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F I S C A L   I M P A C T   R E P O R T

SPONSOR Maestas /Trujillo, J **ORIGINAL DATE** 2/22/19 **LAST UPDATED** 3/07/19 **HB** 654/aHCEDC/aHTRC

SHORT TITLE Film Production Tax Credit Changes **SB**

ANALYST Clark/Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
(Minimal) or No Fiscal Impact	(Minimal) To ($34,300.0)	($69,800.0)	($99,100.0)	($124,100.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

*The general fund impacts shown are the costs after paying the $50 million required under the cap. The accrued liabilities line shows the increase in estimated new liabilities by fiscal year under this bill and current law.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Minor to Moderate	Minor to Moderate	Minor to Moderate	Recurring	TRD & EDD Operating Budget

Parenthesis ( ) indicate expenditure decreases

Relates to or conflicts with HB527, HB594, SB2, SB451, SB151

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)
New Mexico Attorney General (NMAG)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee Amendment to House Bill 654 strikes the elimination of the annual cap on the film credit and instead increases the cap over five years to the following amounts:

- $150 million in FY20
- $160 million in FY21
- $170 million in FY22
- $185 million in FY23
- $200 million in FY24 and subsequent fiscal years

The amendment also changes the language for the cap from clearly stating the cap is on the amount of claims for a credit under the act that may be authorized for payment to the following: "The aggregate amount of claims for a film production tax credit that may be authorized with respect to the direct production expenditures or postproduction expenditures made on film or commercial audiovisual products for payment…." This additional language could create confusion. It does not appear to carve any expenditures out of the cap, but the language change reduces clarity.

Putting a cap back in place does not affect the scoring for this bill because it only applies to productions commencing on or after January 1, 2019, so the existing $50 million cap remains in place for prior productions (as with the original bill), and the new caps are high enough they exceed estimated credit claims through FY23. The amendment puts the tiered payment system for payments over two or three years back in place for new claims, but because the caps are so high, and the provision for these tiered payments to be sped up is also put back in, this also has no effect compared with the original bill.

The amendment also changes the purposes and goals of the act, removing one goal and expanding the language of two others.

Synopsis of HCEDC Amendment

The House Commerce & Economic Development Committee Amendment to House Bill 645 strikes the requirement in the "vendor" definition for the vendor to have employed at least three employees for at least 32 hours per week for at least 48 weeks in the calendar year. The resulting definition is much closer to the definition in SB2 but still conflicts.

Synopsis of Original Bill

House Bill 654 amends the Film Production Tax Credit Act to remove the annual $50 million cap, eliminate the tiered system of payouts for mid-size and large productions over two to three years, and make a significant number of structural changes to qualifications, credit value, and reporting. However, all of the provisions of the bill, including removing the cap and the tiered payout system, apply only to companies that start principal photography on or after January 1, 2019.

The Economic Development Department (EDD) provided the following summary of the bill's actions.

> This bill makes changes to the current film production tax credit. The bill increases the number of television episodes from six to 12 with a budget of $50 thousand per episode to receive the additional 5 percent credit. The bill removes the pass through language attributable to the filer. The bill removes the $50 million cap and the tiered payout system. Language is added to allow the Film Office to agree to certain acknowledgments of the state of New Mexico. Specific language is added to allow the Film Office to collect data that will help determine the effectiveness of the credit. The bill will allow the Film Office along with TRD to determine eligibility of the production company and make the production company report at times when needed. The bill removes language that requires the Film Office to post the credits received by production companies on its website.
>
> The bill changes the amount from $5 million to $1 million for nonresident performing artists. This bill defines below the line crew. The bill removes the $150 per diem for food and lodging from production expenditures that can be rebated and will make the wages of a person who claims to be a New Mexico resident and is not a New Mexico resident not considered for rebate for two years.

The effective date of this bill is July 1, 2019, but the provisions of the act apply to film production companies that commence principal photography on or after January 1, 2019.

