

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

September 1, 2009



> ready > set > action



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

Department of Community
& Economic Development
George E. Cornelius, Secretary

www.filminpa.com

Table of Contents

I. Introduction	.1
II. The Film Tax Credit: An Effective Economic Development Tool in Pennsylvania	.5
III. FY2008-09 Film Tax Credit Activity	.8
IV. Business Expansion, Investment Attraction & Workforce Retention/Attraction	.13
V. Recommendations	.18
Appendices	
Appendix I Film Tax Credit Awards and Certificates Issued	.20
Appendix II Type of Production Activity Supported by Tax Credits	.21
Appendix III Tax Credit Awards FY2008-09	.22
Appendix IV Issuance and Use of Tax Credit Certificates	.25
Appendix V Additional Impacts	.27
Appendix VI Economic Impact Methodology	.28

I. Introduction

On July 25, 2007, Act 55 of 2007, the Film Tax Credit Law ("Act 55") was enacted. Act 55 authorizes the issuance of \$75 million in tax credits to expand the activity of film, television and other production companies in Pennsylvania.

This document reviews the key provisions of Act 55 and responds to the requirements of Section 8711-D of Act 55, which provides, in part:

"No later than . . . September 1 of each year . . . the Secretary of Community and Economic Development shall submit a report to the General Assembly summarizing the effectiveness of the tax credit provided by this Article. The report shall include the name of the film produced, the names of all taxpayer utilizing the credit as of the date of the report and the amount of credits approved for, utilized by or sold or assigned by each taxpayer. The report may also include any recommendations for changes in the calculation or administration of the tax credit."



Filming of "Blue Valentine" in Carbondale, PA.

(L to R) First Assistant Director, Mariela Comitini; Director Derek Cianfrance; Cinematographer, Andrij Parekh; First Assistant Cameraman, Lucovic Littee; and Loader, Dames Daly

Photo Courtesy of Blue Valentine Pennsylvania LLC



REEL STORIES

>> The Film Industry in Pennsylvania – Peak Security Inc.

Company Profile:

- > Family-owned business
- > Employees: 70 full-time; 35 part-time
- > Contract security services

Peak Security Inc. has provided contract security services to over 50 motion pictures in Pittsburgh and the surrounding area over the past 15 years. Currently 25% of the company's revenues are generated by the film industry. Even though the motion picture work is often seasonal, we have retained many quality individuals originally hired for the film business to represent our firm on other full-time accounts.

Films made in the Pittsburgh region let everyone around the globe know what a great place Pittsburgh is to live and raise a family. We hope that it will help to bring a few large corporations back to our area.

Raymond A. Cervenak, Sr. President Peak Security Inc.
Pittsburgh, PA

Ray Cervenak Jr. and Ray Cervenak, Sr., owners of Peak Security Inc. are pictured above.
Photo Courtesy of Peak Security

Under Act 55, tax credits¹ are available to production companies that meet two threshold requirements:

- > they must spend at least 60% of the total production budget in Pennsylvania; and
- > the project must fall within one of the categories of eligible productions specified in the statute.

Projects eligible for tax credits under Act 55 include the production of a feature film, a television film, a television talk or game show series, a television commercial and an episode of a television series intended as programming for a national audience. Act 55 does not provide benefits to infrastructure projects such as studio construction.

The production budget includes expenses to be incurred during pre-production (scouting for locations, set-up of offices and facilities), production (shooting) and post-production (editing, narration, sound and special effects, etc.). The production budget does not include expenses relating to project development, financing and marketing.

Projects that meet both threshold requirements may receive a tax credit of up to 25% of "Qualified Film Production Expenses." Qualified Film Production Expenses is in turn defined to exclude compensation for services provided in the production of the film in excess of \$15 million in the aggregate. The statute also includes other provisions that further limit the scope of spending in Pennsylvania that may qualify as Qualified Film Production Expenses.

Projects are awarded tax credits based on an application that includes a production budget; however, tax credit certificates are not issued until after an independent audit is received by the Pennsylvania Film Office ("Film Office") of the Department of Community and Economic Development ("DCED") verifying:

- > that at least 60% of the total production budget was spent in Pennsylvania; and
- > the actual amount of Qualified Film Production Expenses. The amount of the tax credits issued, that is, the amount set forth in the tax credit certificate, may not exceed the amount specified in the application; however, the amount may be less should actual Qualified Film Production Expenses fall short of the budget set forth in the application.

Summary of tax certificates issued under Act 55 as of June 30, 2009:

- > Number of tax certificates issued: 36 (all tax credit certificates have been issued based on awards made in FY2007-08 and no certificates have been issued based on awards made in FY2008-09)
- > Aggregate amount of awards for projects issued tax credits: \$59.6 million
- > Aggregate amount of tax certificates issued: \$52.9 million (amount of certificates is less than amount of awards because expenses for some projects fell short of budgeted amounts)
- > Number of projects cancelled: 3
- > Number of projects for which audits not yet received: 33

¹ Film Tax credits issued pursuant to Act 55 ("FTCs") may be applied against tax liability under Articles III, IV or V of the Tax Reform Code of 1971 (personal income tax, corporate net income tax, or capital stock and franchise tax). FTCs may be carried forward by recipients for up to three years and may be sold or transferred provided the recipient has satisfied all outstanding obligations to the Commonwealth. Transferees of FTCs may use the credits to off-set no more than 50% of their tax liability to the Commonwealth but may not carry forward any FTCs.



REEL STORIES

>> The Film Industry in Pennsylvania – DIVE/Shooters, Inc.

Synergy is such an overused term that we hesitated to use it, but how else can you describe industry activity that shifts from Pittsburgh to Philadelphia and from one industry segment (feature films) to another (advertising)?

More importantly, it is the word being used by industry participants to describe what is happening in Pennsylvania as a result of the Film Tax Credit --- at least that's what DIVE/Shooters, a visual effects and finishing firm told us. Here is what DIVE/Shooters had to say about the impact of the Film Tax Credit:

Word is getting out that that the Film Tax Credit can be a statewide collaboration— not just centered in one or two cities in PA. “The Bridge to Nowhere” and “The Road” are great examples of production companies collaborating statewide. For “The Bridge to Nowhere” DIVE (based in Philadelphia) was tapped by Smithfield Street Productions in Pittsburgh to handle optical effects and the digital intermediate process as well as handle domestic and international deliverables. DIVE performed similar work for “The Road,” which is scheduled for release later this year.

The feature film technology, staff and infrastructure built by DIVE for films like “The Bridge to Nowhere” is now available for commercial production at Shooters. That’s great news for the production scene here, as well as local (and national) ad agency scene. Now Shooters is working with agencies that used to go to New York for great work or cutting-edge technology. It’s another way that PA-based production companies are able to stay competitive in the national market and to draw revenue (as well as talent) from other sectors.

Ray Carballada, President
DIVE/Shooters, Inc.
Philadelphia, PA

Shooters/DIVE is an industry leader in post-production services (editing, visual effects, sound effects, graphics, etc.). Thanks to its highly skilled staff and investments in state-of-the-art equipment, Shooters/DIVE has provided post-production services for some of the biggest productions filmed in Pennsylvania. At work in the photo are Bryan Baker (top left), Addie Manis (top middle), Steve Dinozzi (Bottom Left), Crystle Schrecengost (Bottom Middle) and Mark Forker (Bottom Right). *Photo Courtesy of Shooters/DIVE*

II. The Film Tax Credit: An Effective Economic Development Tool in Pennsylvania

After two consecutive years of activity it is clear that Act 55 has been a huge success in creating jobs in Pennsylvania and a boon to the Commonwealth’s economy, despite the worst recession since the Great Depression. Thanks in large part to Act 55, industry participants now rank Pennsylvania among the top five states for film production in the U.S.

As in FY2007-08, demand for tax credits continues to outstrip supply. In the fiscal year ended June 30, 2009, the \$75 million allocation was awarded to a total of 75 projects, three more than in the prior fiscal

year. Most importantly, by attracting a number of high-budget and high-profile projects to Pennsylvania, Act 55 has generated stable employment for thousands of workers, spurred over \$240 million of capital investment² and solidified the Commonwealth’s position as a location of choice for the film industry.

The effectiveness of Act 55 was confirmed by a study commissioned by the Legislative Budget and Finance Committee (“LBFC”) pursuant to Senate Resolution 2009-20 and House Resolution 2009-127 and undertaken by Economics Research Associates (“ERA”), a firm that has completed over 60 economic analyses of the film and motion picture sector since 2000. ERA documented its findings in a report entitled “Pennsylvania’s Film Production Tax Credit and Industry Analysis,” which was issued by the LBFC in May 2009 (the “LBFC Report”).

Key findings of the LBFC Report include the following:

- > In 2007, the film industry in Pennsylvania:
 - had total revenues of \$1.1 billion;
 - employed 9,785 workers;
 - paid \$613.4 million in wages;
 - production jobs paid an average salary of \$52,340 (\$9,395 or 22% higher than the average salary for all workers in Pennsylvania); and
 - generated \$63 million in state and local taxes (after deducting the cost of tax credits issued under Act 55, the film industry made a net contribution of \$4.5 million in tax revenues to the Commonwealth).



