



# Economic Impact of the New Mexico Film Production Tax Credit

## Presentation of Findings

23<sup>rd</sup> November 2021

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- **Introduction and Context**
- Overview of Production in New Mexico
- Economic Impact Findings
- Film Tourism

### About the Study



**The New Mexico Film Office (NMFO) commissioned creative industries consultancy Olsberg•SPI (“SPI”) to undertake an independent economic impact assessment of the New Mexico Film Production Tax Credit**



The study assessed standard economic impact measures such as Gross Value Added (GVA), Output and Economic Return on Investment (RoI)

In addition, the study assessed the effects of incentivised activity on the supply chain, the geographic impact of in-state production spending and effects on tourism

Through consultations with industry, ‘softer’ non-economic impacts were also identified and the implications for future strategy explored

Due to data limitations and a change in administration, the study considers the impact since July 2019 (FY20) only

### About SPI

# OLSBERG • SPI

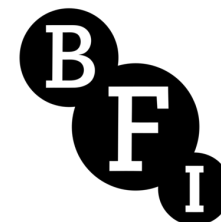
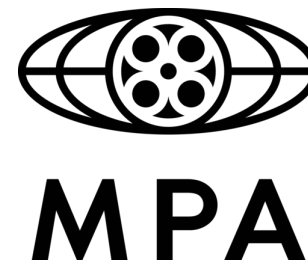
**We are an international creative industries consultancy, specializing in the worlds of film, television, video games and digital media**

Our international client base includes government ministries, public agencies and institutions and commercial entities

SPI's expert services help our clients to plan, design and deliver sustainable growth, evidence impact and evolve and expand in a highly-competitive and fast-moving industry

## Introduction

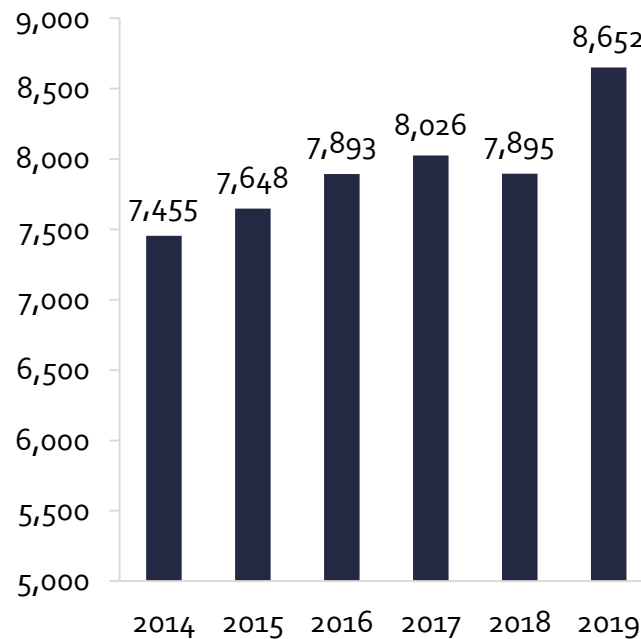
### Our International Client Base



## The Global Production Deluge

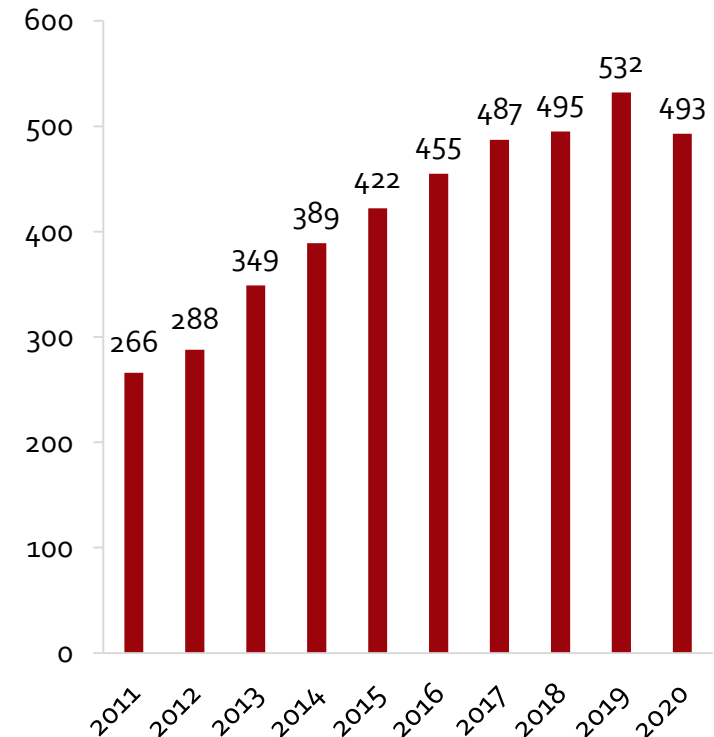
Film and television is at **unprecedented levels around the world**, with the number of projects and underlying investment expanding significantly

