Honolulu, Hawaii

October 15, 2009

RE: Informational Briefing

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Madam and Sir:

Your Committees on Economic Development and Technology and Economic Revitalization, Business, and Military Affairs, having met regarding:

AN INFORMATIONAL BRIEFING TO GATHER INFORMATION RELATING TO THE POTENTIAL IMPACTS ON HAWAII BUSINESSES AND THE LOCAL FILM INDUSTRY, ARISING FROM THE ANTICIPATED REDUCTION AND POSSIBLE ELIMINATION OF MOST OF THE FILM INDUSTRY BRANCH, THE COMMUNITY BASED ECONOMIC DEVELOPMENT PROGRAM, AND THE ENTERPRISE ZONE/PARTNERSHIP PROGRAMS UNDER THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM.

beg leave to report as follows:

**BACKGROUND**

On August 4, 2009, Governor Lingle announced that the State would immediately begin delivering written layoff notices to the approximately 1,100 state employees who were previously notified their positions could be eliminated. In addition, the Governor announced the furlough of approximately 900 "exempt excluded" non-union state employees for three days per month effective September 1, 2009, employees not covered by a court order barring the Governor from unilaterally implementing furloughs for union employees. On September 3, 2009, the Governor announced that additional (unspecified) layoff notices would likely be issued in the months ahead.

Included in the initial layoffs were the following key positions within the Department of Business, Economic Development, and Tourism (DBEDT):

- Film Industry Branch: Five of six positions (one of which is currently vacant) in the branch, which is part of the Creative Industries Division.

- Community-Based Economic Development (CBED) program: One position held by the CBED Program Manager in the Business and Community Assistance (BCA) Branch under the Strategic Marketing and Support Division. Three positions in the BCA Branch are being eliminated, with the Branch Manager position being transferred to DBEDT Energy Division by Act 162, Session Laws of Hawaii 2009 (Biennium Budget, FY 2010-2011).

- Enterprise Zone-Partnership: One position held by the EZ Coordinator in the Business and Community Assistance Branch; this position is one of three positions being eliminated in the branch.

**INFORMATIONAL BRIEFING**

Your Committees conducted an informational briefing on September 3, 2009, to gather information relating to the potential impacts on Hawaii businesses and the local film industry, arising from the anticipated position reductions in these three programs, which contribute substantially to Hawaii's economy. Additional testimonies were received at a second briefing on September 21, 2009, covering other DBEDT program areas.

Testimony in opposition and information on the impacts of the position cuts on the three programs were received from The Chamber of Commerce of Hawaii; the Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO; DRFortress, LLC; and one individual. The Department of Business, Economic Development, and Tourism submitted comments.

In addition, testimony in opposition to the cuts in the Film Industry Branch was received from the Hawaii Film and Entertainment Board; Hawaii Council of County Film Commissioners; Motion Picture Association of America; Musicians' Association of Hawaii; Pacific Islanders in Communication; Chris Lee Productions; W.H. Shipman, Limited; Hawaii Movie Studios, LLC; Home Baked Entertainment; Academy of Film & Television; Redhead Prods. LLC; Island Film Group;

Creative Handbook; Trailblazer Films Inc.; and over three dozen individuals.

Testimony in opposition to the elimination of the Community-Based Economic Development Program Manager was received from the Hawai‘i Alliance for Community-Based Economic Development; Hawai‘i Alliance of Nonprofit Organizations; Hale Ku‘ai Cooperative; Lanakila Pacific; Kahuku Brand; and two individuals.

Testimony in opposition to the elimination of the Enterprise Zone-Partnership Coordinator position was received from the County of Hawaii Department of Research and Development; Hawai‘i Alliance for Community-Based Economic Development; Hawaii Aquaculture Association; Hawaii Farm Bureau; Hawaii Crop Improvement Association; Hawaii Renewable Energy Alliance; SystemMetrics Corporation; Ace Farm LLC; Waimanalo Agricultural Association; Hilo Coffee Mill; Tawhiri Power LLC and Apollo Energy; Ventura Technology; Big Island Carbon; Bel Air Distributors, Inc.; Oils of Aloha; Kahuku Brand; and two individuals.

Video links of the briefing may be viewed on the Legislature's website via the Senate's Webcasts Pilot Projects link, and written testimony presented to the Committees is also available on the Legislature's website under session2009/hearingnotices/HEARING EDT-EBM 09-03-09.

