

Motion Picture Production Tax Incentives Program

Annual Report
Calendar Year 2008



**ARIZONA DEPARTMENT
OF COMMERCE**

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economic advancement*



Motion Pictures Production Tax Incentives Program

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Prepared by:

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

Peer and Technical Reviewers:

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

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Executive Summary

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

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

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

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

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

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

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

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

Figure A

MOPIC Activity Comparison – CY 07 and 08 (Includes All Three Programs)				
Tax Credit Availability and Utilization		CY 08	CY 07	Change from CY 07 Increase/(Decrease)
1	Authorized cap	\$50,000,000	\$40,000,000	\$10,000,000
2	Unused cap from previous year rolled forward on January 1	0	0	0
3	Cap returned from previous year (by applicants unable to complete productions)	\$8,562,221	\$517,394	\$8,044,827
4	Total cap available (sum of lines 1-3)	\$58,562,221	\$40,517,394	\$18,044,827
5	Total cap amount pre-approved	\$34,202,179	\$40,517,394	(\$6,315,215)
6	Average amount of income tax credits per pre-approved application	\$371,762	\$862,072	(\$490,310)
7	TPT and use tax exemptions reported by applicants post-approved	\$831,067	\$72,623	\$758,444
8	Income tax credits for applicant post-approved	\$7,810,522	\$2,740,855	\$5,069,667
9	Total Arizona Tax Incentives for applicants post-approved (sum of lines 7 and 8)	\$8,641,589	\$2,813,478	\$5,828,111
10	Unused cap rolled forward to the next CY	\$16,000,000	\$8,696,546	\$7,303,454
Application Activity				
11	Total number of applicants	46	26	20
12	Applications received	92	51	41
13	Applications denied/1	5	4	1
14	Applications withdrawn/2	16	9	7
15	Applications voluntarily relinquished/3	45	6	39
16	Applications rescinded/4	2	10	(8)
17	Applications pre-approved	70	22	48
18	Applications post-approved	6	7	(1)
Applicant Spending				
19	Total estimated spending by pre-approved applicants	\$573,085,245	\$184,000,000	\$389,085,245
20	Estimated spending in Arizona by pre-approved applicants	\$331,186,027	\$164,000,000	\$167,186,027
21	Post-Approved Applicants' Total Spending (all locations)	\$119,295,126	\$24,682,004	\$94,613,122
22	Post-Approved Applicants' Spending in Arizona	\$44,900,039	\$20,070,809	\$24,829,230
23	Percent of Total Spending in Arizona (line 21 divided by line 22)	38%	83%	-46%
Film Industry Employment and Wages in Arizona⁵				
24	Number of employees in AZ	809	809	*
25	Increase (decrease) in employment from prior year	-146	-146	*
26	Number of companies in AZ	222	222	*
27	Increase (decrease) in number of companies from prior year	23	23	*
28	Average annual wage for AZ film industry	\$39,788	\$39,788	*
29	Increase (decrease) in average annual wage from prior year	\$8,736	\$8,736	*
30	Average hourly wage for AZ film industry	\$19.13	\$19.13	*
31	Increase (decrease) in average hourly wage from prior year	\$4.20	\$4.20	*
Economic and Fiscal Impact of MOPIC in Arizona				
32	Direct FTEs created by post-approved applicants	317**	222**	95
33	Estimated indirect and induced FTEs created	413**	203**	210
34	Total Arizona Tax Incentives Post-approved	\$8,641,589	\$2,813,478	\$5,828,111
35	Estimated State and local tax revenues generated by post-approved applicants	\$2,317,566**	\$1,111,979**	\$1,205,587
36	Net benefit (cost) to the General Fund of post-approved applications (line 35 minus line 34)	(\$6,324,023)	(\$1,701,499)	(\$4,622,524)

