



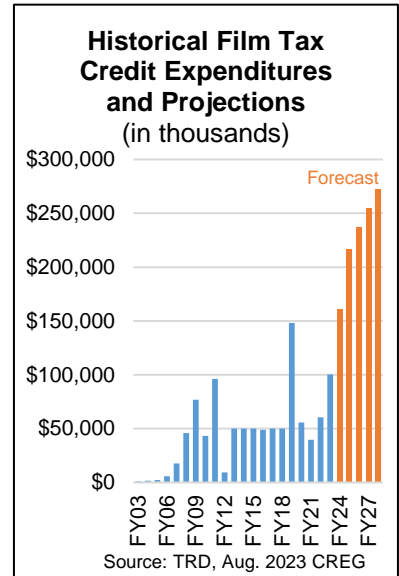
New Mexico Film Incentives: Update and Analysis

THIS REPORT provides an update on and analysis of the film production tax credit.

Prepared By: **Brendon Gray**

Key Points

- The film production tax credit (FPTC) is the state’s largest economic development incentive. Evidence suggests film incentives are less effective at attracting private investment, cost more per job, and have a lower return on investment than other incentive programs.
- In the next five years, tax expenditures through the FPTC could grow by 171 percent, increasing from \$100.2 million in FY23 to \$272.1 million by FY28, according to the most recent consensus revenue estimates, although costs are largely dependent on the size of productions and the addition of no new film partners.
- In FY22, film industry incentives were 37 percent of total economic development spending and cost more than twice as much per job as the other largest economic development incentives. Jobs supported directly and indirectly by the film industry made-up 0.82 percent of total private employment.
- Most state evaluations of film incentives find film incentives have a negative fiscal ROI. New Mexico has not had an evaluation of the fiscal costs and benefits of the program since 2014.



Overview

Created in 2003, the Film Production Tax Credit (FPTC) was the state’s eighth largest tax expenditure in FY22. The credit provides between a 25 percent to 40 percent reimbursement for eligible spending by film production companies. Per statute, the program is designed to establish the film industry as a permanent component of the state economic base, create jobs, improve economic success, and create infrastructure for the film industry. Film companies apply for the tax credit with the Taxation and Revenue Department and receive reimbursement for the eligible spending.

2023 FPTC Legislative Increases

GF Revenue Impacts
(in millions)

	FY25	FY26	FY27
Increased cap	\$20	\$30	\$40
Increased cap for nonresident above-the-line	\$9	\$36	\$38
Increased cap for nonresident below-the-line	\$1	\$4	\$5
Increase to 10 percent for rural production	\$0.5	\$2	\$2
Total	\$30.5	\$72	\$85

Source: 2023 SB12 FIR

Historical Data and New Projections

In FY23, the state spent \$100.2 million on the FPTC, a 65.6 percent increase over FY22. According to the most recent consensus revenue estimates, the cost of the incentives is expected to grow in the next few years, with spending growing from \$160.9 million in FY24 to \$216.6 million in FY25, a 34.6 percent increase. By FY28, total film incentive spending is expected to grow to \$272.1 million, a 171.4 percent increase over FY23.¹

Large Tax Expenditures FY22

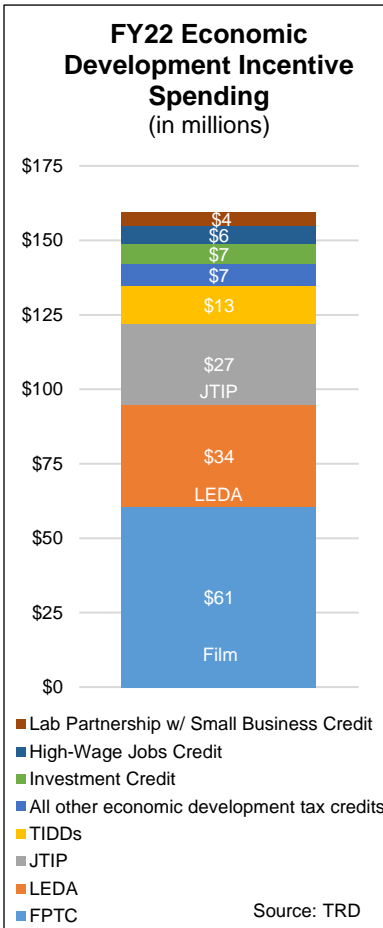
(in thousands)