FILM INDUSTRY BRANCH

The Film Industry Branch is statutorily mandated to provide core services through the Hawaii Film Office, including statewide film permitting and administration of the Act 88, Session Laws of Hawaii 2006 (Act 88) tax credit program. Those two functions are multi-faceted and complex and are surrounded by a myriad of other duties and mitigating crises, all of which work to support a very fast-paced, ever-changing and demanding industry. Six positions are allocated to the branch; one is currently vacant; and one has sole responsibility for management of the Hawaii Film Studio. Five of the six positions handling the core services are scheduled to be eliminated.

Since 2001, the Hawaii Film Office (Film Office) has supported more than 7,000 film, television, and commercial projects; a $7,300,000 renovation of the Hawaii Film Studio; and a competitive production tax credit (Act 88, Session Laws of Hawaii 2006) that has resulted in more than $400,000,000 in direct expenditures since its inception.

According to data compiled by the Film Office, the film industry has generated more than $1,200,000,000 in direct revenue for the State of Hawaii since 2000, and tax revenue of $142,000,000. In 2007, the first full calendar year for the Act 88 production tax credit, a record $229,000,000 in direct spending led to a major feature film produced in every island county, in addition to the hit TV show "Lost". In 2005, the year before Act 88 went into effect, revenue was just over $100,000,000.

**PRIORITY CONCERNS**

Given the substantial economic significance of the film industry in Hawaii, your Committees have identified the following concerns regarding the effect of the proposed layoffs.

- Expedited Permitting. The Film Office processes close to 1,000 state permits a year to support filming on the State's 1,300,000 acres of fast lands and 3,184 square miles of submerged lands, including the waters three miles out from every island. Hawaii's consolidated film permitting system, established by the Legislature in 1985 (sections 201-61 through 201-65, Hawaii Revised Statutes), is the only one of its kind in the country. The memoranda of agreements the Film Office has with the Department of Land and Natural Resources and the Department of Transportation are also unique in their call for mutual cooperation between departments and centralized film permitting coordination in the Film Office. While most of the permits are standard permits, they can represent anywhere from one or two locations to, in the case of "Lost", close to seventy different locations with complicated filming sequences, set construction and 24/7 responses to rapidly-changing logistical challenges. The exact filming activity at each one of these locations must be fully described, vetted, and approved by the state agency with jurisdiction.

- While the Director of Business, Economic Development, and Tourism testified that these specialized permitting duties will be handled by other DBEDT employees with general experience, your Committees do not share the Director's confidence that such specialized permitting can be handled by other department "generalists". The consolidated film permitting system was established because of the State's recognition of the economic value of this industry and the inability of the original, fragmented permitting system to meet the fast-paced demands of production schedules.

- Consolidated Services. In addition to permitting expertise, the current Film Office staff has nearly 50 years of experience and in-depth knowledge of film production, federal, state, and county jurisdictions, and community, environmental, and cultural sensitivities. Industry professionals testified that without the Hawaii Film Office, many productions would simply bypass Hawaii - such as "Lost" producers who were on their way to Australia when they stopped in Hawaii. In order to secure that production, the Hawaii Film Office negotiated with several agencies and constituencies for weeks. More than $400,000,000 later, "Lost" is engaged in its sixth and final season, an amazing commitment to the State of Hawaii. The Dreamworks feature "Tropic Thunder", which spent $68,000,000 on the island of Kauai, would not have been shot there in its entirety without the support of the Film Office. The Film Office walked the production through three months of state approvals, including securing a challenging permit from the state Water Commission to construct two large temporary bridges that played a major role in the film. In all, approvals from fourteen federal, state, and county agencies were required.

  The production tax credit is critically important to the industry and provides the State with an excellent measure of success. However, your Committees concur that without an efficient film permitting process in place and dedicated staff with the knowledge to "put out fires", the tax credits mean nothing. Producers made it very clear that they will not take advantage of any tax credits if obtaining the necessary permits for filming becomes time consuming and difficult.

- Act 88 Tax Credit Program. The Film Industry Branch is mandated to certify the Act 88 tax credits pursuant to section 235-17, Hawaii Revised Statutes. This requirement was intended to assure that the tax credits would be administered effectively, using the Film Office's detailed knowledge of film, television and animation production operations to manage and market the program efficiently, combined with the specific tax expertise provided through continuous coordination with the Department of Taxation. At the time of Act 88's passage, the Department of Taxation repeatedly voiced its support for the new production incentive only if DBEDT's Film Industry Branch was responsible for performing the industry-specific review required by the credits.