Actors Jamie Foxx and Gerrard Butler shooting a scene for "Law Abiding Citizen" in Philadelphia. Photo Courtesy of: LAC Films LLC

² This figure includes investments made by established industry participants in Pennsylvania over the past two fiscal years (\$22 million) and investments in new infrastructure projects (\$220 million), which are discussed in more detail in Section IV.

- > Pennsylvania's film industry is "growing at a faster rate compared to the overall state economy as measured by the number of firms, jobs and total wages paid."
- > From 2002 to 2007, the number of jobs in the film industry grew at five and one-half times the average annual rate for Pennsylvania's private sector as a whole.
- > Projects awarded tax credits in FY07-08:
 - generated over \$260 million in direct spending and \$525 million in economic activity; and
 - created 3,950 jobs, nearly half of which were in industry sectors other than film production (e.g., lodging, food services, vehicle rentals, and other wholesale and retail sales).

In sum, the LBFC Report demonstrated that the tax credit is an effective economic development tool and has achieved the goals of creating new jobs, generating economic activity and generating revenue for the Commonwealth.

Moreover, the LBFC concluded that there is a strong rationale for investing in the film industry, citing the data above and the following factors:

- > the film industry is in the top 10% of industries in the Commonwealth in terms of return on investment, i.e., positive impact on employment, wages and revenues;
- > the film industry has a bright future;
- > the film industry helps thwart "brain drain" by generating higher-paying knowledge-intensive jobs that are critical to attraction and retention of workers;
- > the film industry fosters the expansion of existing businesses and the creation of new businesses; and
- > the film industry encourages tourism and enhances the Commonwealth's image.

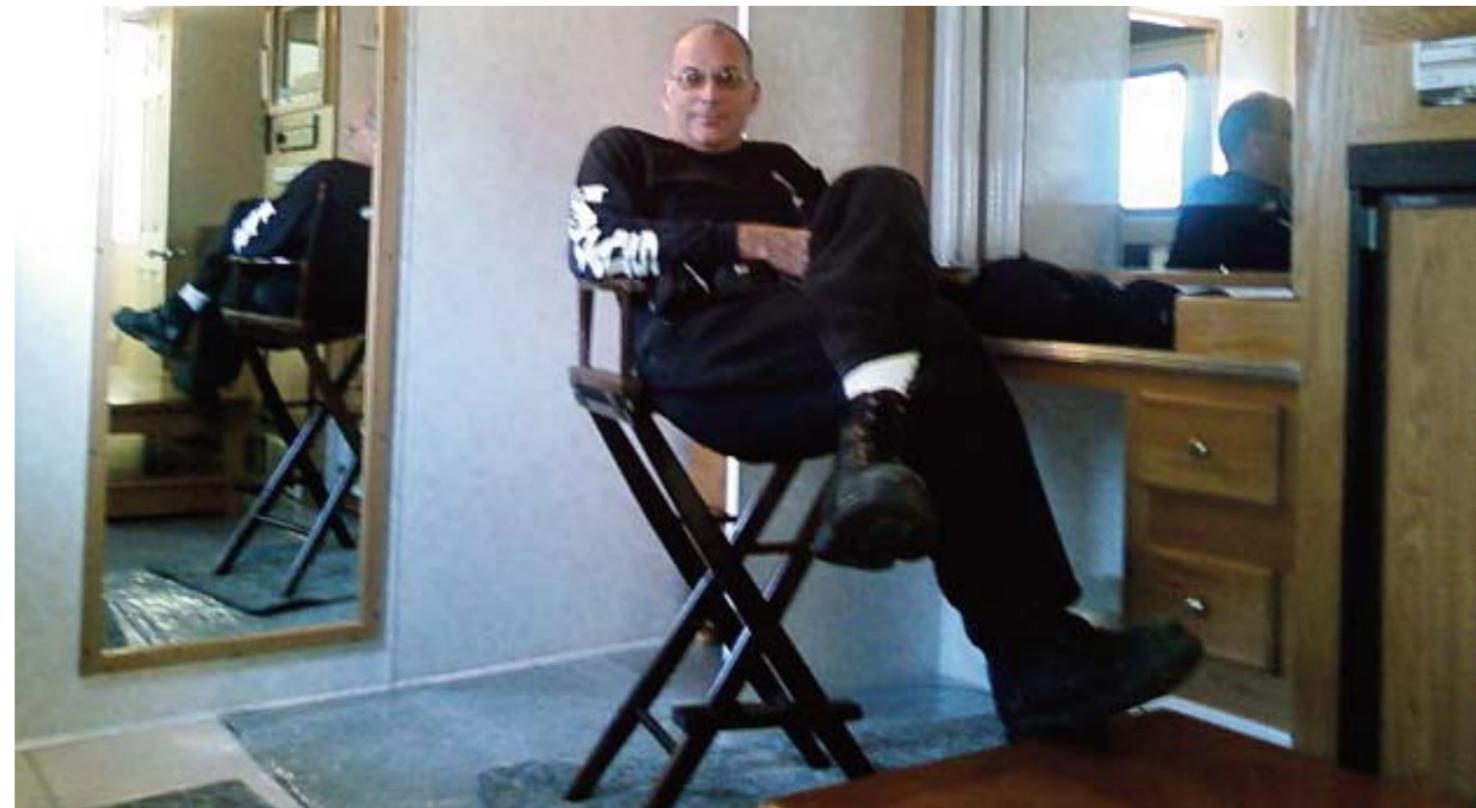
Despite the severe recession, the entertainment industry is expanding in terms of product offerings and it is one of the few industries where the U.S. continues to be a leading exporter. In addition, as noted in the LBFC Report, the film industry creates jobs that pay higher wages than comparable employment using the same skills. For example, "a carpenter can typically make more on set design and construction than similar work on building construction." (LBFC Report, page 9.)

With the unemployment rate in Pennsylvania at 8.5%, Act 55's ability to foster job creation in this dynamic industry is a lifeline to workers who have lost jobs in other industries such as construction and manufacturing and new entrants in the job market as well.

The LBFC Report also refuted the notion that the film industry would be active and growing in Pennsylvania without the tax credit or some similar incentive. Noting that film production activity in Pennsylvania grew by 33% from 2002 to 2008, the LBFC Report observed that:

"The presence of a competitive film production incentive . . . can be considered the price of admission to attract such activity . . . and the Commonwealth could expect to lose significant amounts of production activity statewide without such an incentive. The costs of redeveloping [industry] capacity at a future point is likely to be much more costly than supporting and building on current economic capacity."

A full copy of the LBFC Report can be found at www.lbfc.state.pa.us under the heading "Business, Insurance and Economic Development."



REEL STORIES

> > The Film Industry in Pennsylvania – Haddad's, Inc.

Company Profile:

- > Family owned business (founded in 1954)
- > Industry leader (45 full time; 10 part time employees; over 2,200 productions) based in Pittsburgh area
- > Truck and trailer rental to film and TV productions
- > Began working in the film industry in 1982 when "Flashdance" came to Pittsburgh

Haddad's is an industry leader in truck and trailer rentals to the film industry. Although the business is based in Pittsburgh, the company serves productions all over the United States and even internationally.

Since the Pennsylvania film incentives were introduced in 2004, we have expanded our staff by 10%, increased the size of our rental fleet by 29% and increased the volume of rentals by 38.4%. The pay-out to our suppliers and vendors has increased by 12.2% this year alone!

This tax credit program was created for the people of Pennsylvania, not big names in Hollywood. The renewal and improvement of the film incentive program is immensely important to Haddad's and our continued growth within our home state.

David Haddad, President
Haddad's, Inc.
Pleasant Hills, PA

Haddad's, based in Pleasant Hills, PA is a leader in trailer rentals to the film industry. In the photo: the irreplaceable David Haddad in a make-up trailer. *Photo Courtesy of Haddad's, Inc.*

III. FY2008-09 Film Tax Credit Activity

DCED engaged ERA (the same firm that produced the LBFC Report) to provide an economic analysis of the impact of tax credits awarded in FY2008-09 using the same methodology employed in the LBFC Report. The information provided in this report reflects data supplied by the Film Office and analysis conducted by ERA. ERA produced each of the tables included in the appendices to this report.

FILM TAX CREDIT AWARDS AND CERTIFICATES ISSUED

As indicated in the preceding section, in FY2008-09 the Film Office made awards to 75 projects, exhausting the \$75 million allocation for the fiscal year. Also, for the second consecutive year, demand for Act 55 tax credits outstripped supply.

As indicated in Appendix I, productions that received tax credit awards in FY2008-09 will generate \$300 million in direct spending and \$592 million in economic activity in the Commonwealth. This spending will create 4,381 jobs (2,307 directly and 2,074 indirectly) and contribute nearly \$20 million in new tax revenue to the Commonwealth.

Appendix II details the number and type of projects that received awards and aggregate spending to be generated by each type of production for FY2007-08 and FY2008-09. As is expected for this type of economic activity, a large majority of projects awarded tax credits in FY2008-09 are still on-going. A list of projects that received tax credit awards pursuant to Act 55 in FY2008-09 is provided in Appendix III.

A comparison of awards made in FY2007-08 and FY2008-09 indicates that the production mix changed significantly in FY2008-09. More specifically, in the second year of activity:

- > the number of feature film projects declined from 40 to 14; however, the average spend per feature film increased by more than 200% from \$5.8 million in FY2007-08 to \$19.1 million in FY2008-09;
- > the number of television programs more than tripled while the average spend per program decreased by two-thirds to \$713,000; and
- > the number of television commercials increased by 27%.



