

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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Monday, February 6, 2012

1:30 p.m.

State Capitol, Conference Room 016

in consideration of
SB2741

RELATING TO CREATIVE MEDIA DEVELOPMENT

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports SB2741, which seeks to amend section 235-17, Hawaii Revised Statutes, by expanding the definitions of qualified productions to include animation or special and visual effects and productions for internet distribution and seeks to extend the sunset date from January 1, 2016 to January 1, 2020. This is an Administration bill.

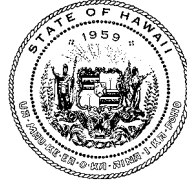
Since Act 88 went into effect July 1, 2006, it has proven to be an economic driver, creating job growth, while supporting the development of Hawaii's creative media education programs and industries. Thanks to the credit, overall production activity from 2006-2011 has generated over \$1.1 billion in estimated production expenditures, with an estimated economic impact of \$1.7 billion.

Our proposal to expand the definition of qualified productions to include those productions that utilize the latest digital technology and means of distribution will make Hawaii more attractive as a filming location and will serve to garner the state's film and digital media industry a bigger piece of the production pie. It will also enhance opportunities for Hawaii's digital-media-minded youth to gain valuable experience in this growing field. Extending the sunset date to 2020, will provide predictability for industry and allow long-range production planning.

Thank you for the opportunity to testify on this measure.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

To: The Honorable Carol Fukunaga, Chair,
and Members of the Senate Committee on Economic Development & Technology

Date: Monday, February 6, 2012
Time: 1:15 P.M.
Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2462 Relating to Taxation

The Department of Taxation (Department) defers to the Department of Business Economic Development and Tourism (DBEDT) on the merits of S.B. 2462. However, due to the anticipated difficulty in administering this bill, as well as the potential for a substantial increase in revenue loss due to the broadening of the scope of the tax credits in the bill, the Department would prefer adoption of S.B. 2741, which takes a more measured approach to supporting the creative media industry.

S.B. 2462 adds a new section to Chapter 235 of the Hawaii Revised Statutes, to create a motion picture, digital media, and film production infrastructure tax credit. The credit is a refundable tax credit equal to 50% of the qualified infrastructure costs, provided the minimum project cost is \$10 million and is able to provide proof of reasonable effort to hire Hawaii residents. The measure also requires a prequalification of the project by registering with DBEDT during the development stage; allows for all or a portion of the infrastructure project to be used for other purposes unrelated to production or post-production activities; provides a recapture up to 100% of the tax credit for the taxable year in which the recapture occurs; institutes an annual fee for administration of the tax credit, equal to 1% of the tax credit received by the taxpayer, payable to DBEDT; and requires DBEDT to report at the end of each taxable year in which qualified production costs were expended.

Thank you for the opportunity to provide comments.

TESTIMONY OF NBC UNIVERSAL MEDIA, LLC

HEARING DATE/TIME: Monday, February 6, 2012
1:30 p.m. in Conference Room 016

TO: Senate Committee on Economic Development and Technology

RE: • **Testimony in Strong Support of SB2111 and SB2741.**

• **Testimony in Support of the Spirit and Intent of SB2043 and SB2462.**

Dear Chair, Vice-Chair and Committee Members:

I. INTRODUCTION

NBC Universal Media, LLC (“NBC/U”) develops, produces, broadcasts and distributes motion pictures, television programs and related content around the world. Over the last several years, local industry stakeholders, the Hawaii Legislature and the people of Hawaii have developed a clear consensus that the motion picture, television and related digital media industries (the “Film Industry”) in Hawaii has become an important component of a diversified economy and has had a positive financial impact on the State of Hawaii which can be strengthened significantly if Hawaii’s existing incentives for the Film Industry are enhanced.

