	26
Retail Stores - Food and beverage	$208,173	280
Retail Stores - Gasoline stations	$207,622	343

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

In addition to spending on goods and services, a total of about $52 million in wages were also paid out to both Alaska residents and non-residents from 2008 to 2011 (see Table 3). Eighty-four percent of the total wages paid to date were paid to non-residents. Alaskans have received about $8 million in cumulative wages (16 percent) from all the productions that have received tax credits.

Table 3. Number and Amount of Resident and Non-Resident Direct Spending on Wages by Year

Year	Resident		Non-Resident		Total	
	Count	Amount	Count	Amount	Count	Amount
2008	32	$94,948	19	$135,008	51	$229,956
2009	79	$264,754	233	$1,765,350	312	$2,030,104
2010	611	$6,602,942	735	$23,863,977	1346	$30,466,918
2011	561	$1,168,773	294	$18,026,228	855	$19,195,001
Total	**1,283**	**$8,131,417**	**1,281**	**$43,790,562**	**2,564**	**$51,921,980**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: The count values provided in the table above represents the number of entries in the wage data. It does not represent unique individuals and it includes entries that have been paid to businesses and organizations for which there is no way to determine whether the wages were received by one person or multiple individuals.

Table 4 below provides an approximate count of individuals that received wages in each of the years shown. The count attempts to determine the number of unique names of individuals per year. If 2 or more entries were associated with a person within a year, that person was only counted once for that particular year. This count provides an estimate of the number of Alaskans and non-Alaskans that have benefited from the Program each year. This count of individuals is one measure of the direct employment effects of the Program. Another measure is the number of full-time equivalent (FTE) employment generated by the Program. The FTE measure is presented in Section 3.3 of the report.

Table 4. Number of Individuals Employed by the Production Companies by Year

Year	Resident	Non-Resident	Total
2008	31	18	49
2009	62	104	166
2010	485	470	955
2011	326	225	551
Total	**904**	**817**	**1,721**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

3.2 Multiplier Effects of Production Spending

It is estimated that both the spending on goods and services and the spending of wages in the state created an additional economic output amounting to $27.2 million and generated 466 indirect and induced jobs that paid about $17.8 million in labor income, from 2008 to 2011.

This section presents the multiplier effects of spending by the production companies on goods and services and the spending of wages paid by the production companies, on the Alaskan economy. The multiplier effects are presented by year and type of spending. Multiplier effects are measured in terms of economic output, employment, and labor income. Note that in input-output analysis convention, the multiplier effects of spending of wages in the economy are considered induced effects. Hence, there are no indirect effects associated with spending of wages.

The first set of tables-- Table 5, Table 6, and Table 7, shows the estimated annual multiplier effects of spending on goods and services in terms of economic output, labor income, and employment, respectively.

As shown in Table 5, about $23 million was spent locally on goods and services and this spending created an additional economic output within the state worth $17 million (indirect + induced economic output) from 2008 to 2011. The "Local Spending" column represents the estimated amount that is actually spent in-state per year. This amount takes into account the transactions that were included in the spending data provided to the State but were actually paid to non-Alaska businesses as well as the transactions that were reported as interstate transportation. For transactions that were paid to non-Alaska businesses, the entire amount (100 percent) was considered non-local and was treated as a leakage—the spending did not create multiplier effects in the state economy. For interstate transportation transactions, 50 percent of the amount recorded was considered as local spending (spent in-state). For example, a transaction on air travel of $28,600, reported as "interstate" spending, is considered 50 percent local—half of the amount is attributed to the place of origin and half of the amount is attributed to the place of destination. This approach is typical in I-O analyses of this nature and it also follows the Program's approach in treating interstate transportation costs whereby the amount is eligible for 50 percent reimbursement.

