

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1185 (Chair, Economic Matters Committee
(By Request – Departmental – Business and Economic Development)
Economic Matters Finance

Film Production Activity - Employer Wage Rebate Program

This departmental bill alters the value of the subsidy received by a company under the Film Production Employer Wage Rebate Grant Program. The value of the subsidy to each qualifying company would change *from* a rebate of 50% of the first \$25,000 of each qualified employee's wages, up to a total maximum of \$2 million, *to* up to 25% of the direct costs of the film production activity. The bill does not cap the total amount of the award to each company and provides that the actual amount disbursed is at the discretion of the Department of Business and Economic Development (DBED).

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Although the bill could result in a different distribution of program subsidies, total State funding for the Film Production Employer Wage Rebate Grant Program would not change. State revenues would not be directly affected.

Local Effect: The bill does not directly affect local finances.

Small Business Effect: DBED has determined that this bill has no or a minimal impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Chapter 96 of 2005 established the Film Production Employer Wage Rebate Grant Program. 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. 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.

Chapter 96 established the Film Production Employer Wage Rebate Fund, which is used 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.

In addition to the wage rebate program, Chapter 432 of 2000 exempts 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.

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. In fiscal 2006, the film wage rebate program received \$4.0 million in State funds that was disbursed to three productions. The fiscal 2007 working appropriation for the program is \$6.9 million, which has been committed to six productions. In the proposed fiscal 2008 budget, the program is level funded at \$6.9 million.

Exhibit 1 details the estimated local wages and budgets for the six productions that have commitments for fiscal 2007 funds, the committed amount of the subsidy, and the maximum award that can be provided under current law and as proposed by HB 1185.

Exhibit 1
Fiscal 2007 Wage Rebate Program
(\$ in Thousands)

<u>Production</u>	<u>Estimated Local Wages</u>	<u>Estimated Local Budget</u>	<u>FY 2007 Grant Commitment</u>	<u>Maximum Grant Award:</u>	
				<u>Current Law</u>	<u>HB 1185</u>
The Wire	\$21,500	\$28,000	\$2,000	\$2,000	\$7,000
Boy of Pigs	2,000	3,000	300	1,000	750
Step Up 2	2,000	3,000	750	1,000	750
Cutoff	1,000	2,000	300	500	500
13 Tzemeti	4,000	7,000	1,500	2,000	1,750
Unthinkable	4,000	8,000	2,000	2,000	2,000
Total	\$34,500	\$51,000	\$6,850	\$8,500	\$12,750

The maximum possible grant award shown in Exhibit 1, however, does not reflect the overall limit imposed by the amount of money appropriated to the fund. In addition, HB 1185 would allow DBED discretion in grant awards – DBED could elect to not award the maximum amount.

Approximately 29 other states and Washington, DC offer tax credits or wage rebate programs. Annual funding for programs in the surrounding area are: Washington, DC (\$1.6 million), Pennsylvania (\$10 million), and Virginia (\$1.2 million).

State Fiscal Effect: Although the bill alters the amount of a subsidy received under the program, the bill would not result in additional funding for the wage rebate program. The program receives funding as appropriated in the State budget, and under the existing program all of the funds appropriated in fiscal 2006 and 2007 have been expended. To the extent that the program receives similar funding in fiscal 2008 and beyond, it is estimated that under current law these appropriated funds would be expended in each fiscal year. Altering the amount of the subsidy would not impact State finances, but it could impact the distribution of the subsidy for eligible activities.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Motion Picture Association of America, Department of Legislative Services

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ncs/rhh

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