

**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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STATE TESTIMONY

Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEES ON TOURISM, CULTURE
& INTERNATIONAL AFFAIRS and ECONOMIC REVITALIZATION,
BUSINESS & MILITARY AFFAIRS**

Monday, February 8, 2010
9:30 a.m.
State Capitol, Conference Room 312

in consideration of

**HB 2408
RELATING TO ECONOMIC DEVELOPMENT**

Chairs Manahan and McKelvey, Vice Chairs Tokioka and Choy, and Members of the
respective Committees.

The Department of Business, Economic Development, and Tourism (DBEDT)
has concerns regarding HB2408 which seeks to provide additional resources that would enhance
the functions of the respective programs – DBEDT’s Film Industry Branch, Community-Based
Economic Development Program and Enterprise-Zone Partnership. We agree that all these
programs are important economic generators for the State and these statutorily-mandated
programs identified in this measure are currently being managed capably by existing staff who
have the knowledge and expertise to carry out these mandates.

HB2408 addresses the existing Chapter 231, HRS and specifically the television and film
development special fund, suggesting changes that redirect the income, purpose and uses of the
fund to provide perpetual support to the functions of the film office. We prefer the approach in

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the administration's proposed SB2682/HB2529 also addresses changes to Chapter 231, HRS but takes a broader perspective to support creative media development that includes film and television sectors. The measure looks to rename and broaden the purpose and responsibility of the current film and television development board to create a creative media commission and to rename and broaden the scope of the Hawaii television and film development special fund into the creative media development special fund. The measure provides a means to tap resources that will allow the department to carry out its functions and operations in developing, promoting and assisting film television digital media as well as other creative industries in Hawaii. We respectfully request the committee's consideration of this broader scope approach.

In the 2010 draft of Hawaii's Creative Industries report by DBEDT's research and economic analysis division (READ), the digital media, film, music, culture and arts sectors collectively contributed \$4 billion to the State's GDP in 2008 and represent a workforce of 44,649 .

Hawaii's film and television production activity this year is projected to exceed \$200 million in production expenditures. The computer and digital media sector employment has grown 15.9% since READ began tracking the creative sector activity in 2002. We bring this to your attention to point out that building a strong creative economy at home is just as important as attracting and servicing film production from off shore. Film, television as well as digital media, and other emerging industry sectors that support island based development of creative product should be collectively supported as all are integral to Hawaii's economic recovery.

Infrastructure is a key component of our creative industries division's mission, and we are focused on its development that crosses many sectors of the creative economy. Our digital sectors are beginning to achieve a critical mass, thanks to education and workforce development programs such as the numerous high school digital media programs, the University of Hawaii's

Academy for Creative Media, Kapiolani Community College and Leeward Community College programs in animation, interactive design and digital media production. We have a growing number of entrepreneurs and start-up companies in game design and 3D animation that are now making it possible such as Avatar Realty and new companies such as Hawaii Animation Studios have signaled an important milestone in the advancement of this sector, with their hiring of a significant number of Hawaii-based residents for full- and part-time employment.

DBEDT supports the intent of the section of HB2408 that proposes that the Community-Based Economic Development (CBED) and Enterprise Zone (EZ) Programs' personnel and operating costs be funded through the Community-Based Economic Development Revolving Fund. However, we note that legislation fails to provide adequate up-front financial support for the CBED Revolving Fund to carry the personnel and operating costs of the CBED and EZ Programs, provide grants and loans to community nonprofit organizations, and identify and obtain other funding sources besides state general funds. Although the CBED and EZ programs generate state tax revenues to the state through the assistance it provides to non-profit organizations and businesses located in economically distressed areas of our state by creating and strengthening communities, the programs do not directly general revenues to sustain its programs through fees or charges to the organizations they serve.

Thank you for the opportunity to provide these comments.

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GOVERNOR

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**HOUSE COMMITTEES ON TOURISM, CULTURE & INTERNATIONAL AFFAIRS
AND ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS
TESTIMONY REGARDING HB 2408
RELATING TO ECONOMIC DEVELOPMENT**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 8, 2010
TIME: 9:30AM
ROOM: 312

This measure, among other things, requires the Department of Taxation to study the aggregate impacts of the Film Production Tax Credit under Section 235-17, Hawaii Revised Statutes. This measure also proposes a new means of funding the Hawaii Film Office by diverting an amount of net tax revenues generated by the "impacts" of the film industry in Hawaii.

