LATE TESTIMONY

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OFFICE OF THE MAYOR

Ke'ena O Ka Meia
COUNTY OF MAUI – Kalana O Maui

TO: The Honorable Angus McKelvey, Chair
Honorable Isaac Choy, Vice Chair
Honorable Members of the Committee on Economic Revitalization & Business

FROM: Alan Arakawa, Mayor
County of Maui

HEARING: Economic Revitalization & Business
Thursday, February 9, 2012
8:30 a.m.
Room 312

SUBJECT: POSITION STATEMENT & TESTIMONY OF MAUI COUNTY MAYOR ALAN ARAKAWA ON HB 2869 RELATING TO THE ECONOMY

Thank you for this opportunity to offer our "Position Statement" and testimony on HB2869. While we **support** the intent and spirit of this bill, it is the continued and consistent position of Maui County that:

1) This, and any bill relating to film, television, and digital media tax credits, include the following:

    a. A "Qualified media infrastructure project tax credit";

    b. A "Motion picture, digital media, film production, special or visual effects and animation production income tax credit";

    c. The establishment of a qualified Hawaii crew training program; and,

    d. That all neighbor counties should receive a 10% differential between themselves and the City & County of Honolulu (the existing differential is currently at 5%).

2) We believe that ***HB1308 (HD 2, SD 2, CD 1, Proposal)***, which remains in conference from last session, encompasses the issues referenced herein-above in 1 (a) – (d). Accordingly, taking into consideration all of the time, effort, and expertise of Chair McKelvey, Vice Chair Choy, Members of this Committee, and House Leadership during the 2011 session, we urge you to stand by your work and position on *HB1308 (HD 2, SD 2, CD 1, Proposal)* as currently written.

Justification:

1) The County of Maui supports HB1308 (HD 2, SD 2, CD 1, Proposal) and legislation that includes the measures referenced herein-above in 1 (a) – (d), based on the following:

    - Such legislation will benefit the entire State of Hawaii by bringing a new industry to the state, and thereby diversifying and stimulating our economy, creating new jobs for our residents, and producing long-term opportunities for our children through training/deeming programs;

    - According to presentations made to the legislature during last year's session, (a) each stage built in the State of Hawaii would inject nearly $140 million into our economy via the hiring of local labor and purchasing materials locally over a two year period; and, (b) Each movie filmed in Hawaii (i.e. $90 million budget) would create approximately 193 local jobs immediately.

    - An infrastructure tax credit is especially important to Maui County (and, the neighbor islands) as outside of the City & County of Honolulu, there isn't a single soundstage, post-production facility, nor camera equipment rental houses, etc.;

    - Our own research shows that on March 5, 2011, the governor of Puerto Rico signed a new law that increased the amount of its existing tax credits. In passing the law, the PR Film Commissioner announced that in 2010, 12 projects were filmed on the island, creating 17,528 jobs and 22,671 hotel nights. Nearly $70 million was said to have been injected into their local economy through a dozen movies, TV series, and documentaries.

2) 10% Differential – Currently the Neighbor Counties receive a 5% differential in the film and television tax incentive program over the City & County of Honolulu. The Chief Officer of the Creative Industries Division Film Office, released industry numbers at the latest Hawaii Film & Entertainment Board (HFEB) meeting in January, 2012. These numbers reinforced the disparity between the counties showing: (a) The City & County of Honolulu, with a 15% tax incentive, managed to file $126,441,000 spending in 2011; while (b) the three neighboring counties, with a 20% tax incentive, filed $5,183,245. The three neighbor counties combined managed a mere 4.09% of the market.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend motion picture, digital media and film production credit; increase credit ceiling

BILL NUMBER: HB 2869

INTRODUCED BY: McKelvey, Carroll, Cullen, Evans, Hashem, Ichiyama, Ito, Jordan, Kawakami, M. Lee, Morikawa, Okamura, Say and 1 Democrat

BRIEF SUMMARY: Amends HRS section 235-17 to provide that the motion picture, digital media, and film production income tax credit shall consist of the sum of all of the applicable: (1) 15% of the qualified production costs, other than wages and salaries of cast, crew, and musicians, incurred by a qualified production in any county with a population of over 700,000; (2) 20% of the qualified production costs, other than wages and salaries of cast, crew, and musicians, incurred by a qualified production in any county of 700,000 or less; (3) 15% of the wages and salaries of all cast, crew, and musicians that are included in the qualified production costs incurred by a qualified production in the state; **and** (4) 5% of the wages and salaries of cast, crew, and musicians who are Hawaii residents and are included in the qualified production costs incurred by a qualified production in the state.