Tax expenditure	FY22 Expenditure
Hold harmless deduction	\$296,771
Medical deduction	\$223,100
Hospitals deduction	\$173,469
Working families credit	\$104,527
Capital gains deduction	\$102,483
Nonprofit exemption	\$77,620
Low-income comprehensive rebate	\$65,250
Film tax credit	\$60,532

Source: TRD

Had film credit expenditures been appropriated, film industry incentives would have made up 1.2 percent of recurring general fund appropriations in FY23. For comparison, in FY23 the state spent about the same amount of general fund on state criminal prosecution offices (\$88.8 million or 1.1 percent), child protective services (\$110.5 million or 1.3 percent), or state funding for school buses (\$114.7 million or 1.4 percent).

¹ The film industry labor strikes are not forecasted to impact state film expenditures because pent-up demand is expected to accelerate production once the strike is over. However, if the strike lasts long enough, it may impact revenues.



State Comparisons

New Mexico’s generous film incentive has likely helped the state become a nationally competitive location for the industry. Despite the state’s small population, New Mexico’s film industry competes with larger market states, like Georgia, New York, and California. The state has the:

- 14th largest film industry by employment level;
- 6th highest location quotient, a measure of industry concentration;
- 4th largest share of employment in the film industry; and, the
- 5th leading industry wages.

In each of these cases, New Mexico is competing with states that have much larger populations, higher average wages, and a more diverse private industry that make it easier for film companies to establish a presence. The film industry’s high wages are notable. Across all other industries, the state’s annual wages rank 47th nationally.²

New Mexico has one of the most generous film incentives in the country. The state pays about the same or more than much larger states like Illinois, Massachusetts, and Pennsylvania. At about 1.2 percent of total general fund expenditures, the state spends the 2nd most in the country as a proportion of total general fund spending, coming in only behind Georgia, which spends about 3.4 percent of its total general fund appropriations on film incentives. In contrast to New Mexico and Georgia, other states with film incentive programs spent, on average, about 0.3 percent of total general fund appropriations on film incentives.³

Incentive Program Comparisons

In FY22, film incentives were nearly 10 times larger than the next biggest economic development tax incentives, and film incentives were twice as large as all other economic development tax incentives combined. The state supports economic development through a variety of programs, including the local economic development act (LEDA) program and the job training incentive program (JTIP), 14 individual tax expenditures to encourage economic development, and a variety of other, targeted business incentives at the local level.

In FY22, the state spent about as much on film incentives as it spent on LEDA and JTIP combined, even though those programs have better employment outcome metrics. LEDA supported 3,556 new jobs in FY22 with an average cost per job of \$9.6 thousand. JTIP supported 2,158 trainees for an average cost of \$12.3 thousand. In FY22, the FPTC cost \$22.8 thousand per job, 107 percent more costly than the average LEDA and JTIP cost per job.

Even when considering the ability to stack LEDA, JTIP, and other tax incentives, film incentives are still more costly per job. LFC analyzed the hypothetical cost per job if a business stacked LEDA, JTIP, and the next six highest industry-neutral economic development tax credits available. This value was then divided by the

Economic Development Tax Incentives
(in thousands)

Incentive	FY22 Expenditure
Film tax credit	\$60,532
LEDA	\$34,237
JTIP	\$27,171
Statewide TIDDs	\$12,843
High-wage jobs credit	\$6,296
Investment credit	\$6,653
Small business national laboratory partnership	\$4,362
Rural job credit	\$2,312
Technology jobs & R&D credit	\$2,235
Angel investment credit	\$799
All other economic development tax credits	\$4,189

Source: TRD

² In this report, jobs and wage data are calculated using the Quarterly Census of Employment and Wages (QCEW) and NAICS code 51211, Motion Picture and Video Production.