FISCAL IMPLICATIONS

The general fund impact estimates shown for FY19 and FY20 reflect the applicability of the bill only to new productions; the remaining fiscal years represent the likelihood of full-year (or nearly full-year) additional general fund impacts.

The updated estimate from EDD, working in conjunction with the Taxation and Revenue Department (TRD), for the backlog in total accrued liabilities in FY19 that is or could be filed, processed, and paid within the fiscal year is about $124 million after paying out the required $50 million under the cap. The estimate for FY20 is an additional $157 million, for a combined backlog of $281 million after paying out the total of $100 million under the cap for those two years[1].

The impacts shown are separated into two categories: 1) the general fund impact that would be reflected in general fund financial summaries and scored against the annual budget, and 2) the increase in new general fund accrued liabilities that must be paid out eventually and will be shown on the state's comprehensive annual financial report (CAFR) beginning in 2019 for the 2018 fiscal year.

The table below shows film credit applications approved by TRD by fiscal year. It is important to note this does not represent payouts within a fiscal year, because of the cap and tiered payment system, and it does not represent estimated liability to the state within the fiscal year because of processing delays at TRD that can result in applications filed in one fiscal year and then reviewed and approved in the next. For example, TRD reported at the end of FY18, total

[1] This FY19 estimate is less than the previous LFC estimate of $248 million for FY19 because of additional data from EDD on the decline in industry activity in FY18 that is impacting FY19 applications and data from EDD and TRD on the significant time lags from production to filing to processing and approval that push much of the backlog into FY20.

estimated cumulative state liabilities were $179.4 million, including about $80 million in applications that were filed during FY18 but not yet processed.

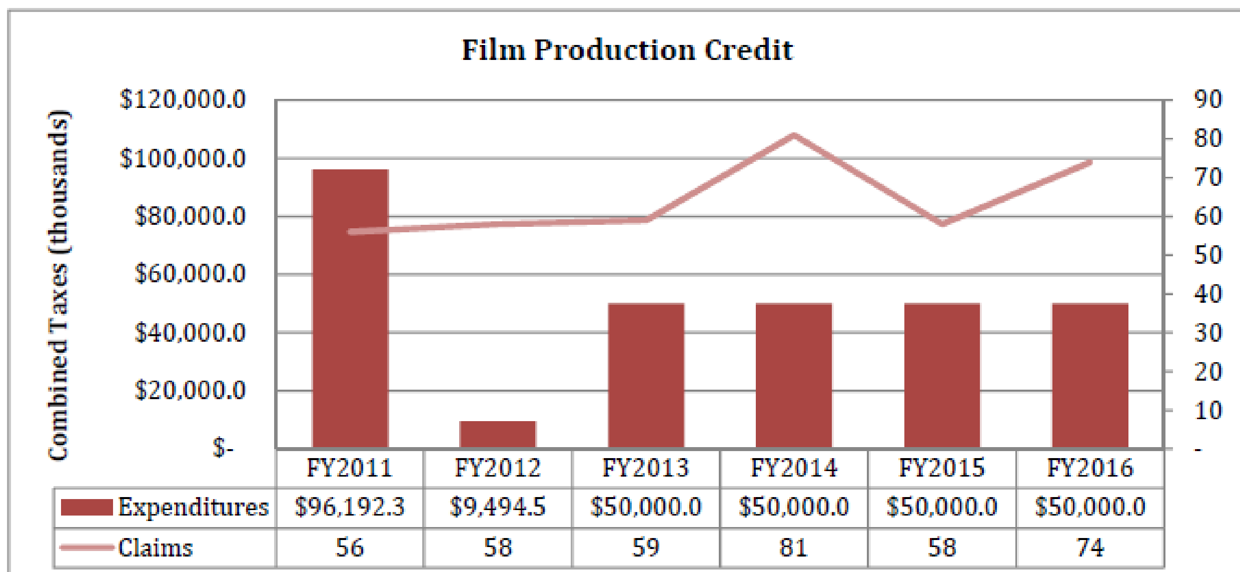
FY12	FY13	FY14	FY15	FY16	FY17	FY18
$ 19,157.23	$ 60,834.81	$ 41,571.67	$ 62,529.77	$ 38,519.35	$ 90,417.61	$ 104,342.17

The TRD approved application data is helpful for historical context, but it is difficult to estimate future liabilities from this data due to delays from the time a film production wraps to the application filing (up to 12 months) and from the time TRD receives an application to approval (often six months or more). It is unknown how many approved applications were filed in a particular year, and the lag would not show recent industry trends.

