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## FISCAL IMPACT REPORT

SPONSOR Harrison DATE TYPED 02/18/05 HB 629

SHORT TITLE FILM PROJECT INVESTMENT GUIDELINES SB \_\_\_\_\_

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
Indeterminate	Indeterminate			Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to House Bill 122

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

State Investment Council (SIC)

Department of Labor (DOL)

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Bill

House Bill 629 would allow the State Investment Council to invest in a film project that does not meet certain investment criteria when the film project takes place in an economically depressed New Mexico county. The bill would exempt these film projects from the following criteria:

- have posted a completion bond that has been approved by the New Mexico film division;
- have obtained a guarantee of repayment of the invested amount:
  - (a) from an entity that has a credit rating of not less than Baa or BBB by a national rating agency;
  - (b) from a substantial subsidiary of an entity that has a credit rating of not less than Baa or BBB by a national rating agency;
  - (c) by providing a full, unconditional and irrevocable letter of credit from a United States incorporated bank with a credit rating of not less than A by a na-

tional rating agency; or

(d) from a substantial and solvent entity as determined by the state investment council in accordance with its standards and practices; or

- if not guaranteed pursuant to the previous paragraph, have obtained no less than one-third of the estimated total production costs from other sources.

The bill defines an economically depressed county as one that has an unemployment rate that is 25 percent higher than the rate for the state as whole and has at least 25 percent of its population below the federal poverty level. Based on data from the Department of Labor and the 2002 U.S. Census, only two New Mexico counties currently qualify as economically depressed, those are Luna and McKinley counties. Note, according to the Department of Labor, the current state unemployment rate is 5.2 percent.

### Significant Issues

The SIC cautions that without requiring the investment requirements above, the SIC is likely to have a high number of unrecoverable defaults on the loans to such film projects.

### **PERFORMANCE IMPLICATIONS**

SIC notes that this bill could impact the performance of the Severance Tax Permanent Fund (STPF) due to an increase in the number of unrecoverable defaults in the film program. Additionally, SIC believes that without the completion bond, the SIC may be obligated to invest more in the program to complete the film or risk a complete loss of their initial investment.

### **FISCAL IMPLICATIONS**

The fiscal impact of this bill is indeterminate. The fiscal impact, if any, would be to the STPF investment return. It is unknown what types of film project investments would be made given the reduced requirements and how those film projects might perform. It is likely that the reduced investment criteria would lead to riskier investments and, thus, a higher rate of loan defaults, which would lower the returns to the STPF.

### **ADMINISTRATIVE IMPLICATIONS**

None reported.

OPJ/yr