The Department of Taxation ("Department") **supports the concept of this independent funding** for the Film Office; **however opposes the funding mechanism.**

I. REQUIREMENT TO STUDY THE FILM INDUSTRY

This measure requires the Department report aggregate data submitted to the Film Office as part of the existing requirements of the Film Production Tax Credit. Though presently understaffed, the Department maintains a Tax Research & Planning Office capable of reporting and studying the aggregate information collected for this tax credit. The Department does not object to studying this tax credit; however points out that its research office has limited resources at the current time and likely into the future given current budget cuts. The Department asks that studies be prioritized.

II. THE DEPARTMENT GENERALLY SUPPORTS INDEPENDENT FILM OFFICE FUNDING; HOWEVER OPPOSES THE MEANS IN THIS BILL

SUPPORT FOR INDEPENDENT FUNDING—The Department supports the concept of sufficient funding for the Film Office in order to accomplish its statutory requirement of certifying the Film Production Tax Credit. The Film Office plays a vital role through specialists with expertise in the motion picture industry. The Film Office has maintained a collaborative relationship with the Department for several years in the successful administration of the tax credit. To avoid additional impacts on both departments, the Department supports the discussion of independently funding the

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Film Office. Several options are available, including nominal fees for permits or application fees for certifications similar to the Department's fees charged for high tech credit certificates.

The Department points out that much of this data is already collected and compiled in association with the high technology business investment tax credit certifications.

THE DEPARTMENT OPPOSES GENERAL REVENUE DIVERSIONS—The Department is always cautious about policy that redirects excise tax revenue away from the general fund and into specific special funds. The Department routinely opposes funding mechanisms such as this. The Department strongly prefers that a direct appropriation be the means for funding this program so that the amount may be budgeted and prioritized just as any other program.

Moreover, the funding concept in this legislation, whereby the first \$500,000 or a blank percentage of net tax revenue generated by the impact of this industry is deposited into the special fund, is simply unworkable. The Department does not track revenues by industry to the detail contemplated by this measure. In order to track such, it would require an appropriation to modify forms and computers, which are not factored into the Executive Budget. Moreover, if the economic impact is to be based upon a study of the Department, it will simply be a projection or an estimate, which is not reliable for funding purposes. If the intent is simply to fund \$500,000 for operating costs, fund it through fees or direct appropriations every year by the Legislature.

In short, the Department suggests a simpler and more accurate and reliable means of funding the Film Office. The funding proposed in this measure is unreliable.

HAWAII FILM & ENTERTAINMENT BOARD



LAW OFFICE

*Brenda Ching, Chair
Screen Actors Guild*

Chris Conybeare, Esq.

*Donovan Ahuna
I.A.T.S.E., Local 665*

*Benita Brazier
Maui Film Commission*

*Walea Constantinau
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*Jeanne Ishikawa
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*Stephan Kato
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*John Mason
Big Island Film Office*

*Brien Matson
A.F.M., Local 677*

*Jason Suapaia
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*Art Umezu
Kauai Film Commission*

*Randall Young
I.B.E.W., Local 1260*

COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS
and
COMMITTEE ON TOURISM, CULTURE & INTERNATIONAL AFFAIRS

February 8, 2010 – 9:30 pm
State Capitol, Conference Room 312

RE: HB 2408 -- RELATING TO ECONOMIC DEVELOPMENT

Dear Chairs Manahan and McKelvey, Vice-chairs Choy and Tokoika and members of the committee:

The Hawaii Film and Entertainment Board, whose members include all of the film industry labor unions, associations and film commissions, **supports the measure in concept**, which is to find a way to fund the film office functions since this is a revenue generating agency, and are **submitting specific testimony in support of a portion of the measure**.

As we reported to the legislature in September 2009, **the state has received a 2000 percent return on investment** in 2007 and 2008. Almost **\$20 million of tax revenues were generated, \$10 million per year**. This is a NET gain figure, after the payout of the tax credit. The expense to fund film office functions is approximately \$500,000 per year.

Specifically, we **support the creation of a special fund** in which revenues generated from the rental of the Hawaii Film Studio can be placed and used to help off-set costs of running the film office functions.

The industry greatly appreciates the intent behind a number of measures introduced this year and respectfully requests that time be allowed for the industry to work in concert with the legislature over the summer **to develop a strategic plan for the future growth of the industry**. We would like the opportunity to discuss what is needed for the next five, ten and 20 years.