To estimate future impacts, LFC staff used TRD data on credit applications received (and booked as accrued liabilities) through the end of FY18. Since only partial data is available for FY19 from TRD, and obviously none for future fiscal years, the LFC projections rely on data from EDD on industry activity and estimated historical averages of delays between the start of production to end of production, to application filing at TRD, to application processing and approval at TRD.

The estimated fiscal impacts are only an approximation because past film activity eligible for the credit has fluctuated widely from year to year, and impacts for the remainder of FY19 and future fiscal years are highly uncertain. The impacts shown are the difference between a reasonable baseline scenario of mild growth (on top of the Netflix increase) under current law and another reasonable scenario of higher growth with the cap and tiered payout system removed. Actual industry activity and credit claims could vary significantly in either direction from these scenarios.

The table below shows the annual film credit claims. While this is helpful to show the surge to more than $90 million in credits in FY11, the last year before the cap went into effect, and the drop in FY12 after the cap took effect, it does not show recent industry trends.



	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Expenditures	$96,192.3	$9,494.5	$50,000.0	$50,000.0	$50,000.0	$50,000.0
Claims	56	58	59	81	58	74

SIGNIFICANT ISSUES

There are several key policy implications arising from the bill's amended language. One example is regarding acknowledgement of the state in the final film product. The changed language would allow the Film Office and the film company to agree to waive or change the acknowledgment. If the intent is not to permit waiving the requirement, clarifying language would be helpful. However, if the requirement is not waived or changed, the new language provides more specificity and additional requirements for the acknowledgment.

Another example is striking language requiring the Film Office to post certain data from film companies on its website. LFC promotes the principle of transparency, and for a bill that would significantly expand a large tax expenditure, removing this public reporting appears at odds with this principle.

The bill does not amend or repeal Section 7-2F-4 NMSA 1978, which provides explicit reporting requirements for six different items along with additional information needed by EDD. The language change in the bill that strikes some language requiring detailed production and post-production data be given to the Film Office, instead allowing the office and EDD to decide what data must be provided to determine the effectiveness of the credit, is in addition to the remaining reporting requirements. Therefore, the effect should be to raise reporting requirements or keep them at current levels, potentially improving transparency.

EDD provided the following analysis.

> This bill uses a film production budget to determine eligibility for the additional 5 percent increase on television episodes and pilots. This needs to be changed to read actual direct spend. By making this change the New Mexico Film Office will be able to track more closely expenditures made by the film industry. It will make the reporting more accurate and show a better cost benefit.
>
> The language that allows the department to agree to specific acknowledgments of the state of New Mexico is crucial as some productions, specifically film productions on television, tend to speed up the credits. This will allow the Film Office to agree to alternatives and ensure the state of New Mexico is promoted.
>
> By allowing the Film Office to collect any data the department deems necessary to determine the effectiveness of the credit, it will help demonstrate the cost benefit more precisely. This language will also allow the department to work closely with staff at TRD and LFC to report more accurate numbers and begin a process of becoming a leader in transparency.
>
> By allowing TRD to be involved in the determination of the production company, the division can complete a better due diligence of the production company. This is a needed step in the process. It should be noted the Film Office is unable to check the employment identification number that accompanies the production company; this is where TRD can help.