As a result of the enormous infusion of cash that Film Industry productions bring to production locales, there has been a dramatic increase in the number of state and local governments attempting to attract film productions. Recent studies have confirmed that these jurisdictions have experienced dramatic increases in in-state spending and significant growth in workforce and infrastructure development due to film productions in those state and local jurisdictions and that such productions stimulate more direct and indirect tax revenue and that a properly designed tax incentive program can actually increase (on a net basis) local tax revenues. (See, Ernst & Young - Economic and Fiscal Impacts of the New Mexico Film Product Tax Credit; Meyers Norris Penny - Economic Contributions of the Georgia Film and Television Industry; Cloudberry Communications – The Millennium Report (Economic impact and exposure value for the Stockholm region in the Swedish Millennium feature films)).

It is also clear that the State of Hawaii should encourage similar dramatic growth in Hawaii because the Film Industry:

- (1) Infuses significant amounts of new money into the economy, which is dispersed across many communities and businesses and which benefits a wide array of residents; and
- (2) Creates skilled, high-paying jobs; and

(3) Has a natural dynamic synergy with Hawaii's top industry, tourism, and is used as a destination marketing tool for the visitor industry; and

(4) Acts synergistically to bolster the local music industry and thereby assists in preserving and disseminating Hawaii's host culture by introducing millions of people around the world to Hawaii's recording artists, music and dance. A compelling example of these benefits can be seen in connection with the critically acclaimed and popular motion picture "The Descendents" produced and directed by Alexander Payne and based upon a novel by local author Kaui Hart Hemmings. The Descendents garnered a Best Picture award at the prestigious Golden Globe Awards and landed George Clooney a Golden Globe for Best Actor. In addition, The Descendents has been nominated for the following Oscars in 2012: Best Picture, Best Actor, Best Director, Best Adapted Screenplay, and Best Editing. The Descendents boasts a fabulous sound track consisting entirely of preexisting musical compositions and sound recordings written and performed by up and coming and iconic local musicians from Makana and Jeff Peterson to Sonny Chillingworth and Gabby Pahinui (see attached hereto as Exhibit "A" for a complete list of the music used in The Descendents); and

(5) Is a clean, nonpolluting industry that values the natural beauty of Hawaii and its diverse multicultural population and wide array of architecture.

The Film Industry also has a strong desire to hire locally and invest in the training and workforce development of island-based personnel and intends to continue the practice of hiring a significant number of residents and to support training and opportunities for those residents.

However, it is respectfully submitted that in order to stimulate such dramatic growth it is necessary to enhance Hawaii's existing tax incentive program (that uses the front-end budgeting methods normally used by the Film Industry and that lower production costs) in order to allow Hawaii to effectively compete with other film production centers in attracting a greater number of significant projects to the islands and to continue to build our local film industry infrastructure.

In the Spring of 2011, the State of Hawaii, through the Creative Industries Division of DBEDT, reached out to NBC/U to inquire as to what NBC/U would consider to be essential modifications to Hawaii film tax incentive program in order to build and sustain a robust Film Industry in Hawaii. After careful consideration, NBC/U recommended a few reasonable and measured modifications to Act 88 designed to make Hawaii's incentive program more stable, competitive and technologically friendly given the emerging significance of internet delivered content as an adjunct to traditional content delivery. Specifically, the following modifications to Act 88 (the "Proposed Act 88 Modifications") were respectfully recommended:

PROPOSED MODIFICATIONS TO ACT 88 THAT ARE LIKELY TO
SIGNIFICANTLY INCREASE PRODUCTION ACTIVITY IN HAWAII

(1) Increase the refundable production credit ("RPC") by 10% **with the increase tied to local hires/vendors.**

- (2) Eliminate the prohibition against internet only projects from qualifying for the RPC.
- (3) Allow pass-through entities to recover the RPC directly.
- (4) Increase the per production RPC cap from \$8,000,000 to \$16,000,000.
- (5) Allow webisodes to be included in the RPC application for the related series (avoids failing to meet the \$200K minimum spend).
- (6) Extend sunset date of Act 88 to 2025 to assure certainty and predictability for long term production planning.