Table 5. Estimated Multiplier Effects of Spending on Goods and Services: Economic Output

Year	Local Spending	Indirect Effects	Induced Effects	Total Multiplier Effects
2008	$176,686	$72,544	$74,747	$147,291
2009	$1,621,520	$575,265	$681,013	$1,256,278
2010	$17,589,082	$5,132,161	$7,616,152	$12,748,313
2011	$3,656,184	$1,270,126	$1,586,957	$2,857,083
Total:	**$23,043,472**	**$7,050,097**	**$9,958,869**	**$17,008,966**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

Table 6 shows the "direct", "indirect", and "induced" labor income effects of spending on goods and services and Table 7 shows the corresponding employment effects by year. In this type of analysis, the "direct" effects in Table 6 represent the amount of wages paid to the employees of the Alaska businesses that received payments from the production companies (direct labor income is a portion of the total economic output or business sales, which is the local spending amount shown in Table 5). For example, a portion of the amounts paid to local hotels, were paid as wages to the hotel employees, these wages are the direct labor income effects, and the number of hotel employees that were supported by that level of spending is the direct employment effect in the results shown in Table 7.

The "indirect" effects in Table 6 and Table 7 represent the economic effects of the subsequent rounds of indirect spending (spin-off effects) in the state economy. In response to an increase in demand for hotel services, the hotels in turn increase their demand for goods and services and thereby create a subsequent round of spending in the economy. Finally, the "induced" effects represent the economic effects of the subsequent round of spending of wages by hotel employees, following the example above.

The total multiplier effect, as shown in these two tables, is the sum of the direct, indirect, and induced effects.

Table 6. Estimated Multiplier Effects of Spending on Goods and Services: Labor Income

Year	Direct Effects	Indirect Effects	Induced Effects	Total Multiplier Effects
2008	$57,886	$19,450	$30,382	$107,718
2009	$596,552	$170,970	$259,242	$1,026,763
2010	$6,553,664	$1,664,601	$3,193,114	$11,411,379
2011	$1,333,916	$405,386	$619,954	$2,359,256
Total:	**$8,542,018**	**$2,260,405**	**$4,102,692**	**$14,905,116**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

Table 7. Estimated Multiplier Effects of Spending on Goods and Services: Employment

Year	Direct	Indirect	Induced	Total
2008	2	1	1	4
2009	17	4	6	27
2010	202	35	70	307
2011	38	9	14	61
Total:	**259**	**49**	**91**	**399**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Table 8 presents the resulting multiplier effects (induced effects) of spending of wages on the Alaska economy as measured by the value of additional economic output, labor income, and number of jobs. As noted earlier, by definition, the economic effects of spending of wages in the state economy are considered induced effects. The total direct wages paid to residents and non-residents amounted to about $52 million from 2008 to 2011 (as shown in Table 3), $8 million of which was paid to Alaskans and about $44 million was paid to non-Alaskans. As noted in the approach section, only a portion of these wages are spent locally. For the resident wages, only the disposable income amount is spent (not including taxes and an estimate of savings). For the non-resident wages, only a minimal amount is spent locally (see below). The amount spent locally is included in the total multiplier effects in Table 8.

Wages paid to Alaska residents are spent on typical household items such as utilities, groceries, gas, medical services, personal care services, and others. Spending of wages on these items creates spin-off effects or additional rounds of spending in the state economy and result in part of the multiplier effects shown in Table 8. The other part is the multiplier effects resulting from spending of wages by non-residents. As mentioned earlier, a portion of the wages paid by the production companies are paid to non-residents (see Table 3). Obviously, non-residents do not create nearly as much multiplier effects as residents, as non-residents spend most of their income in their place of residence. However, it is reasonable to assume that the non-residents who were hired to work as part of the crew in the Alaska productions spent a minimal amount of money for non-work related items such as gifts, sight-seeing activities, and others (see Section 2 for more details regarding assumptions on non-resident wage spending). Spending on non-work related items also create multiplier effects in the state economy and are included in the results shown in Table 8.

