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FISCAL IMPACT REPORT

ORIGINAL DATE 02/08/11
 LAST UPDATED 02/15/11 HB _____

SPONSOR Griego, P.

SHORT TITLE Interim Film Investment Committee SJM 15/a SFL#1

ANALYST Graeser

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	0.0 *	Nonrecurring	Legislative balances

(Parenthesis () Indicate Expenditure Decreases)
 (*) see fiscal impact section for discussion

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		\$0.0	\$0.0	\$0.0	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department/Film Division (EDD/Film)

SUMMARY

Synopsis of Senate Floor Amendment #1

Senate Floor Amendment #1 deletes "TAX CREDIT AND" from the title of this memorial, but does not change the substance of the study instructions. The legislative council is still requested to appoint an interim legislative film investment committee to review and analyze evidence of the advantages and disadvantages of the state's film tax credits and film investments.

In effect, the Senate Floor Amendment does not accomplish any purpose.

Synopsis of Original Joint Memorial

Senate Joint Memorial 15 requests that the New Mexico Legislative Council appoint an Interim Film Investment Committee to review and analyze evidence of the advantages and disadvantages

of the state's film tax credits and film investments and make recommendations to the Governor and the Legislature by December 1, 2011 "for revisions to the existing policy".

FISCAL IMPLICATIONS

SJM 15 does not appropriate money for this study.

According to the Film Division analysis, "...an in-depth analysis of the incentives would likely require a reasonable amount of funding in upwards of \$100,000 plus."

Without additional resources to conduct independent analysis, TRD, DFA and EDD would report the cost history of credits, but would not be able to provide an analysis of the benefits. At this level of effort, there would be no additional costs to the agencies for this effort.

Requiring a study of this magnitude, without providing adequate resources for the study, may result in less-than-credible conclusions.

SIGNIFICANT ISSUES

From the text of the memorial,

WHEREAS, tax incentives for film production in New Mexico and film investments by the state investment council have generated debate over their effectiveness and benefits to the state's economy and state government's fiscal health; and

WHEREAS, more than eleven thousand New Mexicans derive employment either directly or indirectly from the presence of the film industry, and, therefore, the debate has significant implications;

There have been at least two funded studies of the economic and revenue effect of the state's film production credit and financing arrangements. These two studies have differed substantially in the overall conclusions and recommendations ranging from state and local revenue somewhat enhanced due to the film industry (roughly \$1.34 per \$1.00 in film production credit paid) to the Arrowhead Center study that estimates that the state and local governments heavily subsidized the film industry.

The approach of this joint memorial is unlikely to be independently productive, since there is no money, no budget and no requirement for gathering data or surveying producers. On the other hand, SB 44 of this session formalizes reporting and tracking requirements, allowing for greater transparency and the collection of accurate data that can be used in assessing the effectiveness of the Film Production Tax Credit.

Industry experts have indicated that decreasing or eliminating the credit would virtually destroy the entire fledgling industry in the state. While this would save the General Fund approximately \$65 million in credit costs, it would simultaneously eliminate the taxes and other economic impact of more than \$400 million in direct and indirect expenditures on film production. If eliminating the credit would drive the industry out of the state, the decision to eliminate the credit should, in fact, be well studied to determine the consequences for the state's economy (still trying to recover from the "Great Recession") and for state and local revenues. Note: direct, creditable expenditures on film production for CY 2010 are reported by the Film Division staff at \$202 million. Indirect and induced expenditures are at least \$200 million more.

ADMINISTRATIVE IMPLICATIONS

The Film Division points out that, "...how the evidence is gathered by the Interim Film Investment Committee would be a significant factor in the resultant conclusion of the effectiveness of New Mexico's incentives."

Without providing TRD with some of the tools granted in SB-44, without adequate resources and without a mandate for TRD to gather benefit data from the members of the industry, a study of the industry would not be successful in the bulk, but requests for a substantial amount of information from TRD would require a significant amount of resources and time on behalf of the department's staff members.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB44 provides for a review of the Film Production Tax Credit and a report annually to the Revenue Stabilization and Tax Policy Committee and the Legislative Finance Committee with regards to an objective assessment of the effectiveness of the Film Production Tax Credit. The Revenue Stabilization and Tax Policy Committee shall review the Film Production Tax Credit for its effectiveness in achieving the goals and meeting the purposes for which the credit was adopted at four-year intervals beginning in calendar year 2012.

OTHER SUBSTANTIVE ISSUES

Per SJM15, "More than 11,000 New Mexicans derive employment either directly or indirectly from the presence of the film industry;" therefore, having a comprehensive and objective analysis of New Mexico's incentives is a prudent step before altering the existing programs.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Film Division opines: "...premature changes to New Mexico's incentives may be implemented without fully realizing the impact of their effect, positive or negative, and the debate over their effectiveness would continue. Premature changes to reduce the tax credit would result in a loss of thousands of jobs. Hundreds of businesses would be affected, and the local and state tax bases would decline."

LG/ svb:bym