

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

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Statement of  
**THEODORE E. LIU**  
Director  
Department of Business, Economic Development, and Tourism  
before the

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS, &  
MILITARY AFFAIRS**

Thursday, March 18, 2010  
9:00 a.m.  
State Capitol, Conference Room 312

in consideration of  
**SB 2144 SD2**  
**RELATING TO ECONOMIC DEVELOPMENT**

Chair McKelvey, Vice Chair Choy, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) is opposed to SB2144 SD2, which seeks to transfer the film industry branch operational and statutory responsibilities under DBEDT, (Chapter 201-14, HRS, consolidated film permit processing, and Chapter 235-17, HRS, motion picture digital media, and film production income tax credit), to the Hawaii Tourism Authority (HTA), an agency attached to DBEDT.

The functions of creative industry development, which include the film and television industries, align with DBEDT and its Creative Industries Division, not the current mission and functions of HTA – the state’s lead tourism marketing agency. There is no question that in some cases there is a cross over of marketing benefit but this is not the case with all productions. The legislation also fails to fully define the method of funding for film branch operations. As HTA has testified in past hearings, they are opposed to utilizing their current budget allocation for these purposes. If HTA’s focus is on reinvigorating the tourism sector including coordination of the APEC world summit event in 2010, this mission is not in alignment with the business development or statutorily mandated functions of the film branch of creative industries division.

DBEDT's Creative Industries Division has overseen the operations of the film branch and arts and culture development branch since 2003 and continues to manage the statutorily mandated functions in addition to focusing on accelerating the growth of Hawaii's creative arts, culture, music, film, television and digital media sectors through its programs. With production activity projected at \$181 million this year, it is clear that the division continues to provide effective management of the film branch.

While we have and will continue to work with our tourism partners on projects that enhance the marketing of Hawaii as a destination, not all functions of the film branch are in sync with the tourism agency and in some cases are contrary to the daily functions of HTA. Its mission would have to change drastically, based on board approval, in order to accommodate this recommended transfer.

SB2144 SD2 also establishes the Hawaii Film Office Special Fund - suggesting changes that redirect the income, purpose, and uses of the fund to provide perpetual support to the operations and functions of the film office within DBEDT's Creative Industries Division. While we agree with the intent, we request consideration of the broader, more encompassing language to rename the existing fund as a Creative Media Development fund, which would address funding for film branch operations as a priority, is more in step with the overall mission to develop a thriving creative economy for Hawaii.

Regarding Section 10 on page 17, DBEDT supports the intent of the section of SB 2144 SD2 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. Presently, the CBED Revolving Fund and Enterprise Zone Program do not charge communities or businesses any fees.

Overall, DBEDT agrees that these programs are important economic generators for the State. However, we believe this is not the time to enact such a massive shift in priorities and mandates. With a decline in tourism, it is important for the agency that is charged with its

revival for our state to focus on its core mission, which is not aligned with the business development or operational aspects of the film and television industries at large.

We respectfully encourage your thoughtful review of these comments and recommendations and appreciate the effective date of July 1, 2070 to facilitate further discussion.

Thank you for the opportunity to provide these comments.



LINDA LINGLE  
Governor

MIKE MCCARTNEY  
President and  
Chief Executive Officer

# Hawai'i Tourism Authority

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Testimony of  
**Mike McCartney**  
President and Chief Executive Officer  
Hawai'i Tourism Authority  
on  
**S.B. 2144, S.D.2**  
**Relating to Economic Development**

House Committee on Economic Revitalization, Business & Military Affairs  
Thursday, March 18, 2010  
9:00 a.m.  
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports the concept of Part I of S.B. 2144, S.D. 2 which establishes the Hawaii Film Office in the HTA and assigns the responsibilities for film permit processing and administration of the motion picture, digital media, and film production tax credits formerly under the Department of Business, Economic Development & tourism (DBEDT) to the Authority, with recommendations.

The HTA is tasked with marketing and promoting Hawai'i as a visitor destination, with the goal of increasing visitor spending. One of the keys to branding Hawai'i's visitor industry and increasing visitor spending is through the film and television industry which not only provides economic benefits to the state but also generates national and international media coverage and publicity that promotes Hawai'i as an attractive visitor destination.