Table 8. Estimated Multiplier Effects of Spending of Wages Paid to Residents and Non-Residents: Economic Output, Labor Income, and Employment

Year	Output Effects	Labor Income Effects	Employment Effects
2008	$130,716	$33,622	1
2009	$299,195	$103,573	3
2010	$8,474,062	$2,279,273	54
2011	$1,289,868	$435,593	10
Total:	**$10,193,841**	**$2,852,060**	**67**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

As requested by the Division of Legislative Audit, the Alaska economic output multipliers from the IMPLAN model are provided in the Excel spreadsheet file. Based on the IMPLAN data, the average output multiplier for Alaska is 1.6. This means that a 1 million dollar increase in economic activity (or new money being spent in the Alaska economy) generates $600,000 in additional economic output or business sales in the state.

The highest economic output multiplier for the state is 2.88, which is for the economic sector called State and Local Government Passenger Transit. Others sectors with multipliers of 2 and over include Computer systems design services, Promoters of performing arts and sports and agents for public figures, Private elementary and secondary schools, Performing arts companies, Sawmills and wood preservation, and Transport by pipeline. The lowest non-zero multiplier for Alaska is around 1.18; this is for the sector called aircraft manufacturing. Other sectors with low multipliers include Jewelry and silverware manufacturing, Dog and cat food manufacturing, Lessors of nonfinancial intangible assets, and Soft drink and ice manufacturing.

Alaska is not as economically diverse as some of the other Lower 48 states. The Alaskan economy has 248 economic sectors; this is out of a total of 440 economic sectors available in the IMPLAN model. Typically, Alaska multipliers are also much lower than the multipliers of the more diverse economies elsewhere, since lot of the goods and materials being consumed in-state are not produced locally. Imported products and services do not create spin-off effects in the state economy, other than the minimal trade and transportation margins generated.

As noted in the previous section, spending on goods and services by the production companies were spread across 136 economic sectors. The average of the multipliers for these sectors is about the same as the average economic output multipliers for the state. The sectors that have relatively high multipliers of 1.8 that benefited from production spending were the construction sector, retail-building supply and materials, and some of the utilities.

3.3 Estimated Full-Time Equivalent (FTE) Employment

This section presents the estimated employment effects created in Alaska, as expressed in full-time equivalent (FTE) employment. These estimates were derived based on an approach recommended by the Minnesota IMPLAN Group economists (developers of the IMPLAN software).

Based on the approach used in this analysis, it is estimated that the production companies supported 121 FTE Alaska jobs (direct FTE: residents), and their spending created 311 additional FTE Alaska jobs (indirect and induced FTE) in the state economy. The companies also supported 656 non-resident FTE jobs since Program inception (see Table 9).

Some of the production companies (25 out of the 37 productions) provided their own estimate of the number of full-time equivalent jobs (FTE Alaska jobs) associated with their production activities. According to these companies, they supported a combined total of 412 FTE Alaska jobs. This number however is difficult to verify as there are no specific guidelines provided in the Program application form on how FTE jobs should be determined and the companies did not provide any supporting information such as number of hours worked by each individual (by definition an FTE is assumed to work 2,080 hours in a standard year, or 40 hours a week).

Table 9 shows the FTE employment estimates of total spending. Direct FTE employment effects (second and third column of Table 9) were estimated using data on direct wages (as shown in Table 3) and information from the Bureau of Economic Analysis (BEA). The BEA data provides historical data on wage and salary accruals per FTE employee by industry; data on the motion picture and sound recording industry was used in this analysis.

The indirect and induced FTE employment estimates (the fourth column in Table 9) were determined using results of the IMPLAN model. Employment estimates in IMPLAN include all full-time, part time, and temporary positions (or the annual average of monthly jobs by industry, the same definition used by Quarterly Census of Employment and Wages (QCEW), Bureau of Labor Statistics (BLS), and Bureau of Economic Analysis nationally). IMPLAN jobs can be converted to FTE employment using ratios derived from BEA data. The ratios (FTE conversions per sector) are calculated using information on number of hours worked in each NAICS code, matching the NAICS codes to the related IMPLAN Code, and dividing the number of hours worked by the standard year (2080 hours) for each industry. As noted earlier, spending on goods and services and spending of wages create indirect and induced employment effects across different industries or sectors in the local economy. The employment multiplier effect per sector was multiplied by the corresponding sector's ratio (FTE conversion) to determine the full-time equivalent employment estimates shown in Table 9.