³ State spending on film incentive programs was analyzed using each state’s most recent tax expenditure report and most recent enacted budget. For each state, total recurring general fund appropriations were used as the denominator and total state expenditures on film incentive programs were used as the numerator.

average jobs created for a total cost per job of \$14.4 thousand. Under this scenario, film incentives were still 59 percent more costly per job compared with the hypothetical incentive stacking.⁴

Furthermore, LEDA and JTIP support jobs with one-time payments whereas the FPTC is a recurring expenditure. That means state spending through the FPTC supports the same jobs year after year while LEDA and JTIP support newly created jobs at a one-time cost. A three-, five-, or ten-year comparison of the LEDA and JTIP versus FPTC cost per job would show film incentives are far less cost effective.

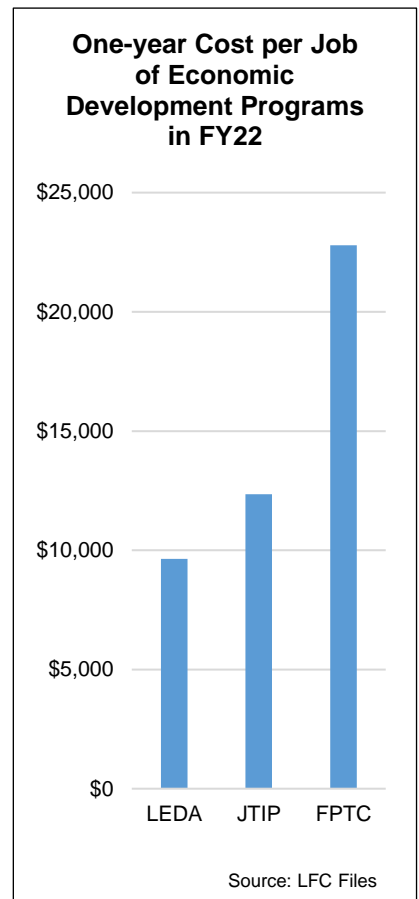
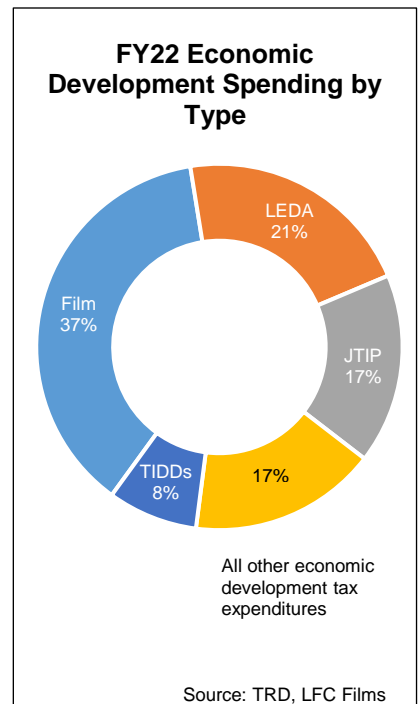
LEDA is likely a more effective investment for its return to taxpayers because it leverages more private business investment. In FY23, the \$100.2 million in state spending on film incentives leveraged \$794.2 million in direct industry spending, meaning for every dollar spent by the state, private businesses invested \$7.9. In contrast, the \$34.2 million spent on LEDA incentives leveraged a reported \$2.6 billion in private investment, meaning for every dollar spent by the state, businesses invested \$75.3. The significant gap between private investment leveraged by the FPTC and LEDA is the result of stronger investment standards for LEDA. Only those companies with demonstrated financial success, strong job creation, and major capital investment can be considered for LEDA funding. In contrast, film incentives flow to all eligible production companies in the state, regardless of employment or investment impacts. In 2022, the Economic Development Department’s reported fiscal return on investment (ROI) for LEDA projects averages \$2.6 for every \$1 spent compared with a fiscal ROI for the FPTC likely below \$1 for every \$1 spent.

