



Production Incentives and Financing: **Navigating the Complexities**

A CAST & CREW ROUNDTABLE DISCUSSION | FALL/WINTER 2018

DAVID BENAVENTE

Vice President, Independent Sales and Incentive Services

FRED MILSTEIN

Chief Executive Officer, Media Guarantors

DEIRDRE OWENS

Vice President, Incentive Financing

JOE BESSACINI

Vice President, Film & Production Incentives



Comprehensive Financial Services

In 2013, Cast & Crew launched Cast & Crew Financial Services to bring together its incentive financing and incentive management services for film and television production. Since that time, CCFS has added services. With the launch earlier this year of Media Guarantors, Cast & Crew's completion bond company, CCFS' offering has become even more comprehensive.

Recently, David Benavente, Vice President, Independent Sales and Incentive Services; Joe Bessacini, Vice President, Film & Production Incentives; Fred Milstein, Chief Executive Officer, Media Guarantors, and Deirdre Owens, Vice President, Incentive Financing, discussed CCFS and what it brings to the market.



DAVID BENAVENTE: **DB**

FRED MILSTEIN: **FM**

DEIRDRE OWENS: **DO**

JOE BESSACINI: **JB**

Q. What is Cast & Crew Financial Services' overall strategy and what's the special deliverable that you bring to your clients?

DB: First of all, we are a “one-stop shop” for independent services. But, beyond that, given our team's broad and deep experience, we offer the appropriate skillset for solving producers' problems.

We're pleased to offer this combination of advisory, financial and management services. We believe it provides customers with exactly what they need.

One-stop shop.

Q. At what point does a client need to start talking to CCFS?

FM: For completion bonds, it's most beneficial for the producer to begin talking to us at the earliest stages of the financing process – when he or she has the script and budget and a shooting schedule – even if those are only preliminary.

We're often the first stop. A producer will find that a bond company's input will help in finalizing plans and the bond's letter of intent certainly adds weight and credibility to the producer's submissions to potential financiers.

Q. And for financing?

DO: It ranges from production to production, though the most common time is in the planning stages, before the official start of pre-production. Producers need to come to us at this point if they need the financing to complete their budget.

Most debt lenders (us included) will not fund until the production has secured sufficient financing

to complete the project. As a result, most of the work to put together the financing is done before and during pre-production, so that the financing and bond are closed before the major spending starts closer to principal photography.

Q. What's an example of a production coming to you later in the process?

DO: Sometimes producers come to us later if they did not already secure financing against the tax credits. This usually is the case when producers have covered the entire budget to date themselves, or through an equity partner.

In those cases, they usually come to us to free up additional cash, if they want to invest in a new project, or if the tax credit funds are not coming in as quickly as anticipated and they want to monetize the credit earlier. And, sometimes, it's because the producer wants to enhance the project beyond the original budget/production plan.

Not all incentives are created equal.

Q. Joe, what's the most important thing(s) that productions need to understand about production incentives when they reach out to you?

JB: It's a pretty simple message: Not all incentives are created equal. There are many factors to consider when comparing incentive programs. Ultimately, for independent producers and studios, it's having a realistic understanding when they will receive the cash and how much they will receive.

Q. Dave, are there examples of where you have provided a single client services across the board?

DB: Yes. With Media Guarantors launching earlier in the year, it's common to get requests to bundle all of our services. And we have instances where we are providing the full complement of services.

Q. Deirdre, who is the typical client to which you would provide financing?

DO: There's a wide range. We've provided financing for film and television productions with budgets ranging from \$2 million to \$100 million. Our loans are primarily against tax credits or other incentives, although we will sometimes finance other receivables along with the incentive. Most are U.S. and Canadian productions, but we have also provided loans on projects based in other international locations with stable incentive programs.

Lend primarily against tax credits.

Q. What are the characteristics of your typical client?

DO: Our financing clients are almost exclusively independent production companies and producers. Studios, mini-majors, and the largest production companies tend to already have large bank facilities they use to finance all their projects and would not have a need for our financing on a single-picture basis.