The crew for the film "My Bloody Valentine" gathered for a group photo outside the Tour-Ed Mine in Tarentum, PA

8 Photo Courtesy of Cupid Productions Inc.

The increase in average spending by feature film projects indicates a shift from many smaller, independent films in FY2007-08 to fewer but larger productions backed by major studios in FY2008-09. The increase in the number of large productions demonstrates that Act 55 has attracted the attention of executives from major studios in the U.S. and around the world. Fortunately for workers in Pennsylvania, such projects provide stable employment for a large group of workers and higher union wages.

The sharp decrease in spending for television productions reflects both a shift toward more reality TV productions and the presence of several reality show production companies in Pennsylvania. The increase in the number of TV commercials indicates that Pennsylvania-based production companies were incentivized by the tax credits to produce commercials in the Commonwealth rather than elsewhere. The increase in television programs and commercials also reflects a growing awareness of the tax credit among Pennsylvania-based production companies.

A total of \$24.2 million of tax certificates were issued pursuant to Act 55 in FY2008-09. In each case the certificate was issued for a project that received an award in FY2007-08. No certificates have been issued for awards made in FY 2008-09. Appendix IV shows all tax credit certificates issued to date as well as the amount of the tax credit awarded for the project and the aggregate amount of the tax credit used or transferred to date.

After two full years of activity, the cumulative impact of film and television production in Pennsylvania directly supported by Act 55 is impressive, as demonstrated by the figures in the table to the right.

(\$ Millions)	FTC Awards	Direct Spending	Economic Impact	Jobs Created
FY2007-08*	\$75.0	\$260.1	\$511.6	3,860
FY2008-09	\$75.0	\$299.6	\$592.4	4,381
TOTAL	\$150.0	\$559.7	\$1,104.0	8,241

* Direct spending reflects audited actual spending for completed projects, budgeted spending for outstanding awards and projects withdrawn.

USE AND TRANSFER OF FILM TAX CREDITS

As noted above, to date no tax credits have been issued in respect of awards made in FY2008-09. Accordingly, all data regarding use and transfer of Act 55 credits relates to projects that received tax credit awards in FY2007-08.

The Pennsylvania Department of Revenue has reported that in FY2008-09 \$25.9 million in tax credits issued under Act 55 were applied against tax liabilities. Of that amount, \$1.8 million (7% of the total) was utilized by tax credit recipients and \$24.1 million (93% of the total) was utilized by transferees (Pennsylvania taxpayers who acquired the tax credits from the original recipients). In FY2007-08 all but \$465 of the \$9.4 million in tax credits applied against tax liabilities were utilized by transferees.

A summary of the aggregate use of tax credits for years FY2007-08 and FY2008-09 is set out in the following table:

	FY2007-08	FY2008-09	TOTAL
Used by Recipient	\$465	\$1,794,590	\$1,795,055
Used by Transferees	\$9,420,140	\$24,096,855	\$33,516,995
TOTAL	\$9,420,605	\$25,891,445	\$35,312,050

FISCAL IMPACT OF FILM TAX CREDITS

The LBFC Report emphasized the need to evaluate the impact of the credits in the context of the industry as a whole. This methodology captures:

- > the impact of production activity in Pennsylvania that would not have occurred if not for projects directly supported by the tax credit; and
- > investment spending that does not qualify for tax credits under Act 55.

The evaluation of the fiscal impact of Act 55 tax credits included in the LBFC Report took into account four factors:

- > the timing of the use of tax credits;
- > revenues generated as a direct result of economic activity generated by the tax credits;
- > revenues generated indirectly as a result of economic activity generated by the tax credits; and
- > spin-off effects of the tax credit.



Making a movie is a complex endeavor and brings together the skills and talents of many participants. On the set of "Homecoming" students from Shadyside Academy who worked as extras (seen here chatting with cast during break).

Photo Courtesy of Paperstreet Films LLC

jobs and wages in the short term (in construction) and over the longer term (more than 1,000 in production services). In turn, the Commonwealth will realize significant revenues from these investment projects and the employment they generate.

Appendix IV lists all tax credits issued under Act 55 as well as the amount used or transferred by the recipient and the remaining balance of the tax credit, if any. Of the \$52.9 million in tax credits issued under Act 55 in FY2007-08 and FY2008-09, only \$35.3 million have been used or transferred by tax credit recipients. The balance (\$17.6 million) remains unused, underscoring the role of timing in the evaluation of the impact of the tax credits.

In sum, simple estimates of the fiscal impact of Act 55 tax credits (i.e., total awards less direct revenues) tend to overstate the cost of the credits to the Commonwealth; by the same token, they tend to understate the loss of revenues that would occur if the tax credit were reduced or eliminated.

FILM ACTIVITY IN PENNSYLVANIA

According to ERA, states seeking to develop and grow the film industry exhibit a pattern of growth that begins with a city or region that acts as an industry "anchor." Over time, industry activity spreads out from that location, eventually creating additional anchors elsewhere in the state. Although the Commonwealth is atypical because it has two established industry hubs (Pittsburgh and Philadelphia), the pattern of activity observed in Pennsylvania over the past two years is consistent with the industry norm, that is, growth is occurring well beyond the boundaries of the twin anchors.

During FY2008-09 production activity remained focused in southeast and southwest Pennsylvania; however, increasingly producers were scouting for locations in every corner of the Commonwealth. Producers found their "perfect location" in Lackawanna and Wayne Counties (*Blue Valentine*), Carbon and York Counties (*Golf in America*), Berks and Lehigh County (*I Am Woman . . .*) and Dauphin County (*RV 2008*).

Applications received by the Film Office for FY2009-10 indicate that this pattern of growth will continue and increase significantly in FY2009-10. Twentieth Century Fox Film Corp. ("Fox") has submitted an application for "Unstoppable," a film that will bring nearly \$75 million in spending to the Commonwealth. Fox has indicated that production activity for this project will occur in the Pennsylvania Wilds, The Alleghenies and UPSTATE PA. In terms of lodging, this project will require approximately 400 rooms in The Alleghenies and Pennsylvania Wilds for a period of five weeks in the fall of 2009. This surge in demand will be a boon to hotels, restaurants and providers of other goods and services in those regions.

To encourage this trend toward expansion of the industry throughout the Commonwealth, the Film Office recently launched a new website designed to showcase every region in Pennsylvania. The website www.filminPA.com is the primary marketing tool used to attract films to Pennsylvania and has received accolades from users and industry participants.

As indicated in Appendix I, production activity directly attributable to tax credit awards made in FY2007-08 and FY2008-09 will generate \$36.4 million in state and local revenues.

ERA has estimated that over the past two fiscal years Act 55 has generated an additional \$2.1 million in additional state and local tax revenues (as well as 180 additional jobs and nearly \$10 million in wages) through \$15.3 million in investment for business expansion. Therefore, the total amount of tax revenues generated directly and indirectly by the tax credit is \$38.4 million. Details concerning the impact of spin-off activity generated by Act 55 in FY2007-08 and FY2008-09 are shown in Appendix V.

These figures do not include over \$225 million that has been spent or committed for construction of industry infrastructure over the next two to three years. These investments will also generate hundreds of



REEL STORIES

>> The Film Industry in Pennsylvania – Cherokee Helicopter Service

Due to the increased number of productions in Pennsylvania during the past two years we have done more work than ever in Pennsylvania and have seen a 30% increase in profits. This has allowed us to utilize local workers and suppliers, invest in new equipment and hire more skilled staff.

In 2008 alone we provided helicopters (on-screen and off-screen), camera crews, painting, fuel and maintenance services for films in Allentown (Transformers II), Cranberry (Staunton Hill), Erie (The Lovely Bones), Kittanning (My Bloody Valentine) and Pittsburgh (Shelter, She's Out of My League and The Allegheny Observatory). In 2009 we provided services for: Warrior, Shaq versus, UPMC Promotion and have numerous upcoming local projects.

This a win for only Cherokee Helicopter Service but also a benefit for other providers of goods and services to the industry as well as workers of all backgrounds and their families. The big picture of those who benefit from the tax credit and the stimulus to the economy in Pennsylvania is far greater than the lens can capture.

Ken & Cherokee Walker
Cherokee Helicopter Service
Ford City, PA

Film industry activity has lifted profits at Cherokee Helicopter Service by 30% according to business owner Cherokee Walker.
Photo Courtesy of Cherokee Helicopter Service

IV. Business Expansion, Investment Attraction & Workforce Retention/Attraction

BUSINESS EXPANSION & INVESTMENT ATTRACTION

Pennsylvania-based industry participants invested \$15.3 million to expand their businesses in FY2007-08 and FY2008-09. In addition, development of industry infrastructure (e.g., studios that include state-of-the-art sound stages, offices, carpentry shops, parking, and in one case, a museum/entertainment center) will drive over \$220 million in investment in the Commonwealth over the next two to three years.³

Real estate developers and studio executives have made it abundantly clear that the success of these projects depends upon maintaining or increasing the level of production activity in the Commonwealth which, in turn, is reliant upon the continued availability of tax credits.

Of the five studio projects referenced in DCED's FY2007-08 Report to the General Assembly (the "2008 Report"), three have been completed (Mogul Mind and Island Studios in Pittsburgh and Paramount's investment at the Navy Yard in Philadelphia).