**Estimated Worldwide Feature Film Production, 2014-2019**



Source: European Audiovisual Observatory

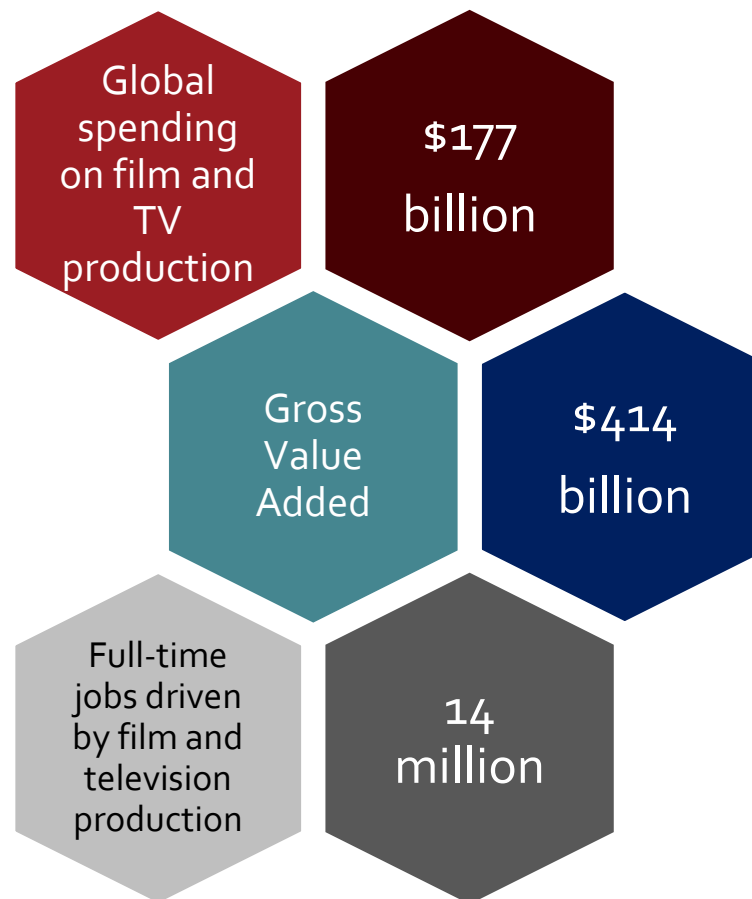
**Estimated Number of Original Scripted Series, 2011-2020**



Source: FX Networks

In 2019, global spending on film and television production reached a new record of \$177 billion

- Before the COVID-19 pandemic, film and television production reached record levels of global expenditure
- This trend has continued through the pandemic – underlining the economic importance of film and television production



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### Overview of New Mexico's production credit

- The New Mexico Film Office (NMFO) oversees the New Mexico Film Production Tax Credit. NMFO is, among other things, responsible for registrations and management, with application disbursement managed by the Taxation and Revenue Department
- The incentive functions as a refundable tax credit with a base rate of 25%. A 5% uplift (stackable to a max rate of 35%) is offered for: television series and pilots; projects using a qualified production facility; and/or for expenditure at least 60 miles outside Bernalillo or Santa Fe counties
- The tax credit is applicable to eligible expenses made in New Mexico. Eligible expenses include NM resident talent and crew (above the line & below the line) and NM taxable goods and services
- The production incentive was introduced in 2003. This analysis focuses only on the impact since 2019

Production Incentive Key Elements	
Value	25-35%
Type	Refundable Tax Credit
Cap	\$110 million cap each fiscal year. New Mexico Film Partners (Netflix and NBC Universal) are exempt from cap

### New Mexico Film Partners

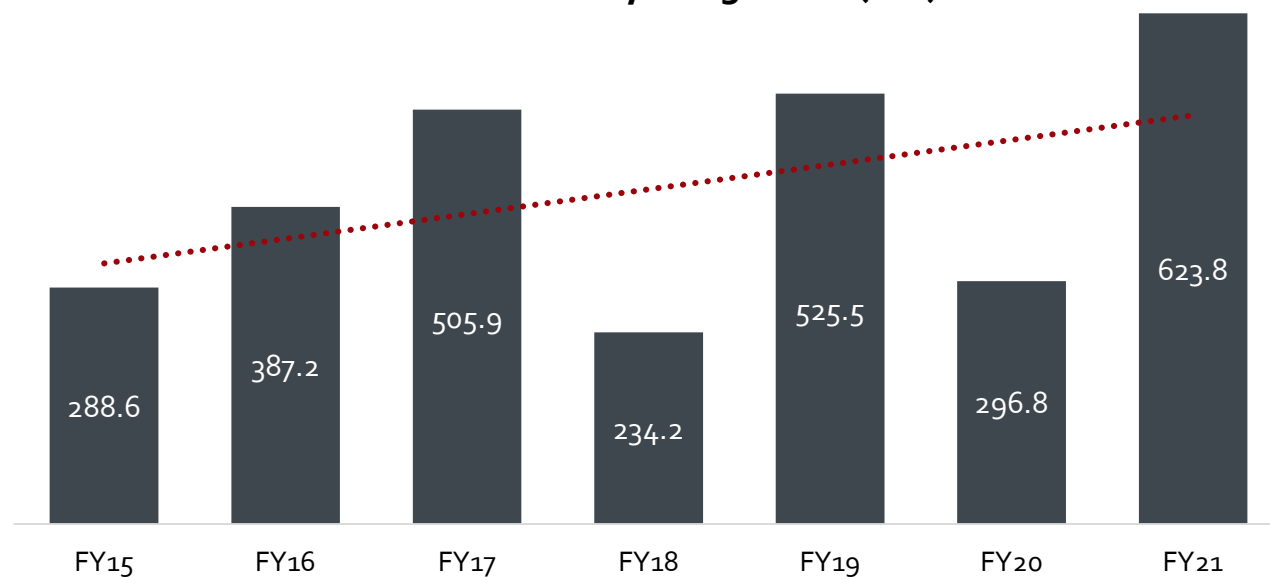
- A New Mexico Film Partner is a film production company that has made a commitment to produce films or commercial audio-visual products in New Mexico and purchased or executed a **10-year contract** to lease or purchase a qualified production facility
- Entitles access to a separate, **uncapped tax credit fund**, allowing **25-35% of eligible expenditures (or costs)**
- To date, two production companies have become Film Partners: **Netflix** and **NBCUniversal**
- Netflix has committed to investing **\$2bn** over 10 years and providing funds for training
- New Mexico has early mover advantage here, with the two partners already turning New Mexico into a **film production hub, rather than just a filming location**