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

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

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

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

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

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

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

Introduction

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

MOPIC Legislation

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

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

Program Overview

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

Seven Tax Incentives

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

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

¹ ARS 41-1517.Q

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

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

- **Use tax exemption:** machinery, equipment and other tangible personal property (A.R.S. §42-5159.B.23). Pre-approved applicants are exempted from paying use taxes for items purchased outside Arizona which are then transported here and used in a production. Applicants are also required to report the amount of their use tax exemptions to Commerce at time of post-approval.
- **Income tax credits:** Transferable state income tax credits in the amount of \$250 million were authorized for MOPIC over a five-year period² and “capped” each year as shown in Figure 1. If MOPIC is renewed by the Legislature in 2010, the amount of income tax credits authorized in 2011 and thereafter will be \$70 million annually. These tax credits may be used to offset Arizona income tax liability, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years (A.R.S. §§43-1075 and 43-1163). Any income tax credits remaining unused from the cap at the end of the calendar year can be rolled forward for one year, increasing the following year’s cap.

Figure 1

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

*If reauthorized by the Arizona Legislature

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

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

$$\text{Total taxes abated} = \text{TPT exemptions} + \text{use tax exemptions} + \text{income tax credits}$$

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

Three Separate Programs

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

Figure 2

Overview of the Three MOPIC Incentive Programs ((\$50 Million Total Authorized for CY 08))					
	Motion Picture Productions		Commercial Advertisement and Music Videos		Infrastructure Projects
CY 08 Amount Authorized³	\$42,320,000		\$2,500,000 (5% of the amount of the calendar year cap)		<ul style="list-style-type: none"> • Soundstage - \$5,000,000 per project • Support/Augmentation - \$3,000,000 per project (beginning in CY 09)
Income Tax Credit Amount	Production Costs	Credit	Production Costs	Credit	15% of the Arizona project costs not to exceed \$5 million in any year for soundstages. For support and augmentation projects \$7 million in 2009, \$9 million in 2010.
	\$250,000 - \$1,000,000	20%	\$250,000 - \$1,000,000	20%	
	Over \$1,000,000	30%	Over \$1,000,000	30%	
Receives TPT and Use Tax Exemptions	Yes		Yes		No
Certification Period	24 months; must begin production within 90 days of pre-approval		12 months; must complete project within 60 days of date of application		No certification period
Applicant Requirements	<ul style="list-style-type: none"> • Primarily engaged (more than 50%) in producing motion pictures • A physical office in Arizona • An Arizona bank account 		<ul style="list-style-type: none"> • Primarily engaged (more than 50%) in producing motion pictures • A physical office in Arizona • An Arizona bank account 		<ul style="list-style-type: none"> • Construct an eligible soundstage or support/augmentation facility project • Own and operate the infrastructure project • Submit a report to Commerce upon completion of the project
Production Requirements	Begins production within 90 days of pre-approval		Completes productions within 60 days of requesting pre-approval		Project must begin within 90 days of pre-approval and applicant must secure a surety bond
Spending Requirements	Anticipates incurring qualifying production costs of at least \$250,000 on each motion picture		Anticipates incurring qualifying production costs of at least \$250,000 during the 12-month certification period		<u>Soundstage - at least:</u> <ul style="list-style-type: none"> • \$250,000 within 90 days of pre-approval, and • \$1,250,000 within 12 months of pre-approval, and • \$5 million within 36 months of pre-approval <u>Support/augmentation facility - at least:</u> <ul style="list-style-type: none"> • \$250,000 within 90 days of pre-approval, and • \$1 million within 36 months of pre-approval
Resident Employment Requirements	Arizona residents must comprise 50% of all full-time employees during production		Arizona residents must comprise 50% of all full-time employees during production		Not applicable

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

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

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

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

Application Process

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

Pre-approval

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

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

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

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

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

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

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

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

Post-approval

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

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

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

Limited Managed Audit

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

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

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

Transfer or Sale of Income Tax Credits

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

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

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

Program Administration

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

CY 08 MOPIC Activity

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

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

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

Tax Credit Availability and Utilization

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

Figure 3

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

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

At the end of CY 08, \$16,000,000 remained from the cap⁴ and has been rolled forward into CY 09 (line 10), bringing total income tax credit availability for that year to \$76,000,000.

