HOUSE RESEARCH ORGANIZATION bill analysis — 5/12/2005

HB 2954
Hamric, et al.
(CSHB 2954 by Hilderbran)

SUBJECT: Creating a film industry incentive program in the Governor's Office

COMMITTEE: Culture, Recreation, and Tourism — committee substitute recommended

VOTE: 4 ayes — Hilderbran, Kuempel, Dukes, Phillips

0 nays

3 absent — Baxter, Dunnam, Gallego

WITNESSES: For — Paul Alvarado, Villa Muse Studios; Liz Atherton, The Alliance; Janis Burkland, Dallas Film Commission, Dallas Convention and Visitors Bureau; Rebecca Campbell, Austin Film Society and Austin Studios; Bobby Hill, City of Bartlett; Drew Mayer-Oakes, City of San Antonio, SACVB; Ken Rector, International Alliance of Theatrical Stage Employees, Motion Picture Studio Mechanics; John Schrimpf, Panavision Dallas; John Trube, City of Buda; Greg Faucett; Donise L. Hardy; Warren David Long; (*Registered, but did not testify:* Gary Bond, Austin Film Commission; Jay Aaron Podolnick, Villa Muse Studios; Jody Richardson, Motion Picture Association of America; Jane Barkow; Amanda C. Hall)

Against — None

On — Tom Copeland, Governor's Office, Texas Film Commission; Ron Ommerman, Texas Comptroller of Public Accounts

BACKGROUND: The music, film, television, and multimedia office within the Governor's Office promotes the development of the entertainment industries in the state by informing members of the industry and the public about available resources. In fiscal 2004-05, the office received about $840,000 per year.

Tax Code, ch. 156 imposes a hotel occupancy tax on hotel rooms costing more than $15 per day. The tax is 6 percent of the price of the room. Money collected from the tax goes to general revenue. One-half of one percent of the tax rate is allocated to media advertising and marketing activities of the economic development division within the Governor's Office (formerly the tourism division of the Texas Department of Commerce).

DIGEST: CSHB 2954 would create a new film industry incentive program within the Governor's Office and administered by the Governor's Music, Film, Television and Multimedia Office. The fund would provide grants to production companies for each film, television program, or major commercial they produced in the state, provided they paid at least $500,000 in wages to Texas residents per film or television program or $50,000 per commercial.

The grants could not exceed the lesser of $750,000 or 20 percent of the wages paid to state residents, although that grant could be increased by an additional 5 percent of wages if at least 25 percent of the filming days were located outside of Austin, Houston, and Dallas-Fort Worth. Wages could not include money paid to an actor or director that constituted a major part of the production costs or were negotiated or spent before the beginning of production. If a production company owed money to the state at the time a grant was awarded, the amount of the grant would be offset by the amount of the debt.

Money for the film incentive grants would come from the redirection of one-half of one percent of the hotel occupancy tax rate through 2007. Up to $20 million of this money could be used for grants. An additional $10 million could be used for the activities of the tourism division of the Texas Economic Development and Tourism Office.

The governor's Music, Film, Television and Multimedia Office would be required to develop a procedure for the submission of grant applications and the awarding of grants, including:

- the submission, prior to filming, of wage estimates for Texas residents; and
- methods for determining residency.

The bill would take effect September 1, 2005.

SUPPORTERS SAY: CSHB 2954 would help Texas promote the state's film industry and entice filmmakers to locate projects in the state. After years of assiduously building its film industry, the state recently has been losing film projects to other states that have implemented these types of incentives. Thirteen states and every Canadian province already have similar programs, and legislation to create film incentives is pending in several states. These incentive programs are dramatically altering film production location decisions in the United States. For example, the amount of film production dollars going to New Mexico and Louisiana jumped more than 10 times since these states implemented incentive programs two years ago. At the same time, the Texas Film Commission reported a 25 percent decrease in leads in 2004. Without an incentive program, Texas risks losing its once promising film industry.

Promoting film production in the state would increase employment for Texans, bring the state production-related dollars, and increase tourism. Film production is, by nature, a mobile business. By luring this production to the state, these grants would increase the number of Texans employed in filmmaking. Film-related businesses, such as equipment manufacturers or editing services, would benefit from the increased production. Local businesses also would gain business as the out-of-state crew members spent money on hotels, food, and other goods and services in the filming locations. Increasing the presence of Texas in movies could also increase tourism. For example, Smithville, which appeared in the movie "Hope Floats," has seen a considerable increase in tourists since the film was produced.

The bill would allow the Governor's Office flexibility to impose appropriate criteria on grant seekers. Specifying rigid criteria in statute could hinder the governor’s ability to respond quickly to film production opportunities. Filmmakers considering location decisions often are on tight schedules and can not afford to delay production.

OPPONENTS SAY:

While increasing film production is important, the state cannot afford another corporate grant program at this time. The money that this bill would set aside could be used to meet more important state priorities. Moreover, filmmakers already are eligible for several incentives, including exemption from sales taxes on many of the items and services used in the manufacture of the film, exemption from the hotel occupancy tax if they stay for more than 30 days, and fuel sales tax refunds for fuel used off-road, such as for generators and boats.

OTHER OPPONENTS SAY:

CSHB 2954 lacks adequate accountability controls and reporting requirements. The bill sets only vague criteria for the grants and would leave much of the process of determining how to award these grants to the Governor's Office. Moreover, the bill contains no provision requiring the Governor's Office to report to the Legislature on the number of grants made, the amount of wages paid by grantees, the geographical distribution of the films produced, or the effects of grants on local economies. Without this information, the Legislature would be unable to determine whether the grant program was meeting its objectives. The bill should be amended to include more precise grant criteria and reporting requirements.

NOTES:

The committee substitute differs from the bill as filed by redirecting one-half of one percent of the hotel occupancy tax through 2007 and specifying how that money should be spent.

The fiscal note estimated a cost of about $30 million in general revenue through fiscal 2007.

The companion bill, SB 1142 by Carona, was reported favorably, as substituted by the Senate Business and Commerce Subcommittee on Emerging Technology and Economic Development on April 22.