FISCAL IMPACT REPORT

		ORIGINAL DATE	03/17/11		
SPONSOR	HAFC	**LAST UPDATED**		**HB**	627/HAFCS
SHORT TITLE	Film Investment Loans, Fixed Rate Required			**SB**	
				ANALYST	Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY11	**FY12**	**FY13**		
	$10,000.0 - $16,000.0	$10,000.0 - $16,000.0	Recurring	Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	**FY12**	**FY13**	**3 Year Total Cost**	**Recurring or Non-Rec**	**Fund Affected**
Total		*	*		Recurring	State Investment Council

(Parenthesis ( ) Indicate Expenditure Decreases)
* See Administrative Implications

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

The House Appropriations and Finance Committee substitute for HB 627 inserts language into Section 7-27-5.26 that would require the State Investment Council to charge film production companies a market rate of interest for film loans. Specifically, they would charge at least an interest rate of the Wall Street Journal (WSJ) prime rate plus one and a half percentage points if filming primarily in a class A county and an interest rate of the WSJ prime rate plus one percentage point if filming primarily outside a class A county.

FISCAL IMPLICATIONS

Many types of lending institutions use the prime rate as an index or foundation rate for pricing various short-term loans. This rate is currently 3.25 percent. If a film production company produces in a class A county, the SIC would charge an interest rate of 4.75 percent on a film loan. If the investment returns for other types of assets remain positive (from July through December of FY11, the STPF saw investment returns of 15.6 percent), regardless of how the market responds, House Bill 627 would translate to more returns for the STPF.

If the SIC provides the maximum level of film loans, 6 percent of the STPF, then the increase in returns would be $10 million, or $3.8 billion times 6 percent times the market rate of interest of 4.5 percent (on average). If no film company would be interested in film loans from the state at a market rate of interest, the 6 percent would be invested in alternative investments, which would translate to approximately $16 million, assuming a 7 percent rate of interest for these investments.

SIGNIFICANT ISSUES

In their analysis of HB 19, which among other changes, required a market rate of interest on film leans, the State Investment Office reports that current allocations of the STPF to film loans are less than 3 percent of the STPF. There is concern that at market rate of interest, there will be no demand for film loans. The SIC currently issues loans at zero percent interest.

SIO:

> The State Investment Council and its Private Equity Investment Advisory Committee are currently in the process of weighing several potential changes to the film investment program through policy revision. One of those suggested changes is to charge a market rate of interest to film and TV projects, and staff is currently assessing what market rate would be appropriate.
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> For several years the SIC has produced a monthly report posted on its website which captures "opportunity risk", which highlights what the loans would have made if they had instead been invested in United States Treasuries (T-Bills). Since inception, the rate of return on the $239MM in film loan investments would have been $28.9 million. That is in contrast to the $500k in profit participation the SIC has seen in return, but also does not account for the economic impact and direct spending of film projects here in NM. In the same report, the SIC tracks that information based on data provided to the SIC by the NM Film office and the Taxation & Revenue department.
> http://www.sic.state.nm.us/PDF%20files/3E2%20-%20NM%20Film%20Investment%20Program%20-%2012-31-10%20-%20Final.pdf
> The SIC uses only direct spending numbers and does not apply a multiplier on economic impact as the Economic Development department has done in the past.
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> Taking direct spending numbers into account, the 24 film & TV projects which received $243MM in SIC loans went on to spend $245MM in NM on crew, services, equipment, etc. To date, all of the loans have been repaid or are on track to be repaid, with $75MM currently outstanding.

It is difficult to estimate a specific value on fiscal impact as it would be determined by the number of loans approved by the SIC. Historically, the bulk of film loans were made in 2005-2007 timeframe, and the SIC has not approved a loan that was executed since November of 2008 (2+ years). Two loans which received Council approval in 2009 were subsequently dropped prior to funding after the projects lost distribution deals and failed to find satisfactory replacements. The films had already been shot in NM to the benefit of the local industry.

One point which the Council would have to consider should this bill be made into law, is whether the SIC still requires the services of a film advisor. The salary savings in terminating that advisory position will be $260k/annum. Additional administrative costs due to that termination are indeterminate.

This analysis may indicate that if market rates of interest drive demand for film loans to zero, STPF funds may be invested in other assets that produce higher returns, and if there is demand for film loans at the market rate of interest, then the STPF would benefit from the higher rate of return.

TECHNICAL ISSUES

SIO:

The Investment office notes one point of concern in assessing differing levels of interest on loans made to rural projects versus urban projects. Many film and television projects shot in New Mexico have multiple settings that may cross these county boundaries frequently, and may be difficult to determine for the Council, based upon script or information provided to the SIC by the Film Office. Locations for these projects change. In the case of television series, they are often not fully mapped out for the entire season, complicating the issue further. The bill is also silent on who the final arbiter would be in the case of dispute whether a project qualified as being shot primarily in a class A county or not.

ADMINISTRATIVE IMPLICATIONS

The SIC currently allocates a portion of its budget to personnel who oversee the film loan portfolio. If the market rate of interest drives demand for film loans to zero, this may actually decrease the operating budget needs of the SIC.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Other film-related bills include HB 19, SB 169, SB 568, and HB 632.

JAG/svb