Application Activity – all three programs

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

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

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

Of the 92⁵ applications (line 12) received by Commerce:

- 5 were denied pre-approval by Commerce;
- 16 were withdrawn by the applicant before receiving pre-approval;
- 45 applicants voluntarily relinquished their tax credit after pre-approval for various reasons - these applicants may have reapplied and voluntarily relinquished one or more times;
- 2 pre-approved companies had tax credits rescinded by Commerce because they failed to begin production within 90 days of pre-approval;
- 70 applicants ultimately received pre-approval; and
- 6 applied for and received post-approval⁶. These applicants were pre-approved under the CY 06 and 07 caps.

Figure 4

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

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

Motion Picture Production Program

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

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

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

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

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

⁸ "Withdrawn" means the applicant withdrew the application before receiving pre-approval.

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

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

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

Figure 5

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

Commercial advertisements and music videos (CAMV)

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

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

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

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

Figure 6

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

Infrastructure Projects

CY 08 also marks the first year of available data for the infrastructure project program. Eligible projects are “soundstages” and “support and augmentation facilities.” The applicant must be the person who will own and operate the infrastructure project. Depending on the type of infrastructure project, the applicant must spend between \$1 million and \$5 million on the infrastructure project to maintain eligibility. The income tax credit amount is based on 15% of the base investment, not to exceed \$5 million for soundstage projects in CY 08. In addition, \$3 million per support and augmentation facilities is authorized effective CY 09, with a total available in this category of \$7 million in CY 09 and \$9 million in CY 10 (provided soundstage projects have been certified pursuant to statute). The applicant must begin construction within 90 days of the date of pre-approval. To demonstrate construction has begun, the applicant must spend the lesser of 10% of the total base investment amount¹¹, or \$250,000, and provide a surety bond equal to the base investment amount.

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

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

Figure 7

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

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

As seen in Figure 7, eight applicants submitted a total of ten applications for infrastructure projects in CY 08. Ultimately, only four were pre-approved. Although only \$5 million was authorized for soundstages in CY 08¹², pre-approvals totaled \$10,923,296.¹³ This equates to an average allocation of \$2,730,824 for each of the four pre-approved applications. Total spending is estimated at \$317,561,642, all of it occurring in Arizona.

Statewide Production Activity

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

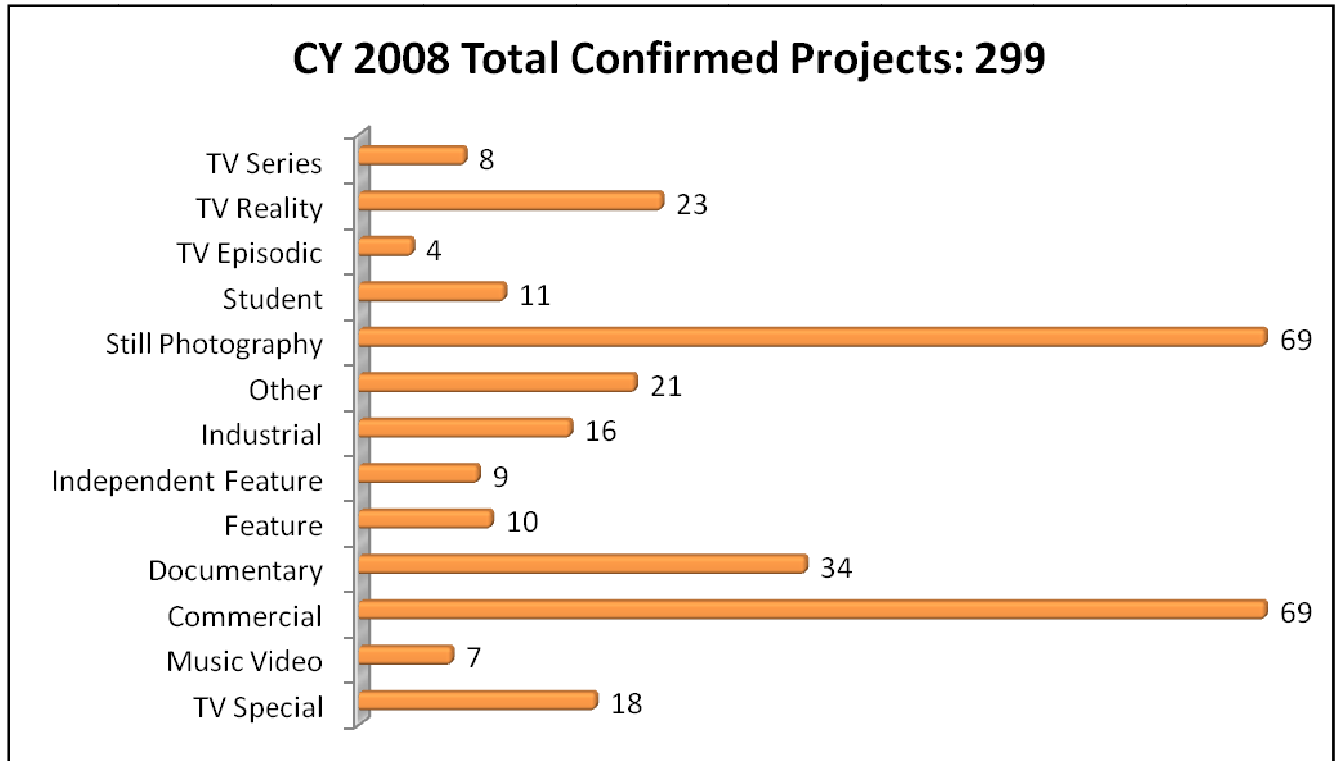
Figure 8 recaps the types of projects in CY 08 reported statewide. There were 299 confirmed separate productions reported in Arizona in CY 08. This is an approximate 20% decline from CY 07, when 373 productions were reported. The 92 MOPIC applications received represent only 30.7% of the 299 productions,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