The Film Industry Branch has played a key role in assuring that Act 88 credits contribute towards developing a skilled local work force. Forty public and charter schools have benefitted from these contributions, as well as the University of Hawaii Academy for Creative Media and community colleges statewide, receiving cash or equipment contributions to their film and video programs and valuable on-set training.

- Fiscal Year 2010 Revenue Losses. Potential productions in the next twelve months alone are estimated to produce revenues of $150,000,000 to $200,000,000. In addition to the final season of "Lost", there are one to two feature films, two potential television series, and at least six major commercial shoots with tentative plans for production in Hawaii. Without the support of the Hawaii Film Office, potential economic losses to the State would be enormous at a time that Hawaii continues to face revenue shortfalls for the foreseeable future. Of particular note is the fact that a sizeable chunk of 2007-2008 film and television production expenses in Hawaii involved 61,000 hotel room bookings - an economic asset that is not easily replaced as a specific benefit to the State's visitor industry, and more broadly, to the State's economy. More importantly, production expenditures in Hawaii encompass a wide range of activities - not just technical crew, make-up, costuming and industry-related business activity, but also restaurants, catering operations, equipment and retail purchases, housing rentals and entertainment expenses.

  Besides the direct impact of loss of economic activity, a major concern for your Committees is the loss of soft marketing opportunities for the State of Hawaii in showcasing Hawaii as an attractive visitor destination through its exposure in major television and movie productions. Hawaii has been blessed with many successful TV hits, from "Hawaii 5-0" and "Magnum P.I." to the acclaimed "Lost" series (which is wrapping up its sixth and final season in Hawaii). Failure to calculate the benefits of Hawaii as a backdrop could result in the need for even more marketing expenditures to remind the world that Hawaii is an attractive visitor destination.

- Specialists vs. Generalists. The Director of Business, Economic Development, and Tourism has repeatedly stated that the department must "rely on generalists" while the industry has countered that the specialists in the Film Office are the primary reason for the industry's significant economic impact in Hawaii. In addition, the Director has stated that despite cutting 40 of the department's 95 positions, there will be "no change to departmental mission, function and statutory requirements".

With respect to DBEDT's October 2, 2009 written comments regarding the DBEDT reduction-in-force, and availability of other DBEDT staff to meet the needs of Hawaii Film Office users, your Committees note that the testimonies submitted by film, television and international production professionals speak for themselves. Your Committees believe the collective voices of the industry completely reject the notion that DBEDT "generalist" employees will be able to address specialized industry requirements. If DBEDT fails to heed these concerns, the department is effectively turning its back on the very industries that could hasten the State of Hawaii's economic recovery.

- Jobs Creation. Apart from the impact of the proposed Film Office layoffs upon current and planned film and television production in Hawaii, the department's actions undermine the progress that has been made towards jobs creation in the digital media industry. When the University of Hawaii System Academy for Creative Media (ACM) was established in 2004, it quickly became the University's fastest-growing program. Founder Chris Lee's vision for ACM encompasses all forms of media and entertainment production, at the apex of East and West.

  Today, ACM's 300 students have a new BA degree (with 39 courses), and have created over 500 films and animations that are being recognized in film festivals throughout the world. ACM alumni have interned in the television production "Lost" and with the motion picture production "Superman Returns", have obtained jobs in the television industry, and have even started their own visual effects and production companies.

  Equally compelling is the future workforce pipeline developing at the K-12 level, with strong leadership from Waianae Searider Productions and OLELO Community Television. In six short years, the combination of Act 88 educational offerings and the OLELO "Youth Xchange" video competition has resulted in 500 video and animation productions submitted by students from 80 public and private schools in 2009 alone. In fact, there were so many finalists this year that the awards banquet was held in two "shifts" - the first for younger teams, and the second for middle and high school students. Your Committees view DBEDT's actions as placing at risk investments made over the past decade of coordinated efforts.