According to John Yost, CEO and president of Mogul Mind, since July 1, 2008, three feature films (all of which received tax credit awards), two music videos and 12 TV commercials have been produced at Mogul Mind's studio. This level of activity has exceeded expectations. Commenting on the level of activity at the studio, Mr. Yost stated:

"We would have done more development, employed more people and more money if we weren't constantly interrupted by additional productions needing our space/services. . . . We will invest approximately an additional \$1 million by the end of 2009."

Job creation has exceeded expectations. According to Mr. Yost, in addition to hiring the projected 50 full time employees, Mogul Mind has also hired 10 part-time employees. In addition, Mogul Mind expects to invest \$35 million in infrastructure and equipment over the next three years.

Island Studios in Pittsburgh is a similar good-news story. According to Brian Hartman, head of operations for Island Studios:

"The facility has been booked nearly 100% since it opened its doors. Island Studios [has] obtained another nearby structure and is customizing it to fit the needs for a major studio production that has already pre-booked the space. At Island we are very aware that the PA Film Tax Credit has an enormous impact on the business . . . we also realize that losing the tax credit could close our doors altogether."

In southeast Pennsylvania, The Philadelphia Studios are up and running just north of the Northern Liberties section of the city. This facility also served as the launching pad for The Philadelphia Film Market, a trade show created as a direct result of the production activity generated by Act 55. Finally, a hanger at the Philadelphia Navy Yard has been transformed into a 100,000 square foot visual effects stage.

Two other large projects referenced in the 2008 Report also continue to move forward. In June 2009, final land development approval was granted for construction of the StudioCenter project Norristown, Montgomery County. Construction of this LEED certified project will begin in November 2009, with final completion scheduled for December 2010. Investment in the project is expected to reach \$100 million.

³ Developers have confirmed to DCED plans for the following projects and related investments: Sun Center LP \$85 million investment in the Sun Center Studios project in Delaware County; Develcom \$100 million investment in StudioCentre in Montgomery County; and Mogul Mind \$35 million investment to improve existing studio facilities in Allegheny County. Estimates of investments in Philadelphia Studios and for the planned expansion of Island Studios were not available and are excluded from the discussion of spin-off investment included herein.

When completed, the StudioCentre project will include five stages with heavy concrete walls, high overhead clearance and amenities such as dedicated space in a parking garage that will allow it to attract the most demanding projects. Concern for sustainable and environmentally responsible design is reflected in the project's green roof, solar arrays and high quality systems to manage and control air quality, energy and water use and waste at the facility. **The project is expected to generate 250 construction jobs and 800 permanent jobs.**



Rendering of the Sun Center Studios project slated to begin construction in Fall 2009 in Delaware County. When completed the project will include state of the art studios, offices and a museum/entertainment center. *Drawing Courtesy of Sun Center LP*

In Chester Township, Delaware County, the developer of Sun Center Studios will break ground in the fall of 2009. This combined-use project is intended to include sound stages, offices and a museum that will also serve as an entertainment venue and tourist attraction. The project will be built in stages; Phase I will consist of four sound stages and new offices and will cost \$48 million to complete. Initial job creation at the project is estimated at over 200 jobs (excluding construction).

Phase II of the Sun Center Studios project, which includes the entertainment venue/ tourist attraction, will follow at a cost of \$37 million. It is anticipated that the tourist attraction will draw at least half a million visitors each year.

As to the importance of the tax credit to the project, Jeffrey Rotwitt, the developer stated: "The continuation of the Film Tax Credit is essential to the project. If the legislation is kept intact, the project could break ground by October 1st."

WORKFORCE RETENTION / ATTRACTION

Industry experts have identified three requirements needed to develop a vibrant film industry:

- > a competitive incentive;
- > suitable infrastructure (roads, airports, etc. as well as specialized industry infrastructure); and
- > a skilled workforce.

The increase in production activity in Pennsylvania since Act 55 was enacted is proof positive that it is a competitive incentive and there is solid infrastructure in Pennsylvania (and more on the way). Little has been said about the workforce in Pennsylvania and the ability to support industry growth in the future.

Currently, over 60 academic institutions in Pennsylvania offer training or degree programs related to the film industry, a clear indication of the level of interest in the industry among secondary school, college and university students and trainees enrolled in technical programs. The level of film industry activity in Pennsylvania generated by Act 55 has sparked a number of new initiatives designed to train new and experienced workers for jobs in the film industry. Three of the many initiatives underway in the Commonwealth are highlighted here.

DuBois Business College recently launched the John Russo Movie Making program, which leads to an associate degree in specialized business. According to Mary Jones, academic dean of the college,

"Most of our students are interested in staying in Pennsylvania after graduation. Largely due to the film tax incentive we are able to tell prospective students that there will continue to be opportunities for employment in Western Pennsylvania and throughout the Commonwealth. Our students are our future and will provide a stable pool of trained workers to attract film projects and the spending and tax revenues they generate to the Commonwealth."

At a hearing before the House Committee on Tourism and Recreational Development in Pittsburgh, George Jaber, a theater professor at Community College of Allegheny County ("CCAC"), described the launch of a new non-credit film workers training program and several for-credit classes that will complement the technical theatre degree program available at CCAC. Over 50 students were enrolled in the program in the spring 2009 semester, the first time it was offered.

Speaking of opportunities in the film industry, Mr. Jaber stated that since he began working as a carpenter in the industry:

"I [have been] able to recommend quality students to construction coordinators and other department keys [i.e., department heads]. It has been my real pleasure to see over 20 students become members of our local [Local 489 of the International Alliance of Theatrical Stage Employees ("IATSE")] and stay in Southwestern PA to work and live."

Mr. Jaber, who is also the business representative for IATSE Local 489, noted that Local 489 had grown from close to 100 members in February 2008 to over 210 in June 2009 and further stated that, "with two current projects and more scheduled to arrive in late summer and fall, we could grow to 300 by year's end."



Final approval has been granted for construction of StudioCentre in Norristown, PA on the site of a former Sears store. The StudioCentre project will include five state-of-the-art soundstages, offices and parking. *Photo Courtesy of Develcom*

Carpenter and Aspiring Filmmaker, Jordan Lipper



While attending the Community College of Allegheny County, I worked as a carpenter on three film projects: *Shelter*, *My Bloody Valentine* and *Shannon's Rainbow*. I earned more money in three months working on these films than I had earned in the previous three years.

Soon I will enroll at California University of Pennsylvania, where I will continue to work in the film industry to pursue a Bachelor's degree in technical theatre and intend to continue to work in the film industry as I pursue my degree. I intend to stay in PA, especially with the career opportunities available in Pittsburgh, my home town.

Jordan Lipper
College Student

At another hearing before the House Committee on Tourism and Recreational Development, Michael Barnes, international vice president of IATSE, described efforts underway to open "a newly constructed six million dollar education and training facility to train new people to fill . . . jobs [in the film industry in Pennsylvania]." Mr. Barnes also observed that:

"We [in Pennsylvania] are no longer manufacturing steel, clothing or food at the levels we did in the past. The new manufacturing jobs are in the multi-media sector and for the same reasons we were positioned correctly for manufacturing jobs in the past, we are positioned to be successful for the manufacturing jobs of the future."

The combination of a competitive incentive, state-of-the-art facilities and a skilled workforce will enable the film industry in Pennsylvania to continue to grow and create jobs. The industry's ability to create high-paying jobs even in the midst of a recession makes it attractive to experienced workers from industries that have fallen on hard times as well as graduates of the many institutions in Pennsylvania that offer training and degree programs in fields relating to film and television production.

In addition to these examples of new training programs for the industry, there are two other ways that the film industry directly contributes to training and education in Pennsylvania. First, many productions that receive tax credit awards hire students studying for a degree in a film-related discipline to work as interns. The experience an intern derives from working on a film project is invaluable and can provide the foundation for a lifetime in the industry. Second, as the industry has become an integral part of the Pennsylvania's economy, production companies have also become a part of the fabric of its communities. One production company has made contributions totaling \$185,000 to Pennsylvania academic institutions over the past four years, at a time when philanthropic donations and government support of many institutions of higher learning are flat or decreasing.



REEL STORIES

>> The Film Industry in Pennsylvania – The Last Airbender

We asked the producers of *The Last Airbender* to provide insight into how a complex and multi-million dollar film is produced. Production of film is expected to take place over a period of 19 months, including seven months of prep and eight months of post-production work in Pennsylvania. Spending on the project in Pennsylvania over that period of time is anticipated to be more than \$78.2 million.

The first order of business is to set up a production office, hire staff and, for those coming from out-of-town, find a place for them to live. Here is a condensed version of the "To Do List" for *The Last Airbender*:

- > Hire 400 local crewmembers, including: 10 actors, 1 writer/producer/director, 1 co-producer, and 5,629 extras
- > Set up \$46.4 million payroll for PA staff
- > Reserve 15,000 - 20,000 hotel room nights
- > Identify local vendors and suppliers who will provide \$31.8 million in goods and services directly to the project. Examples include:
 - Suppliers to provide booms, scissor lifts, forklifts and other equipment for both location and stage work.
 - \$4.6 million of construction materials and supplies.
 - Support services, including car rentals, working trucks & trailers, van rentals, scaffolding, generators, warehouse rentals, production offices, construction sites, storage, tent rentals, and portable bathroom facilities.