Table 9. Estimated Full-Time Equivalent Employment Effects of Total Spending

Year	Direct FTE: Residents	Direct FTE: Non-Residents	Indirect & Induced FTE Alaska Jobs	Total FTEs
2008	2	2	3	7
2009	6	42	11	59
2010	93	358	258	709
2011	20	254	39	313
Total:	**121**	**656**	**311**	**1,088**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

3.4 Opportunity Cost of AFPIP

This section presents the opportunity cost of the Program (direct) and the multiplier effects in the state's economy resulting from forgone government spending. The opportunity cost is defined as the foregone SOA spending on State programs due to the incentives paid (tax credits). The IMPLAN model was used to estimate the decrease in economic output that would result if the State of Alaska reduced its spending on programs such as for education and non-education by the amount of the tax credits issued per year (which is the year the original tax credit was issued). The analysis shows that the total economic effects of foregone State spending would amount to $37.2 million over the period 2008 to 2012.

Table 10. Estimated Total Economic Effects of Foregone State Spending by Year

Year	Amount of Credits Issued	Multiplier Effects	Total Economic Effects
2008	0	0	0
2009	244,547	123,537	368,083
2010	4,583,865	2,348,889	6,932,755
2011	8,978,969	4,690,360	13,669,329
2012	10,607,880	5,661,503	16,269,383
Total:	**24,415,261**	**12,824,289**	**37,239,550**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

3.5 Economic Costs and Economic Benefits of the Program

The results discussed in the sections above included the economic benefits of all the productions and the economic costs to the state of all the tax credits issued since the Program started in 2008. Table 11 summarizes these results. Considering all the productions that received tax credits to date, the analysis shows that the value of economic activity generated by these productions is greater than the value of the economy activity that would have been created by state spending if the Program did not exist (no credits issued).

Table 11. Comparison of Economic Costs and Benefits of the Program: All Productions

Year	Economic Benefits	Economic Costs	Net Economic Effect
2008	$549,641	$0	$549,641
2009	$3,441,747	$368,083	$3,073,664
2010	$45,414,399	$6,932,755	$38,481,645
2011	$8,971,909	$13,669,329	-$4,697,420
2012	$0	$16,269,383	-$16,269,383
Total:	**$58,377,697**	**$37,239,550**	**$21,138,146**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

4 Evaluation of the Program

In evaluating the effectiveness of the Program, the costs and benefits of only those productions that have been identified as activities that would not have occurred without the Program are included. This provides a more reasonable evaluation of the benefits of the Program. While the other productions that have been identified as activities that would have occurred even without the Program also create economic benefits to Alaska, these benefits should not be attributed to the existence of the Program.

This section presents the estimated net economic and fiscal impacts considering only the activities that can be attributed to the Program.

4.1 Net Economic Impact of AFPIP

Table 12 summarizes the net direct, indirect, and induced economic output effects of the production spending that can be attributed to the existence of the Program (Table 11 above, on the other hand, shows the results for all production spending including those activities that would have occurred even without the tax credits).

Overall, the Program benefits outweigh the Program costs in terms of value of economic output generated and lost. Note that there is a lag between the time the economic benefits are generated and the time the tax credits are issued. The annual results shown below reflect this time difference of when the economic benefits are generated in the state economy and when the costs are incurred.

Table 12. Estimated Net Economic Effects of AFPIP on Alaska

Year	Economic Benefits	Economic Costs	Net Economic Effect
2008	$549,641	$0	$549,641
2009	$1,733,475	$368,083	$1,365,391
2010	$41,266,992	$4,095,157	$37,171,835
2011	$6,616,893	$12,333,415	-$5,716,523
2012	$0	$15,515,149	-$15,515,149
Total:	**$50,167,000**	**$32,311,804**	**$17,855,196**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

The results of the economic impact analysis can also be summarized in terms of:

1. AFPIP's return on investment, that is, the amount of benefit (total economic effect) for each dollar of tax credit issued, and
2. The amount of tax credits issued per FTE created in Alaska.