COMMUNITY-BASED ECONOMIC DEVELOPMENT (CBED)

Pursuant to chapter 210D, HRS, the CBED program provides grants directly to community-based nonprofit entities with targeted economic and social outcomes. CBED was established in 1990 in response to concerns that Hawaii's rural or otherwise distressed areas would not be able to survive sugar plantation closures or to create jobs within their own regions. The CBED program currently has two employees; the Manager position is scheduled to be eliminated, leaving only a clerk-typist position.

Since its inception, the CBED program has provided small investments of funding and financing resources along with technical support to community-based entities that have been able to leverage public resources at an average rate of 11:1 ($11 leveraged for every $1 of public funds invested); impact an average of 50 jobs a year (based on data from 1999 to 2005); and generate a range of benefits to more than 110,000 Hawaii residents, most of whom come from low to low moderate income families.

CBED has also helped catalyze a diversity of economic ventures within Hawaii's low income communities including business incubators, commercial marketplaces, sustainable agriculture ventures, social and health service ventures, cultural and educational centers, workforce development initiatives, small and micro business development and financing programs, and other community development ventures. During the early to late 1990s, the program helped incubate 88 community-based economic development ventures on the neighbor islands and on Oahu that helped rural communities like Hamakua, Kona, Anahola, Hanalei, West Kauai, Hana, the North Shore of Oahu and others, transition into organizations capable of competing for federal and other funding sources.

For example, in 1998, the CBED program provided $20,000 in financial assistance to the Molokai Community Services Council to plan and develop the island's plan and application to the federal Department of Agriculture for the Federal Empowerment Zone program. As a result, the Island of Molokai in 1998 received Federal Enterprise Community status and grant assistance of $250,000 a year for 10 years - a total of $2,500,000, plus additional credit points for other federal grants and programs. The Molokai community formed a representative nonprofit - the Molokai Enterprise Community - and in 2008, its tenth year of operations, moved forward 25 projects outlined in its 10-year strategic plan. Enterprise Community funds have been used to leverage funding from other partners, with $4,200,000 leveraged in 2008 and six jobs created.

On Oahu, Lanakila Pacific received a $9,687 CBED grant in 2006 that enabled the employment/work training nonprofit to hire a consultant to overhaul its operations and develop a strategic business plan for its manufacturing and assembly section. Today, three years later, Lanakila Pacific has supplemented its "Meals on Wheels" program with "Xpress Chefs," a healthy meals program serving the needs of the broader community, Lanakila Production Services, and Lanakila Maintenance Services. Lanakila's Social Enterprises are mission driven business ventures that create high quality products and services for customers while building independence for people with challenged lives, creating a triple bottom line: economic, environmental and social. Their new operations have yielded new revenue streams and 30 new jobs.

Currently there are ten businesses enrolled in CBED, which on average create 90 to 100 jobs annually.

**PRIORITY CONCERNS**

Based on the information and testimony received, your Committees have identified the following priority concerns:

- <u>Funding Instability.</u> During the period 2003-2006, CBED's revolving fund balances dropped significantly (to $110,687 in FY 2006), partially as a result of what DBEDT has characterized as "severe budget reductions to Strategic Marketing and Support Division (approximately $200,000 cut); and reorganization which resulted in the Business Services Division which included the CBED Program being merged into the Strategic Marketing and Support Division (SMSD) and the SMSD spinning off a branch to create a new Creative Industries Division." *(DBEDT, October 2, 2009 written comments regarding the DBEDT reduction-in-force.)*

  Your Committees are especially concerned that program changes during the 2004-2009 period have jeopardized the earlier successes of the CBED program, and may have violated section 210D-4, Hawaii Revised Statutes, which prohibits the department from reallocating funds from the loan program to the grant program so as to impact the viability of the CBED loan program. Since 2004, virtually no loans have been disbursed through CBED's loan program due to insufficient funds in its revolving fund.

At the same time, the small $10,000-$25,000 grants recommended by the appointed CBED Advisory Council have had a much larger impact in many of the smaller and more remote communities than their dollar value might indicate. Many grants have a local match, often from Office of Hawaiian Affairs or federal resources that make real success possible and ensure that all of Hawaii's communities have a chance to develop local jobs and local income while retaining their own unique cultural traditions.

- Other CBED Assistance. Annually, CBED receives 300 to 400 inquiries from nonprofit, community-based organizations. If the CBED Program Manager is laid off there will be no one with the detailed knowledge necessary to respond to these queries, provide the considerable community outreach that is necessary, conduct orientation classes for new nonprofit leaders, review grant applications, convene the program's Advisory Council, and monitor the allocation and accountability for the grants.