Members of the construction crew gathered on the set of *The Last Airbender* with director M. Night Shyamalan (pictured center) and members of the House Tourism Committee who visited the set in May 2009. Photo Courtesy of Anthony Sinagoga/PCVB

V. Recommendations

Act 55 is one of the most successful and effective economic development programs administered by DCED. During the worst recession since the Great Depression, the film tax credit is responsible for:

- > creating thousands of high-paying jobs (3,860 in FY2007-08 and 4,381 in FY2008-09);
- > bringing \$560 million dollars in direct spending and over \$1.1 billion in economic activity to Pennsylvania; and
- > attracting over \$240 million of capital investment to the Commonwealth.

With unemployment at high levels and rising, and economic prospects uncertain, the Commonwealth is fortunate the General Assembly enacted the tax credit program in 2007. DCED strongly recommends continuance of the program.

Though the benefits of the program are clear and compelling, each year uncertainty over the availability of tax credits undermines these gains and the future of the industry in Pennsylvania.

The lack of an automatic renewal mechanism for Act 55 tax credits interrupts the flow of applications and production activity for several months each year as industry participants wait to see if the incentive will be available in the next fiscal year. This situation is exacerbated in years (such as 2009) when the state experiences a delay in enacting a new budget.⁴ The lack of an automatic renewal mechanism also makes Pennsylvania off-limits for long-term projects such as large feature films and episodic television series that can stay in production for many years. Long-term projects are the most desirable types of project to attract to Pennsylvania because they generate the greatest benefit in terms of employment, economic activity and use of local resources.

Eliminating the uncertainty inherent in Act 55 as currently written is a critical step in ensuring the future of the industry in Pennsylvania, and the jobs, economic activity and revenues that it brings. DCED recommends the General Assembly provide for an automatic renewal of the Act 55 credits each year to remove the uncertainty surrounding the availability of the credits and avoid the loss of job creating production projects caused by delays in enacting new state budgets.



Actress Amy Sedaris and Director Josh Shelov on the set of The "Best and the Brightest" in Philadelphia Photo Courtesy of Best and Brightest Movie LLC



REEL STORIES

>> The Film Industry in Pennsylvania – The Tourism Connection

Movies and television programs leave a subtle but indelible imprint in our minds. Who can think of "Flashdance" without thinking of Pittsburgh, "Witness" without thinking of Lancaster County and "Rocky" without thinking of Philadelphia?

The presence of this dynamic industry in Pennsylvania and the stories it conveys promote the image of Pennsylvania and make it a tourist attraction as well.

Here is what Chris Barrett, President of the PA Dutch Convention & Visitors Bureau said recently about the power of "Witness" which first appeared on screens more than 20 years ago.

The film "Witness" has had a powerful impact on tourism in Lancaster County. Approximately 10,500 visitors participated in the Witness Movie Experience tour created to celebrate the 20th anniversary of the film's release. The exposure that the movie itself and the tour have afforded Lancaster County tourism is simply incalculable and it continues to resonate, judging by the visitor comments we receive.

Chris Barrett, President
PA Dutch Convention & Visitors Bureau

Photo Courtesy of PA Dutch Convention & Visitors Bureau

⁴ Productions lost as a result of the budget impasse and uncertainty surrounding the availability of film tax credits in FY2009-10 include "Devil," a project that would have brought \$17.1 million of direct spending into Pennsylvania and created 248 jobs. The director/producer is a resident of Pennsylvania who is currently filming his eighth feature film in the Commonwealth. Because the financiers for this project would not allow production to commence without the assurance of tax credits in Pennsylvania, production was moved to Canada.

Appendix I

FILM TAX CREDIT AWARDS AND CERTIFICATES ISSUED

During FY2008-09, 75 projects were awarded \$75 million in film tax credits. Projected spending for these projects is nearly \$300 million which will be spent throughout the Commonwealth.

Economic impact analysis measures the series of events and changes that occur in an economy as a result of economic activity. ERA examined the economic impact of the qualified spending that occurred in Pennsylvania for Film Tax Credit projects during FY2008-09. To measure the economic and fiscal impacts of this spending, ERA used IMPLAN, a proprietary software system that runs on data collected by the Minnesota IMPLAN Group. Further details on the methodology used to perform the economic and fiscal impact analysis can be found in Appendix VI. Data for FY2007-08 projects are included for comparison.

Occasionally, the Pennsylvania spending estimated on the application differs from the final expenditures. If the approved amount is less than the audited amount, the tax credit is equal to 25% of the actual qualified expenditures. If the approved amount is greater than the final amount, the tax credit is limited to the original approved amount. For this reason, the amount of tax credits actually issued may be lower than the \$75 million available and initially approved. Also, based on previous research for the Pennsylvania Legislative and Budget Finance Committee, the actual expenditures made in Pennsylvania are approximately 10 percent lower than the application amounts. The impacts in this report are based on the projected spending estimates from FTC applications.

Using IMPLAN, the total economic impact of the 75 Film Tax Credit projects for FY2008-09 is \$592.4 million. Approximately 4,381 jobs are supported by these projects with \$164.5 million in wages. It is estimated that the state and local governments will receive more than \$19.3 million in revenues in the form of taxes, fees and permits as a result of the FY2008-09 Film Tax Credit projects. For comparison, impacts for FY2007-08 Film Tax Credit projects are also included in the table. Combined, the 144 projects generated \$559.6 in economic impact, 8,241 jobs and \$36.4 million in taxes, fees and permit revenue for the Commonwealth and municipal governments.

TABLE 1

IMPACTS OF FILM TAX CREDIT PROJECTS FY2007-08 – FY2008-09			
	FY2007-08	FY2008-09	Total
Projects in Production	69	75	144
Pennsylvania Spending (millions)	\$260.1	\$299.6	\$559.6
Economic Impacts			
Output (millions)	\$511.6	\$592.4	\$1,104.0
Total Value Added (millions)	\$216.6	\$251.2	\$467.8
Wages (millions)	\$141.9	\$164.5	\$306.4
Employment (jobs)	3,860	4,381	8,241
Financial Impacts (millions) (Fees, Permits & Tax Revenues)			
Federal	\$33.1	\$37.4	\$70.5
State	\$17.1	\$19.3	\$36.4
Total	\$50.1	\$56.8	\$106.9

Note: Totals may not add due to rounding
Sources: Pennsylvania Film Office; IMPLAN; ERA



Director Tanya Hamilton and actor, Jamie Hector on the set of "Stringbean and Marcus" in Philadelphia. Photo Courtesy of Human Race Productions

Appendix II

TYPE OF PRODUCTION ACTIVITY SUPPORTED BY TAX CREDITS

For a second consecutive year, the largest spending category was feature films. However, compared to FY2007-08, during FY2008-09, there were fewer feature film projects with larger budgets.

TABLE 2

FILM TAX CREDIT AWARDS BY TYPE OF PROJECT						
Type of Production	# of Projects	FY2007-08		# of Projects	FY2008-09	
		Projected Spending	Average per Project		Projected Spending	Average per Project
Feature Film	40	\$230,403,800	\$5,760,100	14	\$267,938,000	\$19,138,400
Television Program	13	\$27,074,800	\$2,082,700	41	\$29,754,300	\$725,700
Commercial	15	\$2,404,400	\$160,300	19	\$1,861,900	\$98,000
Documentary	1	\$179,500	\$179,500	1	\$25,900	\$25,900
Total	69	\$260,062,600	\$3,769,000	75	\$299,580,000	\$3,994,400

Note: Totals may not add due to rounding
Sources: Pennsylvania Film Office; IMPLAN; ERA



Built primarily to serve the film industry, the Mogul Mind Studio in Pittsburgh has also been used for TV commercials and music videos. In the photo, Dave Baker sets up rigging for a music video. Photo courtesy of Mogul Mind



"The Road" starring Viggo Mortensen and Kodi Smit-McPhee will open in movie theaters in October 2009. Filming for this project took place in Bedford, Erie and Washington Counties, post-production work was done in Philadelphia and the production office was located in Pittsburgh, demonstrating the power of a single film project throughout the Commonwealth. Photo Courtesy of The Road Productions, LLC

Appendix III

TAX CREDIT AWARDS FY2008-09

The following table is a list of all projects approved by the Pennsylvania Film Office during FY2008-09. Also included are the estimated economic impacts for each production including total output, jobs created and state/local tax revenues generated. The impacts were measured using IMPLAN. See Appendix VI for detailed methodology.