The economic impact analysis indicates that the Program results in an increase of $2.05 in economic output for every dollar of tax credit issued; and the amount of tax credits issued per FTE jobs created in Alaska is $56,600.

4.2 Net State Fiscal Impact of AFPIP

With respect to the fiscal impacts of the Program, the analysis shows that the Program does not pay for itself. The State of Alaska does not generate the same level of additional tax revenues as the amount of tax credits issued to date (see Table 13).

As noted in Section 2, estimating state corporate income taxes is difficult as it is hard to project the level of profits of most businesses. The additional corporate income taxes that could be generated as a result of the additional economic activity associated with production spending was estimated by looking at the relationship between historical State gross domestic product as reported by the Bureau of Economic Analysis and the historical state corporate income taxes received by the State of Alaska from non-oil and gas sectors. The regression analysis of the historical data indicates that for every million dollar increase in economic output (in non-oil and gas sectors) in the state, only $7,500 dollars are generated in state corporate income taxes. A similar regression analysis was done to estimate total state non-oil and gas revenues from taxes and fees, including corporate income tax revenues, given an increase in economic output of non-oil and gas sectors. This regression analysis indicates that the State of Alaska would generate $24,000 in additional revenues from state taxes and fees for every million dollar increase in economic output in the state.

Table 13. Estimated Net State Fiscal Impacts of AFPIP on Alaska

Year	Amount of Tax Credits Issued	Additional Corporate Income Taxes Generated	Net Fiscal Effect	Additional Total Taxes and Fees	Net Fiscal Effect
2008	$0	$4,012	$4,012	$13,191	$13,191
2009	$244,547	$12,654	-$231,892	$41,603	-$202,943
2010	$2,707,675	$301,249	-$2,406,426	$990,408	-$1,717,267
2011	$8,101,448	$48,303	-$8,053,144	$158,805	-$7,942,642
2012	$10,116,109	$0	-$10,116,109	$0	-$10,116,109
Total:	**$21,169,778**	**$366,219**	**-$20,803,558**	**$1,204,008**	**-$19,965,770**

Source: Northern Economics, Inc. based on inputs from the Alaska Division of Legislative Audit

Note: Amounts in the table are expressed in nominal dollars (money of the day).

Note that the results above only consider the tax credits issued to the productions that occurred due to the Program. If all tax credits issued are considered the resulting net state fiscal effect is -$23 million.

5 References and Data Sources

Alaska Department of Revenue. Historical state corporate income tax revenues from 1998 to 2010.

Alaska Division of Legislative Audit. Production expenditures, FTE, and amount of tax credits approved by production.

Bureau of Economic Analysis. Historical Alaska gross domestic product information, and wage and salary accruals per FTE data from 1998 to 2010.

Minnesota IMPLAN Group, Inc. IMPLAN software and data for years 2008, 2009, and 2010.

The Alaska Film Office. *2012 Report to the 27th Legislature*. February 15, 2012.

U.S. Census Bureau. Information on Alaska average household income.

(Intentionally left blank)

Appendix C

Film Production Tax Incentive Program
Tax Credits Issued
July 2008 through February 2012