> By changing the amount for nonresident performing artists, it could help increase local talent employment numbers and ensure New Mexicans are hired. This could help with issues around the “brain drain” and increasing our state’s population.
>
> By adding in language that will make verification of residency punishable, this will crackdown on non-residents working in the state. This again could increase local employment numbers.
>
> The bill does not have a definition for “streaming” television. This needs to be added to the bill to ensure that current and future productions are qualified for the tax credit.

The Department of Finance and Administration reported that paying off the film credit backlog, and thus removing this growing, unpaid liability, would likely be considered very positive by bond ratings agencies. The agency also provided the following note.

> It is important to consider also that the state’s bond ratings are underpinned by strong reserve balances in the general fund. There is a possibility that general fund revenues will decline at some point in time. If for any reason the state dipped into reserves to pay film tax credits, it could end up being a concern for ratings agencies and the investment market. Having a measure to manage the amount of film tax credit payments when general fund reserves are lower could help to alleviate concerns that might arise in such a scenario.

The Pew Charitable Trusts performs significant research and analysis of state tax incentives and accountability, and Pew stated in recent reports, “A well-designed incentive should... protect the state budget from costs that increase quickly and unexpectedly.” In presentations regarding this protection, Pew has advocated caps for some incentives to prevent such increases in costs. Within the last several years, New Mexico experienced soaring costs for some tax deductions and credits, such as the high-wage jobs tax credit, which rose from annual costs nearly always less than $10 million to well over $50 million for two years before the state significantly narrowed the credit. That surge in costs became a cautionary tale for other states and is a good reminder for New Mexico policymakers to carefully consider changes to tax expenditures that could create significant spikes in costs.

PERFORMANCE IMPLICATIONS

The LFC tax policy principle of accountability is met with the existing annual reporting provided and detailed studies evaluating the effectiveness and other attributes of the credit.

New Mexico is falling behind other states for evaluating tax incentives. *Pew Charitable Trusts* recently reported 28 other states now perform regular tax incentive evaluations. The primary obstacle for New Mexico, as it was for many other states, is access to taxpayer data for the evaluations, but LFC does not currently have funding necessary for the dynamic modeling software and an additional staff or contract economist to perform these evaluations. Granting access to key data and providing LFC economists with the needed resources would allow a gradual process of evaluating tax expenditures and economic development incentives with the goal of eventually providing a holistic picture of the costs and benefits to the state of each job created in a particular industry – not just the cost of an individual incentive program, but the additive (or stacked) costs of all the incentives available for a particular job, along with estimated

additional revenues and other benefits resulting from that job (*see Appendix B: Cost Per Job for calculations and additional discussion*).

ADMINISTRATIVE IMPLICATIONS

EDD reported the following administrative implications.

> Staffing at the Film Office will need to be addressed. With the lifting of the cap, an influx of productions could occur. More specifically, staff members with a financial background and statistics to ensure all productions are properly vetted and all statistics associated with the credit are kept to demonstrate the viability of the tax credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to SB151, which would provide economists with data access and provide LFC economists with resources needed to regularly evaluate incentive programs such as this (*see Performance Implications for more discussion*).

HB654 mostly duplicates SB2 but has a few key changes. HB654 reduces tax credit payments for the services of performing artists from $5 million to $1 million, HB654 increases the required order of television episodes from six to 12, the two bills have differences in the definition for "vendor", and SB2 amends the additional credit for nonresident below-the-line crew while HB654 repeals that section.

HB654 conflicts with HB527, which pays off the backlog of approved credit claims in FY19 and again in FY20 but makes no other changes.

HB654 conflicts with HB594, which appropriates $100 million to TRD to pay off the backlog through a voluntary bid for discounted payments on credit claims.

HB654 conflicts with SB451, which seems intended to make the $50 million cap a hard cap with no backlog accrual.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

The references to "vendors" in the definitions section may be unclear, and the bill does not clearly define "television program" or reference streaming services. These may be technical issues worth addressing.

It is possible that in limited circumstances, there could be issues with the bill's provisions being applicable to productions that start on or after January 1, 2019 and the bill's effective date of July 1, 2019. For any short-term productions that start, wrap, and file applications within that six-month period (of which there may be none or few), the submitted application may be judged on different requirements depending on whether TRD reviews the application before or after July 1.