Despite the less effective nature of the incentives, film tax credits make up 37 percent of all statewide economic development incentive spending. That share is likely to increase as growth in film incentives outpace spending across other incentives.

New Mexico Outcomes

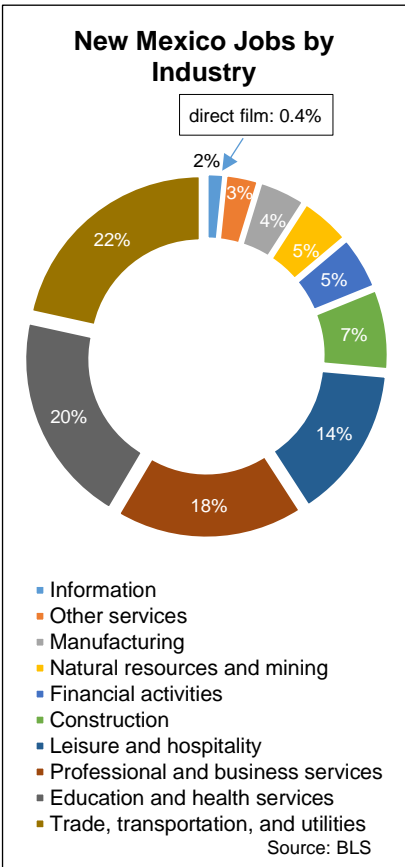
The 2022 annual average direct film industry employment in New Mexico was about 2,574 statewide, accounting for 0.39 percent of total private employment, according to the Quarterly Census of Employment and Wages. This estimate includes a 10 percent “industry adjustment” to account for underreporting in the QCEW.⁵ For comparison, the direct industry employment is about the same size as the long-distance freight trucking industry (2,640 jobs) or the medical diagnostic laboratories industry (2,664 jobs). However, in contrast to these industries, wages in the film industry are about 75 percent higher than average state wages, according to wages data from the QCEW.

The film industry also supports jobs indirectly by purchasing New Mexico goods and services and induces some jobs by supporting the income of its workers. Using the jobs multiplier from the 2022 “Economic Impact of the New Mexico Film



⁴ The incentive stacking calculation considers the sum of the average cost of a LEDA and JTIP grant, plus two times the average expenditure per claim for the six largest, industry-neutral economic development tax expenditures other than the FPTC. This was then divided by the average number of jobs created using LEDA.

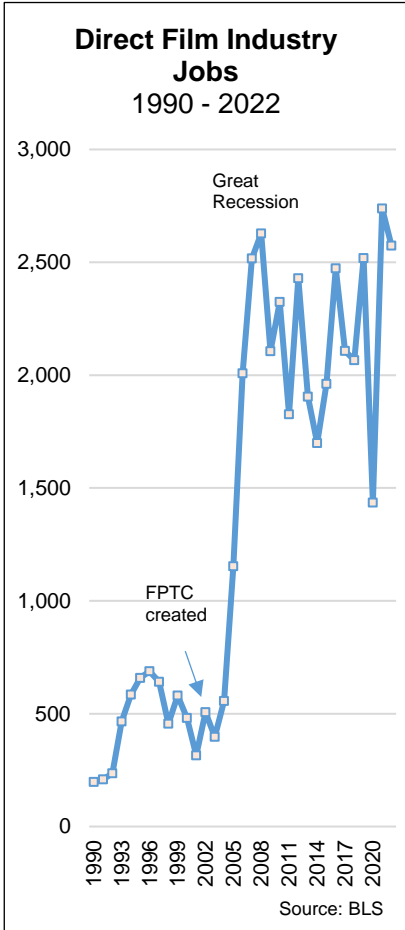
⁵ The QCEW is a federal data source tied to state unemployment insurance, meaning it has a high fidelity. The Bureau of Labor Statistics estimates 95 percent of jobs are reflected in the survey, although the film industry may have a higher underreported job population. EDD annual reports add a 10 percent industry adjustment to account for underreporting in the industry. This report includes that adjustment.



