



DAVID Y. IGE
GOVERNOR

MIKE McCARTNEY
DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
Mike McCartney
Director

Department of Business, Economic Development, and Tourism
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Wednesday, March 20, 2019

9:45 AM

State Capitol, Conference Room 309

LATE

In consideration of
SB 365, SD2, Proposed HD1
RELATING TO ECONOMIC DEVELOPMENT.

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

The Department of Business, Economic Development and Tourism (DBEDT) **appreciates the intent** of SB365, SD2, Proposed HD1, which changes the annual rolling cap and qualified production cap for the motion picture, digital media, and film production income tax credit and extends the tax credit's repeal date, provided this measure does not replace or adversely impact the Executive Budget.

DBEDT offers the following comments. Act 143 is currently in effect as of January 1, 2019, and the film office is already noticing the negative impacts of productions choosing other locales for their projects, which in turn will reduce jobs in this clean industry.

Established in July 2006 and enhanced in 2013, the tax credit program has achieved the Legislature's goal to ensure Hawaii's competitive advantage in the industry. This competitive advantage is in jeopardy, if this spending cap is not amended.

Film, television and media industry productions have already withdrawn projects due to the tax credit cap. This is resulting in a loss of business to the State, negatively impacting our local workforce, along with Hawaii's global reputation as one of the top filming destinations in the world.

While DBEDT appreciates the roll-forward provision, the current statute does not assure industry the stability and predictability which it requires to make multi-million-dollar business decisions. This loss of film projects may also affect the development of a new studio complex in West Oahu.

Thank you for the opportunity to testify on this measure.

Testimony of Walea Constantinou,
Film Commissioner, Honolulu Film Office
City and County of Honolulu

LATE

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT and BUSINESS

March 20, 2019
9:45 AM
State Capitol, Conference Room 309

RE: SB365, SD2, HD1 RELATING TO ECONOMIC DEVELOPMENT

Dear Chair McKelvey and members of the committees:

The Honolulu Film Office **strongly supports repealing the annual \$35,000,000 rolling cap** for the following reasons:

- Hawaii's production **rebate program is THE KEY foundational element** that is driving the growth of Hawaii's film industry;
- The newly instituted **cap has created great business uncertainty**; Hawaii's film industry cannot maintain its current level of economic output, or grow and thrive without business certainty;
- The growth achieved between 2006 – 2018 was fueled by the stability of the rebate program, which has positioned Hawaii for the next phase of growth -- infrastructure development – but only if the cap on the rebate program is repealed;
- **The combined total of economic output generated by Hawaii's film industry for 2017 and 2018 is nearly \$1.4 billion (based on DBEDT estimates).** The cap severely threatens that continued success. And continued success along with business certainty is what investors need to see to invest in infrastructure.
- **For every dollar rebated, \$2 is returned as household income (source: DBEDT),** which is further reinvested into our economy when that money is used to pay rent, buy food and pay for other household expenses.
- **We are a 'self-leveling' market with limited capacity.** The per production cap and capacity constraints will prevent any 'fiscal runaway' issues with the rebate.

In light of all of these facts, the Honolulu Film Office **respectfully requests that the annual cap be repealed retroactively to December 31, 2018 to maintain the stability of the industry** and allow it to be a strong economic driver that creates living-wage jobs, infuses the economy with millions of dollars of 'new money' and continues to be a viable part of diversifying Hawaii's economy. We also request that the **per production be left unchanged**, set at \$15, 000,000. This allows for about a \$75,000,000 direct spend on-island as a maximum by each production.

The Honolulu Film Office would like to thank the Legislature for its long-standing support of Hawaii's film industry. Working together we have been able to grow this important sector and we are just on the precipice, ready for the next growth trajectory, but only if the cap is repealed.

Thank you for the opportunity to provide this testimony.

LATE

**TESTIMONY OF ROBERT TOYOFUKU ON BEHALF OF NBC/UNIVERSAL
REGARDING SB 365 SD 2, PROPOSED HD 1**

Hearing: Wednesday, March 20, 2019
Committee: Economic Development and Business

My name is Bob Toyofuku and I am presenting this testimony on behalf of NBCUniversal regarding S.B. 365, SD 2, Proposed HD 1. Relating to Economic Development.