Production Company	Production	Issue Date	Credit Issued
Fiscal Year 2010			
Moore Huntley Productions, Inc	Alaska: Most Extreme	9/30/2009	$ 79,504
KAOS Entertainment, LLC	Grizzly Land	10/29/2009	54,138
The Ascending Path, LLC	Disaster on K2	10/30/2009	46,010
Proposal Productions, Inc	The Proposal	11/25/2009	64,895
Total Tax Credits 2010		**4**	**$ 244,547**
Fiscal Year 2011			
Rabbit Content, LLC	Prilosec - Fairbanks Project	7/12/2010	$ 107,277
Affinityfilms, Inc	Survive and Thrive	8/5/2010	39,693
Original Productions	Ice Road Truckers - Season 3**	9/27/2010	393,424
On the Ice, LLC	On the Ice	10/1/2010	171,146
Diverse Bristol LTD	Man vs. Wild - "The Last Frontier"	10/20/2010	67,994
Rainy Pass Productions, LLC	R5 Sons - Season 1	11/15/2010	150,442
Original Productions	Deadliest Catch - Season 6**	11/22/2010	584,563
PSG Motion Pictures, LLC	Alaska State Troopers - Season 1	12/9/2010	30,709
Original Productions	Ice Road Truckers - Season 4**	12/17/2010	898,204
Beyond Indigo Productions, LLC	Beyond (aka Ghost Vision)	12/22/2010	2,140,413
Sun Never Sets Productions, LLC	Top Gear (Alaska Tough Truck)	1/14/2011	81,004
Jean Worldwide	Sarah Palin's Alaska	2/14/2011	1,196,894
Teton Gravity Research	Light the Wick	2/22/2011	51,829
Christmas with a Capital C, LLC	Christmas with a Capital C	3/7/2011	111,690
British Broadcasting Corporation	Frozen Planet	4/13/2011	75,029
Arctic Film Group, LLC	Untitled Arctic Project	4/28/2011	50,493
Pontecorvo Productions	Bears of the Last Frontier	5/4/2011	112,463
Total Tax Credits 2011		**17**	**$ 6,263,267**
Fiscal Year 2012 through February 2012			
ZONK! Productions, Inc.	NAPA's North to Alaska**	7/12/2011	$ 91,080
Kid Play Entertainment, LLC*	PlayKids - BG3	7/18/2011	250,684
Kid Play Entertainment, LLC*	PlayKids - BG3	8/9/2011	1,802,661
PSG Motion Pictures, LLC	Alaska State Troopers s2	8/9/2011	93,274
Wildlife HD	Alaska BluRay DVD Collection	8/19/2011	217,473
Original Productions	Hillstranded	8/24/2011	53,437
Bongo, LLC	Flying Wild Alaska S1	8/25/2011	398,918
Teton Gravity Research	One for the Road	10/14/2011	48,244
Kid Play Entertainment, LLC	Tiny Detectives - BG4	10/14/2011	1,763,885
Kid Play Entertainment, LLC	Young World Sleuths - BG5	11/1/2011	1,746,718
Stardust Brands Inc	American Eagle Outfitters	11/29/2011	46,752
Original Productions, LLC	Deadliest Catch S7**	12/13/2011	786,441

Appendix C
(*Continued*)

Film Production Tax Incentive Program
Tax Credits Issued
July 2008 through February 2012

Production Company	Production	Issue Date	Credit Issued
Original Productions, LLC	Ice Road Truckers - S5**	1/3/2011	491,772
Iditarod Trail Committee	Iditarod 2011: Year of the Dream…	1/18/2012	72,568
Kid Play Entertainment, LLC***	Tiny Detectives/ Young World Sleuths	1/25/2012	250,000
St. Thomas Productions	Ice Jumpers	2/2/2012	71,624
Icebreaker Films	Big Miracle	2/3/2012	9,635,706
API Arts & Outreach	Icebound	2/29/2012	86,210
Total Tax Credits 2012		**18**	**$ 17,907,447**
TOTAL		**39**	**$ 24,415,261**

* Two tax credits were issued for this production. The first was issued on July 14, 2011, for $250,684 and the second on August 4, 2011, for $1,802,661.
**These productions were filming in Alaska prior to the creation of the Alaska Film Production Tax Incentive Program.
***This credit, issued January 25, 2012, for $250,000 resulted from settlement of a production company appeal of AFO disallowance of expenditures for the productions Tiny Detectives - BG4, and Young World Sleuths - BG5.