II. THE BILLS

Several bills are before this Committee which, in various ways, seek to encourage business development in Hawaii through the growth of the film industry by providing enhanced incentives that attract more film and television productions to Hawaii, thereby generating increased tax revenues.

A) SB2111. SB2111 embodies the Proposed Act 88 Modifications and is therefore strongly supported by NBC/U. NBC/U also supports the notion that the proposed increase in the RPC be tied to “local” hires thereby creating more jobs for Hawaii residents. In this regard, other jurisdictions have successfully tied some portion of their tax credit program to “local” hires. These other programs may provide guidance regarding the appropriate language/mechanism to be used to implement a “local” hire tie-in.

B) SB2741. SB2741 eliminates the Act 88 sunset date. The elimination of a sunset date or the extension of the sunset date for a significant period of time is important to the Film Industry because it provides some degree of assurance that the program will be around for years to come thereby allowing major projects, which require long term planning, to consider Hawaii as a production locale. Accordingly, NBC/U strongly supports the spirit and intent of SB2741.

C) SB2043. SB2043 seeks to increase the production credit available under Act 88 but does not provide a specified percentage increase. It is respectfully submitted that the tipping point at which an incentive program will have a meaningful pull on production activity exists at around 25%. This is especially true in the case of Hawaii because the cost of doing business here is considerably higher than on the mainland.


SB2043 also seeks to develop Hawaii’s Film Industry infrastructure by providing nonrefundable tax credits for qualified media infrastructure projects in the State of Hawaii. NBC/U, as a general proposition, supports the development of infrastructure as an integral part of a robust Film Industry but not at the expense of a competitive production credit. In other words, given limited resources, if the State of Hawaii had to choose between allocating tax dollars to infrastructure development or production credits, it is respectfully submitted that an increase in the production credit would have a more significant and profound ability to bring

production work to the State of Hawaii than the addition of an infrastructure credit. If both infrastructure development and an increase in the RPC can be carried out simultaneously, that would be the best of both worlds. However, given a choice between one or the other, it is submitted that the increase in the production credit would result in increased demand and that the local marketplace would respond to that demand by utilizing and/or repurposing existing assets for production use.

D) SB2462. SB2462, like SB2043, is intended to help develop Film Industry infrastructure in the State of Hawaii. For the same reasons stated hereinabove with respect to SB2043, it is respectfully submitted that the priority should be to increase the production credit to fill the “pipeline” with production projects. As the “pipeline” fills, the local marketplace will respond to this demand as noted above.

III. CONCLUSION

While Hawaii may be perceived as a highly desirable destination that would instinctively attract the Film Industry, the State needs to take affirmative steps to ensure Hawaii is at the top of the list and not left behind in the wake of other domestic and international locales. SB2111 will help to ensure Hawaii is competitive with film destinations around the globe and does so in a manner that is sustainable and rational for the long term. NBC/U stands ready to work with the Legislature, the Administration and local Film Industry stakeholders to improve and enhance Hawaii’s film incentive program to help build a robust, stable and sustainable Film Industry in the State of Hawaii.



William G. Meyer, III
On behalf of
NBC Universal Media, LLC

**THE DESCENDANTS
MUSIC CREDITS**

1. KA MAKANI KA'ILI ALOHA
Written by Matthew Kane
Arranged and Performed by Gabby Pahinui
2. KALENA KAI
Written by John Kalapana
Performed by Keola Beamer and George Winston
3. PAKA UA
Written by Ozzie Kotani
Performed by Ozzie Kotani and Daniel Ho
4. JEAN'S THEME
Written by Andrew Lein
Performed by Steve Di Laudo and Andrew Lein
5. HI'ILAWA
Traditional
Arranged and Performed
by Sonny Chillingworth
6. AN ARTIST'S VISION
Written and Performed
by Anthony Natividad
7. KA MELE OKU'U PU'UWAI
Traditional
Arranged by Solomon Ho'opi'i
Performed by Sol Hoopii's Novelty Trio
8. KALENA KAI
Written by John Kalapana
Performed by Keola Beamer
9. KAUA'I BEAUTY
Written by Henry Wai'au
Arranged and Performed by Gabby Pahinui
10. PAPA SIA
Written by Johnny Noble
Performed by 'Elua Kane

