BEFORE THE NEVADA GOVERNOR’S OFFICE OF ECONOMIC DEVELOPMENT


Following a special hearing of the Office of Economic Development held at the Governor’s conference room on February 24, 2014.

ORDER

The Nevada Governor’s Office of Economic Development ("Office") makes the following findings of fact and conclusions of law:

I. INTRODUCTION

Columbia Pictures Industries, Inc., a subsidiary of Sony Pictures Entertainment, Inc., both subsidiaries of Sony Corporation (collectively, "Petitioners"), filed an application ("Application") with the Office for approval of a Certificate of Eligibility for Transferable Tax Credits ("Certificate of Eligibility").

II. PROCEDURAL HISTORY

• On January 14, 2014, Petitioners filed an Application for Certificate of Eligibility with the Office. The matter was designated as Docket No. 14-01141.

• The Application was filed pursuant to Nevada Revised Statutes ("NRS"), Section 360.758 through Section 360.7598, the Transferable Tax Credits for Film and Other Production Program ("Tax Credit Program"), and Nevada Administrative Code ("NAC"), Chapter 360, including but not limited to adopted, uncodified Regulations R120-13A, R120-13I and R120-13P.
• On January 23, 2014, the Office issued a Notice of Public Hearing pursuant to NRS 360.7595(3).

• The regulatory staff ("Staff") of the Office conducted the public hearing on February 24, 2014, with Hearing Officer Brad Mamer presiding, and Director of the Nevada Film Office, Eric Preiss, summarizing significant findings from the Application. Minutes for this hearing are incorporated as part of this Order as Attachment "A".

• Pursuant to NRS 360.759, subsection 2, the Office shall approve an application for a certificate of eligibility for transferable tax credits if the Office finds that the producer of the qualified production qualifies for the transferable tax credits pursuant to NRS 360.759, subsection 3.

• On February 28, 2014, Staff filed a memorandum with the Executive Director of the Office describing its findings and recommendation, all of which is incorporated as part of this Order as Attachment "B".

III. FINDINGS

The Office finds that Applicant has satisfied the necessary requirements for issuance of a Certificate of Eligibility as set forth in NRS Section 360.758 through Section 360.7598, and NAC Chapter 231, including but not limited to adopted, uncodified Regulations R120-13A, R120-13I and R120-13P.

THEREFORE, it is ORDERED that:

1. The Application for Certificate of Eligibility for Transferable Tax Credits in the amount of Four Million Three Hundred Eighty Three Thousand Nine Hundred Eighty Seven and 00/100 Dollars ($4,383,987.00) filed by Columbia Pictures Industries, Inc., a subsidiary of Sony Pictures Entertainment, Inc., both subsidiaries of Sony Corporation, designated as Docket No. 14-01141, is hereby GRANTED.
2. The Office may correct errors that have occurred in the drafting or issuance of this Order.

By the Office,

[Signature]

STEVEN D. HILL,
Executive Director

[Date]

Dated: Las Vegas, Nevada

Attest:

[Signature]

BRADLEY J. MAMER,
Director of Business Development

CC: Nevada Department of Taxation
Nevada Gaming Control Board
The Governor’s Office of Economic Development & Nevada Film Office Public Hearing was called to order by Business Development Director Brad Mamer at 10:03 a.m. in the Grant Sawyer Building, Governor’s Board Room, 555 E. Washington Avenue, Suite 5100, Las Vegas, Nevada, 89101 and the Nevada State Capitol Building, The Guinn Room, 101 S. Carson Street, Carson City, Nevada, 89701 via video conference.

1. **INTRODUCTION**

Mr. Brad Mamer welcomed the attendees and described the purpose of the hearing was to review an application for certificate of eligibility for transferable tax credits from Columbia Pictures Industries (a subsidiary of Sony Pictures).