TABLE 3

FILM TAX CREDIT PROJECTS BY REGION FY2008-09						
Region/Project Title	Entity Name	Tax Credit Award	PA Production Cost	Estimated Economic Impacts		
				Total Output	Jobs	State & Local Taxes
Total		\$74,894,991	\$299,580,026	\$592,359,951	4,381	\$19,311,994
Dutch County Roads		\$30,283	\$121,131	\$239,514	1.8	\$7,808
RV Show 2009	Nancy Glass Productions	\$30,283	\$121,131	\$239,514	1.8	\$7,808
Lehigh Valley		\$398,506	\$1,594,022	\$3,151,885	23.3	\$102,754
I Am Woman and I Know Football	Ron Petrovich	\$6,473	\$25,892	\$51,197	0.4	\$1,669
Seeking Solutions with Suzanne	Kelly Ryan Productions	\$392,033	\$1,568,130	\$3,100,688	22.9	\$101,085
Philadelphia and the Countryside		\$59,668,502	\$238,674,074	\$471,930,538	3,490.5	\$15,385,780
Alien vs Predator CTW	BIGSMACK TV Inc	\$7,150	\$28,600	\$56,551	0.4	\$1,844
AM Style/QVC Television Episodes	QVC, Inc.	\$120,327	\$481,307	\$951,689	7.0	\$31,027
Awesome Adventures (Season 13)	Steve Rotfeld Productions, Inc.	\$37,565	\$150,259	\$297,109	2.2	\$9,686
Back Where We Started	Stage 3 Productions	\$50,942	\$203,767	\$402,912	3.0	\$13,135
Big Bonanza Silver Day	QVC, Inc.	\$27,768	\$111,071	\$219,622	1.6	\$7,160
Café	Café Film LLC	\$154,300	\$617,200	\$1,220,399	9.0	\$39,786
California Gold Rush	QVC, Inc.	\$27,768	\$111,071	\$219,621	1.6	\$7,160
CDI - 2008 Disney	Shooters Inc	\$39,971	\$159,882	\$316,137	2.3	\$10,306
Christmas in July/ Countdown to Christmas	QVC, Inc.	\$111,071	\$444,284	\$878,490	6.5	\$28,639
Colonial Penn	iBOXfilm, Inc.	\$68,074	\$272,295	\$538,413	4.0	\$17,553
Comcast VOD Channels (I)	Center City Video, Inc.	\$337,570	\$1,350,280	\$2,669,930	19.7	\$87,042
Comcast VOD Channels (II)	Center City Video, Inc.	\$296,821	\$1,187,282	\$2,347,631	17.4	\$76,535
Comcast VOD Channels (III)	Center City Video, Inc.	\$184,132	\$736,527	\$1,456,346	10.8	\$47,478
Conair Nail Kit	CPI Communications, Inc.	\$34,642	\$138,567	\$273,991	2.0	\$8,932
Creede Silver Strike	QVC, Inc.	\$27,768	\$111,071	\$219,621	1.6	\$7,160
Cross-Channel Promotions	QVC, Inc.	\$121,606	\$486,424	\$961,814	7.1	\$31,356
Deliver Me Daytime Series (Season 1)	Banyan Productions	\$232,516	\$930,064	\$1,839,030	13.6	\$59,954
Denim & Co	QVC, Inc.	\$60,163	\$240,652	\$475,845	3.5	\$15,513
Diamonique Jewelry	QVC, Inc.	\$60,163	\$240,652	\$475,845	3.5	\$15,513
Dinner Impossible - Season VI	MSPT LLC	\$275,012	\$1,100,048	\$2,175,142	16.1	\$70,911
Discovery Awesome Host Vignettes	BigSmack TV Inc.	\$62,500	\$250,000	\$494,329	3.7	\$16,116
Edgar & Ellen Party in a Box	BIGSMACK TV Inc	\$6,250	\$25,000	\$49,433	0.4	\$1,612
Fashion Day	QVC, Inc.	\$83,303	\$333,212	\$658,860	4.9	\$21,480
FearNet	Center City Video, Inc.	\$49,700	\$198,800	\$393,090	2.9	\$12,815

Region/Project Title	Entity Name	Tax Credit Award	PA Production Cost	Estimated Economic Impacts		
				Total Output	Jobs	State & Local Taxes
Fight Science Web Toss	BIGSMACK TV Inc	\$3,575	\$14,300	\$28,276	0.2	\$922
Gem Day	QVC, Inc.	\$27,768	\$111,071	\$219,621	1.6	\$7,160
Good Day For It	Nazz Productions Inc.	\$287,500	\$1,150,000	\$2,273,913	16.8	\$74,131
Gorilla Mop	Stage 3 Productions	\$33,879	\$135,517	\$267,960	2.0	\$8,736
HBO Boxing Yearender 2008	BIGSMACK TV Inc	\$18,950	\$75,800	\$149,881	1.1	\$4,886
How Do You Know	How Do You Know Productions Inc	\$14,979,853	\$59,919,411	\$118,479,585	876.3	\$3,862,531
In The Kitchen with Bob	QVC, Inc.	\$120,327	\$481,307	\$951,689	7.0	\$31,027
Kitchen Impossible	Nancy Glass Productions	\$229,753	\$919,011	\$1,817,175	13.4	\$59,241
Klondike Gold Rush	QVC, Inc.	\$27,768	\$111,071	\$219,621	1.6	\$7,160
Law Abiding Citizen	LAC Films, LLC	\$9,301,156	\$37,204,624	\$73,565,283	544.1	\$2,398,288
Morning Show	QVC, Inc.	\$601,634	\$2,406,534	\$4,758,443	35.2	\$155,134
National Geographic - In the Womb Identical Twins	BIGSMACK TV Inc	\$10,000	\$40,000	\$79,093	0.6	\$2,578
National Geographic - Waking the Baby Mammoth	BIGSMACK TV Inc	\$17,775	\$71,100	\$140,587	1.0	\$4,583
New York	Ring of Fire Productions 1, Inc	\$1,223,923	\$4,895,693	\$9,680,330	71.6	\$315,587
Paint Over with Jennifer Bertrand	Nancy Glass Productions	\$29,889	\$119,556	\$236,400	1.7	\$7,707
PM Style - QVC Television Episodes	QVC, Inc.	\$120,327	\$481,307	\$951,689	7.0	\$31,027
Project Barkley	The Workshop, LLC	\$224,781	\$899,125	\$1,777,854	13.1	\$57,959
Relaxer	Center City Video, Inc.	\$19,127	\$76,506	\$151,277	1.1	\$4,932
Saturday Night Beauty	QVC, Inc.	\$60,163	\$240,653	\$475,843	3.5	\$15,513
Sports Gone Wild	Steve Rotfeld Productions, Inc.	\$133,371	\$533,485	\$1,054,868	7.8	\$34,390
St. Patrick's Day Celebration	QVC, Inc.	\$27,768	\$111,071	\$219,621	1.6	\$7,160
Stringbean & Marcus	Human Race Productions LLC	\$300,000	\$1,200,000	\$2,372,779	17.5	\$77,355
Sundance Channel The Green	BIGSMACK TV Inc	\$16,838	\$67,350	\$133,172	1.0	\$4,342
Sunny Side Up	Center City Video, Inc.	\$288,211	\$1,152,847	\$2,279,526	16.9	\$74,317
Sunny Side Up (2009)	Center City Video, Inc.	\$317,489	\$1,269,955	\$2,511,102	18.6	\$81,864
Sunny Side Up Commercials/Promos	Center City Video, Inc.	\$45,827	\$183,306	\$362,454	2.7	\$11,816
Sunny Side Up Specials	Center City Video, Inc.	\$47,602	\$190,407	\$376,495	2.8	\$12,274
Susan Graver Style	QVC, Inc.	\$60,163	\$240,652	\$475,845	3.5	\$15,513
The Best and the Brightest	Best and Brightest Movie LLC	\$729,905	\$2,919,618	\$5,773,006	42.7	\$188,205
The Last Airbender	Paramount Pictures	\$26,900,000	\$107,600,000	\$212,759,156	1,573.5	\$6,936,122
The Let's Go Show	Center City Video, Inc.	\$80,705	\$322,821	\$638,319	4.7	\$20,810
The Sharing Show	Center City Video, Inc.	\$30,283	\$121,130	\$239,512	1.8	\$7,808
The Storyteller	The Storyteller LLC	\$699,732	\$2,798,928	\$5,534,364	40.9	\$180,425
The Ultimate Peril	Steve Rotfeld Productions, Inc.	\$50,473	\$201,981	\$399,377	3.0	\$13,020
Travel Channel NY Night	BIGSMACK TV Inc	\$3,063	\$12,250	\$24,222	0.2	\$790
Untraceable CTW	BIGSMACK TV Inc	\$5,400	\$21,600	\$42,710	0.3	\$1,392
USA Network Last Chance Harvey	BIGSMACK TV Inc	\$3,500	\$14,000	\$27,682	0.2	\$902
Whaddyado (Season 4)	Steve Rotfeld Productions, Inc.	\$75,736	\$302,943	\$599,014	4.4	\$19,528
Wild About Animals (Season 16)	Steve Rotfeld Productions, Inc.	\$37,206	\$148,822	\$294,268	2.2	\$9,593

Appendix IV

ISSUANCE AND USE OF TAX CREDIT CERTIFICATES

Once a Film Tax Credit project is complete, the company is required to hire an independent auditor to determine and certify to DCED the amount of expenditures actually made in the Commonwealth. Only after receipt of such audited amounts are tax credit certificates issued. As discussed earlier, qualified expenses for Film Tax Credit projects, on average, are slightly lower than original estimates on the application. As a result, the tax credits issued will also be lower since they are based on actual audited qualified expenditures.

To date, none of the tax credits approved during FY 2008-09 have been issued. However, 25 of the projects that received awards in FY2007-08 were issued tax credits in FY2008-09 an aggregate amount of \$24.2 million, as shown below. Combined, these projects had received tax credit awards totaling \$28.4 million, indicating a difference or “shortfall” of \$4.2 million in the amount of certificates versus awards for these projects.

The table on the next page provides a list of 36 projects that were issued tax credits based on awards made in FY2007-08. The cumulative “shortfall” for all projects is \$6.7 million.