### Production Expenditure

- While expenditure is often uneven due to the nature of production, there has been a positive growth trend in spend in New Mexico since FY15
- In FY21, a total of \$623.8 million was spent in New Mexico on film and television production. This shows a strong rebound from the previous fiscal year which was affected by COVID-19 restrictions
- Initial data for FY22 (which runs to June 2022) suggest another strong year for production in New Mexico

**NM Direct Expenditure of Projects Accessing the NM Film Tax Credit, FY15-FY21 (\$m)**

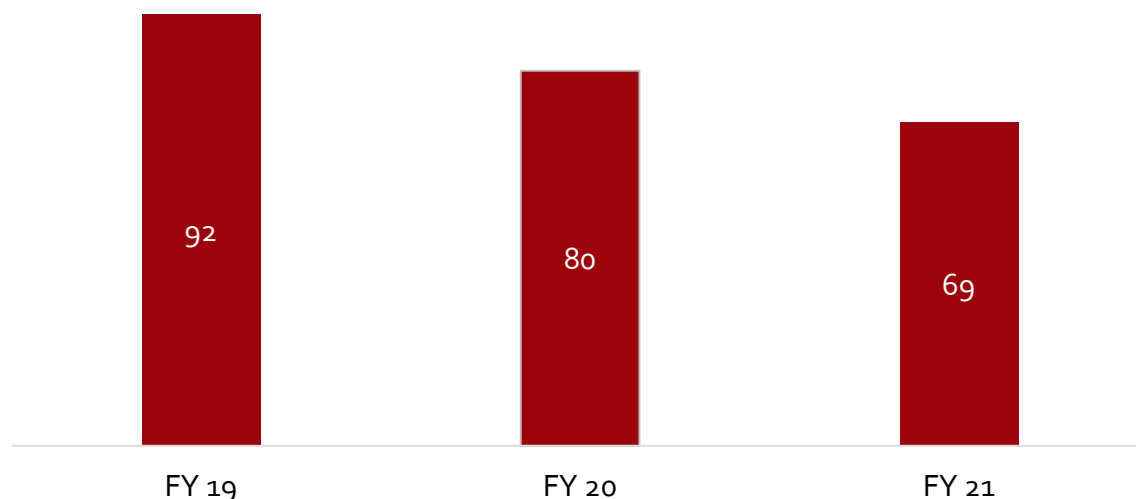


Source: These data are based on registrations submitted to NMFO. Although any subsequently cancelled projects have been removed, the audited final spend figures may vary

### Volume of Projects

- The overall number of projects accessing the incentive has fallen since FY19, although the average project size has expanded, leading to an increase in expenditure overall. The average New Mexico spend per project was \$5.7 million in FY19: by FY21, this reached \$9.0 million