- Exemption from Chapter 42F, Hawaii Revised Statutes, Grants and Subsidies Requirements. CBED is exempt from state requirements for grants and subsidies to nonprofits, and is the only state agency authorized to distribute funds to community nonprofits engaged in economic development activities (section 210D-11, Hawaii Revised Statutes).

In spite of the CBED revolving fund's revenue constraints during the past five years, recent developments have brought new funding sources and responsibilities. In 2008, $637,500 was transferred to the fund as part of a settlement agreement between the State and the City and County of Honolulu in Waimanalo Gulch landfill enforcement litigation. The settlement authorizes CBED to administer community economic development grants to Waianae community nonprofits to support environmentally-beneficial projects to benefit Leeward communities.

CBED has applied for $250,000 in federal American Recovery and Reinvestment Act of 2009 (ARRA) stimulus funding, and anticipates being awarded these funds shortly. Finally, Act 124, Session Laws of Hawaii 2009, will allow the fund to receive funds from sources other than state appropriations, including federal temporary assistance to needy families (TANF), the Office of Hawaiian Affairs (OHA), and other state or federal sources.

Your Committees view the proposed layoff of the CBED Program Manager as extremely detrimental to the State's CBED program, now that the program has additional funding and increased workload responsibilities. The extent of the State's economic downturn makes this program an important entity to leverage federal and non-general fund sources to improve regional economic outcomes.

Your Committees are equally concerned that removal of an experienced CBED revolving fund administrator will diminish the degree of effective oversight and evaluation that CBED grants and loans require (section 210D-11, Hawaii Revised Statutes). Given the department's track record with its much-criticized procurement practices involving the Hydrogen Fund (under Hawaii Strategic Development Corporation), international travel missions, and routing the National Governors Association grant through the High Technology Development Corporation's nonprofit to avoid detailed procurement review, your Committees believe that the department should be doing everything in its power to retain seasoned, experienced grant- and loan-making administrators for new grants and loans.

ENTERPRISE ZONE/PARTNERSHIP (EZ/P)

Established in 1986, Hawaii's Enterprise Zone/Partnership program was based upon the nationally-recognized Virginia Enterprise Program. It offers state general excise tax (GET), income tax and unemployment insurance credits for a seven-year period (section 209E, Hawaii Revised Statutes) for eligible businesses in county nominated areas. At least 37 other states have similar programs offering new and expanding businesses in relatively economically distressed areas, usually small businesses, start-up and growth opportunities through the first few difficult years, by reducing taxes or offering other types of regulatory relief. The EZ/P program currently has one position, which is being eliminated.

Currently, the list of EZ/P eligible businesses includes about twenty-two separate types of activities covering a wide range of industry sectors - each a category that the State is trying hard to attract or grow internally - and 179 businesses are enrolled in the program, with an estimated 4,100 jobs. An enrolled business must be located in one of the twenty-two designated zones, engaged in work specified in the legislation, and must either grow and maintain its workforce, or in the case of agricultural businesses, grow its revenues, each year. If it does not meet the statutory standards, no tax incentives may be claimed. No other Hawaii tax incentive program has this pre-condition. These requirements are intended to encourage hiring more employees, selecting activities that pay living wages, and to help improve the economic environment in particular regions.

As a business development tool, Hawaii's EZ program has achieved considerable success in spite of its minimal budget. According to the program's Yearly Activity Plan (YAP) for FY 2010-2011, Hawaii's average "cost" per job in GET revenues was $514 in calendar year 2007; this was substantially lower than the national average for job creation of $6,750 per job per year. In calendar year 2008, the EZ/P Program served 205 businesses statewide, with 83 businesses reporting 1,014 new jobs being created, and $530,000,000 in gross sales for the year.

Since 2003, the EZ/P program has successfully pursued legislation to improve the process for farmers to qualify for EZ benefits through a variety of modifications to the original law; the first of these major changes (Act 143, Session Laws of 2007) took effect on July 1, 2008. In 2009, the Legislature extended eligibility in an EZ/P zone from seven to ten years for qualified businesses engaged in manufacturing or producing and processing agricultural products (Act 174, Session Laws of 2009). The EZ/P program has been noteworthy in helping agricultural businesses expand through its partnerships with the County of Hawaii's Department of Research and Development, the Hawaii Farm Bureau Federation, and the Department of Agriculture. On the Big Island, almost all of the EZ/P's 44 business participants are agricultural or renewable energy companies; and the program is a logical complement to the CBED model of regional economic development through community nonprofits.