LFC staff note this bill might raise constitutional questions because of phrasing in the anti-donation clause of the New Mexico Constitution. Staff provided a memo to the chairs of HAFC, SFC, and HTRC notifying them of concerns more broadly regarding this type of tax treatment.

ALTERNATIVES

Instead of immediately eliminating the cap and paying off the entire backlog of credits at full face value, the bill could structure a voluntary payment system where companies could request the credit sooner if they were willing to take a discounted payment. This would result in a smaller general fund impact, and depending on the discount factor, could still be more beneficial to companies than waiting multiple years to receive the full value.

Additionally, rather than removing the annual cap, it could be raised, either leaving it as the existing soft cap where liabilities can accrue and roll over from one year to the next, or changing it to a hard cap, where payments are either made on a first-come first-serve basis or at the end of a fiscal year at a discounted rate to ensure payments are made to all claimants at the level necessary not to exceed the cap. The hard cap option could also work with the existing $50 million level.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✘	
Targeted		
Clearly stated purpose	✓	
Long-term goals	-	It has some long-term goals, but they are more general than specific
Measurable targets	✘	
Transparent	✓	
Accountable		
Public analysis	✓	Multiple studies have been performed, but increased reporting by film companies and EDD could improve analysis by state agencies and the public
Expiration date	✘	
Effective		
Fulfills stated purpose	✓	The incentive appears effective in attracting film productions to the state and generating local employment in the industry
Passes "but for" test	✓	This incentive is one of only a few that appears to pass the "but for" test – the large presence of the film industry in New Mexico is likely due to the incentive
Efficient	?	The efficiency of the credit is indeterminate at this time; additional analysis of this credit and other economic development incentives for comparison is needed
Key: ✓ Met ✘ Not Met ? Unclear		

JC/sb

APPENDIX A: FISCAL IMPLICATIONS ADDITIONAL DETAILS

Baseline Growth Scenario

The baseline growth scenario, assuming current law with the cap, uses EDD projections for industry activity through FY19, then adds projected growth from Netflix in FY20, along with mild growth in the rest of the industry. For FY21, more modest growth is assumed, followed by growth barely outpacing inflation in FY22, and remaining steady after that. It assumes FY19 through FY22 each set new records for industry spending before settling at a constant level. This scenario bridges the gap between two possible sets of assumptions:

1) expectations that the cap is affecting and limiting growth, which appears likely to some extent given the decline when the cap was first put in place and the subsequent decline in activity in FY18 after reports surfaced that a backlog was growing, and
2) expectations of continued growth because of the announcement of Netflix and a larger, more experienced and sustainable crew base.

If future industry activity and credit claim growth are stronger than the baseline scenario, it would be an indication the credit cap might not be suppressing potential activity as much as estimated, possibly because the overall value of filming in New Mexico exceeds other locations even with delayed credit payments. This higher level of growth could demonstrate the possibility for the state to receive additional industry activity with a somewhat higher cap without the need to remove it. However, that growth would also reduce the accrued liability to the state compared with removing the cap, making this bill less expensive when viewed from a liability standpoint.

If future industry activity and credit claim growth are weaker than the baseline scenario, potentially flat or even negative, it could be an indication the cap is significantly limiting potential industry activity. This would likely demonstrate raising or eliminating the cap would result in a substantial increase in filming in the state. While this would align with reports from many people in the local film industry, it would also indicate the accrued liability to the state to remove the cap would be even greater than what is shown in the table. Flat or declining activity could also indicate the surge from Netflix largely or entirely displaced other activity, in which case this large relocation project would not increase activity but rather shift it from one or more businesses to another business.

Growth Scenario with Cap Removed

The scenario if the cap is removed starts with the baseline scenario but increases the growth rate in FY20, increases it further in FY21 (due to the assumption the cap's removal would have a delay in the highest level of response from the industry since location decisions are made some time in advance of shooting), and then gradually declines to a rate a little above inflation in later fiscal years.

