LATE TESTIMONY

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON ECONOMIC REVITALIZATION,
BUSINESS AND MILITARY AFFAIRS
ON
HOUSE BILL NO. 2844

February 2, 2010

RELATING TO THE FILM INDUSTRY

House Bill No. 2844, creates a Film Industry Branch Special Fund, which will receive revenues from a General Excise Tax surcharge on motion picture theaters and television broadcasting stations, and from fees charged by the Department of Business, Economic Development and Tourism. The special fund will be used for the operating expenses of Department of Business, Economic Development and Tourism's Film Industry Branch.

We oppose this bill. As a matter of general policy, this department does not support any special fund which does not meet the requirements of Section 37-52.3 of the Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. It is difficult to determine whether the Film Industry Branch Special Fund would meet these criteria.

DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM

LINDA LINGLE
GOVERNOR
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LATE TESTIMONY

Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON
ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS

Tuesday, February 2, 2010
8:30 a.m.
State Capitol, Conference Room 312

in consideration of

HB 2844
RELATING TO THE FILM INDUSTRY

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

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments on HB2844 which supports additional revenue streams and the creation of a special fund to support film industry branch operations.

The proposal would provide resources that would enhance the functions of the creative industries division's film industry branch. We concur the creative sector, including film, television, digital media, music and arts industries are important economic generators for the State. We also want to assure the committee that the film branch continues its operations and management of the department's statutorily mandated programs. These functions are being serviced and adequately addressed by existing staff who have familiarity and knowledge of these industries and their constituencies.

HB2844 addresses several options for developing new funding streams in the areas of imposing surcharges on motion picture theatre operators and television broadcast stations. It also requires DBEDT to charge fees for the activities of the film branch/DBEDT. We support the intent but have concerns regarding Section 1.

We call to your attention item 3 (lines 12 and 13) and also page 3, Section 2, lines 5-7 which states "Upon accepting the application, the department shall charge the applicant an application fee set by the department." It must be understood that any charge for fees for services other than permitting or tax incentive application fees would jeopardize Hawaii's membership with the Association of Film Commissioners International (AFCI). As stated in their by-laws, any requirement to charge fees for film office or commission general activities is in direct conflict with the organization and would result in Hawaii losing its membership in AFCI.

Our membership is crucial to the state's ability to conduct business, market Hawaii and compete with other jurisdictions worldwide. Hawaii has been a member of the organization for over 20 years. Based on this issue, we request the committee's consideration of deleting the language in Section 2, but maintain support for permit fees and potentially third party agency fees for handling online forms, permits and fee collection.

We also want to note and ask that the committee consider the administration's proposal in HB2529/SB2682 which is similar in intent to HB2844 and addresses the need for additional revenue streams to support creative industry development, particularly in the film, television and digital media sectors. This bill amends and updates the existing Hawaii television and film development special fund (HRS 201§112-13), renaming it the creative media development special fund, which would establish revenue streams from permit fees, a percentage of film studio rental fees, and could similarly include revenue streams identified in HB2844, to support operations for film, television, digital media and creative industry sector development.

Our creative industries collectively contributed $4 billion to Hawaii's GDP in 2008 and have grown 10% since DBEDT's research and economic analysis division began tracking their growth in 2002. Film and television production is a major component of the creative sector, which has been generating $150 – 200 million in production revenues annually.

We believe all efforts to support additional revenue generation are worthy of consideration and appreciate the opportunity to provide comments on HB2844.

LATE TESTIMONY

HAWAII FILM & ENTERTAINMENT BOARD

COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS

February 2, 2010 – 8:30 pm
State Capitol, Conference Room 312

RE: HB 2844 -- RELATING TO THE FILM INDUSTRY

Dear Chair McKelvey, Vice-chair Choy and members of the committee:

The Hawaii Film and Entertainment Board whose members include all of the film industry labor unions, associations and film commissions, **supports the measure in concept**, which is to find a way to fund the film office functions in DBEDT since this is a revenue generating agency, and are **submitting specific testimony in support of a portion of the measure.**

As we reported to the legislature in September 2009, **the state has received a 2000 percent return on investment** in 2007 and 2008. Almost **$20 million of tax revenues were generated, $10 million per year.** This is a NET gain figure, after the payout of the tax credit. The expense to fund film office functions is approximately $500,000 per year.

We **support the creation of a special fund** in which revenues generated from the rental of the Hawaii Film Studio can be placed and used to help off-set costs of running the film office functions. In addition we request that other funds that may come from grants, donations and application fees be allowed to be placed in the special fund.