THE STATE of ALASKA
GOVERNOR SEAN PARNELL

Department of Revenue

COMMISSIONER'S OFFICE
Bryan Butcher, Commissioner

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September 27, 2012

Kris Curtis, Legislative Auditor
Legislative Budget & Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED
SEP 27 2012
LEGISLATIVE AUDIT

Dear Ms. Curtis:

Thank you for your agency's review of the Department of Revenue (DOR) as part of the performance audit of the Alaska Film Production Tax Incentive Program (AFPTIP). Although the Findings and Recommendations contained in your letter dated September 5, 2012 pertain to the Alaska Film Office (AFO) which currently resides in the Department of Commerce, Community and Economic Development (DCCED), as noted in the auditing findings, the AFO will transfer to the DOR effective July 1, 2013. As such, we appreciate the opportunity to respond to the recommendations for those portions of the film program that will be transferred to DOR.

Recommendation No. 1
The Alaska Film Office (AFO) development specialist should strengthen qualified expenditure documentation requirements to ensure Alaska Film Production Tax Credit (tax credit) calculations are adequately supported.

We agree with Legislative Audit's position that sufficient documentation should be required to ensure that credit calculations are accurate. We also agree with Legislative Audit's recommendation that documentation should, at a minimum, include the payees' full name and address and that vendor payments identify a valid business name and address. DOR will work with DCCED to develop procedures and draft regulations to ensure that before and after the transfer of the AFO to DOR, proper documentation is required to be available from producers to support the claimed credit. With the transfer of the AFO to DOR, DOR will receive two new positions, a Tax Auditor and a Tax Technician. DOR expects that, after the program is transferred, it will conduct its own independent examination of all credit applications as well as full audits of some applications to ensure that the expenditures claimed for a credit are valid.

Recommendation No. 2
The Department of Commerce, Community, and Economic Development's (DCCED) Division of Economic Development (DED) director should consider amending Alaska Film Production Tax Incentive Program (AFPTIP) regulations to more clearly define *Alaska residency* and provide CPAs a more effective method of verifying expenditures claimed as resident wages.

We agree with Legislative Audit's position that AFPTIP regulations should be amended to more clearly define *Alaska residency* and provide CPAs a more effective method of verifying expenditures claimed as resident wages. DOR will work with DCCED to develop procedures and draft regulations to ensure that before and after the transfer of the AFO to DOR, *Alaska residency* is clearly defined and CPAs are given clear guidance on required procedures, including acceptable documentation, to verify *Alaska residency*.

DOR is currently in the process of reviewing the "Alaska Film Production Tax Credit – Compliance Guidance" document that was prepared by DCCED. This document is an excellent starting point for addressing some of the issues identified in Recommendations 1 and 2 above. We plan on working with DCCED to finalize the document and will incorporate Legislative Audit's findings into the final publication. In addition, as stated above, DOR will begin drafting regulations to address the changes made to the AFPTIP as a result of the passage of SB 23 (Chapter 51 of SLA 2012). Those regulations will also address the recommendations made by Legislative Audit. Unfortunately, the language in SB 23 does not allow DOR to adopt regulations until after the film program is transferred to DOR. Although we will not be able to officially adopt regulations, we will work diligently to have draft regulations available for public comment as soon after July 1, 2013 as possible.

<u>Recommendation Nos. 3 and 4</u>
These recommendations pertain to the portion of the film program that will be retained by DCCED after the program is transferred to DOR. As such, DOR has no comment on these recommendations.

We believe that we have addressed the findings and recommendations presented in your September 5, 2012 letter and welcome any additional comments or questions from you or your staff.