Production Tax Credit,” indirect and induced jobs supported by the film industry is estimated to be 2,862. The total industry-supported employment is estimated to be 5,436, making up 0.82 percent of total private jobs.

Despite increased industry spending and increased state investment, film jobs have remained effectively flat for over a decade, according to QCEW data. LFC analyzed film industry jobs from 1990 to 2022. From FY08 to FY22, film industry spending—adjusted for inflation—has increased by 134 percent. However, film industry jobs have remained effectively flat, increasing by just 3.3 percent over that period.

The period of stagnant industry job growth from 2009 to 2022 contrasts with the rapid industry job growth from 2003 to 2008, when the tax credit was first instituted. From 2003 to 2008, the state’s film industry employment increased by 45 percent per year on average. Over that period, film industry spending was strongly correlated with film industry employment and each additional \$1 million in industry spending was associated with about eight new jobs. From FY09 to FY22, the correlation between industry spending and industry employment was far lower and each additional \$1 million spent was associated with about 0.6 new jobs. This analysis suggests industry spending has become less associated with increases in employment following the Great Recession. The FPTC primarily incentivizes industry spending, and industry spending has had a decreasing impact on employment. This may be the result of a fundamental shift in the industry changing the relationship between spending and jobs or of other economic factors—like population size, crew availability, or soundstage space—constraining the market.



Film industry jobs reached new highs in 2021 and there were likely more film industry jobs in the first quarter of 2023 compared with a year earlier. While this is a small sample subject to variation, this is a sign that the job growth seen in 2021 will continue into 2023. More data is needed to evaluate whether this will have a lasting impact.

Fiscal Return on Investment (ROI)

Evaluations of film tax credits have routinely found, despite positive anecdotal evidence, such programs do not provide a positive fiscal ROI. In contrast, EDD estimated in 2022 that LEDA projects generate an average fiscal ROI of \$2.6 for every \$1 spent. Fiscal ROI is calculated as new state revenues generated by an incentive divided by the state expenditures.

Since 2008, three New Mexico studies analyzed the state’s fiscal ROI for film incentives. In 2008, academics from the Arrowhead Center at New Mexico State University, commissioned by the Legislative Finance Committee, identified a fiscal ROI of 14 cents per \$1. In 2009, consultants from Ernst & Young, commissioned by the state film office and state investment council, identified a fiscal ROI of 94 cents per \$1. In 2014, consultants from MNP LLP, commissioned by EDD, identified a fiscal ROI of 33 cents per \$1. The large differences are the result of different methods and key assumptions.

To account for the discrepancies and in acknowledgment that all three studies are out of date, LFC analyzed 13 state evaluations from 2014 to 2022. These evaluations found film incentives had an average ROI of 34 cents per \$1 spent on film production tax credits. The evaluations’ fiscal ROI estimates ranged from \$1.03 per \$1 to 6 cents per \$1 of film incentive spending.

New Mexico film incentives do generate a positive “economic” ROI. A fiscal ROI measures the return to New Mexico taxpayers while an economic ROI is a measure of the return to those who benefit from the subsidized activity. The 2022 analysis film office annual report estimated the economic ROI to be \$7.8 for every FPTC dollar spent. Economic ROI calculates total economic value created by the film industry divided by net state tax expenditures.

