

CANADA MEDIA FUND

Working Group

Date: August 29, 2012

SUBJECT: Performance Envelopes—Licence Fee Threshold

BACKGROUND:

A “Licence Fee Threshold” is the minimum amount of Eligible Licence Fees that a project must receive from one or more broadcasters to be eligible for CMF funding. There are currently 37 different Licence Fee Threshold (LFT) categories, many of which have not changed in eight years. Licence Fee Thresholds are provided for reference as Appendix A to this memo.

The CMF wishes to begin discussions about the appropriateness of the LFT categories, levels, and calculation methodologies. As the CMF has implemented its current Guidelines for two years, it does not intend to amend LFTs this year or next. However, the CMF will consider LFT amendments for the 2014-2015 fiscal year. Nevertheless, since LFTs represent one of the more complex and industry-calibrated aspects of the Performance Envelope Program, the CMF would like to initiate discussions on this subject now.

Objectives

The CMF’s objectives for this discussion include the following:

- Simplification. The CMF Board of Directors has identified simplification of policies, programs and funding processes as a key organizational objective. The CMF would like to consider whether the sheer number of LFT categories and various calculation formulas is unduly complex and/or necessary in view of simpler alternatives.
- Ongoing recalibration. LFT levels are calibrated to industry realities in terms of production budgets and market standard licence fees. The CMF wishes to ensure that LFT categories and levels remain relevant to the industry .

History

Of the 37 different LFTs currently in place, most were set in the 2004-2005 CMF fiscal year. Over the past 3 years, the following changes were made regarding LFTs:

- For 2010-2011, LFT categories for French drama were clarified by adding a new category for drama projects excluding MOWs, mini-series, & series with budgets over \$800,000 per hour. The LFT for this category was set at 20% of Eligible Costs. Previously, programs of this type did not fit in a CMF LFT category, so the category was created with analogous LFT amounts to fill that gap.
- For 2012-2013 the LFT applicable to French-language children’s & youth animation was reduced from 15% of the Television Component’s Eligible Costs to 10%.

Requested Changes

Several stakeholders have requested changes to LFT levels in recent years. They include:

- French-language variety programming with budgets less than \$750,000 per hour. The LFT for this category is currently 50% of Eligible Costs. Compare this with the variety over \$750,000 at 25% of Eligible Costs or performing arts programming of any budget at 20%. Some have argued that a 50% LFT for lower-budget variety programming is too high.
- Movies of the week. English-language MOW LFTs are \$325,000 per hour for projects costing between \$800,000 and \$1.86 million, and 17.5% of Eligible Costs for more expensive MOWs. The LFT for French-language MOWs is \$150,000. Some have argued that those LFTs are too high, especially where the project is a theatrical feature film that happens to also have secured a Canadian broadcaster.

Data on Current LFT Activity

The CMF has prepared data on the current Licence Fee Thresholds. The complete data is appended to this memo at Appendix B. The following is a summary of some key observations based on this data. You may note that out of 37 categories, 19 have 1 to 10 projects, 5 have no projects in 2011-2012, and returning series have been merged with new series.

- English-language Programming:
 - *Drama*
 - Overall, a significant number of licence fees were much higher than threshold (Table 3).
 - The 2 categories with substantial samples were big-budget ½-hours and 1-hour series.
 - For big-budget ½-hour series, the average licence fees were \$438K per hour and 31% of budget (Table 1). Out of 10 in total, there were 6 in the average range and 3 over \$500K per hour (Table 2). 4 out of 10 were less than \$50K over threshold and 4 were greater than \$500K over threshold (3).
 - Big-budget 1-hour series had lower averages of \$376 per hour or 22% of budget (1). 1/3 of 16 were in the \$400-\$500K/hour range (2). 5 of 16 projects were at threshold and 7 were greater than \$500K over threshold (3). In the one-off categories, all licence fees were far above threshold (3) and had similar % of budget (> 20%) (1).
 - *Variety & Performing Arts*
 - Most licence fees stayed close to threshold (3).
 - In the low-budget category, 7 out of 11 were less than \$50K above threshold. 6 out of 11 had licence fees less than \$100K/hour (2), showing very low budgets. Big-budget projects had 1 out of 3 at threshold with 2 far above (3).
 - *Documentary*
 - Most licence fees were above threshold but by under \$50K. 35 out of 124 (28%) of all docs were at threshold (3).
 - 51 out of 124 (41%) of all licence fees were under \$100K/hour. 67 (54%) of all docs had licence fees of between \$100 and \$200K/hour (2).
 - 21 out of 51 (41%) of big-budget docs were greater than \$50K above threshold (3).
 - *Children's & Youth*
 - 17 out of 36 (47%) of low-budget projects were above threshold (mostly by under \$50K) (3). 19 (53%) of licence fees were between \$100-200K/hour. 15 (42%) were under \$100K/hour (2).
 - For big-budget projects, 5 out of 7 were between \$200-300K/hour (2). 1 out of 7 was at threshold, the rest were above by varying amounts (3).

- French-language programming:
 - *Drama*
 - Just over half of 22 projects are greater than \$500K over threshold (3).
 - Very low budgets and MOWs have stayed close to threshold (3).
 - Most licence fees are in the \$100-200K/hour range (2) and the average was 34% of budget for low-budget projects (1).
 - *Variety & Performing Arts*
 - 32 out of 41 (78%) of licence fees were close to threshold, mostly in the less than \$50K range. 9 out of 41, however, were greater than \$100K over threshold (3).
 - 37 (90%) of all licence fees were under \$200K/hour (2).
 - The average for low-budget projects was 55% of budget (1).
 - *Documentary*
 - Over all categories, 77 out of 109 (71%) of licence fees were over but close to threshold (3).
 - Except for very low budget and very high budget docs, most categories average over 20% of budget (1). 104 (96%) of licence fees are under \$100K/hour (2).
 - 24 of 93 low-budget docs were \$50K to \$200K over threshold (3).
 - *Children's & Youth*
 - 24 out of 27 live-action licence fees were over threshold, 11 by more than \$50K (3).
 - 25 were below \$100K/hour (2). The average was 42% of budget (1).

QUESTIONS FOR DISCUSSION:

The CMF does not wish to unduly restrict discussion; however the following questions in particular may be considered:

1. Are the current categories still the right ones? Are 37 different categories necessary? Should the CMF combine some current categories together into fewer categories, for example, where different categories have identical LFT levels? Or is the current number necessary to take into account the variety of program types and budgets currently used in the industry? If the CMF does eliminate or combine categories, on what basis? Alternatively, should the CMF add new categories? For example, should the CMF add a new category for English-language feature-length documentary?
2. Should the CMF simplify the methodologies for calculating LFT? For example, LFT for English-language variety & performing arts is "40% of Eligible Costs or \$240,000 per hour, whichever is less". For English-language MOWs costing between \$800,000 and \$1.86 million per hour, the LFT is a per-hour dollar amount—i.e. \$325,000 per hour—but for MOWs costing over \$1.86 million per hour, LFT is calculated on a percentage of budget—i.e. 17.5% of Eligible Costs. Are these, multiple methods for calculating LFT necessary? Should the CMF simply have one methodology based on percentage or a dollar amount, but not both?
3. While most of the discussion has focused on television, is the 10% minimum broadcaster financing amount for Digital Media components appropriate (see Appendix C.1 and C.2)?