

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
 Revised

Senate Bill 215 (The President, *et al.*) (By Request – Administration)

Finance and Budget and Taxation

Economic Matters

Film Production Activity - Employer Wage Rebate Grant Program

This Administration bill provides qualified film producers engaging in film production activity in the State a rebate of 50% of the first \$25,000 of each qualified employee’s wages, up to a maximum of \$2,000,000 for each production.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: The FY 2006 budget includes \$4 million in general funds to establish the program, contingent on enactment of this bill or HB 253. Future year estimates would depend on future year appropriations for the program. State revenues would not be directly affected.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Net Effect	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local jurisdictions could benefit from film productions occurring in the jurisdiction attracted by the new incentives. However, the bill does not directly affect local finances.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment. The attached assessment does not reflect amendments to the bill.

Analysis

Bill Summary: To qualify for the rebate, a film production activity must be intended for nationwide distribution and have direct costs in the State of at least \$500,000, which may include wages and benefits, fees for services, or any other necessary expense. Eligible activities include, but are not limited to, films, commercials, and animation projects. The rebate is not available to sports broadcasts, live events, talk shows, or student films.

Qualified employee wages eligible for the rebate are the first \$25,000 in wages for film production work that occurred in the State. This does not apply to employees earning over \$1 million for a production. The Department of Business and Economic Development (DBED) must determine whether the producer of the production is eligible for the rebate.

To apply for the rebate, the film producer must notify DBED of its intent to seek the rebate before production begins. A description of the activity, including a detailed budget with estimated number of employees, estimated wages, and anticipated dates for carrying out major elements of the film production activity, and any other information that DBED requires must be submitted to DBED. DBED may require that the information be verified by an independent auditor selected and paid for by the producer. The producer must enter into a grant agreement with DBED as a condition to apply for and receive the rebate.

The bill establishes the Film Production Employer Wage Rebate Fund to make rebate grants and pay the administrative expenses of the fund. The fund consists of money appropriated by the State, repayment of defaulted grants, and any other money made available to it by DBED.

By December 31 of each year, DBED must report to the Governor and the General Assembly on the rebates granted in the prior fiscal year. The report must include:

- the number of local technicians, actors, and extras hired;
- a list of companies doing business in the State that provided direct goods or services for film production activity, including hotels; and
- any information indicating economic benefits of the rebates.

DBED must submit an interim report by December 31, 2005 that will provide this information for the period from July 1, 2005 to November 30, 2005.

DBED must adopt regulations that specify the eligibility criteria and application process for the rebates.

Current Law/Background: The Maryland Film Office of the Division of Tourism, Films and the Arts in DBED was established to attract feature film, television, commercial, and video production companies to Maryland.

DBED advises that in fiscal 2004, 8 feature films were shot in the State for a total of 152 filming days, 8 television productions were filmed for 136 days, and 64 other productions were filmed. DBED advises that the average film does business with 300-400 local individuals and vendors and spends \$500,000 to \$1 million per week in the community. This translates into \$20.6 to \$41.1 million spent in the State in fiscal 2004.

In fiscal 2006, DBED estimates that three films will shoot in the State for a total of 75 film days, and anticipates only one TV show in production, "The Wire," that DBED estimates will shoot for 80 days. Other productions are expected to remain flat at 64 productions.

Chapter 432 of 2000 exempted the sale of tangible personal property or a taxable service that is used directly in connection with a "film production activity" from the State sales and use tax. Tangible personal property or a taxable service include items such as film, camera equipment, vehicle rentals, lighting and stage equipment, and props. The film producer or production company must apply to DBED for certification of eligibility for the exemption. DBED issues certificates to production companies filming in Maryland that provide for a sales tax exemption for the goods described above.

DBED advises that it has been informed by production companies that they were considering filming in other states that have better incentive programs. Approximately 10 other states offer tax credits to induce film and television production in their states, including Louisiana, Pennsylvania, and Illinois.

State Expenditures: The fiscal 2006 budget includes \$4 million for this program. DBED advises that this program could be managed with existing resources, so all money in the fund would be directed towards rebates. DBED estimates that most productions filmed in the State would have qualified for a rebate of approximately \$1 million. Based on this estimate, DBED could offer a rebate to four productions; however, the number of rebates offered is dependent on the budget of films that DBED offers rebates to. It is possible that DBED would decide to offer a larger rebate to attract a large production, or could work to attract several small productions.

Further, it is not necessarily clear that the rebate will attract new productions to the State. The rebate could be offered to productions that already are either in production or intend to be in production in the State. Much depends on how DBED utilizes its discretion to market the rebate and to whom.

DBED estimates that over a three-year period, if the annual appropriation for this program is \$4 million per year, it could attract productions to the State with direct production expenditures of \$96 million.

Additional Information

Prior Introductions: None.

Cross File: HB 253 (The Speaker, *et al.*) (By Request – Administration) – Economic Matters.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2005
mll/rhh Revised - Senate Third Reader - March 28, 2005
Revised - Updated Budget Information - May 16, 2005

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