NEIL ABERCROMBIE
GOVERNOR

RICHARD C.LIM
DIRECTOR

MARY ALICE EVANS
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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Thursday, February 21, 2013
1:30 p.m.
State Capitol, Conference Room 308
in consideration of

HB726, HD1
RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) offers comments on HB726, HD1, which amends the existing statute to extend the sunset date for Act 88, (HRS 235-17) from January 1, 2016, to January 1, 2023; increases by unspecified amount, both the per production credit ceiling and the base credit amount in counties with a population above and below 700,000.

At this juncture, DBEDT is not able to support an increase to the base credit. Even a conservative increase of 5 percent would cost the state an estimated $5.25 million. Given the State's current economic situation, any increase would not be fiscally prudent at this time. We prefer HB799, HD2, the Administration's bill, which extends the sunset date to provide the stability and predictability the film industry requires for planning purposes. And while we understand that the existing per production cap of $8 million has been blanked out for discussion purposes, we respectfully request at a minimum, that level be reinstated if it is determined that an increase to the cap is not possible at this time.

Thank you for the opportunity to testify on this measure.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, February 21, 2013
Time: 1:30 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 726, H.D. 1, Relating to Film and Digital Media Industry Development

The Department of Taxation (Department) appreciates the intent of H.B. 726, H.D. 1 and provides the following information for your consideration.

H.B. 726, H.D. 1, amends the motion picture, digital media, and film production tax credit amount from fifteen per cent to an unspecified per cent of the qualified production costs incurred in a county with a population over 700,000, and from twenty per cent to an unspecified per cent of the qualified production costs incurred in a county with a population of 700,000 or less, amends the credit ceiling of $8 million to an unspecified amount per qualified production, and extends the sunset date of Act 88, Session Laws of Hawaii 2006, from January 1, 2016 to January 1, 2023.

The Department estimated that H.B. 726 would result in revenue loss of $11.8 million for fiscal year (FY) 2014, $25.6 million for FY 2015, $37.8 million for FY 2016, and $50.0 million per year for FY 2017 to FY 2023.

Thank you for the opportunity to provide comments.

ALAN M. ARAKAWA
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OFFICE OF THE MAYOR
Ke'ena O Ka Meia
COUNTY OF MAUI – Kalana O Maui

TESTIMONY OF ALAN ARAKAWA, MAYOR
COUNTY OF MAUI

BEFORE THE HOUSE
COMMITTEE ON FINANCE

Thursday, February 21, 2013, 1:300 p.m., Conference Rm. 308

HOUSE BILL 726
RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT

The Honorable Rep. Sylvia Luke, Chair
And Members of the House Committee on Finance

SUBJECT: **TESTIMONY OF MAUI COUNTY MAYOR ALAN ARAKAWA IN SUPPORT OF HB726 RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT**

Thank you for this opportunity to offer our testimony in **support on HB726** relating to Film and Digital Media Industry Development. We believe that it is vital that the existing film and digital media production on Oahu be expanded and modernized; and, that the counties of Maui, Kauai, and Hawaii are able to create a new industry for its residents.

As Mayor of the County of Maui, I **strongly support** **HB726** for the following reasons:

A. The creation and development of a new industry relating to motion picture, digital media, and film production, will:

- Create new, higher-paying jobs, as well as training, advancement and new educational opportunities for our residents.
- Provide incentives for the construction of **new** infrastructure including new sound stages; and, lead to the renovation and modernization of existing infrastructure on Oahu.
- Benefit the entire State of Hawaii by diversifying and stimulating our economy. Research has shown that each sound stage built in the state would inject nearly $140 million into our economy via the hiring of local labor and the purchasing of materials locally over a two-year period; and that each movie filmed here would create approximately 193 local jobs immediately (based on a movie with a $90 million budget).

Thank you for your consideration of our testimony supporting HB726.

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

BILL NUMBER: HB 726, HD-1

INTRODUCED BY: House Committee on Economic Development & Business

BRIEF SUMMARY: Amends HRS section 235-17 to increase the motion picture, digital media, and film production tax credit from ___% to ___% for the costs incurred in a county with a population over 700,000 for qualified production costs incurred by a qualified production company; and from 20% to 25% for costs incurred in a county with a population of 700,000 or less.

The total tax credits that may be claimed per qualified production shall be limited to $_______ million.

Amends Act 88, SLH 2006, to extend the motion picture, digital media and film production credit from December 31, 2015 to December 1, 2022.

This act shall be applicable to qualified productions new to Hawaii that have commenced principal photography on or after January 1, 2013.

EFFECTIVE DATE: Upon approval

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.

This measure proposes to increase the credit from15% to ___% in a county with a population over 700,000 and from 20% to ___% in a county with a population of 700,000 or less. The measure also increases the$8 million limit of tax credits that may be claimed per qualified production to $_______ and extends the motion picture, digital media and film production credits from December 31, 2015 to December 31, 2022.

These 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, spam musubi, and plate lunches with two scoops rice. 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.

Instead of creating sustainable economic development incentives, the film tax credits waste money 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 2/20/13

TESTIMONY OF NBC UNIVERSAL MEDIA, LLC. IN SUPPORT OF H.B. NO. 726, HD 1 RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT

DATE: Thursday, February 21, 2013
TIME: 1:30 pm in room 308

To: Chairperson Sylvia Luke and Members of the House Committee on Finance:

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 the Hawaii Legislature has 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. This industry can be strengthened significantly if Hawaii's existing incentives for the Film Industry are enhanced.

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. HB 726 will help to ensure that Hawaii is competitive with film destinations around the globe and does so in a manner that is sustainable and rational for the long term.

Film and television production companies are increasingly more conscious of cost when making location decisions. Accordingly, foreign and state governments are addressing film, television and digital media tax credits in order to attract jobs, investment and innovation.

As an example, in the United Kingdom March 2012 Budget, the Chancellor of the Exchequer announced that the government will introduce tax incentives for animation, high-end television and video games to complement the already successful U.K tax incentives for feature films. The U.K. program is an example of the type of national level support for incentives in nations around the globe that poses a growing threat to the United States' retention of its signature knowledge- based industry.

NBC/U feels that as a result of the various film and television productions that the Film Industry has brought to Hawaii, there has been a significant increase in spending within the state and growth in workforce development due to these film and television productions. Further, such productions stimulate more direct and indirect tax revenue and that a properly designed tax incentive program can actually increase local tax revenues.

NBC/U strongly feels that in order to stimulate such dramatic growth it is necessary to enhance Hawaii's existing tax incentive program 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 Hawaii's local film industry.

Although the percentage increases are unspecified as well as the cap on the refundable tax credit, we feel that the basic provisions of this bill, when amended, will accomplish these goals. An increase in the tax credit will result in:

1. An infusion of significant amounts of new money into the economy, which in turn will benefit Hawaii's businesses and residents; and
2. Creating skilled, high-paying jobs; and

3. Creating a natural synergy with Hawaii's top industry, tourism, and can be used as a destination marketing tool for the visitor industry.

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.

NBC/U supports the basic underlying provisions outlined in this bill but advocates for:

1. Increasing the refundable production credit ("RPC") by 5%.
2. Removing the cap from the RFP or at least significantly increasing the per production RPC cap from $8,000,000.
3. Extending the sunset date of Act 88 to at least 2023 to assure certainty and predictability for long term production planning.

Thank you for the opportunity to present this testimony in support of the basic underlying provisions of this bill while also advocating for and requesting that the existing tax credit be increased by 5% and that the cap be either removed or significantly increased.