

Honolulu, Hawaii

FEB 12 2010

RE: S.B. No. 2144
S.D. 1

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

Madam:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 2144 entitled:

"A BILL FOR AN ACT RELATING TO ECONOMIC DEVELOPMENT,"

begs leave to report as follows:

The purpose of this measure is to ensure greater self sufficiency for economic development programs of the State by:

- (1) Requiring the Department of Taxation to report annually to the Legislature on the effectiveness of the motion picture, digital media, and film production tax credit;
- (2) Renaming the Hawaii television and film development special fund as the Hawaii film office special fund, requiring the first \$500,000 or an unspecified per cent of tax revenues realized from the effect of the motion picture, digital media, and film production tax credit to be deposited into the fund, and including personnel costs as uses of the fund moneys;
- (3) Amending the Hawaii community-based economic development revolving fund uses to require that moneys in the revolving fund be used to fund the Community-Based Economic Development Program and Enterprise Zone Program operational and staff costs; and
- (4) Repealing unnecessary television and film development definitions, the Hawaii Television and Film Development



Board, grant and venture capital programs, and other miscellaneous provisions.

Testimony in support of this measure was submitted by the Department of Business, Economic Development, and Tourism; Hawaii Government Employees Association, AFSCME, Local 152, AFL-CIO; County of Hawai'i Department of Research and Development; The Chamber of Commerce of Hawaii; Hawai'i Alliance for Community-Based Economic Development; Island Film Group; West Island Productions; and two individuals. The Department of Taxation and the Tax Foundation of Hawaii submitted comments. Written testimony presented to the Committee may be reviewed on the Legislature's website.

Your Committee finds that that the three programs affected by this measure are substantial income-generators for the State, and cuts to the programs - particularly the loss of highly qualified staff - is shortsighted and harmful to the State's economic recovery.

Your Committee is not persuaded that the Director of Business, Economic Development, and Tourism will succeed in mitigating these cuts by reassigning "generalists" to undertake functions currently performed by technically-competent "specialists". In addition to the difficulty of performing specialized functions adequately, the Department has also cut "generalist" positions, leaving the remaining staff short of both specialized knowledge and time to carry out their additional duties. All three programs have significant statutory mandates that will suffer as a result.

Your Committee notes that when Act 88 (Session Laws of Hawaii 2006) was finally passed after years of debate, one of its major components was certification of the tax credits by the Hawaii Film Office staff to assist the Department of Taxation in administering the law. 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. It has proven highly successful, and jeopardizing this through personnel cuts in the Film Office will also impact the reduced staffing in the Department of Taxation.

In the case of the Community-Based Economic Development Program and the Enterprise Zone-Partnership, the loss of personnel



with specialized expertise will make it difficult, if not impossible, to meet the mandates of Acts 124 and 174, Session Laws of Hawaii 2009, which expanded the scope and responsibilities of both programs. Your Committee finds it ironic that the department responsible for business development has paid little attention to Enterprise Zone-Partnership tax incentives. With its strong record of tracking job creation and business expansion, Enterprise Zone-Partnership credits are clearly among the most transparent and accountable of business tax credits currently in use.

Your Committee is fully aware of the State's fiscal condition, but finds that short-term savings carry long-lasting impacts for economic recovery.

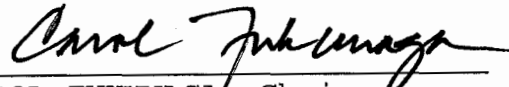
Your Committee has amended this measure by:

- (1) Requiring the Department of Business, Economic Development, and Tourism to evaluate and report annually to the Legislature on the effectiveness of the motion picture, digital media, and film production income tax credit;
- (2) Deleting provisions relating to deposits in the Hawaii film office special fund from revenues realized from the economic impact of film production;
- (3) Adding revenues from film studio rents and tax credit processing fees for deposit into the Hawaii film office special fund;
- (4) Authorizing the Department of Business, Economic Development, and Tourism to assess an unspecified fee for processing Act 88 tax letters under section 235-17, Hawaii Revised Statutes;
- (5) Appropriating an unspecified amount out of the Hawaii film office special fund;
- (6) Appropriating an unspecified amount out of Temporary Assistance for Needy Families funds for deposit into the Hawaii community-based economic development revolving fund; and
- (7) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.



As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2144, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2144, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Technology,


CAROL FUKUNAGA, Chair



The Senate
Twenty-Fifth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Technology
EDT

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|---|--|--------------------------|----------|----------|
| Bill / Resolution No.:* SB 2144 | Committee Referral: EDT, WAM | Date: 2-3-2010 | | |
| <input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____ | | | | |
| The Recommendation is: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input type="checkbox"/> Pass, unamended <small>2312</small></div> <div style="text-align: center;"><input checked="" type="checkbox"/> Pass, with amendments <small>2311</small></div> <div style="text-align: center;"><input type="checkbox"/> Hold <small>2310</small></div> <div style="text-align: center;"><input type="checkbox"/> Recommit <small>2313</small></div> </div> | | | | |
| Members | Aye | Aye (WR) | Nay | Excused |
| FUKUNAGA, Carol (C) | ✓ | | | |
| BAKER, Rosalyn H. (VC) | ✓ | | | |
| HEE, Clayton | | | | ✓ |
| IGE, David Y. | | | | ✓ |
| SLOM, Sam | . | ✓ | | |
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| TOTAL | 2 | 1 | — | 2 |
| Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted | | | | |
| Chair's or Designee's Signature: | | | | |
| <div style="display: flex; justify-content: space-between; font-size: small;"> Distribution: Original Yellow Pink Goldenrod </div> <div style="display: flex; justify-content: space-between; font-size: x-small;"> File with Committee Report Clerk's Office Drafting Agency Committee File Copy </div> | | | | |

*Only one measure per Record of Votes