Fiscal ROI is a key indicator that helps determine whether an incentive is diversifying the state economy and budget away from reliance on oil- and gas-associated revenues. Incentives with a positive fiscal ROI help diversify revenues; incentives with negative fiscal ROI make the state *more* reliant on oil and gas revenues. Economic ROI is helpful to understand how the state is leveraging its spending for private investment, but it is not a tool to help understand how an incentive contributes to the state’s fiscal health.

Agency Reporting

The economic development department has been statutorily required to report a variety of outcomes measuring the effectiveness of the FPTC since FY19. Over that period, the department, through the New Mexico Film Office, has improved both data collection and reporting, providing the Legislature and the public more information. EDD published an annual report of the program in 2021 with an update in 2022 and a planned release in fall of 2023. These reports contain a wealth of information that can help evaluate the program.

However, the reports do not include a fiscal cost and benefit analysis. Instead, the 2021 annual report includes an economic ROI estimate, which is total economic activity generated by the film industry divided by net state tax expenditures. As discussed previously, fiscal ROI is a necessary gauge for policymakers because it helps determine whether the incentive is helping diversify state revenues and avoids deteriorating revenues, a key outcome for economic development initiatives. As of this writing, the New Mexico Film Office’s website reports the economic ROI of the film program to be \$8.4, which, presented without reference to a fiscal cost and benefit analysis or explanation of the measure, may lead readers to assume that the state received more in state tax revenue than was spent on the tax credits.

The agency reports that additional operating budget funding would be required for a fiscal ROI estimate. EDD’s budget submission includes a request for an additional 5 FTE in the film office. According to the agency, these staff would help, in part, improve reporting.

State Estimates of Fiscal ROI of Film Incentives

State	Study Year	Fiscal ROI estimate (per \$1)
Hawaii	2022	56 cents
New York	2020	50 cents
Georgia	2020	10 cents
Pennsylvania	2019	13 cents
Louisiana	2019	35 cents
New York	2019	48 cents
Virginia	2017	30 cents
Washington	2016	6 cents
Massachusetts	2016	19 cents
Oklahoma	2016	13 cents
Mississippi	2015	49 cents
Maryland	2015	6 cents
Maryland	2014	\$1.03
Average fiscal ROI		34 cents

Source: Citations for all referenced studies are included as an appendix.

New Mexico Estimates of Fiscal ROI of Film Incentives

State	Study Year	Fiscal ROI estimate (per \$1)
New Mexico	2022	No fiscal ROI
New Mexico	2021	No fiscal ROI
New Mexico	2014	33 cents
New Mexico	2009	94 cents
New Mexico	2008	14 cents
Average fiscal ROI		47 cents

Source: Citations for all referenced studies are included as an appendix.

Economic ROI vs Fiscal ROI

Fiscal ROI is a cost and benefit measure that helps gauge the fiscal benefits of a state incentive program. The numerator is new tax revenues received because of the incentive. The denominator is state tax credits paid.

Economic ROI is a measure of economic value generated as the result of a state incentive program. The numerator of economic ROI is the gross value added, the value of labor and capital used in producing gross output. The denominator is sum of tax credits paid by the state minus new tax revenues received.

Appendix: State Film Evaluations Referenced

Hawaii Department of Business, Economic Development and Tourism, July 2022, Cost-Benefit and Fiscal Impact Analysis of Hawai'i's Film Tax Credit in 2020." https://files.hawaii.gov/dbedt/economic/data_reports/Film_Tax_Credit_Report_2020.pdf

Camoin Associates, "Economic Impact of the Film Industry in New York State, 2019 & 2020." <https://esd.ny.gov/sites/default/files/Camoin-310-Report-2019-20-Film-Incentive-Impact-ESD-Final.pdf>

Georgia Department of Audits and Accounts Performance Audit Division, January 2020, "Impact of the Georgia Film Tax Credit." <https://www.audits.ga.gov/ReportSearch/download/23536>