Region/Project Title	Entity Name	Tax Credit Award	PA Production Cost	Estimated Economic Impacts		
				Total Output	Jobs	State & Local Taxes
Pittsburgh and its Countryside		\$13,580,010	\$54,320,039	\$107,407,859	794.4	\$3,501,583
Fire in the Hole	Woodridge Productions, Inc.	\$1,141,368	\$4,565,472	\$9,027,379	66.8	\$294,300
House on Sorority Row	House Row Productions, LLC	\$3,187,828	\$12,751,312	\$25,213,368	186.5	\$821,976
If It Ain't Broke Break It	Godse-Thakar Productions, LLC	\$26,219	\$104,875	\$207,371	1.5	\$6,760
SS&K	SKUNK Partners, LLC	\$19,250	\$77,000	\$152,253	1.1	\$4,964
Three Rivers	Eye Productions Inc	\$1,032,224	\$4,128,896	\$8,164,130	60.4	\$266,157
Warrior	SS3 Productions Inc	\$8,173,121	\$32,692,484	\$64,643,358	478.1	\$2,107,426
Upstate Pennsylvania		\$1,217,690	\$4,870,760	\$9,631,029	71.2	\$313,980
Blue Valentine	Blue Valentine Pennsylvania LLC	\$985,952	\$3,943,809	\$7,798,155	57.7	\$254,226
Golf in America	The Workshop, LLC	\$196,738	\$786,951	\$1,556,050	11.5	\$50,729
True A Winners Game	Leslie K. Lindsay	\$35,000	\$140,000	\$276,824	2.0	\$9,025

Sources: Pennsylvania Film Office; IMPLAN; ERA

NET FISCAL COST OF FY2008-09 PROJECTS

Tax credits will be issued and subsequently transferred over multiple fiscal years. Based on past research of the Pennsylvania Film Tax Credit program, ERA estimates that the majority of the tax credits issued in FY2008-09 will be transferred by the end of FY2009-10 with the remaining portion to be transferred in FY2010-11. ERA calculated the net present value (NPV) of the tax credits and compared them to the revenues gained in taxes, permits and other fees as part of FTC productions. NPV is defined as the total present value of future cash flows, in this case payments made by the Commonwealth of Pennsylvania in the form of tax credits. Discounting benefits and costs transforms gains and losses occurring in different time periods to a common unit of measurement. Discounted at a rate of 7%, the \$75 million in tax credits will have a net present value of \$65.9 million. Since production on all FY2008-09 FTC projects is expected to be completed by the end of 2009, the spending impacts and associated tax revenues were not discounted. As shown in Table 4, the estimated net fiscal cost to the Commonwealth of Pennsylvania is \$46.6 million.

TABLE 4

NET PRESENT VALUE OF PROJECTED IMPACTS FY2008-09

	Totals
Economic Benefits	
Direct Spending (millions)	\$299.6
Output (millions)	\$592.4
Wages (millions)	\$164.5
Jobs	4,381
Fiscal Benefits (State & Local Taxes & Fees)	
Associated with FTC Program (millions)	\$19.3
Fiscal Costs	
Tax Credits Transferred (millions)	\$65.9
Net Fiscal Cost (millions)	-\$46.6

Sources: Pennsylvania Film Office; IMPLAN; ERA

Appendix V

TABLE 5

ISSUANCE AND USE OF TAX CREDIT CERTIFICATES				
Project Title	Tax Credit Award	Tax Credit Certificate	Amount Used/ Transferred	FTC Balance
Issued in FY 2007-08	\$31,218,523	\$28,744,157	\$13,581,276	\$15,162,881
Bottleworld	\$251,292	\$216,822	\$216,822	\$0
Happy Tears	\$1,684,469	\$1,545,244	\$1,545,244	\$0
Homecoming	\$590,508	\$590,508	\$590,043	\$465
Malevolence 2 LP	\$731,200	\$444,313	\$444,313	\$0
Our Lady of Victory	\$2,059,820	\$2,059,820	\$2,059,820	\$0
Shelter	\$5,808,452	\$5,808,452	\$3,410,000	\$2,398,452
She's Out of My League	\$3,944,085	\$3,657,941	\$0	\$3,657,941
Smart People	\$1,508,454	\$1,508,454	\$1,508,454	\$0
The Bridge to Nowhere	\$412,561	\$306,580	\$306,580	\$0
The Lovely Bones	\$8,507,585	\$7,628,517	\$0	\$7,628,517
Zack and Miri	\$5,720,097	\$4,977,506	\$3,500,000	\$1,477,506
Issued in FY 2008-09	\$28,411,214	\$24,169,073	\$21,730,775	\$2,438,298
A Wynn in the Off Season	\$33,586	\$22,633	\$22,513	\$120
Adventureland	\$2,475,000	\$1,750,9	\$500,000	\$1,250,965
American Macho Buddha	\$6,710	\$5,735	\$0	\$5,735
Another Harvest Moon	\$146,248	\$108,964	\$0	\$108,964
Buddy Gilbert Comes Alive	\$251,611	\$109,056	\$0	\$109,056
Buy This House	\$22,392	\$22,392	\$22,392	\$0
Dare	\$301,073	\$290,50	\$290,504	\$0
Deliver Me (Season 1)	\$128,657	\$128,657	\$128,657	\$0
Dinner Impossible (Season 1)	\$524,798	\$523,955	\$523,955	\$0
Disney Toy Spots	\$54,944	\$54,944	\$34,262	\$20,682
Explicit Ills	\$499,634	\$264,121	\$263,216	\$905
Hollywood & Wine	\$1,044,103	\$1,026,521	\$1,026,521	\$0
Rip & Renew	\$175,662	\$130,748	\$0	\$130,748
RV2008	\$27,290	\$27,290	\$0	\$27,290
Save My Bath (Series 5)	\$193,619	\$140,192	\$140,192	\$0
Sleeping with the Fishes	\$245,625	\$116,050	\$0	\$116,050
Tenure	\$1,249,015	\$1,015,934	\$1,015,934	\$0
The Big Move	\$113,452	\$113,452	\$113,452	\$0
The Dream of the Romans	\$1,131,746	\$959,782	\$959,782	\$0
The Happening	\$12,053,359	\$12,053,359	\$12,053,359	\$0
The Nail	\$148,539	\$148,53	\$148,539	\$0
The Road	\$6,086,566	\$4,173,188	\$4,173,188	\$0
The Verdict (Pilot)	\$1,134,076	\$618,583	\$0	\$618,583
Trading Spaces (Season 7)	\$314,309	\$314,309	\$314,309	\$0
Your Dog is Fat and So Are You	\$49,200	\$49,200	\$0	\$49,200
Total	\$59,629,737	\$52,913,229	\$35,312,05	\$17,601,179

Sources: Pennsylvania Film Office; IMPLAN; ERA

ADDITIONAL IMPACTS

In addition to the spending on the production of films, television programs and commercials receiving Film Tax Credits, there have been many infrastructure improvements as well as investments in equipment at studios throughout Pennsylvania. Based on interviews with production executives and other industry professionals at several well established film industry participants in PA, ERA estimated that there was an additional \$8.1 million spent during FY2008-09. This includes purchases for construction, rehabilitation of buildings and equipment such as trucks, trailers and lighting. Note that the \$8.1 million excludes investment in the large studio projects underway in Southeast Pennsylvania and represents a summary of readily available information obtained through interviews.

These projects generated a total economic impact of \$14.3 million and supported 90 jobs with \$5.3 million in wages. In addition, nearly \$1.2 million was generated in fees, taxes and permits to the Commonwealth and local municipalities. Combined with the impacts from the projects receiving Film Tax Credits, the total economic impact in FY2008-09 was \$606.6 million. This compares to a total impact of \$524.6 million for FY2007-08.

TABLE 6

TOTAL ECONOMIC & FISCAL IMPACTS FY2007-08 & FY2008-09						
	FY2007-08			FY2008-09		
	Film Tax Credit	Additional Impacts	Total Impacts	Film Tax Credit	Additional Impacts	Total Impacts
Pennsylvania Spending (millions)	\$260.1	\$7.2	\$267.3	\$299.6	\$8.1	\$307.7
Economic Impacts						
Output (millions)	\$511.6	\$13.0	\$524.6	\$592.4	\$14.3	\$606.6
Total Value Added (millions)	\$216.6	\$7.0	\$223.5	\$251.2	\$8.3	\$259.6
Wages (millions)	\$141.9	\$4.6	\$146.5	\$164.5	\$5.3	\$169.9
Employment (jobs)	3,860	90	3,950	4,381	90	4,471
Fiscal Impacts (millions) (Fees, Permits & Tax Revenues)						
Federal	\$33.1	\$1.1	\$34.1	\$37.4	\$1.2	\$38.7
State & Local	\$17.1	\$0.9	\$17.9	\$19.3	\$1.2	\$20.5
Total	\$50.1	\$1.9	\$52.0	\$56.8	\$2.4	\$59.2

Note: Totals may not add due to rounding
Sources: Pennsylvania Film Office; IMPLAN; ERA

Appendix VI

ECONOMIC IMPACT METHODOLOGY

Economic impact analysis measures the economic activity occurring within a defined geographic region as a result of an initial change in the economy. To perform this analysis, ERA uses IMPLAN, a software program produced by the Minnesota Implan Group and first developed by the USDA Forestry Service to perform impact analysis for planning. Today, more than 1,500 clients across the country, including government agencies, non-profit agencies, industry associations and private companies use IMPLAN to prepare location-specific economic impact analysis. IMPLAN data files are compiled from a wide variety of sources including the U.S. Bureau of Economic Analysis, the U.S. Bureau of Labor and the U.S. Census Bureau. The IMPLAN data and accounts closely follow the accounting conventions used in the "Input-Output Study of the U.S. Economy" by the Bureau of Economic Analysis (1980) and the rectangular format recommended by the United Nations. IMPLAN data is available for individual state, county and custom zip code level allowing for a high degree of flexibility among users. Data specific to Pennsylvania was used in this analysis. The database includes state-level data for 509 industrial sectors and the ways in which those sectors interact with each other, households and government agencies.

