

STAND. COM. REP. NO.

3003

Honolulu, Hawaii

MAR 23 2012

RE: H.B. No. 2869
H.D. 2
S.D. 1

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2012
State of Hawaii

Sir:

Your Committee on Economic Development and Technology, to which was referred H.B. No. 2869, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO THE ECONOMY,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the motion picture, digital media, and film production income tax credit by:

- (1) Providing for the separate calculation of a new tax unspecified credit on wages and salaries included in qualified production costs;
- (2) Requiring the Department of Business, Economic Development, and Tourism to submit a report to the Governor and Legislature no later than twenty days prior to the convening of the regular sessions of 2015, 2020, and 2025, on the economic impact of the tax credits;
- (3) Increasing the credit ceiling per qualified production to an unspecified amount from \$8,000,000;
- (4) Adding definitions for "animation" and "resident of the State", and amending other definitions with conforming or clarifying amendments; and
- (5) Extending the sunset date of the tax credit from January 1, 2016, to January 1, 2025.



Your Committee received testimony in support of this measure from The Chamber of Commerce of Hawaii; ILWU Local 142; Screen Actors Guild; International Alliance of Theatrical Stage Employees Mixed Local 665; American Federation of Musicians Local 677, Hawaii Teamsters Local 996; Blind Man Sound LLC; NBC Universal Media, LLC; Continuum Icon; Crossroads Productions, Inc.; Hawaii Media Inc.; Infinite Entertainment Now; Island Film Group; Punahele Productions, Inc.; Tetris Online, Inc.; The Hollywood Hawaii Media Alliance; Sovereign Councils of Hawaiian Homelands Assembly; Kukui Entertainment, LLC; and four individuals. Your Committee received testimony in opposition to this measure from one individual. Your Committee received comments on this measure from the Department of Business, Economic Development, and Tourism; Department of Taxation; and Tax Foundation of Hawaii.

Your Committee finds that this measure addresses only a few of the legislative initiatives introduced this session to enhance the motion picture, digital media, film production, and creative media industries in Hawaii. As such, your Committee has amended this measure by deleting its contents and replacing them with the language in S.B. No. 2111, S.D. 2, Relating to Film and Digital Media Industry Development, to develop a comprehensive strategy to expand Hawaii's nascent film and digital media industry clusters into a \$1,000,000,000 industry that can support 10,000 high-quality jobs by 2020.

Given Hawaii's isolated location in the middle of the Pacific, your Committee recognizes the need to combine Hawaii's strengths in film and digital media production with its demonstrable achievements in marketing and promotion of Hawaii's people, places, and culture. Such an approach creates synergies between the film and digital media and visitor sectors that can yield substantial economic growth in the form of increased spending on local jobs for talent, technical services, management, and support. It also promotes development of a skilled film and digital media workforce; increases the numbers of local residents employed in film and television production; promotes development of new Hawaii businesses, jobs, and skill-sets; and promotes increased visitor spending to and from Hawaii and within the State.

To achieve a practical combination of film and digital media incentives to achieve steady economic growth toward a billion dollar industry, your Committee has examined other jurisdictions'



incentives, and finds that Hawaii is ranked dead last (21st out of 21 jurisdictions) in terms of "net affordability" under its current production credits in comparison with such locations as Detroit, Michigan; Calgary, Alberta; Shreveport, Louisiana; Birmingham, Alabama; Toronto, Ontario; Montreal, Quebec; Atlanta, Georgia; Chicago, Illinois; Vancouver, British Columbia; Wilmington, North Carolina; Albuquerque, New Mexico; San Juan, Puerto Rico; New York, New York; Philadelphia, Pennsylvania; Boston, Massachusetts; Austin, Texas; Providence, Rhode Island; Miami, Florida; Stamford, Connecticut; and Nashville, Tennessee.

In response to questions posed by your committee, the NBC Universal Media testifier noted that increasing the Act 88, Session Laws of Hawaii 2006, production credits by ten percent would greatly improve Hawaii's competitiveness among other production locations by moving it within the top ten tier of production sites. As such, your Committee believes that the following combination of film and digital media incentives and agency workflow changes offer the greatest level of benefit to the State of Hawaii and its residents:

- (1) Production Credits: Establish an incremental increase of ten percent beyond the existing fifteen to twenty percent production tax credits, tied to the hiring and verification of local residents;
- (2) Eligibility: Set a \$50,000 threshold for the production tax credits for digital media and independent emerging media projects (which include animation, music, videogames, and special effects) to encourage the development of more Hawaii-based businesses in this sector, and expand the film and digital media workforce;
- (3) Film and Digital Media Infrastructure Credits: Establish tax credits to support development of additional film and media production facilities, with a repayment schedule to repay the credits once the new facilities are operational;
- (4) Expanded Promotion and Marketing: Capitalize on current initiatives between Hawaii's visitor industry and film and digital media projects to expand the State's reach beyond the United States to Asia-Pacific and global markets;



- (5) Data Collection: Streamline workflow and provide greater transparency in the collection of data to support the hiring of larger numbers of local residents and Hawaii businesses, and annual reporting on the numbers of projects, jobs created, expenditures, and aggregate wages and salaries taking place within the State to assure that the level of tax revenues generated and jobs created exceeds the cost of the tax credits; and
- (6) Investment: Designate ongoing sources of revenue for the Hawaii film and digital media special fund to support industry growth through filmmaking grants, film festivals, internships and training programs, and other activities.

Finally, your Committee notes that the film and digital media industry development effort outlined above may well require a level of teamwork that builds upon the Hawaii Tourism Authority's strategic planning, marketing, and implementation strengths, as well as the reengineering efforts of the Department of Accounting and General Services; Department of Business, Economic Development, and Tourism; Department of Taxation; and the guidance of film and digital media industry leaders.

As amended by your Committee, this measure:

- (1) Establishes the Hawaii film and digital media special fund, and repeals part IX, chapter 201, Hawaii Revised Statutes, relating to Hawaii television and film development (part II);
- (2) Amends the motion picture, digital media, and film production income tax credit to add an additional credit for an unspecified per cent of the qualified production costs paid to legal residents of this State and to Hawaii vendors and Hawaii suppliers; amends the total tax credit cap to an unspecified amount; requires annual reporting; increases requirements for hiring of legal residents of this State; and applies to qualified expenditures incurred on or after July 1, 2012, and before January 1, 2027 (part III);
- (3) Establishes a motion picture, digital media, and film production infrastructure tax credit of fifty per cent



of qualified infrastructure costs; requires qualified expenditure of at least \$10,000,000; increases requirements for hiring of legal residents of this State; requires the credit to be repaid through an annual payment to the State equal to fifteen per cent of the qualified infrastructure project's taxable income until the credit has been repaid; provides for a 100 per cent recapture of the tax credit if the facilities are no longer used for a qualified activity; requires annual reporting; applies to taxable years beginning after June 30, 2012 (part IV);

- (4) Appropriates funds for additional resource and staffing support to assist state agencies in collecting and reporting annually on estimates of the full-time equivalent positions for legal Hawaii residents by each production receiving tax credits;
- (5) Deletes the motion picture, digital media, and film production income tax credit sunset date of July 1, 2016; and
- (6) Takes effect on July 1, 2012, and repeals on January 1, 2027.

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 H.B. No. 2869, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2869, H.D. 2, 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