We also respectfully **request that some technical language relating to 'applications' be made specific to reflect 'tax credit applications'**, as we believe this was the intent. To have it relate to a broader spectrum of applications would create conflicts with other agencies that charge fees for filming such at DLNR, DOT, DoBAR, etc.

Thank you for the opportunity to provide these comments

Brenda Ching,
Chair

Attachments: 2007-2008 Econ Impact, Direct and Indirect expenditures; 2007-2008 Tax Revenues Generated (summary); 2007 Econ Impact Detailed spreadsheet; 2008 Econ Impact Detailed spreadsheet

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Economic Impact

The Film Industry is a part of the solution

Total Direct and Indirect impact:

2007	(based on $229 M spend)	$304 million
2008	(based on $146 M spend)	$194 million
Total Economic Impact 2007-2008		**$498 million**

Multiplier of 1.29 and revenue calculation provided by DBEDT- READ; Direct and Indirect economic formulas provided by Dr. William Boyd, UH Economist; Based on direct spend figures provided by DBEDT-FIB

Note: "Film Industry" is used in a generic sense and represents film, television, commercial and new media

Tax Revenues Generated

Year	Direct Spend	Tax Revenues Generated
2007	$229 million	$ 11.3 million
2008	$146 million	<u>$ 8.06 million</u>
		$19.37 million into State coffers

Major projects:

Forgetting Sarah Marshall	Oahu
LOST	Oahu
Tropic Thunder	Kauai
Indiana Jones 4	Big Island
Pirates of the Caribbean 3	Maui / Molokai

Direct and Indirect economic formulas provided by Dr. William Boyd, UH Economist

2007 Economic Impact estimates - Act 88 and non-Act 88 Scenario

Oahu split calculated at	50%		
NI split calculated at	50%		
Oahu cost	15%	x estimated split	$11,592,208
NI cost	20%	x estimated split	$15,456,277
	$77,281,387	Oahu split	
	$77,281,387	NI split	
		Total Act 88 cost:	$27,048,486
		Indirect Impact (Production Spend x multiplier)	$294,997,152
		Indirect revenues generated =	$66,317,189
		Indirect revenues x Revenue calculation =	$8,621,235
		total direct and indirect impact	$303,618,387
		multiplier	1.29
Annual Production Spend	$228,679,963		
Act 88 Spend	$154,562,775	% of Act 88 total	67.589120%
non-Act 88 Spend	$74,117,188	% of non-Act 88 total	32.410880%
			100.000000%
Annual Tax Revenues	$29,728,395	Revenue calculation @	13.00%
Rebate Cost	$27,048,486	Oahu and NI figures	
subtotal (cost to state)	$2,679,910	(net gain/net loss)	
Indirect Impact	$8,621,235		
+ cost to state	$2,679,910		
TOTAL	**$11,301,144**	**(net gain/net loss)**	

Legend- base figures:
Blue = input figures
Green = formula figures
Black = formula figures with positive results
(Red) = formula figures with negative results

Total figures
Black = net gain to state
(Red) = net loss to state

Hawaii Film and Entertainment Board

2008 Tax Incentive Economic Impact Analysis for Act 88

Oahu split calculated at	50%		
NI split calculated at	50%		
Oahu cost	15%	x estimated split	$7,035,000
NI cost	20%	x estimated split	$9,380,000
	$46,900,000	Oahu split	
	$46,900,000	NI split	
		Total Act 88 cost:	$16,415,000
		Indirect Impact (Production Spend x multiplier)	$188,340,000
		Indirect revenues generated =	$42,340,000
		Indirect revenues x Revenue calculation =	$5,504,200
		(3) total direct and indirect impact	$193,844,200
		(1) multiplier	1.29
Annual Production Spend*	$146,000,000		
Act 88 Spend**	$93,800,000	% of Act 88 total	64%
non-Act 88 Spend	$52,200,000	% of non-Act 88 total	36%
Annual Tax Revenues	$18,980,000	(2) Revenue calculation @	13.00%
Rebate Cost	$16,415,000	Oahu and NI figures	
subtotal (cost to state)	**$2,565,000**	(net gain/net loss)	
Indirect Impact	$5,504,200	(net gain/net loss)	
+ cost to state	$2,565,000		
TOTAL	**$8,069,200**	**(net gain/net loss)**	

Legend- base figures:
Blue = input figures
Green = formula figures
Black = formula figures with positive results
(Red) = formula figures with negative results

Total figures
Black = net gain to state
(Red) = net loss to state

* Honolulu Advertiser 5/18/09; quote by Donne Dawson, Film Industry Branch
** draft figures provided by DBEDT - Film Industry Branch