Generally speaking there are two core models for evaluating economic impact – IMPLAN which is generally ERA's preferred method, and Regional Economic Models, Inc. (REMI) multipliers. Both are generally accepted as reasonable approximations of a region's economic capacity to handle certain economic activities and based on the current relationships of economic input-output variables. The core differences in the two models have to do with estimating changes in these underlying variables over time.

When forecasting in IMPLAN the current economic relationships of the model are held constant. When forecasting in REMI models, however, it is possible to change future economic relationships to model substantial changes in an economy or industry. For example, if one were modeling the impact of a new steel plant which would create 2,000 new jobs in a town of 500 current residents, one may choose to use a REMI model as it would be flexible and allow for dramatic changes in economic variables moving forward. This would include the many economic adjustments of new families moving into the town. This is part of the reason why such a model can cost in the area of \$15,000 whereas IMPLAN costs closer to \$500.

In ERA's experience, IMPLAN is a suitable economic model for large economic or geographic areas such as a developed country or state, where incremental demand is unlikely to significantly alter inter-industry relationships. In our experience elsewhere, at the statewide level when IMPLAN and REMI outputs have been estimated for the film industry, the results have been within 5 percent, with IMPLAN producing a slightly more conservative outcome. ERA is aware of the use of IMPLAN in evaluating several state film industries including Louisiana, Connecticut, New York, New Mexico and Virginia. ERA is aware that Florida and Michigan have used REMI models to estimate such impacts.

OVERVIEW

The U.S. economy functions as an interlocking system where changes in supply and demand for one industry affect supply and demand in others. IMPLAN applies the principle of input-output models to describe and measure these changes in an economy by quantifying the relationships among industries and institutions in a given study area. The idea behind input-output modeling is that the inter-industry relationships within a region will largely determine how that economy will respond to change. These relationships include the following:

- > **Industrial spending patterns:** In what ways, and in what proportions, does each industry spend money? For example, film production spends money in wholesale trade, retail trade, food and beverage services, truck transportation, and a host of other industries. The input-output models measure the proportions of spending in each industry via a series of coefficients. These coefficients (called a production function when grouped together) are the basis of generating economic multipliers to determine the indirect and induced impacts in other industries.

- > **Wage and employment distribution:** The models measure the proportion of income each industry spends on wages and the distribution of these wages throughout household income brackets. This information is used to quantify the number of jobs and the level of wages that would be paid to employees as a result of an economic activity.
- > **Inter-institutional trade flows:** Money changes hands between several societal institutions – private industry, government entities and households of varying income levels. These trade flows are modeled in IMPLAN to determine the fiscal impacts (flows from industries and households to government entities) and induced impacts (from households to private industries).

All changes are measured in terms of a "change in final demand." For example, if any given business requires 10 hotel room-nights at \$100 each, the hotel and motel industry would experience a \$1,000 positive change in final demand. Given this, the IMPLAN model would evaluate the industrial spending pattern for the hotel and motel industry, and apply the \$1,000 spending to all supporting industries in the proper proportion. A portion of the final demand could be spent in other industries; a portion could be paid as wages; and a portion could be distributed as profits to the owners (the latter two could flow to households and governments based on inter-institutional transfers).

IMPLAN uses social accounting matrices, or a set of social accounts, to describe economic relationships and generate multipliers. This social accounting model allows researchers to measure the changes in income, employment and tax revenues in detail. However, it is important to note that IMPLAN, like all economic modeling systems, measures the institutional relationships that currently exist, i.e., the relationships between producers and suppliers are fixed, based on past demand. However, large economic projects, such as the addition of a several multi-million dollar films in a short period of time, or in a small economic region, could precipitate structural changes in the economic relationships in the local and state economies. Therefore, as industries adapt and mature to accommodate very large projects, the impacts could be greater still.

DIRECT AND INDIRECT IMPACTS

Economic impacts can be described as the sum of economic activity within a defined geographic region resulting from an initial change in the economy. This initial change, also referred to as the direct impact, spurs a series of subsequent indirect and induced activities resulting from interconnected economic relationships. The direct impact is the known or predicted change in the local economy that is to be studied. For purposes of this analysis, the direct impacts are the expenditures made by filmmakers who received state tax credits to support their core activities. Only spending made within the boundaries of Pennsylvania are considered "direct" impacts. This figure was determined based on audited information from the Pennsylvania Film Office. Indirect impacts are the changes in inter-industry spending (business to business transactions) necessary to support the direct impacts. In addition, the income provided to employees could be recycled back into the economy in the form of additional consumer spending. These are induced impacts.

The indirect and induced impacts are quantified by a series of multipliers that describe the extent to which the change in demand generates additional benefits through interdependent industry sectors. Increased demand for a product affects the producer of the product, the producer's employees, the producer's suppliers, the supplier's employees, and so on, ultimately generating a total effect in the economy that is greater than the initial change in demand. The multipliers essentially measure the re-spending of dollars in an economy. Since they are a measure of interdependency among sectors in a given geographic region, they will vary considerably across both regions and sectors. In input-output analysis, there are many different multipliers but the most commonly cited is the ratio of the total impact (direct + indirect + induced impacts) to the direct impact. High multipliers indicate that local firms are well integrated and that goods and services are closely linked to other complementary good and services within the study area. It follows that a dollar spent in an industry with a high multiplier has a greater effect on the local economy than one spent in an industry with a low multiplier.

The multiplier effects can change over time as the industry composition of the state changes. A large study area (a state, for example) could have high multipliers because a greater portion of activity required to support the change in final demand could come from within the study area's boundaries. However, for a small study area like a county, multipliers could be lower because the county's economy is not as diverse and large.

IMPLAN generates multipliers for each economic sector and range from 1 to 3, with manufacturing sectors typically generating the highest multipliers in an economy. If an industry has a total output multiplier of 1.5, then \$100 of spending will generate \$150 of total output. In this analysis, the spending by the film industry in Pennsylvania is the change in final demand, and the multiplier can be applied to that change. The table below shows the five largest and smallest output multipliers for the Commonwealth of Pennsylvania. There were 422 sectors with output multipliers in Pennsylvania. The multiplier for the film industry is 1.96 meaning that for every \$100 spent by motion picture industries, an additional \$96 was generated in other industries through indirect and induced impacts. The motion picture industry ranked in the top 10 percent of industry multipliers in the Commonwealth of Pennsylvania.

TABLE 7

LARGEST & SMALLEST OUTPUT MULTIPLIERS IN PENNSYLVANIA'S ECONOMY 2007		
Sector	Output Multiplier	Rank
Cheese Manufacturing	2.4604	1
Handtool Manufacturing	2.3100	2
Fluid Milk and Butter Manufacturing	2.3045	3
Leather and Hide Tanning and Finishing	2.2862	4
Poultry Processing	2.2360	5
Motion Picture and Video Industries	1.9602	30
All Other Miscellaneous Professional, Scientific & Technical Services	1.3593	418
Copper Rolling, Drawing, Extruding and Alloying	1.3570	419
Plastics Pipe and Pipe Fitting Manufacturing	1.3465	420
Real Estate Establishments	1.3324	421
Forestry, Forest Products and Timber Tracts	1.3306	422

Source: IMPLAN

Economic impacts are measured in terms of changes in economic growth and associated changes in employment and wages. The results of an economic impact analysis are reported as follows:

- > **Output:** This is the total value of goods and services produced across all industry sectors and all stages of production within a defined geographic region.
- > **Employment:** This represents the number of jobs needed to support the given economic activity across all sectors, often referred to as "jobs created." It includes all wage and salary employees, both part- and full-time, as well as self-employed jobs. It is measured in annual average jobs.
- > **Earnings:** The total payroll costs (including benefits) of each industry. It includes the wages and salaries of workers who are paid by employers, as well as benefits such as health and life insurance, retirement payments and non-cash compensation. It also includes proprietary income received by self-employed individuals.
- > **Total Value Added:** Value added refers to that portion of the value of total output that was actually created by the economic activity in an area and/or industry. It is the difference between the value of goods produced and the cost of materials and or supplies that are used in producing them. It includes wages, proprietary income, other property type income and indirect business taxes. Other property type income is comprised of rents, royalties, dividends and profits. Indirect business taxes include excise taxes, property taxes, fees, licenses and sales taxes paid by businesses that occur during the normal operation of businesses but do not include taxes on profit or income.
- > **Fiscal Impacts:** These are the revenues, both taxes and fees, generated at the federal, state and local levels resulting from the economic activity. In addition to income, sales and property taxes, this includes fees paid to governments, including motor vehicle licensing fees, fines and payments for permits.