NBCUniversal continues to support removing the “cap” on the total amount of tax credits that is allowable given the negative impact on job creation and long term investment the cap imposes and has testified as such in prior hearings. Also, the company respectfully urges a much longer timeframe until sunset than the applicable seven years in the current law, given the particular importance placed on permanent or at least ten year incentive programs, which allow television series and industry infrastructure investors to commit long term production and investment plans. NBCUniversal is also concerned about any reduction in the per project cap under current law, given Hawaii’s competitors, including the Dominican Republic, New Zealand, Puerto Rico and Australia, among many others, do not impose any cap on projects. The current cap already limits the scale of feature films that can commit to Hawaii, any further downward adjustment would serve to reduce the opportunity for attracting the sort of large budget films best positioned to employ Hawaii workers and showcase the state to world- wide audiences.

NBCUniversal does support the potential for an enhanced credit to attract post-production expenses. The company has experienced first-hand the success other jurisdictions,

including for example British Columbia, Australia and the United Kingdom have had in building thriving post-production clusters through enhanced incentives. Fostering growth in this sector of the industry will take time and reinforces the need to eliminate the annual cap on the incentive program with an extended sunset period. The uncertainty the cap creates on access to funding will discourage post-producers to make the sort of long term commitments to build this sector in Hawaii.

NBCUniversal is certain that with a stable, competitive incentive, Hawaii can compete successfully with leading global production centers to attract film and television projects produced for worldwide distribution.

Thank you for the opportunity to testify in support of the Proposed HD 1 and we look forward to working with the committees on these issues.



STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov



To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Development & Business

Date: Wednesday, March 20, 2019
Time: 9:45 A.M.
Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 365, S.D. 2, Proposed H.D. 1, Relating to Economic Development

The Department of Taxation (Department) defers to the Department of Business Economic Development and Tourism (DBEDT) on the merits of S.B. 365, S.D. 2, Proposed H.D. 1, and offers the following comments for the Committee's consideration.

S.B. 365, S.D. 2, Proposed H.D. 1, amends the motion picture, digital media, and film production income tax credit (film credit). A summary of key provisions of Proposed H.D. 1 are as follows:

- Amends the per qualified production cap of \$15 million to an unspecified amount;
- Amends the film credit annual aggregate cap of \$35 million to an unspecified amount;
- Amends the definition of "qualified production costs" to include actual costs, plus an additional unspecified amount for editing, visual effects, music, other post-production, and related services that are performed at qualified post-production facilities;
- Amends the sunset date of film credit from January 1, 2026 to an unspecified date; and
- Has a defective effective date of July 1, 2112; provided that Part I shall apply to taxable years beginning after December 31 of the prior calendar year.

First, the Department notes that Act 143, Session Laws of Hawaii 2017 (Act 143), enacted the annual film credit cap of \$35 million effective for taxable years beginning after December 31, 2018. The Department continues to work with DBEDT to develop procedures and rules that are consistent with Act 143. DBEDT certifies the film credit by pre-qualifying productions, certifies qualified production costs, and certifies the amount of film credit allocated to each qualified production for the taxable year.

Second, the Department notes that under current law, "qualified production costs" include costs of editing, visual effects, music, other post-production, and related services. The Department requests clarification to the amendment to paragraph (5) of the definition of

“qualified production costs” in section 235-17(m), HRS. If the intent in amending this definition is to limit post-production activities to those being performed at specified facilities, the Department suggests specifying the facilities that qualify. It is also unclear what is meant by “actual costs, plus an additional _____ percent”. The Department suggests clarifying this part of the definition as well.

Finally, the Department suggests clarifying the effective date of this measure. The aggregate cap of \$35 million applies to taxable years beginning after December 31, 2018. If the intent of this measure is to change the aggregate cap established by Act 143 for tax year 2019, the Department suggests changing the effective date of this measure to apply to taxable years beginning after December 31, 2018.

Thank you for the opportunity to provide comments.

LATE



MOTION PICTURE ASSOCIATION OF AMERICA, INC.

TESTIMONY IN SUPPORT

OF HAWAII SENATE BILL 365 SD 2 HD 1

Motion Picture, Digital Media,

and Film Production Income Tax Credit

HOUSE COMMITTEE

ON

ECONOMIC DEVELOPMENT AND BUSINESS

WEDNESDAY, MARCH 20, 2019

STATE CAPITOL

HONOLULU, HAWAII

CHAIRMAN MCKELVEY, MEMBERS OF THE
COMMITTEE, MY NAME IS VANS STEVENSON. I AM
SENIOR VICE PRESIDENT OF STATE GOVERNMENT
AFFAIRS FOR THE MOTION PICTURE ASSOCIATION OF

AMERICA. OUR MEMBERS INCLUDE THE LEADING PRODUCERS AND DISTRIBUTORS OF TELEVISION PROGRAMS AND MOTION PICTURES WORLDWIDE IN ALL VENUES FROM NETWORK TELEVISION TO INTERNET STREAMING.

