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Playing to the Gallery: Preferential Tax Treatments to Moving Image Industry Not Worth the Costs

Bill Analysis — Senate Bill 99

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Hollywood sells dreams; so do supporters of film incentives. Yet the promotion of economic benefits of film incentives while ignoring the costs is being increasingly panned by the critics around the country as states are considering cutting or repealing their film incentives. Similarly, SB 99 would repeal the Texas Moving Image Industry Incentive Program.

History of the Texas Moving Image Industry Incentive Program

The moving image industry in Texas has a rich history dating back nearly 100 years. Only in the last decade or so has the state government directed public tax money to the industry as a means of economic development. The 79th Texas Legislature established the Texas Moving Image Industry Incentive Program (TMIIIP) in 2005. The stated aim was to build a more hospitable business climate and allow Texas to effectively compete with other film destinations, such as New York and Illinois, where subsidies were already common practice. There was a concern that incentive programs had upended the way that location decisions were made. Lawmakers, at the time, did not want to lose what they considered "an established industry" in Texas simply because they refused to actively court upcoming projects (Hunker, et al., 22-23).[1]

Appropriations for the incentive program, however, did not start until 2007, when the 80th Texas Legislature allocated $20 million for distribution. This initial amount was perceived as too small to be competitive when compared with the incentives offered by other states. As a consequence, the Legislature increased the program's budget to $60 million in 2009. An additional $2 million was appropriated each biennium to cover the program's administrative costs. The TMIIIP would then hit its peak in 2013, when the Legislature granted it access to funds from the hotel occupancy tax, which brought the program's budget to $95 million. Since that time, confidence in the TMIIIP has ebbed. The 84th Texas Legislature cut funding in 2015 to $32 million—about one-third of the previous budget. Even that amount was a near miss; the Senate originally voted on a proposed budget of $10 million.

Despite the fluctuating budget, TMIIIP's core structure has remained largely unchanged these last few sessions. Qualifying productions can apply for a cash grant, which is based on the amount of in-state spending the project incurs. Each category has multiple tiers, with the state willing to fund a larger percentage of the project's expenditures as the size of the project increases. Accordingly, the TMIIIP will reimburse 5 percent of a film's production costs if the responsible parties spend anywhere between $250,000 and $1 million. That percentage climbs to 10 percent if spending is between $1 million and $3.5 million, and 20 percent if spending reaches $3.5 million or more. Commercials, video games, and reality television all have their own respective threshold amounts. None of the categories have a ceiling on the incentive amount an individual project may receive.

Benefits v. Costs

Arguments in favor of the TMIIIP echo many of the points made on behalf of other economic development programs listed in this guide. Supporters contend that the money spent is merely an investment in Texas' economic infrastructure, which will reap dividends in new jobs, increased spending, and an overall boost to local markets, which play host to favored projects. The Texas Association of Business (TAB) underscored this argument repeatedly in the two reports it had commissioned from the Bureau of Business Research, an initiative of the University of Texas at Austin. There, investigators concluded that the initial allocations in 2007, 2009, and 2011 generated $640.7 million in direct moving image production

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[1] Part of this bill analysis directly borrows from Hunker, et al. 2016. *Policymaker's Guide to Corporate Welfare*. Texas Public Policy Foundation.

spending, along with a sizeable multiplier effect in supportive industries, such as food services and healthcare.

The Texas Comptroller, to some degree, agreed with TAB's observations. It found that estimated spending in the moving image industry had gone up from $330.3 million in 2006 to $505.8 million in 2009, which, it conceded, could be a result of the added incentives. However, the Comptroller also voiced several reservations, noting that most of the jobs created by the TMIIIP in the film/TV/commercial sectors are "either temporary, part-time (walk-on) roles, or leave the state upon project completion" (Texas Comptroller, 64). The funds, in other words, did not build the foundations for future economic growth. They instead represented a short-lived fix, highly concentrated in only select regions of the state. Money would have to be continuously pumped into the industry for Texans to convert their experience on set into a supportable career.

Several cost analyses of the programs in other states revealed that there was more to see than just glitters (Verrier). For example, a Louisiana State Auditor study of the Louisiana incentive program concluded in 2013 that although the program may create a positive economic output, the net cost to the state for 2010 was nearly $170 million (Louisiana Legislative Auditor, 6-7). The Massachusetts Department of Revenue reported that two-thirds of the spending generated from the tax credits awarded in Massachusetts in 2011 went to out-of-state workers, causing a net cost to the state (Norcross).

Studies have also shown that these programs tend to shift tax burdens onto other taxpayers and production and employment from one sector or region to another, without necessarily creating real economic impact (Robyn and David; Maddaus; Tannenwald).

The Proper Role of Government Is Not to Nurture Any Industry

The impact that the TMIIIP has on the state's broader economy—that is to say, the multiplier effect it triggers as additional income filters down market—is not unique to this one particular industry. The state government could just as well have cut taxes or spent the money elsewhere and have gotten a similar result. The Tax Foundation has repeatedly warned about the opportunity costs associated with film production subsidies, which have their own economic multipliers. Hence, the decision to retain the TMIIIP should not be based on the fact that the subsidies stir economic activity in one industry sector. Rather, the existence of the program should be examined in light of the lost opportunities elsewhere in the economy. Texas did not become an economic powerhouse because it mimicked the corporate welfare policies of New York and California. It succeeded because of its willingness to carve its own pathway and implement policies that trusted competitive markets and the appeal of low taxes.

The role of a limited government is not to create, sustain, or grow any industry, but instead to get out of the way of enterprising taxpayers who create value for customers in a free market that will encourage competition and innovation. When government intervenes to give special treatments to some businesses, it distorts the free market system. By repealing the TMIIIP, SB 99 seeks to prevent government from picking winners and losers, which always ends up costing taxpayers money.

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