THE DESCENDANTS

Music Credits

11. LEAHI
Written by Mary Robins and Johnny Noble
Performed by Gabby Pahinui
12. AUWE
Written and Performed by Ray Kane
13. POLI'AHU
Written and Performed by Keola Beamer
14. HI'ILAWA
Traditional
Arranged and Performed by Gabby Pahinui
15. INTERLUDE WITH UKELELE
Written and Performed
by George Kahumoku, Jr. and Richard Ford
16. 'IMI AU IA 'OE
Written by Charles E. King & Queen Lydia Lili'uokalani
Arranged and Performed by Keola Beamer
17. HOLOHOLO KA'A
Written and Performed by Jeff Peterson
18. IN YA SYSTEM
Written by Don Kawaauhau, Shane Veincent and Caleb Richards
Performed by Sudden Rush
By arrangement with Robert Sterling Music New York
19. PUA LANI
Written and Performed by Jeff Peterson
20. NIGHT BLOOMING CEREUS
Written and Performed by Jeff Peterson and Riley Lee
21. HAWAIIAN SKIES
Written and Performed
by Jeff Peterson

22. DEEP IN AN ANCIENT HAWAIIAN FOREST
Written and Performed by Makana
23. MISS BEA
Written and Performed by McCoy Tyner
By arrangement with Manhattan Production Music
24. WAI O KE ANIANI
Traditional
Arranged and Performed by Gabby Pahinui
25. KA LOKE
Written by Mary Heanu and Johnny Noble
Performed by Makaha Sons with Dennis Pavao
26. `ULILI E
Written by Johnny Noble, Harry Naope and George Koahi
Performed by Rev. Dennis Kamakahi
27. `ULILI E
Written by Johnny Noble, Harry Naope and George Koahi
Performed by Jeff Peterson
28. PUA HONE
Written and Performed by Rev. Dennis Kamakahi
29. PINE TREE SLACK KEY
Written and Performed by Pancho Graham
30. WONDERLAND
Written and Performed by
Eugene Kulikov
31. SANOE
Written by Queen Lydia Lili`uokalani
Arranged and Performed by Danny Carvalho
32. NANI WAI`ALE`ALE
Written by Dan Pokipala, Sr.
Performed by Kanak Attack
33. THE YODEL SONG
Written by Gary Haleamau
Performed by Kanak Attack

THE DESCENDANTS

Music Credits

34. FAITH IN RAIN
Written by Maureen Davis and Adam Daniel
Performed by The Flutterbies featuring Maureen Davis
35. HUMMINGBIRD HEART
Written by Maureen Davis and Adam Daniel
Performed by The Flutterbies featuring Maureen Davis
36. HE`EIA
Written by David Bray, Linda Bray and Johnny Noble
Performed by Gabby Pahinui and Sons Of Hawaii
37. HAPUNA SUNSET
Written and Performed by
Charles Michael Brotman
38. THE HARSHTEST PLACE ON EARTH
(from the motion picture March Of The Penguins)
Composed by Alex Wurman
39. HI`ILAWAWE
Traditional
Arranged by Bernie Ka`ai
Performed by Ernest Tavares
40. MOM
Written and Performed by Lena Machado



Tetris Online, Inc.
55 Merchant Street, Suite 2100
Honolulu, Hawaii 96813

February 3rd, 2012

TO: Senator Carol Fukunaga, Chair
Senator Glenn Wakai, Vice Chair
Members of the Committee on Economic Development and Technology

DATE: Monday, February 6th, 2012
TIME: 1:30pm
PLACE: Conference Room 016, State Capitol

Re: S.B. No. 2741 – Creative Media Development

FROM: Dean Hirata, CFO
Tetris Online, Inc.