Pennsylvania Independent Fiscal Office, January 2019, "Pennsylvania Film Production Tax Credit: an Evaluation of Program Performance." http://www.ifo.state.pa.us/download.cfm?file=/Resources/Documents/TC_2019_Film_Production_Tax_Credit_Report.pdf

Camoin Associates, 2019, "Economic and Fiscal Impact of Louisiana Entertainment Tax Credits." https://www.opportunitylouisiana.gov/docs/default-source/Performance-Reporting/2019-economic-fiscal-impact-of-louisiana-entertainment-tax-credits-march2019-2.pdf?sfvrsn=9ccea605_0#:~:text=As%20shown%20below%2C%20the%20Louisiana,%24248%20million%20in%20annual%20earnings

Camoin Associates, 2019, "Economic Impact of the Film Industry in New York State 2017 & 2018." https://esd.ny.gov/sites/default/files/Camoin_NYS-FilmReport-2017-18.pdf

Virginia Joint Legislative Audit and Review Commission, November 2017, "Evaluation: Film Incentives" Economic Development Incentive Evaluation Series. <https://jlarc.virginia.gov/pdfs/reports/Rpt501.pdf>

Massachusetts Department of Revenue, December 2016, "Report of the Impact of Massachusetts Film Industry Tax Incentives through Calendar Year 2014." <https://www.mass.gov/doc/dor-report-on-the-impact-of-massachusetts-film-industry-tax-incentives-through-calendar-year/download>

Washington Joint Legislative Audit and Review Committee, January 2016, "Motion Picture Program Contributions." https://documents.ncsl.org/wwwncsl/Fiscal/evaluationDB/WA_JLARC_Final_Report_2015_Tax_Preference_Performance_Reviews_Motion_Picture_Program_Contributions.pdf

State of Oklahoma Incentive Evaluation Commission, November 2016, "Film Enhancement Rebate Program." https://iec.ok.gov/sites/g/files/gmc216/f/Film%20Incentive%20Rebate%20Final%20Evaluation_112817.pdf

Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, December 2015, "An Evaluation of the Effectiveness of the Mississippi Film Office." Report #602. https://documents.ncsl.org/wwwncsl/Fiscal/evaluationDB/An_Evaluation_of_the_Effectiveness_of_the_Mississippi_Film_Office.pdf

Maryland Department of Legislative Services, 2015, "Evaluation of the Maryland Film Production Activity Tax Credit." <https://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Evaluation-of-the-Maryland-Film-Production-Activity-Tax-Credit.pdf>

Towson University Regional Economic Studies Institute, February 2014, "Economic and Fiscal Impacts of the Film Production Tax Credit in Maryland." <https://www.towson.edu/campus/partnerships-research/economic-studies/documents/resi-mfci.pdf>

New Mexico Studies

New Mexico Film Office, December 2022, "Economic Impact of the New Mexico Film Production Tax Credit Update." <https://nmfilm.com/assets/uploads/NM-Film-Study-Update-2022-2.pdf>

Olsberg SPI, November 2021, "Economic Impact of the New Mexico Film Production Tax Credit." https://nmfilm.com/assets/uploads/migrated/2021/11/NMFO_EconomicImpactStudy_NMFilmProductionIncentiveProgram_2021.pdf

MNP LLP, July 2014, "New Mexico Film Production Tax Incentive Study Phase I Report." <https://nmfilm.com/assets/uploads/migrated/2018/10/Phase-I-Report-Final-Report-July-21-2014.pdf>

Ernst & Young, January 2009, "Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit."

New Mexico State University Arrowhead Center, August 2008, "The Film Industry in New Mexico and the Provision of Tax Incentives." https://www.nmlegis.gov/entity/lfc/Documents/Money_Matters/NMSU%20Report%20on%20Economic%20Impact%20of%20Film%20Production%20Tax%20Credit%20-%20August%202008.pdf