**Number of Projects Accessing the New Mexico Film Production Tax Credit, FY19-FY21**

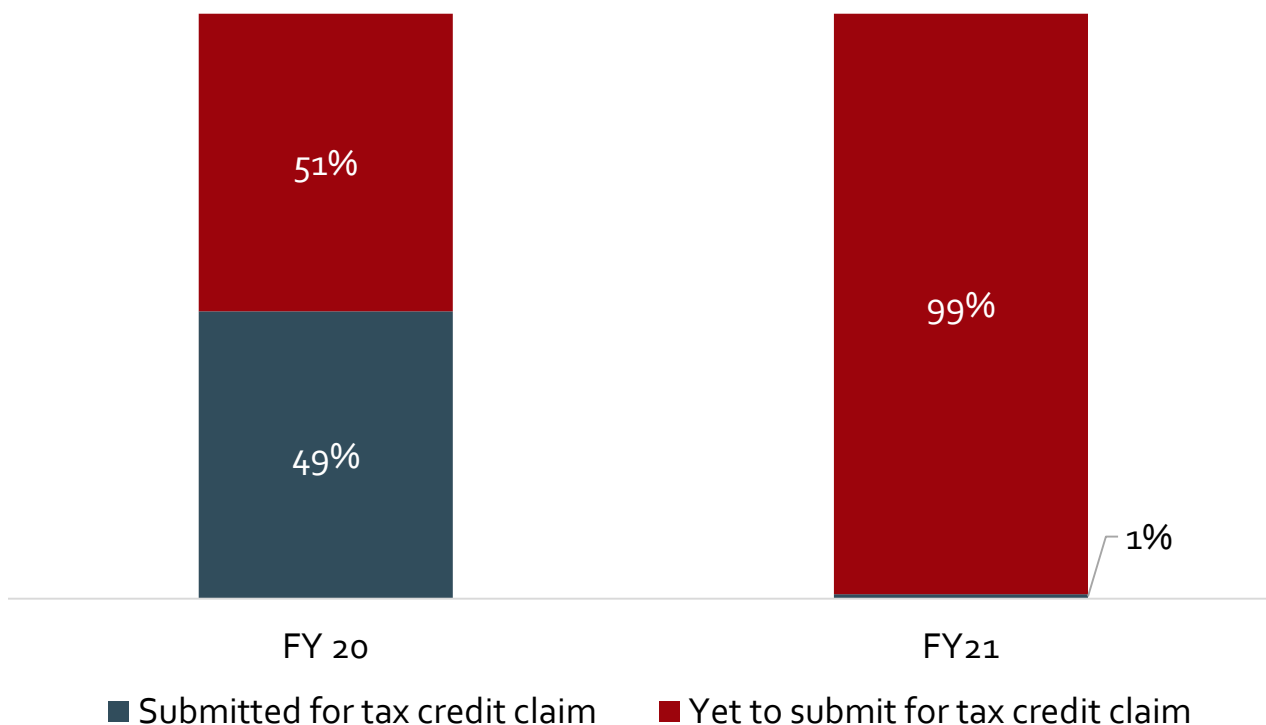


Source: Registration data . Note: Projects are allocated to the fiscal year when principal photography commenced in New Mexico.

### Production Expenditure

- Of production expenditure undertaken in FY20, around half has so far been submitted in incentive applications to the Taxation and Revenue Department. This shows the time lag between production expenditure occurring, and the submission of the related application for the tax credit

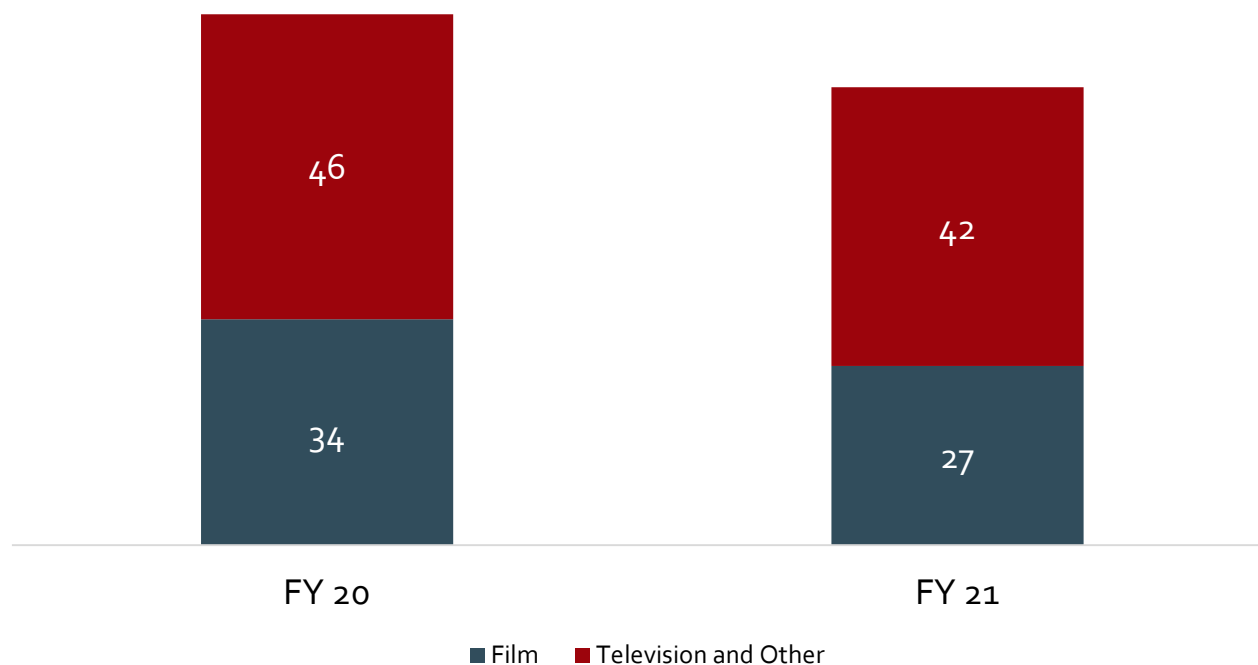
#### Film and Television Production Accessing the NM Film Production Tax Credit — Expenditure in NM, FY20-FY21 (% of submitted and yet to submit)



### Project Type

- Analysis of the type of projects utilizing New Mexico's incentive shows a relatively even split between film and television, with emphasis towards the latter. This reflects global trends, with series production driving the majority of impact in many production markets