**STAFF MEMBERS PRESENT**

Mr. Brad Mamer, Business Development Director, GOED  
Mr. Eric Preiss, Director, NFO  
Ms. Lauren Hawkins, Administrative Assistant, GOED  
Ms. Shante Willis, Administrative Assistant, GOED  
Ms. Jennifer Cooper, Communications Director, GOED  
Ms. Danette Tull, Film Resource Coordinator, NFO  
Ms. Veronica Quarles, Operations Coordinator, NFO  
Mr. Brian O’Hare, Locations Coordinator, NFO

**GUESTS PRESENT**

Mr. Paul DePace, Columbia/Sony Pictures Industries  
Mr. Pete Corral, Columbia/Sony Pictures Industries  
Mr. Marty Ewing, Columbia/Sony Pictures Industries  
Mr. Andy Davis, Columbia/Sony Pictures Industries, via teleconference  
Assemblywoman Irene Bustamante Adams, Assembly District 42  
Mr. Reynald Barrera, Extreme Lighting & Grip  
Ms. Nubia Licea, Latin Chamber of Commerce  
Ms. Audrey Kairon, Two Can Productions  
Mr. Chris Rogers, CHR Media  
Ms. Barbara Grant, SAG-AFTRA NV
Mr. Joshua Cohen, Cohencidence Productions
Mr. Kevin Bowe, Production Accountant
Mr. Matthew Smith, SAG Actor
Ms. Dee Drenta, SAG Actor
Ms. Jean Suli, SAG Actor
Mr. J.R. Thompson, SAG Actor
Ms. Amy Murphy Anderson, Production Manager
Ms. Kim Houser-Amaral, 24/7 Production Services
Mr. J.R. Reid, JR Lighting
Mr. Anthony Keep, Keep Public Relations
Ms. Sandy Cherub, The Associated Press

2. PUBLIC COMMENT

Mr. Mamer opened public comment.

3. EXECUTIVE DIRECTOR'S COMMENTS

Mr. Mamer noted that Executive Director Hill was not able to attend this hearing, and then thanked everyone for attending. Mr. Mamer commented that this program has been a learning process for the agency, and thanked the people within the film industry and other stakeholders for all of their help in drafting the regulation for this program. Mr. Mamer also thanked Columbia/Sony Pictures for their willingness to be the first applicant for the program, and for their cooperation as Nevada developed its application procedures. Mr. Mamer stated that GOED is making a sincere effort to keep this process transparent, and described that the entire Sony application was available in hard copy for any meeting attendees to review during the hearing.

4. COLUMBIA PICTURES INDUSTRIES, INC. (A SUBSIDIARY OF SONY PICTURES ENTERTAINMENT, INC. AND SONY CORPORATION)

- PRODUCTION TYPE: FEATURE FILM

Mr. Eric Preiss introduced the application from Columbia Pictures Industries which was submitted on January 14, 2014. The Nevada Film Office determined the production titled Mall Cop: Blart 2, the sequel to the original Paul Blart: Mall Cop, to be a qualified production pursuant to NRS 360.7586. This production will be primarily filmed at Wynn Las Vegas and has reported it will incur $27.9 million in qualified expenditures, which meets the statutory minimum spend of $500,000. The production is a Columbia Pictures production and is being 100% funded by Columbia and its parent company Sony.
Corporation. As the time of the application, Mr. Preiss noted that Sony Corporation had a credit rating of lower medium grade as reported by Moody’s, and that this credit rating meets the regulatory requirement. The projected rating for the film is PG-13, as rated by the Motion Pictures Association of America. The producer for the film is Marty Ewing, and the Nevada designated address for the production, pursuant to NRS 360.7583, is the Wynn Resort, 3131 Las Vegas Boulevard South, Las Vegas, NV, 89109. Mr. Preiss also noted Mr. Ewing was the designated full-time Nevada employee for the production. Mr. Preiss concluded by introducing the representatives in attendance from Columbia/Sony Pictures, Marty Ewing, Producer; Paul De Pace, VP Motion Picture Production Finance, Columbia/Sony Pictures; Pete Corral, SVP Production, Columbia/Sony Pictures; and Andy Davis, President of Production Administration, Columbia/Sony (by conference call).

Mr. Mamer described that the application process involves an applicant providing all of the documentation necessary to meet the requirements of the program, including completion of a draft incentive calculation. Mr. Mamer described that for purposes of public disclosure that the next part of the hearing would include the applicant verifying for the record that Columbia/Sony had satisfied the application eligibility requirements pursuant to NRS 360.759.