**PRIORITY CONCERNS**

- Administration of EZ/P Tax Incentives. Procedurally, the letters sent by DBEDT are the basis of the tax incentive claims submitted to the Department of Taxation (DoTAX). The Director of Business, Economic Development, and Tourism has suggested that county EZ coordinators might assume this responsibility; however, your Committees believe there are several reasons why this is not feasible, and potentially illegal. Even if the EZ/P law were changed, placing this burden on the counties could be viewed as an "unfunded mandate" prohibited on the basis of Attorney General Opinion 98-1, which among other things, removed some county EZ reporting requirements. Unless all counties agree or are fully reimbursed for staff and other expenses, that option is not feasible. It has also been suggested that the Department of Taxation could assume responsibility for the tax credits application approval and annual performance verification. Your Committees believe that such a change would clearly place the department in the untenable position of both processing the tax credit applications for submittal by EZ/P businesses, as well as determining whether individual businesses' credits should be approved or not.

- Specialized Knowledge of EZ/P Incentives and Partnerships. If the EZ/P Coordinator - who has extensive knowledge of a very complex tax incentive program - is laid off, there is no one in DBEDT with the same level of expertise to handle daily questions from businesses, business organizations, tax professionals, county coordinators and potential EZ/P partners. In 2009, the program received 1,056 phone calls alone, an average of over 120 per month. In conjunction with the EZ/P Coordinator's close collaboration with county EZ coordinators, the EZ/P program has pursued specific statutory amendments to make the program more effective in addressing agriculture and alternative energy priorities. In future legislative sessions, expansion of the types of alternative energy business activities eligible for EZ/P designation would produce meaningful tax savings that would assist businesses with the high start-up costs for construction.

The success of the program - cited in *Hawaii Business Magazine*'s September 2009 supplement, *SmallBiz,* "Hidden Gems to Help You" - depends on fast and accurate responses to complex business operation/tax queries and the rapid processing of both initial tax credit applications and the required performance reports.

As in the case of the CBED Program Coordinator, your Committees cannot support DBEDT's intended elimination of a respected program administrator whose efforts have grown the State's EZ/P program to a stage in which hundreds of businesses have benefitted from the program's carefully-crafted tax incentives. The potential harm to current EZ/P clients, and to future clients in strategic industry sectors is incalculable, particularly when the modest costs of the program are weighed against its benefits.

**FINDINGS AND RECOMMENDATIONS**

The three DBEDT programs that were the focus of the informational briefing are important economic generators for the State, and program staff provide direct services to the public - services that will be severely curtailed or eliminated if the positions are vacant. To date, the Director of Business, Economic Development, and Tourism has provided only a skeleton proposal for a reorganization that would merge the Strategic Marketing and Support Division (BED 100) and Creative Industries Division (BED 105), move the Science and Technology Branch out of the Energy Division (BED 120) to support the merged division, and eliminate most of the experienced staff of two branches performing statutorily-required functions: the Film Industry Branch and the Business and Community Assistance Branch. Based on the testimony and written responses provided during the September informational briefings, your Committees view the Director's rationale for the layoffs of experienced "specialists" in favor of "generalists" who would have to learn new skills while performing their existing functions as unjustified.

For example, DBEDT has reorganized the Strategic Marketing and Support Division (SMSD) at least twice during the past six years, focusing more heavily on its marketing, promotion, and international business activities (many of which are discretionary functions, and subject to the availability of resources and staffing).

The Director created a new Creative Industries Division from one of the SMSD branches, transferred the Business and Community Assistance Branch into SMSD, and is now eliminating the Business and Community Assistance Branch when the CBED and EZ/P programs provide direct, tangible benefits in terms of businesses and non-profits assisted, jobs created, and revenue growth. Similarly, in DBEDT's Creative Industries Division, the Hawaii Film Office's administration of highly-complex permitting and Act 88 tax credit programs - yielding over $200,000,000 in film and television industry expenditures per year - is being sacrificed in favor of programs with little in the way of statutorily-mandated responsibilities. The Director further proposes to move the Science and Technology Branch (STB) into SMSD, but fails to note that his proposal for moving four positions from STB into SMSD was rejected in Act 162, Session Laws of Hawaii 2009 (Biennium Budget, FY 2010-2011). The DBEDT's Director cannot do by fiat what the Legislature has already disallowed.