However, due to the delays from the start of shooting to when the film credits would impact the general fund, the difference between this growth scenario with no cap and current law makes little difference in FY20 new liabilities. The difference starts to materialize in FY21 and then becomes increasingly greater over time. Similar to the note above, if the difference between the two scenarios is larger than expected, the increased costs will materialize faster.

Other Fiscal Implication Notes

The film tax credit is funded through the corporate income tax (CIT) program. Last year, CIT general fund revenues were approximately $107 million; however, this was after $50 million was paid out through this credit for film and television production. It is probable that removing the aggregate cap on this credit would result in lower CIT revenues, which flow to the general fund.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or be held for future consideration.

This bill may be counter to the LFC tax policy principles of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

APPENDIX B: COST PER JOB

There is significant discussion about the costs and benefits to the state of the film credit and how much the state may be paying as an incentive for each job that exists in the industry. Much of the debate centers on job estimates and multipliers to account for indirect and induced jobs, along with whether or not to include estimated tax revenues received by state and local governments, additional indirect costs to the state, and how to estimate those. The first phase of the 2014 film study contracted through EDD estimated the state recoups 33 cents for every dollar it spends through the film credit based on direct jobs in the industry.

The January 2019 *LFC Volume III* contains a cost per job chart that estimated the cost of the film credit at nearly $29 thousand per job (direct job cost*) annually, although this was based on data underlying the 2014 film study, so the figure does not reflect the latest data. LFC staff also noted in a recent memo that under the assumption most of the film activity would not occur here but for this credit, the state must continue to pay the annual cost to keep the film jobs in the state.

Note the *LFC Volume III* cost per job chart lists only direct job costs without considering indirect and induced effects because most of the job creation programs and tax expenditures on the list do not have associated studies estimating indirect and induced effects. Additionally, different assumptions and methodologies can result in substantially different cost estimates, so considering direct costs only – while imperfect – is currently the most consistent way to provide a comparison of a particular job creation program or incentive.

Looking long-term at the total cost for a film industry job, it would be a multiple of the annual cost because the state must pay each year to keep that job. For example, the Job Training Incentive Program (JTIP) is estimated in the same document to have a one-time cost of about $4,000 per job. Whether that job lasts one, four, or 10 years, the cost for that program to create the job is still $4,000. Similarly, the high-wage jobs tax credit is shown to have an average cost of $25.5 thousand, but that job would need to last for at least four years to receive the full credit. However, if one assumes the film credit mostly passes the "but for test," and the industry would largely not exist without the credit, then the following assumption must be made. To keep a film job for four or 10 years, the cost would be the net present value of the annual cost over that many years, discounted to account for the lower value to the state of a dollar in the future compared with a dollar today.

Based on updated data from EDD released in February 2019, LFC staff estimate the average annual cost per direct job was about $14 thousand annually in FY17 and FY18 scored against the cap of $50 million, which restricts the amount paid out each year. EDD estimated the cost per job at $5,953 for FY17 using a multiplier for indirect and induced jobs. There is nothing wrong with this approach in isolation; in fact, there is validity to using multipliers, but if the primary purpose of arriving at a cost per job figure is to compare the cost-effectiveness of various job-creation programs, then the comparison must be made for direct jobs only unless and until thorough cost evaluations are done for other programs and incentives and multipliers are determined for each (*see Performance Implications for more discussion*).

However, the state accumulated significant additional liabilities beyond the payments made in those years. Scored against the estimated liability accrued in those years, the cost per direct job was about $39 thousand annually. While a cap remains, there is validity to reporting both cost estimates, because the former is the cost to the state using the modified accrual accounting

system, and there is no obligation in any given fiscal year to pay more than $50 million. However, the latter accounts for how much the state will eventually have to pay over time (not discounted to net present value) for the jobs that exist today, and this liability will be reflected in the state's FY18 comprehensive annual financial report (CAFR). If the cap is removed, it would be reasonable to only score the cost per job against the accrued liability since that would also represent the amount paid out. The table below shows these annual and net present value LFC estimates.