¹² No funding for support and augmentation facilities was authorized in statute for CY 08.

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

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

Figure 8



CY 08 Post-approved Applications

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

Figure 9

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

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

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

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

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

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

Figure 10

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

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

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

Figure 11

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

Film Industry Employment and Wages in Arizona

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

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

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

Figure 12 shows a 2007¹⁴ snapshot of the status in Arizona of the North American Industry Classification System (NAICS) Sector 5121, the primary NAICS sector for motion pictures and several key subsectors.¹⁴ The North American Industry Classification System is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

Figure 12

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

* North American Industry Classification System

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

Source: Bureau of Labor Statistics

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

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

Figure 13

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

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

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

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

Figure 14

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

* Based on 2080 hour year

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

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

Figure 15

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

Source: Commerce records

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

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

CY 08 Economic and Fiscal Impact

Proponents of industry initiatives usually cite the “multiplier effects” of increased direct spending and tax revenue generation related to a specific industry. “Multipliers” attempt to measure the interactions of employment, spending, investment and earnings among and between industries, and are different for each industry and geographic locality. Multipliers are generally based on industry spending interrelationships estimated by the US Department of Commerce, Bureau of Economic Analysis. Private software companies use this government data as the basis for the analysis of new spending or new jobs in an area or industry. For the purposes of this report, the Minnesota IMPLAN Professional[®] economic impact assessment software model²⁰ was used to analyze both the *economic* and *fiscal* impacts of MOPIC.

Economic Impact

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

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

¹⁶ 2007 QCEW data for NAICS 5121, excluding 51213

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

¹⁸ 2007 QCEW data for NAICS 5121, excluding 51213

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

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

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

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

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

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

Figure 16

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

Source: Minnesota IMPLAN Professional economic model for Arizona

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

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

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

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

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

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

Fiscal Impact

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

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

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

Figure 17

MOPIC Post-Approval Comparison – CY 07 and 08: Fiscal Impact		
Description	CY 08	CY 07
Estimated Tax Revenues Generated	\$2,317,566	\$1,111,979
Total Arizona Tax Incentives Post-approved	\$8,641,589	\$2,813,478
Net Tax Benefit (Cost) to General Fund*	(\$6,324,023)	(\$1,701,499)

