COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1858-01
Bill No.: SB 400
Subject: Entertainment, Sports and Amusements; Revenue Department; Taxation and Revenue.
Type: Original
Date: February 21, 2007

Bill Summary: This proposal revises provisions of the film production tax credit program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Up to $42,046)	(Up to $9,072,618)	(Up to $9,074,794)
Total Estimated Net Effect on General Revenue Fund*	**(Up to $42,046)**	**(Up to $9,072,618)**	**(Up to $9,074,794)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
Total Estimated Net Effect on FTE	**0 or 1 FTE**	**0 or 1 FTE**	**0 or 1 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal makes changes to the Film Production tax credit. It removes the limitation on the amount of tax credits which may be issued annually per taxpayer, and raises the annual aggregate cap from $1.5 million to $10.5 million. However, the actual amount of redemptions for this tax credit have averaged $500,000 per year, therefore, this proposal could reduce general and total state revenues by $10 million annually, beginning in FY'09.

Officials from the **Department of Economic Development (DED)** assume the oversight and administration of the increased volume of credits will require one Economic Development Incentive Specialist III (at $46,776 annually). DED assumes that one person will be sufficient but if volume of work increases, additional funding may be requested through the normal budget process. DED assumes a cost to the General Revenue Fund for this additional FTE of roughly $85,000 per year.

Oversight has, for fiscal note purposes only, changed the starting salary for DED's Economic Development Incentive Specialist III to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DED will not require additional office space for the one additional FTE and has reduced DED's estimated expense accordingly. Oversight also assumes the new FTE would not be required for the first six months in FY 2007 since the increase in the annual tax credit limits is for tax years beginning January 1, 2008.

Oversight will range the fiscal impact of the expansion of the film tax credit program from $0 (no additional tax credits will be issued as a result of the proposal) to the increase in the annual limit of $9 million (from $1.5 million to $10.5 million). Oversight assumes the new annual limit will be effective for taxable years beginning on or after January 1, 2008. Therefore, Oversight assumes there could be an increase in the film production tax credits utilized in fiscal years 2009 and beyond.

According to the Department of Economic Development, the amount of tax credits issued in the previous years under this program have been $1,059,409 million in FY 2004, $0 in FY 2005 and $917,982 in FY 2008. **Oversight** assumes the Department of Economic Development may require the additional FTE if the tax credits issued under this program expands greatly; however, if the program does not expand greatly, Oversight assumes DED could administer the program (with changes outlined in the proposal) with existing resources. Therefore, Oversight has ranged the cost to the Department of Economic Development from $0 to anticipated expenses for the additional FTE.

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Oversight notes the tax credits may be utilized against Insurance premium taxes in chapter 148. In response to other proposals from this year that create or expand tax credit programs, the Department of Insurance, Financial Institutions and Professional Registration have stated Premium/Retaliatory tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. Therefore, Oversight assumes if tax credits are utilized to offset premium taxes, Oversight assumes this would fiscally impact the local school districts.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $9,000,000 of additional credits are issued, Oversight would assume $7,470,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes this proposal could result in some economic benefits for the state. However, Oversight assumes these benefits would be considered indirect and have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Costs - Department of Economic Development (DED)			
Personal Service	$0 or ($19,887)	$0 or ($40,968)	$0 or ($42,196)
Fringe Benefits	$0 or ($9,001)	$0 or ($18,542)	$0 or ($19,098)
Expense and Equipment	$0 or ($13,158)	$0 or ($13,108)	$0 or ($13,500)
Total Costs - DED	$0 or ($42,046)	$0 or ($72,618)	$0 or ($74,794)
FTE Change - DED	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
Loss - DED Film production tax credit cap raised from $1.5 million to $10.5 million.	$0	$0 to ($9,000,000)	$0 to ($9,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Up to $42,046)**	**(Up to $9,072,618)**	**(Up to $9,074,794)**
Estimated Net FTE change for General Revenue Fund	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that will qualify for the film production tax credits could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies provisions of the film production tax credit program by lowering the minimum expected in-state budget expenditure, from $300,000 to $50,000 for qualified film production projects less than thirty minutes in length or to $100,000 for a project longer than thirty minutes, for tax years beginning on or after January 1, 2008. The act removes the limitation on the amount of tax credits which may be issued annually per taxpayer for all tax years beginning on or after December 31, 2007. The annual aggregate cap on all tax credits certified under the program is increased from one million five hundred thousand dollars to ten million dollars.

The provisions of this act will automatically sunset in six years if not re-authorized.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning

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