Tetris Online, Inc. supports the intent of S.B. No. 2741 – Creative Media Development

Founded in January 2006 by Minoru Arakawa, Henk Rogers and Alexey Pajitnov, Tetris Online, Inc. is a developer and publisher of social games and other electronic entertainment properties. Tetris Online is privately held and headquartered in downtown Honolulu.

As of January 2012, Tetris Online has grown to become a top 5 social games developer on Facebook, trailing only such large, publicly traded companies as Zynga and Electronic Arts. Tetris Online's biggest game, Tetris Battle, is currently ranked in the top 10 of highest performing games on Facebook, and users of Tetris Battle play more than 50 million games each day.

Social games are experiencing exponential growth in the lucrative online games segment, which has grown from \$1.84 billion in 2009 and is estimated to reach \$8.64 billion in 2014 (Casual Games Association – Social Gaming Report).

Today, Tetris Online employs 57 people in Hawaii. Nationwide, competition for digital media employees is fierce, which makes it increasingly difficult to attract and retain employees, even the ones who have strong family ties to the islands. SB 2741 will help create and retain jobs in Hawaii, while increasing the state's revenues. This bill will support Hawaii's small local companies in the digital media industry so they can continue to flourish and provide jobs for Hawaii's talented workforce.

Tetris Online supports the intent of S.B. No. 2741 – Creative Media Development, and would like to suggest the following changes:

Page 10, Lines 12 – 13

CURRENT: "Production" means a series of activities that are directly related to the creation of visual and cinematic imagery.....

PROPOSED: "Production" means a series of activities that are directly related to the creation of visual and /or cinematic imagery.....

Page 12, Line 22

CURRENT: Wages or salaries of cast, crew, and musicians;

PROPOSED: Costs of wages or salaries for editing, visual effect, music, art, graphics, programming, development, engineering, telecommunications, software, computer equipments, other post-production, and related services, and supplies.

Thank you very much for the opportunity to testify.

HAWAII FILM & ENTERTAINMENT BOARD



Brenda Ching, Chair
Screen Actors Guild Hawaii

Chris Conybeare, Esq.

Walea Constantinau
Honolulu Film Office

Harry Donensfeld
Maui Film Commission

Henry Fordham
I.A.T.S.E., Local 665

Dana Hankins
Independent Filmmaker

Jeanne Ishikawa
Teamsters, Local 996

Leroy Jenkins
H.I.F.A.

John Mason
Big Island Film Office

Brien Matson
A.F.M., Local 677

David Rosen
A.I.C.P.

Georja Skinner
DBEDT, Creative
Industries Division

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

Art Umezu
Kauai Film Commission

THE SENATE
TWENTY-SIXTH LEGISLATURE REGULAR SESSION OF 2012

COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Senator Carol Fukunaga, Chair
Senator Glenn Wakai, Vice Chair

Senate Bill 2741, Relating to Creative Media Development

The Hawaii Film and Entertainment Board (HFEB), whose members include the film industry labor unions, associations and film commissions, support SB 2741 which would expand the definitions of qualified productions and amend the sunset date to 2020.

Act 88 is a fiscally responsible bill and an economic driver for the State. By expanding the definitions of qualified productions to include animation or special and visual effects and productions for the internet, and by extending of the sunset date, Act 88 will continue to grow the industry and create jobs for our residents.