Film Credit: Estimated Costs Per Direct Job		
	Scored Against $50 Million Cap	Scored Against Accrued Liability
Annual Cost Per Direct Job	$14,016	$38,676
Net Present Value Cost, 7.25% for 4 Years	$47,208	$130,268
Net Present Value Cost, 7.25% for 10 Years	$97,314	$268,532

However, it is also important to note what these numbers represent and how incentive programs may be stacked for different industries. These estimates, along with those shown in the *LFC Volume III*, are the costs per job of an individual job creation program or incentive. They do not reflect the total cost to the state of that job. Therefore, to directly compare the cost of the film credit with another incentive program, or to compare any other two incentive programs, creates an incomplete picture of total costs unless the incentives represent the majority or entirety of the state benefits provided to that industry.

For example, for the film industry, the film credit typically represents the bulk of the benefit from the state. There is some money provided through the Film Crew Advancement Program, and occasionally a company such as Netflix will receive an award of Local Economic Development Act (LEDA) funding, but these amounts are relatively insignificant compared with the cost of the film credit.

However, New Mexico has focused on recruiting various types of manufacturing companies to the state over the years and has created a wide array of available incentives, most of which can be stacked on top of each other. For example, a manufacturer can also receive LEDA and JTIP funds but can also receive the high-wage jobs tax credit, the investment credit, tax exemptions through industrial revenue bonds, and a host of narrower industry-specific incentives within the broader manufacturing category. The state currently has no way to properly analyze the total cost of creating a manufacturing job.

Therefore, while the state should strive for progress toward better understanding the costs and benefits of these incentives, a direct comparison between the cost of the film credit and the cost another incentive should note the significant caveats associated with such comparisons.

APPENDIX C: GENERAL FUND REVENUES VERSUS COSTS

There is seemingly consensus the state of New Mexico receives less in general fund tax revenues from the film industry than it pays annually for the film credit, with estimates ranging from 33 cents to 56 cents of general fund revenues from the film industry for every dollar the state spends on the credit. Below are some key points regarding this issue.

- Phase 1 of the 2014 film study performed under contract for EDD concluded film production activity has produced an estimated $0.33 in state tax revenues for each $1.00 of credit claims granted.

- A 2019 film study performed under contract for The International Alliance of Theatrical Stage Employees (IATSE) determined if the cap were removed, for every $1.00 of credit claims granted, New Mexico would receive $0.41 in additional tax revenue.

    - The study arrives at this conclusion despite assuming that increased film industry activity will result in increased tax revenues completely unrelated to the industry, such as severance tax revenues.

- A 2019 report by the EDD Film Office did not directly determine a ratio of revenues to credit claims, but estimated personal income tax and gross receipts tax revenues generated by the industry (including a multiplier to represent indirect and induced impacts) for the state totaled $28.2 million in FY17.

    - Based on the $50 million paid by the state in that year, this would result in $0.56 in state tax revenues for each $1.00 of credit claims granted.

    - The assumptions used to estimate the revenues generated seem relatively conservative, but adding a multiplier effect always introduces debate. Additionally, it is important to note there are always additional costs to the state for incremental workers that move to New Mexico as a result of higher employment in this, or any, industry. While this would not significantly change the above calculations, it is important to consider if viewing costs and benefits holistically.

It is also important to note the eventual cost to the state for the film credit, including backlog liabilities that are generated due to the cap, has recently significantly exceeded $50 million per year. Comparing the estimated tax revenues generated by the industry with the amount paid under the cap is valid when considering the cash cost of the credit, but there is also validity to comparing the tax revenues with the total liabilities accrued in a given year, which recently exceeded $100 million per year. Removing the cap changes the situation so that the total accrued liabilities would equal the amount paid in cash, making that the only valid comparison.