That said, producers of large and/or high-profile projects also have opted for our offering over bank financing. Ultimately, it depends on the requirements of the project. Our offering makes the most sense when the higher advance rates

from our loan – compared with bank financing – makes a big difference in being able to close financing – as it often does.

Q. Fred, what are the factors you consider when determining whether or not to issue a bond?

FM: It's an assessment of the viability of the production plan; it has nothing to do with commercial value of the project.

We review the adequacy of budget and schedule in relation to the script. We look at locations, time frames, experience of the key crew members, the producer and director – all in an effort to make certain that the plan is realistic, and that it will allow the project to be produced and delivered within the time frame and with the resources available.

Q. What if you see problems?

FM: If we have any concerns we'll share them openly with the producer and work together to find reasonable solutions. Sometimes that's reallocating resources and sometimes that's extending the budget or schedule or rethinking a location.

Work with producers to find solutions.

Q. What's an example of how this type of advice benefits the production?

FM: We recently suggested a change of location to a producer and introduced him to a previous client who now is helping reset the production in that location. This, in fact, opened up the opportunity for some increased incentives and solved a major concern in terms of local crew availability and local shooting conditions. It's going to work better all around.

Q. Joe, what are the various services you provide when it comes to incentives?

JB: It ranges from no/low-cost advisory services to the full management of the incentive process. Additionally, financial institutions ask Cast & Crew to provide an opinion letter estimating the incentive for a production for which they are providing financing.



Q. What's the biggest mistake productions make, or the biggest misconception they have, with incentives?

JB: Incentive programs vary from jurisdiction to jurisdiction. What qualifies in one jurisdiction may not qualify in a different jurisdiction. Even if you have worked in the same jurisdiction before, incentive programs are continually evolving and what qualified the last time may not qualify now. It's important to have a conversation with us early in the process.

Q. Deirdre, what is the single factor that makes your financing offer stand out?

DO: Our lending terms, first and foremost, are pretty good. But, ultimately, I believe the most significant differentiator is our service. We do strive to go above and beyond. Although we have built up our financing portfolio, we still are building our brand, and providing superior service is a necessary component of that. The

fact is, word gets around, and we want that word to be good.

For a producer, securing financing on a timely basis can be the difference between keeping a show together or not. So, we naturally take on the sense of urgency the situation demands for each of our loans. We're not miracle workers, and there are some requirements that are non-negotiable, but we do everything in our power to get producers over the finish line quickly and efficiently.

Q. Media Guarantors is new to the market. Why do producers choose you?

FM: Experience, expertise and client service ... we're really engaged and responsive to the producer's needs, especially his or her need to close the financing as soon as possible. This is the differentiator we bring to each assignment. Our team has worked on so many projects over the years and can bring deep experience to the table for each project that's submitted. The fact is, a lot of the risk assessment is based on trusting the experience of the key people involved – the producer, director and DP to come up with a viable plan they all believe in, and then use their best efforts to stick to the plan.

Expertise, experience and client service.

Things will happen, they do on every show. But most are insured by the production package ... the bond is there for uninsured events or things that took longer than expected or cost more than everyone believed they would.

Q. Joe, your advisory work is contingent on being up to date on incentives and locations. What kinds of relationships do you have with film commission offices?

JB: We work hard to develop and maintain relationships, not only with the film commissions around the world, but with the authorities having oversight of the film program. This includes: film commissioners, departments of revenue, or the economic development departments in a particular jurisdiction. We monitor legislation related to a film production incentive, from the day it is introduced through enactment.

Optimize money available for clients.

Q. How competitive are your lending terms?

DO: Pretty competitive. We're not going to be priced as inexpensively as a commercial bank that is active in this space. That said, we've structured our offering to be more aggressive/generous than a lower-cost lender such as a bank, while not being as expensive as other boutique non-bank lenders tend to be. This results in our clients getting more money toward their production than with competitors of either type.