#### Type of Productions Accessing the New Mexico Film Production Tax Credit, FY20 – FY21

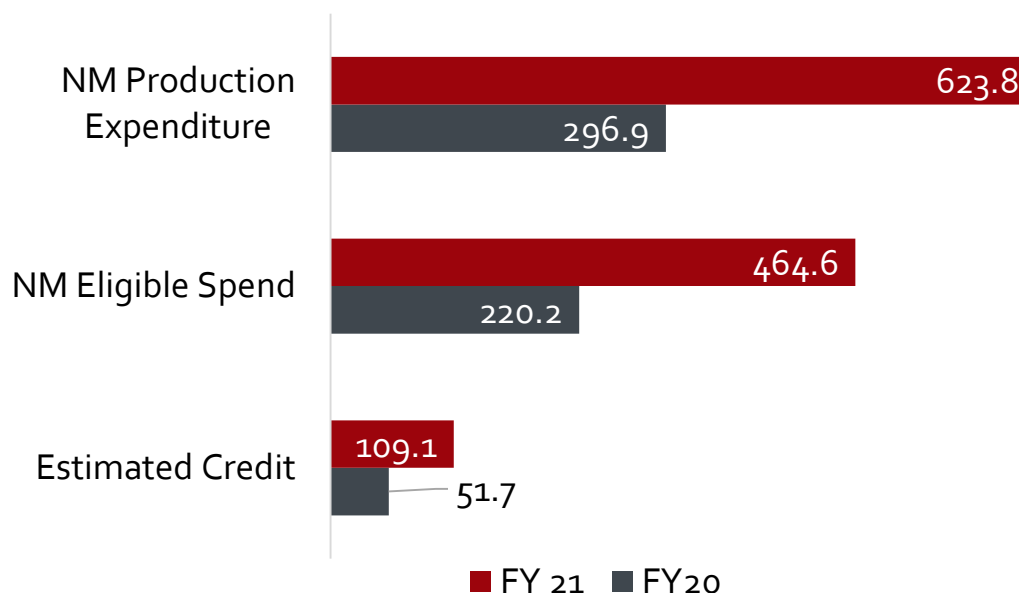


Source: Registration data

## Expenditure and Credits

- As standard, the incentive provides a credit of 25% of eligible production expenditure. This can be topped up by an uplift of 5% (stackable to a max rate of 35%) for specific spending up to the cap. The total NM production expenditure by projects funded by the credit is a third higher than the eligible spend indicating how the incentive is leveraging significant additional expenditure into the state

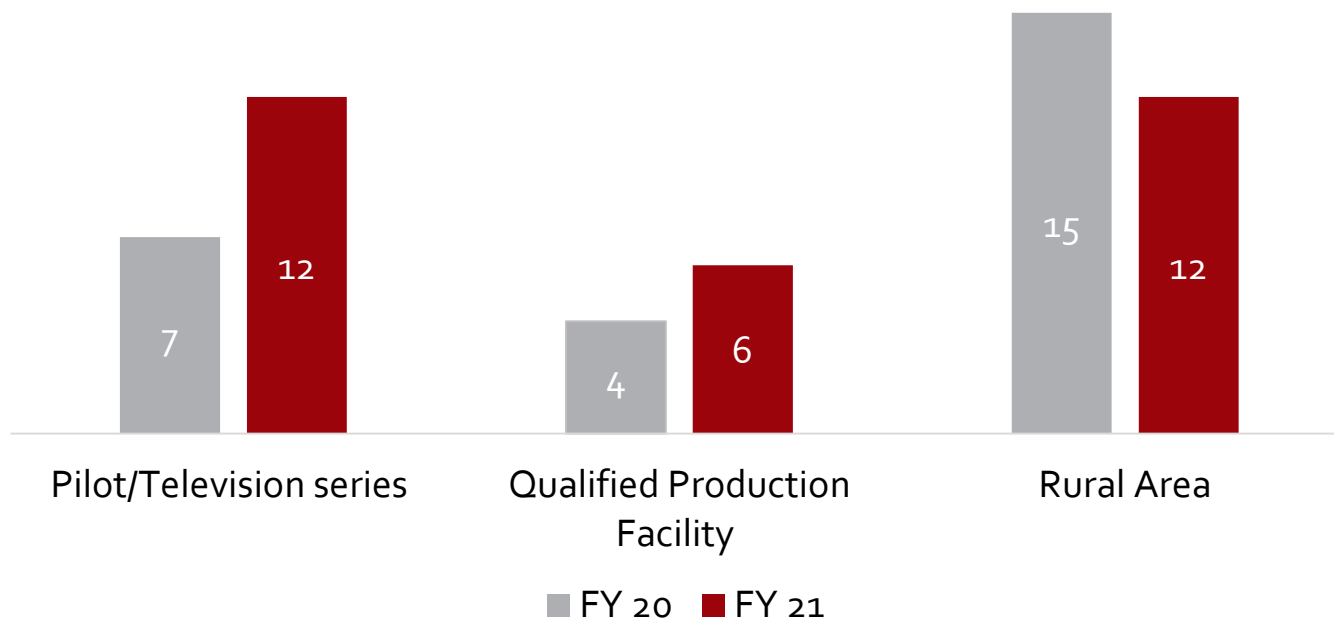
### New Mexico Production Expenditure, Eligible Spend and Estimated Credit for Projects Accessing the New Mexico Film Production Tax Credit, FY20 – FY21 (\$m)



### Incentive Uplift

- The credit uplifts aim to encourage certain specified activities. Overall, in FY20 and FY21, 13% of projects qualified for the pilot/series uplift, 7% qualified through the use of specified production facilities and 18% accessed the rural uplift for proportion of spend

**Number of Projects Accessing the New Mexico Film Tax Credit with an Uplift, FY20 – FY21**





### Rural Spend

- Rural spend is defined as spend undertaken 60 miles outside of the county boundaries of Santa Fe and Bernalillo
- The 5% uplift in credit amount aims to encourage more filming and production outside Albuquerque and Santa Fe to spread the economic impact of production across New Mexico
- There has been a gradual increase in rural production spend of \$4.5 million in FY20 and \$6.6 million in FY21
- Nevertheless, rural spend is still only a small proportion of production. This indicates that the incentive is needed to encourage productions into rural areas