Requires the department of business, economic development, and tourism (DBEDT) to submit a report to the governor and legislature at least 20 days prior to the convening of the regular sessions of 2015, 2020, 2025, and 2030 on the economic impact of the tax credit, with an estimate of the following for each year since 2012 or the last year covered by the preceding report: (1) capital from out-of-state expended in the state on qualified production costs; (2) total expenditures for qualified production costs in the state; (3) total full-time equivalent jobs created by qualified productions in the state; (4) number of those full-time equivalent jobs filled by residents of the state; (5) total wages and salaries paid in the state for qualified productions; (6) amount of the total wages and salaries paid in the state to residents of the state for qualified productions; and (7) any other information that the department deems necessary.

Increases the qualified production credit ceiling from $8 million to $10 million.

Amends Act 88, SLH 2006, to extend its repeal date from January 1, 2016 to January1, 2031.

EFFECTIVE DATE: Tax years beginning after December 31, 2011

STAFF COMMENTS: The legislature by Act 107, SLH 1997, enacted an income tax credit of 4% for costs incurred as a result of producing a motion picture or television film in the state and 7.25% for transient accommodations rented in connection with such activity. The credit was adopted largely to address the impost of the state's general excise tax on goods and services used by film producers. The exclusion of income received from royalties was initially established by Act 178, SLH 1999, as an incentive to attract high technology businesses to Hawaii. The original proposal would have applied to royalties and other income received from high technology businesses. This section of the law was later amended in 2000 by Act 297 which added the inclusion of royalties from "performing arts products" and again amended by Act 221, SLH 2001, to include authors of "performing arts products."

The legislature by Act 88, SLH 2006, increased the 4% credit to 15% in a county with a population over 700,000 and to 20% in a county with a population of 700,000 or less. Act 88 also repealed the income tax credit for transient accommodations and expanded the credit to include commercials and digital media productions, and limited the credit to $8 million per qualified production. While Act 88, SLH 2006, is scheduled to be repealed on January 1, 2016, this measure extends the repeal date to January 1, 2021 and also increases the credit ceiling from $8 million to $10 million.

The motion picture, digital media and film production credits have been morphing and expanding into full-blown tax credits since they "got their foot in the door" in 1997. It should be remembered that the perpetuation and expansion of motion picture credits are a drain on the state treasury. It is incredulous how lawmakers can bemoan the fact that there are insufficient resources to catch up on the backlog of school repairs and maintenance, to fund social programs and not being able to provide tax relief to residents and yet they are willing to throw additional public resources at a subsidy of film production and media infrastructure as proposed in this measure. Taxpayers should be insulted that lawmakers can provide breaks for film productions but refuse to provide tax relief for residents, many of whom work two or three jobs just to keep a roof over their head and food on the table.

There is absolutely no rational basis for increasing and continuing these tax credits other than that other states are offering similar tax credits. Then again, those states can't offer paradise, year-round good weather during which to film. Instead of utilizing back door subsidies through tax credits, film industry advocates need to promote the beauty that is synonymous with Hawaii.

Income tax credits are designed to reduce the tax burden by providing relief for taxes paid. Tax credits are justified on the basis that taxpayers with a lesser ability to pay should be granted relief for state taxes imposed. Sponsors try to make an argument that Hawaii needs to enact such incentives to compete for this type of business, one has to ask "at what price?" Promoters of the film industry obviously don't give much credit to Hawaii's natural beauty and more recently its relative security. Just ask the actors of "Lost" or "Hawaii 5-0" who have bought homes here if they would like to work elsewhere. While film producers may moan that they will lose money without the proposed tax credits, is there any offer to share the wealth when a film makes millions of dollars? If promoters of the film industry would just do their job in outlining the advantages of doing this type of work in Hawaii and address some of the costly barriers by correcting them, such tax incentives would not be necessary. From permitting to skilled labor to facilitating transportation of equipment, there are ways that could reduce the cost of filming in Hawaii. Unless these intrinsic elements are addressed, movie makers will probably demand subsidies, such as this incentive. Unfortunately, they come at the expense of all taxpayers and industries struggling to survive in Hawaii. While lawmakers look like a ship of fools, movie producers and promoters are laughing all the way to the bank and the real losers in this scenario are the poor taxpayers who continue to struggle to make ends meet, a scenario akin to the bread and circus of ancient Rome.