IN ADDITION TO CBS, WHICH AS YOU ARE WELL AWARE, PRODUCES THE LOCALLY BASED HAWAII 5-0 AND MAGNUM PI TELEVISION SERIES, MPAA MEMBERS INCLUDE DISNEY, FOX, NETFLIX, PARAMOUNT, NBC UNIVERSAL, SONY PICTURES AND WARNER BROS.

I AM SUBMITTING THIS WRITTEN TESTIMONY IN SUPPORT OF HAWAII SENATE BILL 365. THIS LEGISLATION COULD ENHANCE HAWAII'S PRODUCTION TAX INCENTIVE PROGRAM.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, WE URGE THAT YOU ADOPT AMENDMENTS TO THE LEGISLATION THAT WILL REMOVE THE CAP ON AVAILABLE ANNUAL CREDITS FOR THE PROGRAM AND THE SUNSET DATE TO MAKE THE INCENTIVE PROGRAM IN HAWAII PERMANENT

MPAA AND ITS MEMBERS SUBMIT THAT THOSE AMENDMENTS WILL ENSURE STABILITY AND PREDICTABILITY FOR MOTION PICTURE AND TELEVISION PRODUCERS, WHO WANT TO BRING EVEN MORE PROJECTS TO HAWAII. THIS, IN TURN,

EXTENDS HAWAII'S ECONOMIC REACH INTO THE WORLD OF MORE THAN 500 SCRIPTED TELEVISION AND STREAMING PROGRAMS AS WELL AS SCORES OF MOTION PICTURES THAT ARE SEEKING LOCATIONS FOR THEIR PRODUCTIONS. WE KNOW BOTH THE STATE AND THE PEOPLE OF THE ALOHA STATE WILL BENEFIT FROM GOOD PAYING UNION JOBS TO SIGNIFICANT ECONOMIC ACTIVITY.

TODAY, COST IS THE SINGLE MOST IMPORTANT FACTOR FOR A PRODUCER IN DETERMINING WHERE A PROJECT WILL BE LOCATED. HAWAII COMPETES SUCCESSFULLY AGAINST MORE THAN A DOZEN OTHER STATES, AS WELL AS NATIONS WORLDWIDE BY ATTRACTING ITS SHARE OF MOTION PICTURE AND TELEVISION PRODUCTIONS.

BY ELIMINATING THE CAP AND MAKING THE PROGRAM PERMANENT, HAWAII WILL CREATE AN EVEN GREATER ECONOMIC DEVELOPMENT OPPORTUNITY.

THE OPPORTUNITY TO ATTRACT EVEN MORE OF THE GROWING SHARE OF THE OVER 500 SCRIPTED TELEVISION AND STREAMING SERVICE SERIES CURRENTLY IN PRODUCTION AS WELL AS EVEN MORE THEATRICAL MOTION PICTURES CURRENTLY IN DEVELOPMENT...THAT RANGE FROM NETWORK TELEVISION SERIES TO NETFLIX ORIGINAL PROGRAMS AND FEATURES.

THE VISION OF THE HAWAII LEGISLATURE TO CREATE JOBS AND STIMULATE THE ECONOMY IS BEING REALIZED BECAUSE OF THE PRODUCTION INCENTIVE. YOU HAVE ATTRACTED AND HOSTED HAWAII 5-0 FOR EIGHT SEASONS...AND NOW MAGNUM PI, FOR A SECOND SEASON. BOTH TELEVISION SERIES TOGETHER EMPLOY NEARLY 1,000 CAST AND CREW MEMBERS.

IN ADDITION, HAWAII HAS BEEN THE LOCATION RECENTLY FOR SEVERAL MAJOR THEATRICAL MOTION PICTURES INCLUDING MOST RECENTLY HOBBS AND SHAW, THE FAST AND FURIOUS SPIN-OFF STARRING DWAYNE JOHNSON...AND JURASSIC WORLD: FALLEN KINGDOM...BOTH FROM UNIVERSAL STUDIOS...AS WELL AS JUNGLE CRUISE FROM DISNEY STUDIOS THAT WAS FILMED ON KAUAI.

WITH AMENDMENTS TO REMOVE THE CAP AND MAKE THE PROGRAM PERMANENT, HAWAII SENATE BILL 365 WILL AGAIN CREATE STABILITY AND PREDICTABILITY FOR PRODUCERS. SB 365 COULD PAVE THE WAY FOR 5-0 AND MAGNUM PI IN FUTURE YEARS UPON RENEWAL, AS WELL AS, POTENTIALLY, NEW TELEVISION AND STREAMING SERIES AS WELL AS MOTION PICTURE PRODUCTIONS.