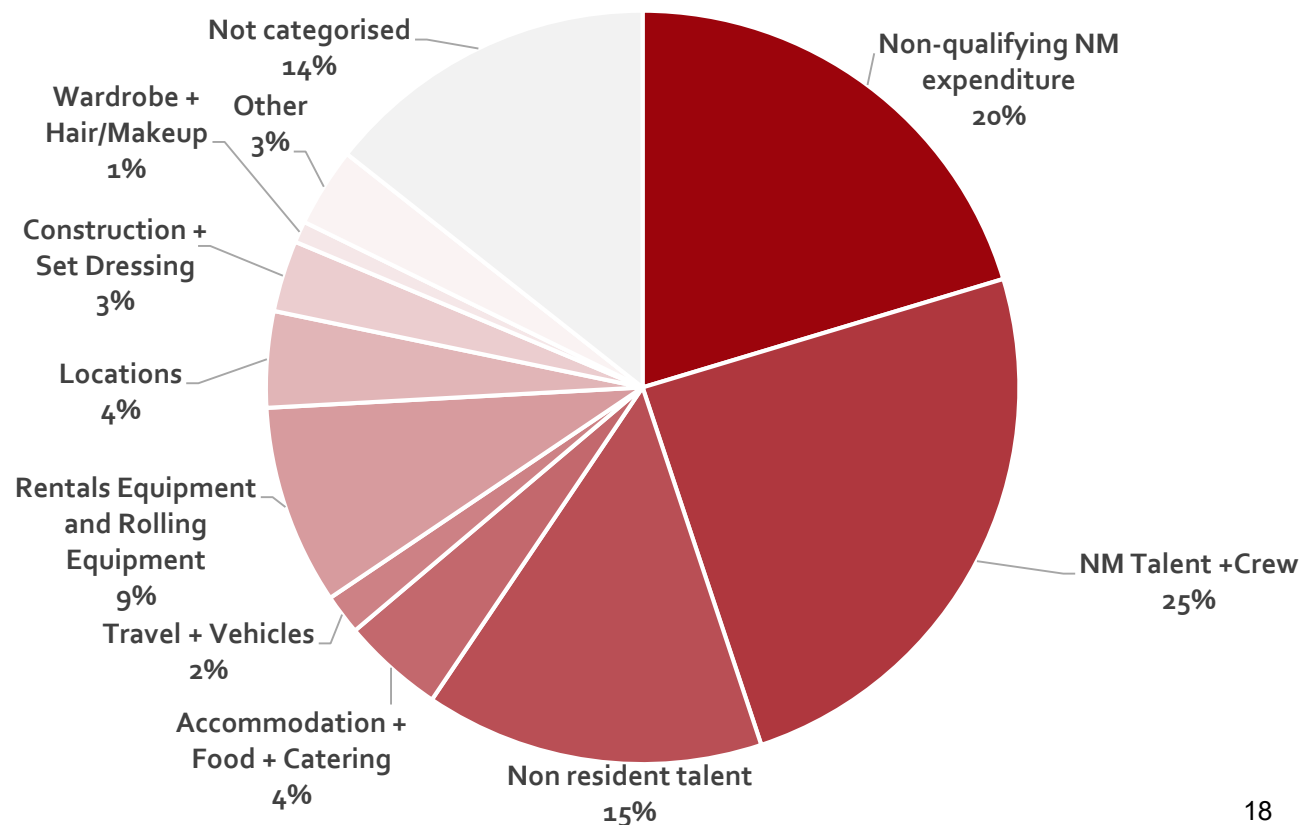
Year	Rural Spend
FY20	\$4.5 million
FY21	\$6.6 million

Source: Registration data

### Distribution of Spend

- The production budgets in New Mexico involve purchases and payments to a wide variety of industries and individuals. Around a quarter is spent on New Mexican talent and crew, with evidence of significant impact on some sectors hit by COVID-19, including accommodation and catering

#### Breakdown of NM Production Expenditure of Projects Accessing the New Mexico Film Production Tax Credit, FY20 – FY21



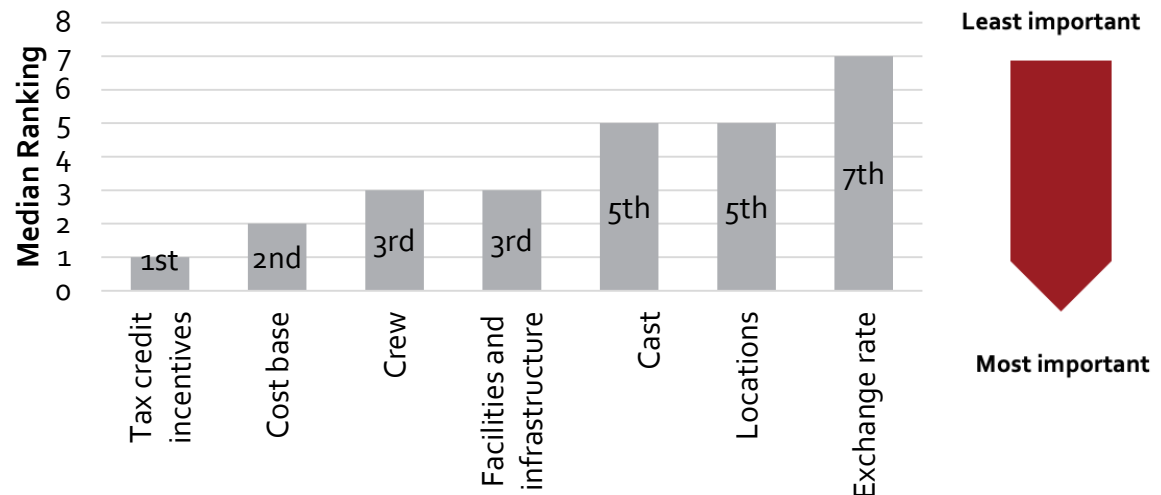
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## Additionality