Accordingly, your Committees adopt the following findings:

(1) The Director of Business, Economic Development, and Tourism fails to present a defensible rationale for the proposed layoffs in the Film Industry Branch, and in the CBED and EZ/P programs. The logic in reassigning "generalists" to perform functions currently performed by technically-competent "specialists" in mandated programs that produce significant contributions to the State's economy will provide limited savings and the loss of considerable income to the State.

If, as the Director commented, the level of discretionary DBEDT marketing, promotion, and international business development activities will shrink during the coming year because of reduced resources, it makes more sense for the Director to enhance support for programs that expand economic activity in our State, and to reassign "generalists" to provide support to "specialists" to increase the productivity of programs with proven track records.

As other states scramble to increase economic activity within their borders, your Committees note that no other Film Commission in the country is planning to substitute less-experienced staff for knowledgeable staff.

(2) Eliminating staff with specialized experience and expertise in the Film Industry Branch, Community-Based Economic Development program and Enterprise Zone/Partnership program will adversely affect the State's economy at the worst possible time. As part of the Film Industry Branch's strategic plan and annual performance measures, the program achieved its Hawaii production expenditure target of $200,000,000 in 2007, and under its present operation, would be on track to achieve its target of $300,000,000 in production expenditures in FY 2010-2011 (based on five-year growth estimates tied to the 2006 passage of Hawaii's 15-20 per cent production credits, Act 88, Session Laws of Hawaii 2006). *See* Attachment A, "Motion Picture and Television Production Expenditures and Tax Revenues ($ in millions)".

Similarly, the CBED Program's track record of community economic development investments (assisting 185 community nonprofits in generating economic activity between 1990-2008, with 813 jobs created between FY 2001-2008), is rebounding from resource constraints during 2004-2008 with the passage of Act 124, Session Laws of Hawaii 2009, (authorizing the CBED revolving fund to receive and utilize funds from any source, including TANF and other non-State general funds) and the September 2009 award of $250,000 in federal ARRA stimulus funds.

CBED's revolving fund will be able to disburse over $1,000,000 in non-general fund dollars ($637,000 in Department of Health funds for grants to community nonprofits for environmentally beneficial projects on the Waianae coast; $250,000 in federal ARRA stimulus funds; and $1,000,000 to 3,000,000 in TANF and other federal grants. *See* Attachment B, "Community-Based Economic Development Summary FY 01-08".

And finally, while the businesses participating in the Enterprise Zone/Partnership program vary from year to year, what has been particularly significant is the aggregate total of new jobs created by EZ/P businesses - at minimum, 2,179 between calendar year 2001-2008, a significant statistic given today's grim economic outlook. Partly in recognition of the EZ/P program's recent accomplishments, the Legislature adopted Act 174, Session Laws of Hawaii 2009, to provide greater flexibility in meeting growth/expansion targets. *See* Attachment C, "Enterprise Zone Partnership Program Summary CY 01-08".

In light of the findings adopted above, your Committees recommend the following actions:

- No later than October 15, 2009, require the Director of Business, Economic Development, and Tourism to provide:

  ✓ A written plan for the reassignment of functions and services provided by the Hawaii Film Office, CBED, and EZ/P programs, to either other DBEDT personnel or other agencies; including the Director's stated intent to merge and restructure BED100, BED105, and a portion of BED120; and how the procedures required for restructuring have been met.

  ✓ Information on how statutory program mandates will be satisfactorily met if these positions are vacant for a short-term or long-term basis, and if existing staff do not possess the necessary skills to implement the program mandates.

- ✓ The projected cost savings that would be realized by the layoffs, by position and by program, for each year of the current biennium.

- Urge the Governor to halt scheduled layoffs for the Film Industry Branch, CBED, and EZ/P programs to allow the programs to be converted to special funded support, since these programs provide significant economic benefits and tax revenue for the State.

- Introduce legislation in the 2010 Regular Session to redirect the uses of the Hawaii Television and Film Development Special Fund and the CBED Revolving Fund, and establish a funding mechanism for the Enterprise Zone program, in order to retain existing, specialized staff in programs that have substantially contributed to the State's economic well-being and to make these programs self-sufficient.