(1) Multiplier figure provided by: DBEDT
(2) Revenue calculation figure provided by: DBEDT
(3) Direct and Indirect economic formulas provided by: Dr. William Boyd, UH Economist

LATE TESTIMONY

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OCEANIC TIME WARNER CABLE

February 2, 2010

Honorable Angus McKelvey
Chair, House Committee on Economic Revitalization, Business & Military Affairs

Re: HB 2844, Relating to the Film Industry
EBM Hearing, Tuesday, February 2, 2010, 8:30 a.m., Room 312

Aloha Chair McKelvey, Vice Chair Choy and Committee members:

I am Nate Smith, President of Oceanic Time Warner Cable ("Oceanic"). On behalf of Oceanic, which provides a diverse selection of entertainment, information, and communication services, and currently employs more than 1,000 highly-trained individuals, we appreciate the opportunity to submit written testimony today. Oceanic opposes HB 2844.

This bill creates a film industry branch special fund for the operation of the film industry branch of the Department of Business, Economic Development and Tourism and imposes a general excise tax surcharge on the gross income of motion picture theater operators and "television broadcasting stations." Page 20 of the current draft defines a "television broadcasting station" as including a "cable operator" as defined under HRS Chapter 440G.

While Oceanic appreciates the work of the film industry branch, and understands the overall economic benefits of promoting Hawaii as a locale for media productions, Oceanic, as a provider of cable television and other services, is not a "television broadcasting station," and does not specifically profit or benefit from the Hawaii film industry's efforts to bring film productions to Hawaii. There is no rational nexus between Oceanic's cable television business and the proposed special surcharge to fund the film industry branch special fund.

In addition to taxes of general applicability, Oceanic and its subscribers already support the State and various programs through the cable television franchise, which includes, among other fees and assessments, an access operating fee based on a consumer price index calculation or an amount equal to three percent of Oceanic's gross revenue for the applicable preceding calendar year; an annual fee to the DCCA of one percent of the income received from subscribers for cable television services during the preceding calendar year, and capital support for PEG entities.

The imposition of an additional special general excise tax surcharge, which is unrelated to the services provided by Oceanic (and received by Oceanic's subscribers), would be an unfair burden to subscribers, unduly discriminatory to Oceanic, and not in the best interests of Hawaii consumers.

For the foregoing reasons, Oceanic opposes HB 2844. As always, I appreciate the opportunity to share our views with you.

Sincerely,

Nate Smith
President

From: EBMtestimony
Subject: FW: HB 2844

LATE TESTIMONY

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Cc: 'azama@capitol.hawaii.gov'; 'repchoy@capitol.hawaii.gov'; 'repberg@capitol.hawaii.gov'; 'repevans@capitol.hawaii.gov'; 'repmanahan@capitol.hawaii.gov'; 'reptakai@capitol.hawaii.gov'; 'reptokioka@capitol.hawaii.gov'; 'reptsuji@capitol.hawaii.gov'; 'repwakai@capitol.hawaii.gov'; 'repwooley@capitol.hawaii.gov'; 'repward@capitol.hawaii.gov'; 'Rosenberg, Michael A'; Fink, John; 'jmcnamara@khon2.com'; 'chris@kwxx.com'
Subject: HB 2844

To the Committee on Economic Revitalization, Business & Military Affairs
Honorable Angus McKelvey, Chair

I am writing to testify against this bill today. I strongly concur with my broadcast colleagues that the bill is flawed in its assumption that broadcasters profit from the Hawaii Film Industry. Taxing local broadcasters is not only unfair and unwarranted, but discriminatory!

As local broadcasters, we do not specifically profit from the Hawaii film industry's ability to bring film or commercial productions to Hawaii. We are in a completely separate and distinct business.

There are a number of organizations who profit from these local productions, and any consideration for a tax surcharge should be directly targeted to those respective entities, i.e., Teamsters, Hawaii Tourism Authority, etc.

The local broadcast economy has suffered greatly over the last several years resulting in unprecedented layoffs and other actions which have changed the face of local broadcasts forever. This tax further complicates our efforts, locally and nationally, and as a result will add to the increasing financial challenges we are currently experiencing.

I am more than happy to discuss this matter further with the committee, however, I just received notice of this hearing today and unfortunately, my schedule conflicts with your meeting time. I urge you not to pass this bill on behalf of our local broadcast television stations who are suffering financially as a result of our struggling local economy.

Aloha,
Rick

RICK BLANGIARDI | General Manager | HAWAII NOW: KGMB/KHNL

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