PRODUCTION ECONOMY ACTIVITY IN HAWAII WAS ESTIMATED TO BE 500 MILLION DOLLARS OVER THE PAST FIVE YEARS. THIS YEAR ALONE AN ESTIMATED

300 MILLION WILL BE INVESTED INTO THE HAWAII ECONOMY.

BECAUSE OF THE TAX INCENTIVE PROGRAM, HAWAII HAS ENJOYED A VIBRANT MOTION PICTURE AND TELEVISION INDUSTRY. THIS TRANSLATES INTO JOBS IN A WIDE RANGE OF INDUSTRIES WELL BEYOND PRODUCTION CASTS AND CREWS. THE PRODUCTION INDUSTRY CONTRIBUTES IN A VERY REAL WAY TO STATE AND LOCAL ECONOMIES BY PROVIDING ECONOMIC STIMULUS THROUGH ON-LOCATION PRODUCTION, JOBS, SPENDING ON GOODS AND SERVICES...FROM SCORES OF LOCAL BUSINESSES AS WELL AS RELATED INFRASTRUCTURE DEVELOPMENT.

CHAIRMAN MCKELVEY, MEMBERS OF THE COMMITTEE, WE URGE YOU TO APPROVE SENATE BILL 365 WITH THE AMENDMENTS WE PROPOSE.

ON BEHALF OF MPAA AND OUR MEMBER COMPANY STUDIOS, TELEVISION COMPANIES AND INTERNET STREAMING SERVICES, WE LOOK FORWARD TO THE CONTINUATION OF A LONG AND SUCCESSFUL PARTNERSHIP WITH HAWAII...AND BEING PART OF YOUR WELCOMING, DYNAMIC STATE AND COMMUNITY FOR YEARS TO COME.

WE WANT TO CONTINUE TO ENSURE THAT MOTION
PICTURE AND TELEVISION PRODUCTION IN HAWAII IS
CERTAIN, PREDICTABLE, SUSTAINABLE AND ROBUST.



LATE

March 20, 2019

Committee on Economic Development & Business
Rep. McKelvey, Chair
Rep. Kitagawa, Vice Chair

The House of Representatives
The Thirtieth Legislature
Regular Session of 2019

RE: SB 365 SD 2 HD1 - RELATING TO ECONOMIC DEVELOPMENT
DATE: Wednesday, March 20, 2019
TIME: 9:45 am
PLACE: Conference Room 309
State Capitol 415 South Beretania Street, Honolulu HI

Aloha Chair McKelvey, Vice Kitagawa and the Members of the Committee,

Thank you for the opportunity to testify in **support** of this measure. [SAG-AFTRA](#) represents over 1000 actors, recording artists, and media professionals in our state.

The Film and Digital Media industry currently employs thousands of Hawaii residents, and generates nearly **\$500 million** a year in our state.

The increased production activity has made for an increase on our member's earnings by **31%** in the last two years. More productions also means more professional performers joining the union and working steady, good paying jobs. Last year saw a **10%** increase in new members (please don't hesitate to contact the local office for more information on the Hawaii numbers).

The current ceiling of \$35 million and its carryover provision, would effectively create a cycle of diminishing returns that will severely inhibit our industry. We need only to look to other states to see the negative effects of such a ceiling.

The professional performers of Hawaii appreciate the legislature's support. We humbly ask for this committee's continued support of our robust and sustainable industry. Passing SB33 SD 2 will create stability and predictability in the industry. A stable Film and Digital Media industry will not only support our established actors, stunt performers and background performers, it will create more opportunities for good paying jobs for aspiring performers to stay in the state.

This tax credit is an investment in the diversity of our state's economic landscape. We thank you for your time and consideration.

Respectfully,

Mericia Palma Elmore
Executive Director SAG-AFTRA Hawaii Local

Mericia Palma Elmore, Executive Director
SAG-AFTRA Hawaii Local
mericia.palmaelmore@sagaftra.org
Ph: 808-596-0388 • Fax: 808-593-2636
201 Merchant Street Suite 2301, Honolulu, HI 96813

SCREEN ACTORS GUILD - AMERICAN FEDERATION OF
TELEVISION AND RADIO ARTISTS
SAGAFTRA.org
Associated Actors & Artistes of America / AFL-CIO

LATE