As stated so eloquently by one testifier, "if this skilled and dedicated staff that often work long hours and not only 'think out of the box' but often create entirely new boxes, to make their programs successful, are laid off, our economy and especially our small businesses will suffer severely. It will take years to recover the staff experience, understanding and dedication to their mission, if ever."

Respectfully submitted on behalf of the Committees:

ANGUS L.K. MCKELVEY, Chair

CAROL FUKUNAGA, Chair

Attachment A

**Motion Picture and Television Production Expenditures and Tax Revenues** ($ in millions)

| | Production Expenditures | Sales Generated | Income Generated | Tax Revenues |
|---|---|---|---|---|
| **CY 1996** | $59.7 | $95.4 | $67.8 | $7.7 |
| **CY 1997** | $70.7 | $113.0 | $80.2 | $9.1 |
| **CY 1998** | $99.1 | $158.3 | $112.5 | $12.8 |
| **CY 1999** | $98.1 | $156.7 | $111.3 | $11.5 |
| **CY 2000** | $136.0 | $217.3 | $154.4 | $16.6 |
| **CY 2001** | $83.0 | $132.6 | $94.2 | $10.7 |
| **CY 2002** | $147.0 | $234.9 | $166.8 | $18.6 |
| **CY 2003** | $84.0 | $134.2 | $95.3 | $10.7 |
| **CY 2004** | $164.0 | $262.1 | $186.1 | $17.4 |
| **CY 2005** | $117.1 | $187.2 | $133.0 | $12.8 |
| **CY 2006** | $140.2 | $224.0 | $159.1 | $14.8 |
| **CY 2007** | $228.7 | $365.4 | $259.6 | $22.1 |
| **TOTAL:** | $1,427.6 | $2,281.1 | $1,620.4 | $164.7 |

Attachment B

Community Based Economic Development

**Department of Business, Economic Development & Tourism**

| | Amount Awarded to Community-Based Orgs | Number of Orgs Funded | Non-GF Funding Match | Jobs Created | Total Amount For Statewide Econ. Develop. Projects |
|---|---|---|---|---|---|
| **FY 2001** | 309,500 | 23 | 3,113,000 | 218 | 3,422,500 |
| **FY 2002** | 200,000 | 17 | 2,200,000 | 93 | 2,400,000 |
| **FY 2003** | 56,500 | 5 | 627,000 | 100 | 680,000 |
| **FY 2004** | 137,200 | 14 | 1,500,000 | 160 | 1,637,200 |
| **FY 2005** | 171,295 | 12 | 1,884,245 | 173 | 2,055,540 |
| **FY 2006** | 260,532 | 15 | 2,865,852 | 95 | 3,126,384 |
| **FY 2007** | 0* | 0 | N/A | 0** | N/A |
| **FY 2008** | 113,947 | 11 | 1,253,417 | 69 | 1367364 |
| **TOTAL:** | $1,248,974 | 97 | $13,443,514 | 813 | $14,688,988 |

*CBED Revolving Fund received no appropriation and was begun with a beginning balance for the year of $2,155. Because of the low amount of funds available, the program gave no grants or loans out during the fiscal year.

**only organization to report was Empower Oahu

Attachment C

Enterprise Zone Partnership Program

**Department of Business, Economic Development & Tourism**

| | Total Businesses | # Biz Submitted EOY Report | Jobs Created | Total Gross Sales for Calendar Year (in millions) |
|---|---|---|---|---|
| **CY 2001** | 148** | n/a | 369** | n/a |
| **CY 2002** | 170** | n/a | 400** | n/a |
| **CY 2003** | 199** | 78/69** | 350** | n/a |
| **CY 2004** | 204 | 107 | 1359 | 543 |
| **CY 2005** | 195 | 113 | 1399 | 671 |
| **CY 2006** | 205 | 111 | 1036 | 595 |
| **CY 2007** | 199 | 98 | 1228 | 669 |
| **CY 2008*** | 205 | 83 | 1014 | 530 |

Total number of jobs created between 2003-2008 is 2,179, based upon summary of end of year reports from Enterprise Zone partnership businesses.

*CY 2008 annual report to the Governor has not been published yet

**Data from EZ annual Report, not verified