Film Subsidies

The Issue

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.

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 2 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.

The Arguments

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 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." 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.

In addition, 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.

Recommendations

Eliminate the Texas Moving Image Industry Incentive Program. ☆

Resources

Some States Yell "Cut!" on Film Tax Credits by Elaine S. Povich, PEW Charitable Trusts (May 2015).

Texas Moving Image Industry Incentive Program: The Economic Benefits from Incentives by James E. Jarrett and Bruce Kellison, Bureau of Business Research, IC² Institute, University of Texas at Austin (April 2011).

Film Production Incentives: A Game California Shouldn't Play by Mark Robyn, Tax Foundation (March 2011).

901 Congress Avenue, Austin, Texas 78701 | 512.472.2700 PH 512.472.2728 FAX | www.TexasPolicy.com