This is probably because at Cast & Crew we view this business as a way to support our relationship with our production clients, as well as our payroll, bonding and production incentive management businesses. This is not to say that we aren't careful in our underwriting – we strive to ensure that our risk is appropriately mitigated and that we achieve a reasonable return relative to the risk we do take on – just that we have broader considerations from each deal than simply maximizing returns.

Q. Joe, what's involved in your incentives management offering?

JB: It's A to Z. Our services include having a conversation about what costs/fringes do and do not qualify in the jurisdiction; advising on the free field coding to be used; providing an estimate of the incentive based on the budget; timely filing

Full range of management services.

of the initial/final applications; monitoring spend throughout production; providing intermediate estimates of the incentive; providing guidance on requirements for audit; recommending third-party auditors; working with the production contact when questions arise during the audit, and recommending tax credit brokers. You name it.

Q. Fred, what's your role during the course of the production?

FM: We want to be viewed as a resource and a partner by the production. We monitor the progress by reviewing call sheets, daily production reports and weekly cost reports, and speak to the production on a regular basis. The bond company has no view on what is happening creatively, just that the production is staying on schedule and within budget and will be ready for delivery on the contracted date. If we see the project trending incorrectly, we'll speak to the show and assist the producer in resolving whatever the issue may be to get back on track. It's not in a guarantor's interest to "take over" a film – it's the last thing we want to ever do. We want to help the show itself resolve any issues.

Q. And your relationship to the financier?

FM: We provide objective production expertise to advise them and provide a financial safety net to protect their investment. They take the credit risk, but usually have little experience in actually making a movie. They engage us to take the production risk. We report regularly and – if there is a problem – we let them know how it’s going to be solved. It’s insight into the nuts and bolts to help mitigate their investment risk.

Q. What is your role in distribution agreements?

FM: So the bond takes on the obligation of delivery to the various distributors whose contracts the financiers are using as collateral. We make sure that what constitutes “delivery” – what’s in the “box” of stuff that needs to be delivered – is, in fact, deliverable, budgeted and delivered on time.

We review each delivery schedule and all the delivery obligations and also make sure the schedule allows sufficient time to complete

post-production and still make delivery when contracted. Except for certain exclusions, the bond company has an unqualified obligation to complete and deliver the film, with first-class technical quality, based on the approved screenplay, with the productions elements that have been contracted.

Aligned with payroll services.

Q. Dave, how does Cast & Crew Financial Services align with your payroll services?

DB: Once a conversation begins about CCFS services, there’s never a second thought with respect to payroll services. The conversation always starts with the idea that pricing of services is going to be contingent on using Cast & Crew for payroll.

Q. Thank you.

Securing finances on a timely basis can be the difference between keeping a show together or not.

GLOSSARY

CASH REBATE/GRANT: A sum of money given to a qualifying production based on program criterion. No tax return is required for a cash rebate.

COMPLETION BOND/GUARANTY: A form of insurance that guarantees financing to complete a film or television project within budget, in accordance with the script and on schedule. They sometimes are required by banks and investors to secure loans and investments in a production. Should a bond be invoked, the completion guarantor may assume control over the production and be in a recoupment position superior to all investors.

GROSS BUDGET: Budget total before any tax credits.

LOAN-OUT COMPANY: A personal services company set up by many artists and high paid individuals in which their personal services are engaged through the company instead of directly with the production company.

NET BUDGET: Budget total after tax credits (i.e., Gross Budget less Tax Incentives = Net Budget).

NON-REFUNDABLE, NON-TRANSFERABLE TAX CREDIT: A tax credit which can only be used by the qualifying production entity to reduce its own tax liability.

NON-REFUNDABLE TAX CREDIT: A tax credit which can only be used to reduce tax liability, i.e. no refund will be made.

PRODUCTION INCENTIVES: Anything that encourages productions to film in specific regions, whether it be a city, county, state or country. (aka Film Incentives aka Tax Incentives aka Tax Credits)

REFUNDABLE TAX CREDIT: A tax credit in which a refund will be given if the tax credit is greater than any taxes owed.