- Additionality describes how much 'additional' activity is generated by the incentive (i.e., the amount of production that can be attributed directly to the incentive)
- To determine this, a survey was sent to all incentive applicants to explore what production companies would have done without the incentive. There were 17 responses out of 57 (30% response rate). This rate provides an indicative response, though does align with consultations
- Overall, we find **high additionality**. There is particularly high additionality for productions by companies based out of New Mexico
- Incentives are the most important decision factor identified

**Decision Factors for Producing in New Mexico –  
Average Rank (1 most important, 7 least important)**



### Additionality

- Survey respondents were also asked about how much of their productions would have happened in New Mexico without the incentive. The median response was that there would be no production without the incentive and all production companies based out of New Mexico responded zero to this question. The mean response was that **8% of production would have happened without the incentive**, but this is influenced upwards only three companies responding that any production activity at all would happen without the incentive
- The rate of additionality is therefore very high, **between 92% and 100%**
- Due to the distribution of the survey results, it is likely that real impact is closer to the top end of this. However, in the economic impact analysis, we have chosen to use a more conservative additionality assumption of 92%

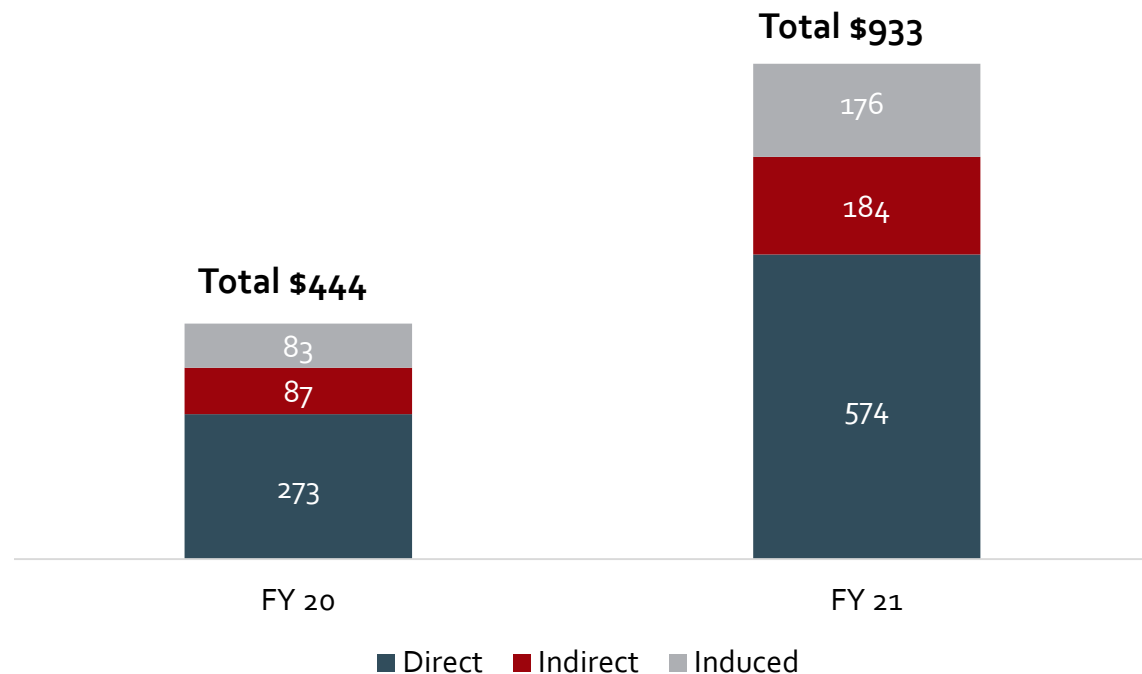
### Economic Impact – Direct, Indirect and Induced

- The analysis presented here accounts for additionality at a rate of 92% (see previous slide for justification of this rate) – i.e. the production that would have happened in New Mexico anyway in the absence of the incentive:
  - **Direct impacts** are the gross value added (GVA) within the Screen production sector in New Mexico
  - **Indirect impacts** are the GVA within sectors that supply goods and services to productions
  - **Induced impacts** are the GVA as a result of the re-spending of wages by those employed in production in New Mexico

## Output

- In FY20 and FY21, the total direct output associated with the production tax credit was \$273 million and \$574 million. When indirect and induced effects are added to this, the total output attributed to the credit was \$444 million in FY20 and \$933 million in FY21