Sincerely,

Bryan Butcher
Commissioner

cc: Bruce Tangeman, Deputy Commissioner, DOR
Matthew Fonder, Director, Tax Division, DOR
Johanna Bales, Deputy Director, Tax Division, DOR
Jerry Burnett, Director, Administrative Services Division, DOR
Wanetta Ayers, Director, Division of Economic Development, DCCED

THE STATE of ALASKA

GOVERNOR SEAN PARNELL

Department of Commerce, Community, and Economic Development

OFFICE OF COMMISSIONER SUSAN K. BELL

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September 26, 2012

RECEIVED

SEP 2 6 2012

LEGISLATIVE AUDIT

Ms. Kris Curtis, CPA, CISA
Legislative Auditor
Division of Legislative Audit
PO Box 113300
Juneau, Alaska 99801

Re: Preliminary Audit Report 08-30066-12, Department of Commerce, Community, and Economic Development (DCCED), Department of Revenue (DOR), Alaska Film Production Tax Incentive Program (AFPTIP), Select Performance Issues

Dear Ms. Curtis:

Thank you for the opportunity to respond to the audit report recommendations on the Alaska Film Production Tax Incentive Program. In general, the department concurs with the recommendations, and I appreciate that the report notes DCCED has already taken action to address the identified issues.

Recommendation No. 1

The AFO development specialist should strengthen qualified expenditure documentation requirements to ensure tax credit calculations are adequately supported.

The department concurs with this recommendation, and as of February 15, 2012 implemented strengthened documentation requirements to ensure tax credit calculations are adequately supported. A contract was issued to review agreed upon procedures (AUP) for qualified expenses, the final application process, and to train Alaska CPAs in the verification process; these steps were completed on January 28, 2012. The revised AUP requires a complete verification of all claimed expenses when the production's expenses are below a $500,000 threshold. Productions with expenses of more than $500,000 are verified with audit tests at the 99 percent confidence level within 1 standard deviation. All productions submitting final applications after February 15, 2012 have been required to be verified using the new AUPs. Verifications are conducted by an Alaska CPA that has been trained in the new procedures. The strengthened requirements have resulted in more accurate, detailed, and easily verifiable final applications.

Recommendation No. 2

DCCED's DED director should consider amending AFPTIP regulations to more clearly define Alaska residency and provide CPAs a more effective method of verifying expenditures claimed as resident wages.

The department concurs that a clear and specific definition of Alaska residency should be considered for purposes of determining qualified spending on resident wages. DCCED drafted revised regulations during the fall of 2011 but held those pending final development and training on the AUP. The regulations package was again deferred pending the outcome of Senate Bill 23 and the financial and performance audits underway.

In the interim, the new AUPs specify that eligibility for the extra 10 percent Alaska hire credit requires an employer/employee relationship with traditional withholding. AFO staff developed an Alaska residency affidavit that contains declarations consistent with the residency requirements of obtaining a permanent fund dividend. In order to simplify the verification of residency, a signed affidavit and supporting documentation should be kept on file by the production and provided to the CPA as part of the verification process.

Recommendation No. 3

The AFO development specialist should strengthen procedures for collecting and reporting Alaska employment data to ensure reliable information is available for program evaluation.

The department concurs with this recommendation and has taken action to address the issue through revisions to the tax credit application form. As discussed during the course of Legislative Audit's review, an additional change to the Final Application Form will be made to request the total number of hours worked on the project for both resident and non-resident workers. The number of hours can either be divided by 1,560 to arrive at an FTE estimate based on a 30 hour work week or by 2,080 based on a 40 hour work week. This approach will standardize the FTE estimate across all productions and the program as a whole.

Recommendation No. 4

The AFO development specialist should develop film production internship training program certification procedures.

The department concurs with this recommendation. As noted in the report, the department has made progress in creating a certification framework. In 2011, the Legislature appropriated capital funds for the Alaska Crew and Cast Advancement Program (AKCCAP) and DCCED worked closely with the Alaska Workforce Investment Board and the Department of Labor and Workforce Development to draft criteria to evaluate and certify internship programs. Additional outreach efforts will continue with the University and other training providers to establish internship opportunities.

The scope and thoroughness of Legislative Audit's review on the AFTIP is appreciated. Thank you again for the opportunity to respond to the recommendations. If you have any additional questions, please contact me at 907-465-2500.

Sincerely,

Susan K Bell

Susan K. Bell
Commissioner

cc: Roberta Graham, Assistant Commissioner
JoEllen Hanrahan, Director ASD
Wanetta Ayers, Director DED