Thank you for the opportunity to provide these comments

Brenda Ching,
Chair

Attachments: 2007-2008 Econ Impact, Direct and Indirect expenditures; 2007-2008 Tax Revenues Generated (summary); 2007 Econ Impact Detailed spreadsheet; 2008 Econ Impact Detailed spreadsheet

Economic Impact

The Film Industry is a part of the solution

Total Direct and Indirect impact:

2007 (based on \$229 M spend) \$304 million

2008 (based on \$146 M spend) \$194 million

Total Economic Impact 2007-2008 \$498 million

Multiplier of 1.29 and revenue calculation provided by DBEDT- READ; Direct and Indirect economic formulas provided by Dr. William Boyd, UH Economist; Based on direct spend figures provided by DBEDT-FIB

Note: "Film Industry" is used in a generic sense and represents film, television, commercial and new media

Tax Revenues Generated

Year	Direct Spend	Tax Revenues Generated
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2007	\$229 million	\$ 11.3 million
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2008	\$146 million	<u>\$ 8.06 million</u>
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\$19.37 million into State coffers

Major projects:

Forgetting Sarah Marshall

LOST

Tropic Thunder

Indiana Jones 4

Pirates of the Caribbean 3

Oahu

Oahu

Kauai

Big Island

Maui / Molokai

Direct and Indirect economic formulas provided by Dr. William Boyd, UH Economist

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2007 Economic Impact estimates - Act 88 and non-Act 88 Scenario

Oahu split calculated at	50%		
NI split calculated at	50%		
Oahu cost	15% x estimated split		\$11,592,208
NI cost	20% x estimated split		\$15,456,277
	\$77,281,387 Oahu split		
	\$77,281,387 NI split		
	Total Act 88 cost:		\$27,048,486
Indirect Impact (Production Spend x multiplier)			\$294,997,152
	Indirect revenues generated =		\$66,317,189
	Indirect revenues x Revenue calculation =		\$8,621,235
	total direct and indirect impact		\$303,618,387
	multiplier		1.29
Annual Production Spend	\$228,679,963		
Act 88 Spend	\$154,562,775	% of Act 88 total	67.589120%
non-Act 88 Spend	\$74,117,188	% of non-Act 88 total	32.410880%
			100.000000%
Annual Tax Revenues	\$29,728,395	Revenue calculation @	13.00%
Rebate Cost	<u>\$27,048,486</u>	Oahu and NI figures	
subtotal (cost to state)	\$2,679,910	(net gain/net loss)	
Indirect Impact	\$8,621,235		
+ cost to state	<u>\$2,679,910</u>		
TOTAL	\$11,301,144	(net gain/net loss)	

Legend- base figures:

Blue = input figures

Green = formula figures

Black = formula figures with positive results

(Red) = formula figures with negative results

Total figures

Black = net gain to state

(Red) = net loss to state

Hawaii Film and Entertainment Board

2008 Tax Incentive Economic Impact Analysis for Act 88

Oahu split calculated at	50%		
NI split calculated at	50%		
Oahu cost	15% x estimated split		\$7,035,000
NI cost	20% x estimated split		\$9,380,000
	\$46,900,000 Oahu split		
	\$46,900,000 NI split		
	Total Act 88 cost:		\$16,415,000
Indirect Impact (Production Spend x multiplier)			\$188,340,000
Indirect revenues generated =			\$42,340,000
Indirect revenues x Revenue calculation =			\$5,504,200
(3) total direct and indirect impact			\$193,844,200
		(1) multiplier	1.29
Annual Production Spend*	\$146,000,000		
Act 88 Spend**	\$93,800,000	% of Act 88 total	64%
non-Act 88 Spend	\$52,200,000	% of non-Act 88 total	36%
Annual Tax Revenues	\$18,980,000	(2) Revenue calculation @	13.00%
Rebate Cost	<u>\$16,415,000</u>	Oahu and NI figures	
subtotal (cost to state)	\$2,565,000	(net gain/net loss)	
Indirect Impact	\$5,504,200	(net gain/net loss)	
+ cost to state	<u>\$2,565,000</u>		
TOTAL	\$8,069,200	(net gain/net loss)	

Legend- base figures:

Blue = input figures

Green = formula figures

Black = formula figures with positive results

(Red) = formula figures with negative results

Total figures

Black = net gain to state

(Red) = net loss to state

* Honolulu Advertiser 5/18/09; quote by Donne Dawson, Film Industry Branch

** draft figures provided by DBEDT - Film Industry Branch

(1) Multiplier figure provided by: DBEDT

(2) Revenue calculation figure provided by: DBEDT

(3) Direct and Indirect economic formulas provided by: Dr. William Boyd, UH Economist

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