In fact, since 1913, Hawai'i has been the site for hundreds of feature films including top-grossing movies like *Jurassic Park*, *Raiders of the Lost Ark* and *Godzilla*; television series such as *Hawai'i Five-O*, *Fantasy Island*, *Magnum P.I.* and *Lost*; and numerous independent television episodes as well as commercials, photo shoots and music videos and locally produced films.

As such, the HTA notes the following:

- Positive synergy exists between television/film and tourism, and the television/film industry does play an important role in complementing Hawai'i's overall tourism marketing efforts to promote the destination;
- More can be done leverage the two industries and maximize opportunities in the state's core markets such as North America and Japan as well as its developing markets such as Korea and China; and
- Based upon last year's poll of other state tourism offices and film commissions, HTA found that 29 states had film and tourism within the same department. Of these, 14 had film part of the Tourism Office/Department.

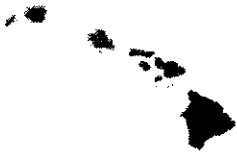
Therefore, if HTA is given these responsibilities, to ensure effectiveness, we would make the following recommendations:

- **Funding.** Although the bill provides for the transfer of all appropriations relating to the transferred functions of television and film industry activities from DBEDT to HTA, that funding must be sufficient for the administration of those transferred activities as well as to ensure that funding for the Authority's existing tourism programs and projects including global marketing efforts through the Tourism Special Fund would not be adversely affected;
- **Staffing.** Appropriate levels of staffing is needed to carry out television/film responsibilities and functions including but not limited to, the processing and facilitation of statewide filming and photography permits, management of film tax credits, management of the overall Hawai'i Film Office and the management of the Hawai'i Film Studio. The HTA estimates that this would be a minimum of four positions; and
- **Timing.** The HTA recommends that the effective date for Part I of the bill be January 1, 2011, to allow for a sufficient transition period to ensure that the transfer of responsibilities can be properly handled by the Authority.

In summary, the HTA acknowledges that this is a policy decision and will work with all interested parties for the benefit of Hawai'i and the community regardless of the final decision this session.

Thank you for the opportunity to provide comments.

# HAWAII FILM & ENTERTAINMENT BOARD



*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  
Honolulu Film Office*

*Dana Hankins  
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*John Mason  
Big Island Film Office*

*Brien Matson  
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*Georja Skinner  
DBEDT, Creative  
Industries Division*

*Jason Suapaia  
F.A.V.A.H.*

*Art Umezu  
Kauai Film Commission*

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

COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS

March 18, 2010 - 9:00 am  
State Capitol, Conference Room 312

RE: SB 2144, SD2 -- RELATING TO ECONOMIC DEVELOPMENT

Dear Chair McKelvey, Vice-chair Choy 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, would like to provide comments on SB 2144 SD2 as it relates to the film industry.

The industry greatly appreciates the intent behind a number of measures introduced this year, however, we have seen that each well intentioned idea has been done separately and we feel that a cohesive, holistic view of the industry is needed to be able to assess how the various suggestions impact the industry and can work together to support and continue to build the industry.

We respectfully request that time be allowed for the industry to work in concert with the legislature over the Summer of 2010 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 twenty years. Our hope is that a cohesive and comprehensive roadmap can be created that can help lead us into the future with regards to incentives, infrastructure and government support systems necessary to grow this industry.

As we have reported to the legislature this year, the industry has been a revenue-generator for the state, generating almost \$20 million of tax revenues for fiscal years 2007 and 2008 while creating \$498 million of economic activity for the same time period. We would like to see this kind of economic contribution continue and would like to look for ways to increase it in the coming years, which we believe can be done if we work together towards a common goal.

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

2007      \$229 million

2008      \$146 million

Tax Revenues Generated

\$ 11.3 million

\$ 8.06 million

**\$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



**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	\$27,048,486	Oahu and NI figures	
subtotal (cost to state)	\$2,679,910	(net gain/net loss)	
Indirect Impact	\$8,621,235		
+ cost to state	\$2,679,910		
<b>TOTAL</b>	<b>\$11,301,144</b>	<b>(net gain/net loss)</b>	

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	\$16,415,000	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	\$2,565,000		
<b>TOTAL</b>	<b>\$8,069,200</b>	<b>(net gain/net loss)</b>	

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