In this regard, Mr. Mamer asked the representatives of Columbia/Sony the following questions:

- Columbia/Sony is aware that the application shows the percentage of Nevada total expenditures exceeds 60% of the qualified expenditures.
- Columbia/Sony is aware that it must provide GOED with an audit completed by a Nevada licensed certified public accountant approved by our agency at the conclusion of the production.
- Columbia/Sony is aware that if this audit were to show the Nevada total expenditures did not exceed 60% of the total qualified expenditures the production would not be issued any transferable tax credits.
- Columbia/Sony is aware that any actual tax credits issued for the production can only be used for taxes imposed on financial institutions; taxes imposed on business; gaming licensing fees; fees and taxes imposed on insurance; or any combination.
- Columbia/Sony is aware that after GOED’s review of the audit, the producer will be required to make an irrevocable declaration of the amount of transferable tax credits that will be applied to the financial institution taxes, business taxes, gaming license fees, and insurance fees and taxes described in the statute.
• Columbia/Sony is aware that any transfer of issued tax credits must be approved in advance by the Office of Economic Development.
• And that any issued tax credits will expire 4 years after the date of issuance.

Mr. DePace confirmed all of these statements to be true; and noted for the record that the percent of Nevada qualified expenditures shown on the incentive calculation was 67 percent.

Mr. Mamer then reviewed the following series of questions that cover the qualified expenditures and production costs pursuant to NRS 360.7591:

• Columbia/Sony is aware that all qualified expenditures are subject to an independent determination that such costs are reasonable and customary.
• Columbia/Sony is aware and has reviewed those types of expenditures and costs that are not eligible to serve qualified expenditures such as marketing, financing, and payments of profits.

Mr. DePace confirmed these statements to be true.

Mr. Mamer next presented a series of questions that cover the calculation of estimated transferable tax credits pursuant to NRS 260.7592 and NRS 360.7593:

• As part of the application, Columbia/Sony completed an “Incentive Calculation Worksheet.”
• Columbia/Sony is aware that Nevada personal expenditures are calculated at a 15 percent incentive, which total amounts to $1.056 million.
• Nevada direct expenditures are calculated at a 15 percent incentive which total amounts to $1.304 million.
• Non-Nevada personal expenditures are calculated at a 12 percent incentive which total amounts to $1.462 million.
• Columbia/Sony acknowledges that if approved by GOED, this production would receive a certificate of eligibility for a maximum transferable tax credit of $4.383 million.
• And Mr. Mamer noted for the record that Columbia/Sony calculated that it qualified for an additional 2 percent incentive for below the line personnel who are Nevada residents being greater than 50 percent of the total qualified below the line personnel.

Mr. DePace confirmed these statements to be true.
Mr. Mamer followed by asking how Columbia/Sony determined it qualified for the additional 2 percent incentive for below the line personnel. Mr. DePace responded that the application shows that Nevada below the line personnel equaled 96.3% of total personnel, which Columbia/Sony and its legal counsel believed to meet the statutory and regulatory requirements for this additional credit pursuant to NRS 360.7592(2) (a).

Mr. Mamer asked how this production is in the economic interest of the State? Mr. DePace replied that the production will be hiring over 3,400 Nevada residents on a temporary basis with a payroll exceeding $7.0 million, purchasing goods and services from local Nevada vendors of approximately $8.7 million, hiring an additional 132 non-Nevada residents with a net payroll of $12.2 million, all totaling $27.9 million in qualified expenditures. Mr. DePace also said the feature film will also highlight the Las Vegas Strip, Lake Mead, and Hoover Dam thereby promoting tourism to Nevada.

Mr. Mamer asked for a further description of the Nevada workforce for the production. Mr. DePace estimated that there are 14 above the line personnel averaging $172 per hour, another 103 below the line personnel averaging $44 per hour, and 3,329 below the line extras and background actors averaging $18.32 per hour.

Mr. Mamer asked what will be the term of employment for this workforce. Mr. DePace replied that employment will begin in January 2014, end in July 2014, with principal photography running from April 2014 to June 2014, or approximately 66 days.

Mr. Mamer asked if any of these positions will be permanent? Mr. DePace stated that none of these positions will be permanent.

Mr. Mamer asked to describe the filming locations for the production? Mr. Marty Ewing noted that they will be filming primarily at Wynn Las Vegas and at Blue Line Studios.

Mr. Mamer asked if the production anticipated any permanent capital investments in the State? Mr. Pete Corral responded that they will not be making any capital investments, but from Columbia/Sony’s perspective, the production will be giving back to the human resource infrastructure of the State through the training of its film production workforce.

Mr. Mamer asked if the production is using any Nevada set construction businesses? Mr. Corral responded that 93% of the production’s set construction costs are from Nevada labor and materials.
Mr. Mamer asked if the production is using any Nevada wardrobe businesses? Mr. DePace confirmed that 43% of the production’s wardrobe costs are from Nevada labor and materials.

