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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/07/07

SPONSOR Stewart LAST UPDATED \_\_\_\_\_ HB 529

SHORT TITLE Media Arts and Entertainment Department Act SB \_\_\_\_\_

ANALYST Earnest

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$500.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

House Bill 529 duplicates Senate Bill 525.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Economic Development Department (EDD)  
 Department of Finance and Administration (DFA)  
 State Investment Council (SIC)\

#### Responses Not Received From

Cultural Affairs Department

### SUMMARY

#### Synopsis of Bill

House Bill 529 creates a new sub-cabinet level department to consolidate state functions to develop a media arts and entertainment industry in New Mexico. An executive director would lead the department, which is composed of four divisions and seven bureaus. The act creates a new fund for the film museum.

The bill would transfer all functions, personnel, appropriations, money, obligations, and other property from the NM Film Division of the Economic Development Department and from NM Film Museum and its board of trustees from the Cultural Affairs Department to the new Media Arms and Entertainment Department.

The bill reconciles multiple amendments to the same section of the law of laws 2005, amending, enacting and re compiling sections of NMSA 1978.

The bill appropriates \$500 thousand to the DFA to establish the department.

## **FISCAL IMPLICATIONS**

The appropriation of \$500 thousand contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2008 shall revert to the general fund.

### Continuing Appropriations language

Section 20 of this bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

## **SIGNIFICANT ISSUES**

The new department would be organized in four divisions and seven bureaus, as follows:

- A. Administrative Services Division
- B. Film Division
  - a. Production Services Bureau
  - b. NM Filmmakers Bureau
  - c. Film Museum Bureau
- C. General Media Arts and Entertainment Division
  - a. Corporate services bureau
  - b. Games and animation bureau
  - c. Digital imaging technologies bureau
  - d. Music bureau
- D. Media Arts education Division

All divisions would be headed by directors exempt from the state personnel act, and all bureaus would be headed by chiefs exempt from the personnel act.

The FY07 operating budget for the Film Division of EDD includes about \$800 thousand and authorization of 12 FTE. Including the Film Office, the Film Museum, and the FTE and appropriations contained in this bill, the new department would have a budget of about \$1.5 million and employ at least 19 people. Two boards – “Governor’s Council on Film and Media Industries” and the Board of Trustees of the NM Film Museum – would advise the new department.

According to the Film Office, this act is in reaction to the rapid growth and expansion of New Mexico’s film industry and the emergence of digital media (animation, visual effects, games, and applications of digital media into the medical and security fields) in the state. The Film Office also states that “the act addresses the need to secure and service digital media companies that are currently shopping for the ideal domestic headquarters for their operations and are leaning towards New Mexico. Expertise and resources are needed to maximize these opportunities.” The

Film Office, however, does not address why a new department is needed to cultivate this expertise and recruit these companies.

The growth of the film industry in the state is due largely to the 25 percent film production tax credit and the diligent services provided by the Film Office to production companies. In the first quarter of FY07, the state approved \$5.7 million in tax refunds to production companies. At that rate, the state will likely return to companies more than \$24 million from the general fund. Other subsidies the state provides to the industry include wage reimbursement for employees through the Job Training Incentive Program (JTIP) and zero-interest loans from the State Investment Council. The state has also invested more than \$16 million in capital outlay appropriations for media production education programs at New Mexico's colleges and universities.

There is strong potential for significant growth of the digital media industry in the state. The Mesa del Sol development group and the state attracted Culver Studios to expand into New Mexico. Their new facilities – Albuquerque Studios – in conjunction with state incentives may help attract digital media companies and post-production facilities to the development.

### **PERFORMANCE IMPLICATIONS**

The New Mexico Film Office has exceeded the performance measures every year for four years. The office tracks worker days, economic impact and number of productions, and has already exceeded its FY07 performance targets in the first six months of the year:

- Worker days are 97,803, well over the target of 75,000; and
- Economic impact\* is stated at \$200 million, exceeding the FY07 target of \$140 million.

\*Economic impact is calculated by multiplying company expenditures by three – an approximation that EDD believes to be an industry standard.

### **ADMINISTRATIVE IMPLICATIONS**

EDD notes that the workload created by the large number of film productions coming into the state requires a disproportionate percentage of EDD's marketing, administrative services and legal staff resources. EDD's Public Information Officer is not currently handling the New Mexico Film Office's massive amount of press inquiries, press releases, or press opportunities. This function has been incorporated into NMFO's staff responsibilities (who do not have the expertise or time to handle this important element.) Creating this new agency would take the burden off of EDD to handle these administrative needs.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 529 duplicates Senate Bill 525.

### **ALTERNATIVES**

Instead of creating a new department, the Legislature could give more authority and resources to the existing film office of the Economic Development Department, which is the principal business recruitment and retention arm of the state.