So while there may be the promise of a new industry and increased career opportunities, lawmakers must return to the cold hard reality of solving the problems at hand. The long and short of it is that due in large part to the irresponsibility of handling state finances in the past, taxpayers cannot afford proposals like this. Thanks to the gushing generosity of those lawmakers who gave the state's bank away in all sorts of tax incentive schemes in recent years, taxpayers have had to bear increasing tax burdens.

It should be noted that this measure would make the film tax credit a permanent part of the state's tax code for the next twenty years with no opportunity to put the brakes on the credit should it be abused or should it not live up to the unbridled promises the film industry has made to state policymakers. The real question is whether or not the state can sustain the kind of losses that such productions will claim against the state and will there be a way to alter the law should any of the criteria that is required to be reported under this measure are not be met. It would appear more prudent to extend the credit for a shorter duration that would allow lawmakers to assess and evaluate whether incentives are still needed for these productions.

Instead of creating sustainable economic development incentives, the film tax credits waste moneys that could otherwise create an environment that is nurturing for all business activity, activity that lasts more than the six or eight months of a production. The overall tax burden could be lowered not only for families but for the businesses that provide long-term employment for Hawaii's people.

Digested 2/8/12

The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

Testimony to the House Committee on Economic Revitalization and Business
Thursday, February 9, 2012
8:30 a.m.
State Capitol - Conference Room 312

RE: HOUSE BILL NO. 1758, 2869, 2225

Chair McKelvey, Vice Chair Choy, and members of the committee:

The Chamber of Commerce of Hawaii ("The Chamber") respectfully requests that the committee pass HB 1758, 2869 and 2225 for further discussion.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports initiatives and industries that will attract business and jobs to our State. One of the industries that appear to have a growing presence is film. This industry has steadily been establishing a job base, marketing and exposing Hawaii to an international audience, and providing commerce to many of our businesses, especially small ones.

As such, the Chamber supports legislation that provides incentives to attract, retain and grow industries in Hawaii. The extension provided in these bills will help generate and maintain a higher number of jobs per tax dollar, generate higher tax revenues for dollar spent, and stimulate significantly more economic activity in the state per dollar of tax credit. Also, the credit will strengthen the State's effort to compete with other destinations in the national and international arena, and help broaden and diversify Hawaii's economic base.

Thank you for the opportunity to provide comments.

LATE TESTIMONY

THE HOUSE OF REPRESENTATIVES
THE TWENTY-SIXTH LEGISLATURE REGULAR SESSION OF 2012

COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS
Representative Angus L.K. McKelvey, Chair
Representative Isaac W. Choy, Vice-Chair

TESTIMONY ON HOUSE BILL 2869
RELATING TO THE ECONOMY

The Screen Actors Guild (SAG), the International Alliance of Theatrical Stage Employees (IATSE) Mixed Local 665, the American Federation of Musicians (AFM) Local 677 and Hawaii Teamsters Local 996, collectively represents over 2,000 union members who work in the film, television, digital and new media industry.

We support HB 2869 as it will extend the motion, digital media, and film production tax credit to 1/1/2031, increase the credit ceiling per qualified production to $10 million dollars and provide an additional 5% for state resident hires.

We would like to offer the following amendments and additions to this measure:

> **Section 1. Page 1, (3), Line 11, Amend:** "fifteen per cent of the wage and salaries, ~~no matter the location~~ of the qualified production, in any county of the State with a population of over seven hundred thousand and; twenty percent of the wage and salaries in any county of the State with a population of seven hundred thousand or less, ..."
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> **Section 2. Page 2, (a) (3) Line 21, Amend:** "production ~~in the State; and~~ in any county of the State with a population of over seven hundred thousand"; **Page 3, (a) (4) Line 1, Add:** "Twenty percent of the wages and salaries of all cast, crew, and musicians that are included in the qualified production costs incurred by a qualified production in any county of the State with a population of seven hundred thousand or less"; **Page 3, (a) ~~(4)~~ (5):** "Add an additional five per cent of the wages and salaries of cast, crew, and musicians for a population of over seven hundred thousand, and an additional five per cent of the wages and salaries of cast, crew, and musicians for a population of under seven hundred thousand or less."
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> **Section 2. Page 13, Line 9:** "Resident of the State" means the same as "resident" defined in section 103B-1 and who has filed a current Hawaii State Income Tax return and provide proof of residence."

Thank you for giving us this opportunity to submit testimony and comments on House Bill 2869.

Glenn Cannon, SAG President Brenda Ching, SAG Executive Director	Henry Fordham, IATSE Business Agent	Brien Matson, AFM President	Jeanne Ishikawa, Teamsters Business Agent
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