### Net Economic Impact – Output, FY20-FY21 (\$m, nominal)

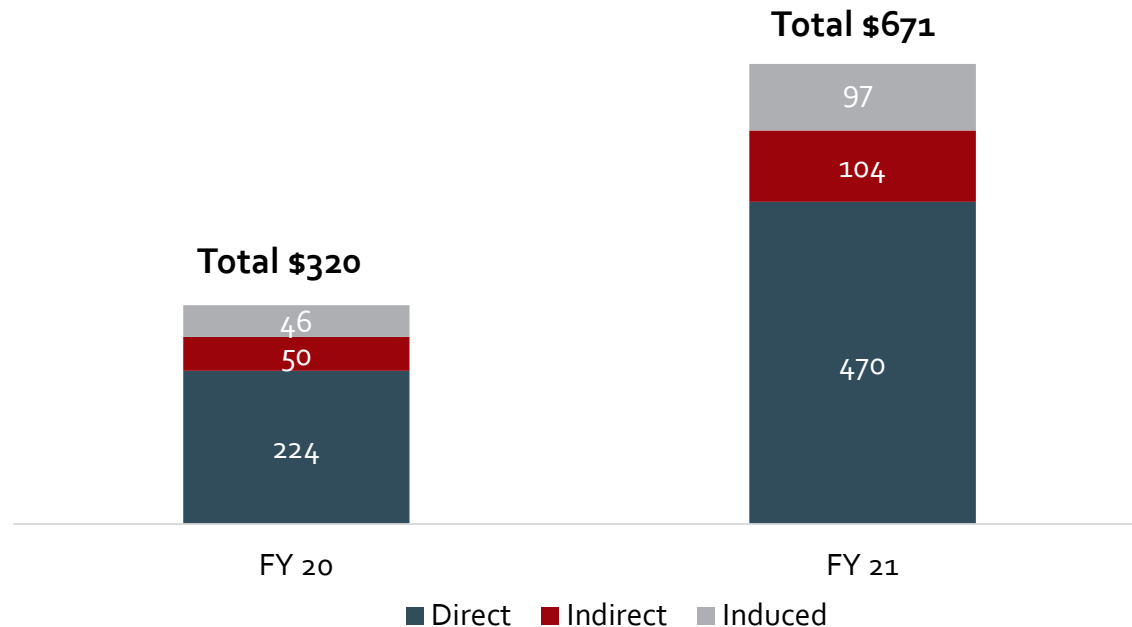


Source: SPI calculations, based on registration data

## Value Added

- GVA is a key measure of the additional economic value created by an activity
- SPI's analysis using the IMPLAN economic model indicates that the total GVA created by the tax credits was \$320 million in FY20, rising to \$671 million in FY21

### Net Economic Impact – GVA, FY20 – 21 (\$m, nominal)



Source: SPI calculations, based on registration data



### Economic Return on Investment

- Economic Return on Investment (ROI) is an important measure of the effectiveness of the tax credit
- This measure of how much economic value is created per \$1 of investment in tax credits by the state. The cost to the state is then estimated to be total value of the tax credits minus the additional state and local taxes received as a result of the uplift in activity
- Overall, the tax credit program has a positive and significant economic RoI. **Across the two years, the economic RoI is 8.4,** meaning that for every \$1 invested through the program, the benefit to the state economy is \$8.40 in terms of additional economic value

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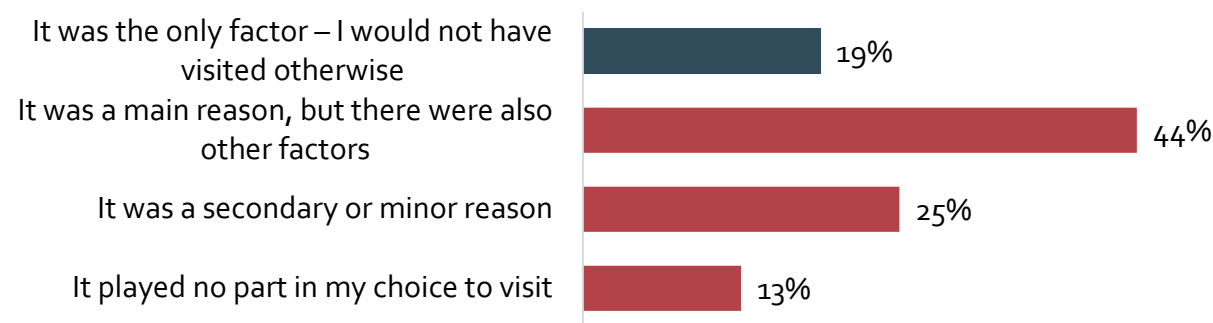
### The *Breaking Bad* Brand

- Film and television induced tourism (“film tourism”) has increasingly been recognized as an important component of tourism marketing and visitor attraction
- New Mexico has been featured as a location in many well-recognized films and television shows that have been produced in-state. The most notable of these has been internationally recognized television series *Breaking Bad* (2008-2013) and its prequel *Better Call Saul* (2015-2022)
- The *Breaking Bad* series has created a wide range of themed merchandise and experiences, including candy, clothing, Breaking Bad Burgers, Breaking Bad Brewery, and a series of Breaking Bad Tours to filming locations used across the two shows.



### The BaD Tour

- There are several Breaking Bad themed tours. The original of these was ABQ Trolley Co.'s The BaD Tour
- Between 2012 and 2019, a total of **3,837 customers took part in 169 tours**. The tour was featured in the *LA Times* and the *Washington Post* and attracted tourists from in-state but also internationally, including the UK and China
- As part of this Study, SPI ran a **survey with 32 past customers**. This assessed the significance of the show in attracting them to the area and group spend
- The survey showed that customers decision to visit New Mexico was **strongly motivated by the series**:



- The **average group spend was \$1,405** during their visit, including \$785 on accommodation, \$275 on hospitality, \$237.50 on transport, and \$107.50 on souvenirs



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