

STAND. COM. REP. NO.

2480

Honolulu, Hawaii

FEB 15 2008

RE: S.B. No. 2273
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 2273 entitled:

"A BILL FOR AN ACT RELATING TO DIGITAL MEDIA,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Amend the motion picture, digital media, and film production income tax credit to allow a tax credit on fifty per cent of wages paid to below-the-line crew who are Hawaii residents and that meet certain training and certification requirements; and
- (2) Authorize the Department of Labor and Industrial Relations to implement and operate media production training programs.

Testimony in support of this measure was received from IATSE Local 665. The Department of Business, Economic Development, and Tourism and the Department of Labor and Industrial Relations testified in opposition. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

Your Committee finds that in order for Hawaii to remain competitive in the international market of filming locations, its tax incentives must remain attractive. Labor costs associated with filmmaking can be a large production cost, and other regions have created labor incentive programs in response.

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The Department of Taxation estimates that this measure will result in a revenue loss of approximately \$5,750,000 for fiscal year 2009 (1/2 year impact), and \$11,500,000 annually for fiscal years 2010 to 2016. The Department based its assumptions on information from the Hawaii Data Book 2006, which listed motion picture and television production expenditures as \$164,000,000 in 2004. The Department assumed the total wages paid to below-the-line crew amounted to forty per cent of the expenditures, and that fifty per cent of the total wages paid to below-the-line crew qualified for the new fifty per cent credit. Currently, the wages qualify for the fifteen per cent (or twenty per cent for neighbor islands) credit. Thus, based on the proposal, the wages would qualify for an additional thirty-five per cent credit (50% - 15%). The Department also assumed all the film and TV production occurred on Oahu.

Your Committee has heard a number of concerns raised about this measure, ranging from the restriction of the tax credit for Hawaii residents, to lack of personnel by the agencies that would be involved in administering the program.

Your Committee has considered these concerns and believes the proposed amendments will resolve most, if not all, of the issues. In making the amendments, your Committee has made an effort to provide additional resources through two sources - general fund revenues and the Employment and Training Fund (ETF). In considering the ETF, your Committee finds that there are two ways to apply for funding:

- (1) The "Macro" Grant Program that provides grants of up to \$100,000 per year, per recipient, for industry-specific training where there are critical skill shortages in high growth occupational or industry areas; and
- (2) The Employer Referral Program, or "micro" program, that provides noncredit training courses for nongovernmental employers who wish to upgrade the skills of their employees, with the ETF funding fifty per cent of the tuition per course, up to \$500.

Your Committee believes the ETF offers excellent options for building a skilled motion picture, digital media, and film production workforce.



It remains the intent of your Committee to work with the Administration and industry representatives in developing additional means to support this vital component of Hawaii's economic engine.

Your Committee has amended this measure by:

- (1) Deleting the tax credit for fifty per cent of wages and salaries for below-the-line hires;
- (2) Establishing in its place an additional five per cent tax credit for qualified production costs incurred by a qualified production in any county of the State; provided that the qualified production employs workers who are Hawaii residents, who are paid a base rate of \$200 per day for a ten-hour day, who participate in on-the-job training, or complete a motion picture, digital media, or film production training course, and are certified as a trainee by the Film Industry Branch of the Department of Business, Economic Development, and Tourism;
- (3) Deleting the related new definition for "below-the-line-crew";
- (4) Authorizing moneys from the ETF to be expended in support of the motion picture, digital media, or film production programs, established pursuant to section 383-128(b)(3), Hawaii Revised Statutes;
- (5) Adding an unspecified appropriation from general revenues for motion picture, digital media, or film production training approval and certification by the Film Industry Branch, pursuant to section 235-17(a)(3), Hawaii Revised Statutes, to be expended by the Department Of Business, Economic Development, And Tourism; and
- (6) Adding an unspecified appropriation from the ETF for development and implementation of the motion picture, digital media, and film production training programs, pursuant to section 394-8(c), Hawaii Revised Statutes.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to



this report, your Committee is in accord with the intent and purpose of S.B. No. 2273, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2273, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