* Does not include program administration costs incurred by Commerce or the Department of Revenue related to the post-approval process of the 2008 post-approved applications
Source: Minnesota IMPLAN Professional economic model and Commerce records

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

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

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

However, in the case of MOPIC, Arizona income tax credits are based on eligible *project spending*, not taxable corporate profits. The MOPIC tax credit of up to 30% of film spending would require significantly higher corporate profitability (and therefore, tax liabilities) in Arizona to offset the incentive. For example, \$1,000 of post-production approved MOPIC film spending generates a \$300 income tax credit. Offsetting this credit requires the taxpayer to generate an *additional* \$4,305²² in taxable corporate profits for this incentive to be revenue neutral.

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

²¹ \$1,000 taxable corporate profits X 6.968% = \$69.68

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

APPENDIX A

MOPIC Statutes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Thirty million dollars for 2006.

2. Forty million dollars for 2007.

3. Fifty million dollars for 2008.

4. Sixty million dollars for 2009.

5. From and after December 31, 2009, seventy million dollars for a single year.

6. Five million dollars for an individual motion picture application in 2007.

7. Seven million dollars for an individual motion picture application in 2008.

8. Eight million dollars for an individual motion picture application in 2009.

9. From and after December 31, 2009, nine million dollars for an individual motion picture application.

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

1. Five per cent of the maximum dollar amount of income tax credits prescribed for any year by subsection J of this section is reserved for use with respect to commercial advertisement and music video production.

2. A commercial advertisement or music video production company may apply for qualification under subsection C of this section before the company reaches the minimum expenditure threshold requirements of subsection A, paragraph 1 of this section.

3. In lieu of a script under subsection C, paragraph 9 of this section, the applicant must submit a synopsis or storyboard that:

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

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

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

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

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

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

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

T. The department of commerce shall:

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

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

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

V. For the purposes of this section:

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

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

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

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

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

(b) Can be viewed or reproduced.

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

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

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

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

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

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

[41-1517.01. Motion picture infrastructure tax incentives; definitions](#)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) The date of the transfer.

(c) The amount of the transfer.

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

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

(f) Any other information required by rule.

3. A sale or transfer of the credit does not extend the time in which the credit can be used.

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

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

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

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

K. A taxpayer who claims a credit for motion picture costs under this section shall not claim a credit under section 43-1075.01 for the same costs.

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

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

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

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

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

B. The department shall not allow in any year tax credits that exceed the aggregate amount prescribed in section 41-1517.

C. The department shall not allow a credit under this section to a taxpayer that has a delinquent tax balance owing to the department under this title or title 42.

D. To qualify for a credit under this section, the motion picture production company must:

1. Employ residents of this state in production as follows:

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

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

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

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

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

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

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

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

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

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

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

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

(b) The date of the transfer.

(c) The amount of the transfer.

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

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

(f) Any other information required by rule.

3. A sale or transfer of the credit does not extend the time in which the credit can be used.

4. Except as provided by subsection E of this section, if a transferor was not qualified or was disqualified from using the credit at the time of the transfer, the department shall either disallow the

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

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

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

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

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

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

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

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

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

B. The department shall not allow:

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

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

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

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

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

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

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

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

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

(a) The name of the taxpayer.

(b) The date of the transfer.

(c) The amount of the transfer.

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

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

(f) Any other information required by rule.

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

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

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

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

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

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

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

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

Appendix B

Summary of the Three MOPIC Programs

Motion Picture Production Tax Incentives Program Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Definitions set forth in statute are:

1. "**Infrastructure project:**

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

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

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

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

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

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

Appendix C

Listing of all Pre- and Post-approved Applications

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

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

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

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

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

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

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

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

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

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

2007 Pre-Approved and Post-Approved Motion Picture Productions

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

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

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

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

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

^ indicates that only Faith Campaign was completed.

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

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

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

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

^ Indicates that only Episode was 7 was completed.

APPENDIX D

Quarterly Census of Employment and Wages (QCEW)

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

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

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

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

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

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

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

Appendix E

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

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

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

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

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

*Combined NAICS 51211,51212 and 51219

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

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