Mr. Mamer asked if the production is using any Nevada make-up and hairdressing businesses? Mr. DePace confirmed that 44% of the production’s hairdressing costs are from Nevada labor and materials.

Mr. Mamer asked if the production is using any Nevada camera and video businesses? Mr. DePace said yes, but stated that only 1% of the production’s camera and video costs are from Nevada labor and materials.

Mr. Mamer asked if the production is using any Nevada lighting businesses? Mr. DePace confirmed that 74% of the production’s lighting costs are from Nevada labor and materials.

Mr. Mamer asked if the production is using any Nevada sound businesses? Mr. DePace confirmed that 32% of the production’s sound costs are from Nevada labor and materials.

Mr. Mamer asked if any portion of the post-production special visual effects will be completed by a Nevada business? Mr. DePace stated that only 2% of the production’s post-production special effect costs are from Nevada labor and materials.

Mr. Mamer asked if any portion of the production and post-production film and laboratory work will be completed by a Nevada business. Mr. DePace said no, that all film and laboratory costs will be incurred outside of Nevada.

Mr. Mamer asked if any portion of the post-production film and tape editing will be completed by a Nevada business? Mr. DePace said no, that all post-production film and tape editing costs will be incurred outside of Nevada.

Mr. Mamer asked if any portion of the post-production music will be completed by a Nevada business? Mr. DePace said no, that all post-production music costs will be incurred outside of Nevada.

Mr. Mamer asked if any portion of the post-production sound will be completed by a Nevada business? Mr. DePace said no, that all post-production sound costs will be incurred outside of Nevada.
Mr. Mamer asked if the transferable tax credit program contributed to the production being filmed in Nevada? Mr. Corral responded that the transferable tax credit program was a major part of the decision to film in Nevada. Mr. Corral noted that Sony had been looking at Georgia and Louisiana and had calculated that it could have received a larger incentive by producing the film in New Orleans. But Sony ultimately concluded that it was more advantageous to film in Las Vegas and decided to shoot the film at the Wynn.

Mr. Mamer asked if there were any suggestions on how Nevada could have more categories of production costs incurred in Nevada using Nevada businesses (such as camera/video, special effects, etc.). Mr. Corral replied that it would be in Nevada’s best interest to persuade well-known companies such as Panavision and Hollywood Rentals to establish an annex in the state. Mr. Ewing also stated that increasing the incentive to be more in line with other states would also help, and described that a number of other states offer film tax credits in the 25 percent range.

Mr. Mamer asked if there were any suggestions on how Nevada could expand post production work being completed in Nevada by Nevada businesses? Mr. DePace replied that besides persuading vendors to move to Nevada, having a post-production studio or sound stage would be advantageous. Mr. Corral stated a studio/stage facility of around 16,000 to 18,000 square feet would be a very positive investment for the State, local government, or a private business, but noted Columbia/Sony does not make such out-of-state capital investments since it has its own facilities in Hollywood.

Mr. Mamer stated that the next step after the hearing will be a decision made by Executive Director Steve Hill, who has 30 days from the date of this hearing to make the decision.

5. **PUBLIC COMMENTS**

Mr. Mamer opened agenda item 5 for public comment.

Mr. J.R. Reid expressed his excitement for this production and thanked Columbia/Sony for coming to Nevada.

Mr. Kevin Bow stated that he is more than thrilled for this incentive and hopes it will be a game changer for Nevada.

Ms. Barbara Grant asked how GOED plans to regulate the background cast actually being Nevada residents. Mr. Mamer stated that the transferable tax credit statute addresses this issue, and the audit process was expanded in the related regulation to further enforce a production’s compliance with the law.
Mr. Randy Solterro noted that he stands in full support of this application and looks forward to seeing more projects come to Nevada.

Mr. Ray Berrara stated that he is glad to see Sony taking advantage of the film bill.

Ms. Dee Drenta thanked Sony for their decision to come to Nevada.

Mr. Matt Smith explained that the local community is always thankful for projects that benefit their city and he thanked Sony for choosing Las Vegas as their location.

