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

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
Tuesday, February 12, 2013
9:00 AM
State Capitol, Conference Room 312
in consideration of
HB726

RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

Chair Tsuji, Vice Chair Ward and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) appreciates the intent of HB726 which extends the repeal date of Act 88 SLH 2006 from January 1, 2016 to January 1, 2023, repeals the $8 million cap on the tax credit that may be claimed per qualified production and increases the amount of the credit. However, DBEDT opposes any increase to the base credit over the existing 15% on Oahu and 20% on neighbor islands because an increase is not fiscally prudent given the State's current economic situation.

We prefer the language in HB799 which extends the sunset date to 2025, amends the cap from $8 million to $12 million per production, and includes internet distribution as a qualified expenditure.

DBEDT, Creative Industries and the Hawaii Film Office appreciate the Legislature's support to maintain this effective credit which continues to grow our film and digital media sectors.

Thank you for the opportunity to testify on this measure.

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 and increase motion picture, digital media and film production credit

BILL NUMBER: SB 463; HB 726 (Identical)

INTRODUCED BY: SB by Ige; HB by Tsuji, Har, Ito, Oshiro, Say and 1 Democrat

BRIEF SUMMARY: Amends HRS section 235-17 to increase the motion picture, digital media, and film production tax credit from 15% to 20% 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.

Repeals the provision limiting the total tax credits that may be claimed per qualified production to $8 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 20% in a county with a population over 700,000 and from 20% to 25% in a county with a population of 700,000 or less. The measure also repeals the $8 million limit of tax credits that may be claimed per qualified production 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 2/6/13

<u>TESTIMONY OF NBC UNIVERSAL MEDIA, LLC. IN SUPPORT OF H.B. NO. 726 RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT</u>

DATE: Tuesday, February 12, 2013
TIME: 9:00 am in room 312

To: Chairman Cliff Tsuji and Members of the House Committee on Economic Development and Business:

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 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.

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. NBC/U stands ready to work with the Hawaii 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.

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.

We feel that this bill will accomplish these goals. The provisions of this bill 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; and
4. Also acting to enhance Hawaii’s music industry and thereby introducing millions of people around the world to Hawaii’s recording artists, music, and dance.

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 provisions of this bill and 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 2021 to assure certainty and predictability for long term production planning.

What will be the **impact** of H.B. 726?

Hawaii’s Act 88 has protected and preserved Hawaii's status as one of the world's dynamic and stunning film production centers. By adjusting the cost of doing business in Hawaii slightly downward with a 5% credit increase, and establishing predictability through the program's extension, HB 726 will now serve as a catalyst for growth in jobs, infrastructure development and the attraction of additional tourism dollars across the state.

Thank you for the opportunity to present this testimony in support of this bill.

Testimony in Support of Bills HB698 & HB726
Relating to Tax Credits for the Film Industry

Submitted to the Committee on
Economic Development & Business
Conference Room 312 at 9am
February 12, 2013

Dear Chair Tsuji, Vice-Chair Ward & Members of the Committee,

The Maui Chamber of Commerce supports HB698 & HB726 to help develop Hawaii's film and media industries as these industries:

- Strengthen and further diversify our economy statewide;
- Generate new investment in production and other facilities;
- Create additional, meaningful, jobs;
- Provide training and new career opportunities for our youth;
- Produce partnership and supplier opportunities to benefit many businesses statewide;
- Leverage investments made in developing Hawaii's film industry to date;
- Expand upon an industry that embraces our natural beauty, storytelling abilities, creative and other talents;
- Benefit our visitor industry and economic engine through additional exposure from more projects being created here; and
- Maximize the real prospect before us to boost our film industry and see our revenues multiple many times over from the interest expressed by numerous media companies thus far, as well as those who will come once we create this incentive.

We have a phenomenal opportunity to help turn our economy around, further develop what we have been building for years, take it to another level, and create a substantial return on our investment. It makes complete sense to us and expanding our economic pie should be a top priority.

We therefore support HB698 & HB726 to capture this opportunity and reap the rewards in the short-term and for generations to come.

Sincerely

Pamela Tumpap
President

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ISLAND
FILM GROUP

February 11, 2013

TO: House Committee on Economic Development and Business
The Honorable Cliff Tsuji, Chair
The Honorable Gene Ward, Vice Chair

FROM: Ricardo S. Galindez, Co-Owner, Island Film Group
Roy J. Tjioe, Co-Owner, Island Film Group

RE: Testimony In Support of HB 726

Aloha Chairs, Vice Chairs, and Members of the Committees:

Thank you for the opportunity to testify in support of HB 726

INCREASE IN THE PRODUCTION TAX CREDIT (PTC)

- A 5% increase in the PTC will attract more film and television productions to Hawaii
- A 5% increase in the PTC will bring the incentive in line with those offered by other states

REMOVAL OF THE PTC CAP PER PRODUCTION

- The removal of the PTC cap will attract larger film and television productions to Hawaii
- The removal of the PTC cap will result in greater spending in Hawaii
- The removal of the PTC cap will support the growth of post-production and sound stage facilities in Hawaii

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EXTENSION OF THE SUNSET DATE

- The extension of the sunset date will attract large film and television productions, especially television series, by providing certainty that the PTC will be available
- The extension of the sunset date will attract post-production facilities and sound stage developers by providing certainty that there will be adequate deal flow

About Island Film Group

Island Film Group (IFG) is one of the largest local film and television production companies in Hawaii. Since its formation in 2007, IFG has produced a television series ("Beyond the Break"), three television movies for Lifetime Television Network, countless national and international television commercials, and three independent feature films ("Soul Surfer", "Princess Ka`iulani", and "4 Wedding Planners"). Our projects have employed hundreds of Hawaii residents and spent millions of dollars on local goods and services. In addition, IFG, in partnership with Hawaii Media Inc., owns and operates Halawa Valley Studios, the largest private film and television production facility in Hawaii.