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FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/06

SPONSOR Varela LAST UPDATED _____ HB 591

SHORT TITLE State Investment Film Company Loans SB _____

ANALYST Geisler

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	\$1,000.0	\$1,000.0	Recurring	Severance Tax Permanent Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates: SB 535

Relates to: HB 358, HB 359

SOURCES OF INFORMATION

LFC Files

Responses Received From
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

House Bill 591 clarifies existing statutory language that allows the State Investment Council to make short-term loans to film & television productions, based on estimated tax-credit rebates qualified for under state law.

Currently, there is a minor conflict between this program and the State Film Investment program, capping the total of both combined programs at \$15 million per production. This new language would allow a film to receive both the film production tax-credit loan, in addition to a separate investment/participation loan of up to \$15 million.

Both loans are drawn from the Severance Tax Permanent Fund (STPF) as administered by the State Investment Council.

FISCAL IMPLICATIONS

Tax Credit Production Loans are offered to film productions at a rate of a one-year US treasury note plus 100 basis points (1%), for an overall annual return of roughly 5%. The SIC anticipates an increased number of projects applying for these loans, with an estimate of \$20 million in loans per year. Such an amount would earn an estimated \$1 million per year for the STPF.

SIGNIFICANT ISSUES

Tax credit production loans can be made up to 80% of the anticipated tax credit. The tax credit rebate is for up to 15% of a film's total expenditures in New Mexico. Currently this program has only two projects receiving Film Production Tax Credit Loans, Bordertown and The Flock. The films, with budgets of \$21 million and \$32 million respectively, both received loans of \$2.3 million based on the projects' direct expenditures in New Mexico. Both loans will be repaid, with interest, during calendar year 2006.

PERFORMANCE IMPLICATIONS

SIC notes that the loans will draw from an available pool of 3% of the STPF, or about \$116 million. However, the loans are short-term, by statute, no more than 12 months, and the pool will recycle its capacity often. As a whole, and using preliminary performance data, the STPF for calendar year 2005 returned 6.8%, while the S&P 500 index returned 4.9%. In contrast, this program's US Treasury note + 100 basis points will return approximately 5% to the fund. Obviously the difference in performance will vary from year to year based on overall market conditions and rates.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Duplicates SB 535. Relates to HB 358 and HB 359, which seek to increase the film production tax credit.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The State Investment Council views Film Production Tax Credits as a valuable tool in New Mexico's film incentive package. SIC believes failure to enact HB 591 will put New Mexico at a distinct competitive disadvantage to other states that currently use tax credits to create incentive to attract film and TV productions.

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