Thank you for giving us the opportunity to submit testimony in support of SB 2741.

fukunaga2 - Ashley-Jane

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 05, 2012 1:17 PM
To: EDTTestimony
Cc: rgalindez@islandfilmgroup.com
Subject: Testimony for SB2741 on 2/6/2012 1:30:00 PM

Testimony for EDT 2/6/2012 1:30:00 PM SB2741

Conference room: 016
Testifier position: Support
Testifier will be present: Yes
Submitted by: Ricardo Galindez
Organization: Individual
E-mail: rgalindez@islandfilmgroup.com
Submitted on: 2/5/2012

Comments:

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Expand motion picture, digital media and film production credit

BILL NUMBER: SB 2741; HB 2479 (Identical)

INTRODUCED BY: SB by Tsustui by request; HB by Say by request

BRIEF SUMMARY: Amends HRS section 235-17 to expend the motion picture, digital media, and film production tax credit to include television productions and animation or visual effects. Defines “animation or visual effects” as animation or special and visual effects created primarily with digital technologies for designing, modeling, rendering, lighting, painting, animating, motion capture, and compositing for qualified productions, excluding: (1) audio effects; (2) in-camera effects; (3) credit rolls; (4) subtitles; or (5) animation or special and visual effects for use in promotional material for a production eligible for the tax credit established under this section.

Amends the definition of “commercial” to include the production of advertising messages that may be distributed over the Internet. Amends the definition of “qualified production costs” to include costs for equipment or items not readily obtainable in the state that are passed through a vendor registered to do business in the state and upon which a mark-up and general excise taxes are paid.

Directs the department of taxation to submit an annual report to the legislature prior to each regular session beginning with the 2013 regular session which shall contain a cost benefit analysis of the tax credits established in this act including: (1) the total number of full-time, part-time, and contract personnel on the payroll necessary to administer this act; and (2) the average wage of each of the above personnel groups and total earnings for the year. Requires the department of taxation to report the data collected under this section along with a cumulative total of tax credits granted for each qualified production. The legislature may use the information to determine whether the tax credits are meeting the objectives of this act.

This measure shall be applicable to qualified production costs incurred on or after January 1, 2012 and before January 1, 2020. Repeals this act on January 1, 2020 and provides that HRS section 235-17 shall be reenacted in the form in which it read on the day before the effective date of Act 88, SLH 2006.

EFFECTIVE DATE: July 1, 2012

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-03(12). 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 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.

These motion picture 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 the 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. 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.

The proposed measure would expand the existing tax credits to television productions, and animation or special and visual effects and also extend the tax credits for another four years from December 31, 2015 to December 31, 2019.

There is absolutely no rational basis for expanding and extending 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. While the sponsors try to make an argument that Hawaii needs to enact such an incentive 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.

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 cannot afford what looks like a promising opportunity.

Robert Tannenwald, a senior fellow at the Center for Budget and Policy Priorities, drew the following conclusions in a report entitled “State Film Subsidies Offer ‘Little Bang for the Buck’,” published in State Tax Notes Magazine, December 13, 2010:

“State film subsidies are a wasteful, ineffective, and unfair instrument of economic development. While they appear to be a ‘quick fix’ that provides jobs and businesses to state residents with only a short lag, in reality they benefit mostly nonresidents, especially well-paid nonresident film and TV professionals. Some residents benefit from these subsidies, but most end up paying for them in the form of fewer services - such as education, healthcare and police and fire protection - or higher taxes elsewhere. The benefits to the few are highly visible; the costs to the majority are hidden because they are spread so widely and detached from the subsidies.

State governments cannot afford to fritter away scarce public funds on film subsidies, or, for that matter, any other wasteful tax break. Instead, policymakers should broaden the base of their taxes to create a fairer and more neutral tax system. Economic development funds should be targeted on programs that are much more likely to be effective in the long run, such as support of education and training, enhancement of public safety, and maintenance and improvement of public infrastructure. Effective public support of economic development may not be glamorous, but at its best, it creates lasting benefits for residents from all walks of life.”

Digested 2/3/12