SALES TAX REBATE: A refund on regional sales tax on qualified spend. The production pays the sales tax at the point of purchase but gets a refund after filing a return.

SALES TAX WAIVER: The production is granted a waiver from paying sales tax at the point of purchase.

TAX CREDIT: A benefit given to a production in the form of either a credit on taxes the production company may owe, or a tax refund if no taxes are owed. The production company must file a tax return to receive the tax credit benefit.

TRANSFERABLE TAX CREDIT: A non-refundable tax credit which can be sold to another tax payer, (i.e., the production company) does not have to use the tax credit for their own tax liability but may sell (transfer) the tax credit to another tax payer.

BIOGRAPHIES

DAVID BENAVENTE

Vice President, Independent Sales and Incentive Services

Experience

Cast & Crew, Burbank
Vice President, Independent Sales
and Production Incentive Services
February 2016 – Present

Stephen David Entertainment, New
York
Chief Financial Officer
April 2015 – December 2015

Hollywood Business Improvement
District (BID),
Hollywood Entertainment District
Board member

November 2013 – October 2014

Shine America, Hollywood
Senior Vice President,
Production Finance & Administration
February 2010 – September 2014

Telepictures/Warner Bros.
Senior Vice President,
Finance & Administration
1987 – 2009

Education

University of Southern California
BS, Business Administration
1983



FRED MILSTEIN

Chief Executive Officer, Media Guarantors

Experience

Media Guarantors
President and CEO
March 2018 – Present

Pinewood Studios
Consultant
August 2016 – Present

Seven Stars Entertainment
Chief Executive Officer
June 2012 – July 2016

Aon / Albert G. Ruben
Managing Director
July 2009 – June 2012

cineFinance
President and CEO
1997 – 2009

Education

University of Pennsylvania
BA, Communications
1968 – 1972





DEIRDRE OWENS

Vice President, Incentive Financing

Experience

Cast & Crew, Burbank
Vice President, Production Incentive
Financing
August 2013 – Present

Grosvenor Park
Vice President, Finance
September 2006 – August 2013

RBC Capital Markets
November 2001 – August 2004

Tucker Anthony
Investment Banking Analyst
July 2000 – October 2001

Education

UCLA Anderson School
of Management
MBA
2005 – 2006

Harvard University
AB-Economics
2000



JOE BESSACINI

Vice President, Film & Production Incentives

Experience

Cast & Crew, Burbank
Vice President, Film & Television
Production Incentives
June 2009 – Present

Production Incentive Consultant
March 2008 – June 2009

Axium International Inc.
Consultant
January 2007 – January 2008

Warner Bros. Pictures
Executive Director - Tax
July 1979 – December 2006

Education

Golden Gate University
M.S., Tax

University of Rhode Island –
College of Business Administration
B.S., Accountant

We do.

So you can.

Learn more about Cast & Crew Financial Services
bit.ly/ccfs-roundtable

Send us an email
marcomm@castandcrew.com

Connect with us

 @CastCrew

 @CastAndCrewNews

 @CastCrew



Production Incentive Financing – we can provide cash to film and television productions when it is needed most – during production. We have flexible loan package options with higher advance rates to meet producers' individual needs.

Production Incentive Consulting – our team provides guidance to help producers navigate the continuously changing incentive landscape.

Production Incentive Management Services – our team provides an end-to-end solution to address any incentive management need at competitive pricing. Leave the incentive compliance to us, so you can focus more energy on your production.

Canadian Production Incentive Services – through our Canadian entity, Cast & Crew Capital, we provide a combination of legal, accounting and financing solutions all under one roof. Clients benefit from a full complement of incentive services, including corporate structuring, financial statements, tax filings and audits.

Tax Credit Brokering – our team can help producers find buyers for their transferable tax credits.

Completion Bond Services – through Media Guarantors, Cast & Crew clients can benefit from full completion bond services and financing advisement. Our service is unmatched in experience, flexibility, security and responsiveness.