6. ADJOURNMENT

A MOTION WAS MADE BY MR. MAMER TO ADJOURN THE HEARING. THE HEARING WAS ADJOURNED AT 10:45 AM.
NEVADA FILM OFFICE
TRANSFERABLE TAX CREDIT FOR FILM AND OTHER PRODUCTIONS
APPLICATION REVIEW MEMORANDUM
Docket No. 14-01141

SUMMARY INFORMATION

STATE OF NEVADA
APPLICATION EVALUATION CRITERIA

COMPANY NAME: Columbia Pictures Industries, Inc.
(A subsidiary of Sony Pictures Entertainment, Inc.)

PRODUCTION NAME: Mall Cop: Blart 2

TYPE OF PRODUCTION: Feature Film

TOTAL BUDGET $46,002,899
DISALLOWED 4,288,976
TOTAL QUALIFIED $41,713,923

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NEVADA EXPENDITURES/TOTAL QUALIFIED EXPENDITURES 67.0%

CALCULATED INCENTIVE AMOUNT $4,383,987

AGENCY REVIEW OF STATUTORY REQUIREMENTS

1. Application Content: NRS 360.759, Subsection 3(a).
   ▶ Requirement satisfied. The application included the required information, Exhibits and acknowledgements pursuant to this subsection.

2. Funding Requirement: NRS 360.759, Subsection 3(c), NAC R120-13, Section 7, Subsection 2 (b)(2).
   ▶ Requirement satisfied. The feature film is a Columbia Pictures production and will be 100% funded by Columbia and its parent company Sony Pictures Entertainment, Inc (SPE). SPE is a fully owned subsidiary of Sony Corporation (SNE-NYSE). As of the date of
application (January 14, 2014), SNE had a reported Moody’s credit rating of Baa3 (Lower Medium Grade). This meets the regulation requirement for proof of funding.

3. 60 Percent Nevada Qualified Expenditures Requirement: NRS 360.759, Subsection 3(d).

➤ Requirement satisfied. The application reflects 67.0 percent of the estimated qualified production costs will be incurred in Nevada. Applicant acknowledged during the public hearing that if this estimate fell below the statutory requirement, that it could face disqualification from the transferable tax credit program.


➤ Requirement satisfied. Applicant acknowledged this post-production requirement during the public hearing.

**ECONOMIC INTEREST OF THE STATE: NRS 360.759, SUBSECTION 3(b)**

5. The number of jobs, duration and average wages to be created by the production for Nevada residents.

➤ The total number of Nevada residents hired for the production is 3,544 (3,446 ATL/BTL Crew and Background plus 98 BTL Local Labor) with a total expenditure of wages and fringe benefits of $7,045,953, at an average annual rate of $23.40, and $32.08 with fringe benefits. This includes all Nevada residents included in above the line and below the line personnel including actors, crews, extras and stand-ins.

➤ The term of employment extends from January 2014 through July 2014; however, personnel will be periodically employed for varying lengths and times during this period. During the hearing for this production the producer stated no permanent direct jobs will be created as a result of this production.


➤ These part-time positions accounted for an estimated 219,623 hours during the seven month production period; after converting to a full-time equivalent “person-year” (i.e., one person working 2,080 hours with no assumption of work beyond the base year), the 3,554 jobs equals 106 person-years of employment.

➤ Projected Nevada labor costs for this production are $7.045 million.

7. Economic impacts of the production.

The Nevada Film Office has contracted with an economic consulting firm to develop an economic impact model that will be used in analyzing the direct, indirect and induced economic impacts for all qualified productions. This report will be amended by April 24, 2014 to include these economic projections for this production.
8. The utilization of existing business in Nevada.

- During the hearing the applicant acknowledged an estimated 34 percent of the total production budget will be spent on Nevada labor and Nevada expenditures, including costs spent on Nevada business.
- Projected Nevada direct expenditures for this production are $8.698 million.

9. The capital investment in Nevada.

- During the hearing, the applicant testified that it does not anticipate any long-term capital investment (real and personal property) in the State.

10. The ability to promote the state as a tourist destination.

- The production will film 49 days in Las Vegas and highlight locations including the Las Vegas Strip, Lake Mead and Hoover Dam.
- The Nevada Film Office has determined the number of filming days, and diversity of location, are likely to promote tourism in the State.

11. The degree that the tax incentive influenced the decision to film in Nevada.

- During the hearing, the applicant testified that but for the transferable tax credit program, the production would have only filmed background scenes in Nevada, with the bulk of the production filmed in another state.

**AGENCY RECOMMENDATION**

The Nevada Film Office recommends issuance of a certificate of eligibility for transferable tax credits in an amount equal to $4,383,987 for this production.