



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
Luis P. Salaveria
Director
Department of Business, Economic Development, and Tourism
SENATE COMMITTEE ON WAYS AND MEANS
Monday, April 4, 2016
2:00 PM
State Capitol, Conference Room 211

In consideration of
HB2088 HD1 SD1
RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Senate Committee on Ways and Means.

The Department of Business, Economic Development and Tourism (DBEDT) supports HB2088 HD1 SD1, which would extend the sunset date of the Motion Picture, Digital Media, and Film Production Income Tax Credit program until January 1, 2024.

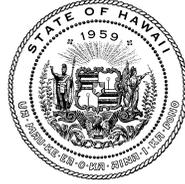
Act 88/89, which was established in July 2006 and enhanced in 2013, has met the goals intended by the Legislature to ensure Hawaii's competitive advantage in the industry. To date, the program has generated an estimated \$3.7 billion in overall economic activity in the State since 2006, creating an average of 2,500 industry jobs annually.

DBEDT supports extension of the sunset date because we believe that extending the credit program sends the strongest message to the industry that Hawaii is committed to growing film and digital media activity to become an even greater driver of our State's economy. Certainly extending the sunset date provides industry with stability and the predictability necessary for planning purposes. Hawaii must take this step in order to remain competitive on a global scale.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR

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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Monday, April 4, 2016

Time: 2:00 P.M.

Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 2088, H.D. 1, S.D. 1, Relating to Film Media Industry Development.

The Department of Taxation (Department) supports the intent of H.B. 2088, H.D. 1, S.D. 1, and offers the following comments for your consideration.

H.B. 2088, H.D. 1, S.D. 1, amends Act 88, Session Laws of Hawaii (SLH) 2006, which was amended by Act 89, SLH 2013, by extending the sunset date of the motion picture, digital media, and film production income tax credit (film tax credit) for qualified production costs incurred before January 1, 2024. This measure has a defective effective date of July 1, 2030.

The Department is able to implement this measure, and notes the importance of the Hawaii Film Office's role in the administration of the film tax credit. The Hawaii Film Office acts as a gatekeeper of the film tax credit, by pre-qualifying productions, certifying qualified production costs, and certifying the amount of film tax credits claimed by qualified productions for each taxable year. The Department supports a continued partnership with the Hawaii Film Office in the administration of the film tax credit.

There is no revenue impact in the budget window owing to the defective effective date. However, if the original effective date were adopted, the estimated annual revenue loss would be \$45.0 million annually for FY 2020 to FY 2024.

Thank you for the opportunity to provide comments.

CBS CORPORATION STATEMENT IN SUPPORT

OF HAWAII HOUSE BILL 2088

BEFORE THE SENATE COMMITTEE

ON WAYS & MEANS

Monday, April 4, 2016

State Capitol

Honolulu

GOOD MORNING CHAIR TOKUDA AND MEMBERS OF THE COMMITTEE. MY NAME IS JEFF DOWNER. I AM THE CO-EXECUTIVE PRODUCER OF HAWAII FIVE-O, WHICH AIRS ON CBS. AS YOU KNOW CBS PRODUCES, BROADCASTS AND DISTRIBUTES WORLDWIDE THE POPULAR TELEVISION SERIES HAWAII 5-0, NOW IN ITS SIXTH YEAR HERE IN THE ALOHA STATE.

ON BEHALF OF CBS AND ALL 300 5-0 CAST AND CREW MEMBERS, WE ENTHUSIASTICALLY SUPPORT HOUSE BILL 2088. THIS LEGISLATION WILL EXTEND THE PRODUCTION TAX INCENTIVE PROGRAM FOR FIVE YEARS.

BY EXTENDING THE PROGRAM, THE LEGISLATURE WILL CREATE FURTHER STABILITY AND PREDICTABILITY TO ONE OF THE MOST SUCCESSFUL AND COMPETITIVE INCENTIVE PROGRAMS IN THE UNITED STATES AND WELL AS WORLDWIDE.

COST, AS WELL AS PRODUCTION INCENTIVE PROGRAM STABILITY AND LONGEVITY, ARE THE THREE MOST IMPORTANT FACTORS IN DETERMINING WHERE A TELEVISION SERIES WILL BE PRODUCED. THE VISION OF THE HAWAII LEGISLATURE TO CREATE JOBS AND STIMULATE THE ECONOMY HAS BEEN REALIZED BY ATTRACTING HAWAII 5-0 AND SUSTAINING THE PRODUCTION, WHICH IS NOW IN ITS SIXTH

SEASON. THE SERIES CURRENTLY EMPLOYS 300 CAST AND CREW MEMBERS AND ABOUT 250 LOCAL BACKGROUND PERFORMERS AN EPISODE.

HB 2088 ENHANCES THAT STABILITY AND PAVES THE WAY FOR 5-0 IN FUTURE YEARS UPON RENEWAL, AS WELL AS POTENTIALLY NEW TELEVISION SERIES.

IN ADDITION TO STIMULATING THE ECONOMY, WHICH IS ESTIMATED IN \$400 MILLION TOTAL SPEND OVER THE PAST FIVE YEARS, AND THIS YEAR WILL BE AN ADDITIONAL \$87 MILLION DOLLARS, HAWAII 5-0 HAS BEEN AN HAWAIIAN SHOWCASE THAT HAS ALSO STIMULATED TOURISM TO THE ISLANDS FROM VISITORS AROUND THE WORLD. 5-0 IS NOT ONLY POPULAR IN THE U.S., IT HAS FOUND ENORMOUS AUDIENCES WORLDWIDE.

THIS MARCH, HAWAII 5-0 WAS HONORED BY THE SCHOOL OF TRAVEL AND INDUSTRY MANAGEMENT FOR THE CRITICAL ROLE THE SHOW PLAYS PROMOTING TOURISM FOR THE STATE OF HAWAII SINCE 1968 BY SHOWCASING THE BEAUTIFUL CULTURE AND LANDSCAPE TO TELEVISION SETS ACROSS THE WORLD.

ON BEHALF OF CBS WE LOOK FORWARD TO A CONTINUATION OF ITS PARTNERSHIP WITH HAWAII, AND BEING A MEMBER OF THE COMMUNITY FOR YEARS TO COME.

MOTION PICTURE ASSOCIATION OF AMERICA

TESTIMONY IN SUPPORT

OF HAWAII HOUSE BILL 2088

BEFORE THE SENATE COMMITTEE

ON WAYS & MEANS

Monday, April 4, 2016

State Capitol

Honolulu

Good morning Chair Tokuda and 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 addition to CBS, which as you are well aware produces the locally based Hawaii 5-0 television series; MPAA members include Disney, Fox, Paramount, NBC Universal, Sony Pictures and Warner Bros.

Thank you for the opportunity to testify in support of Hawaii House Bill 2088, which extends Hawaii's production tax incentive program for five years.

Extending the production tax credit, provides enhanced stability and predictability for motion picture and television producers who want to bring projects to Hawaii. This, in turn, extends Hawaii's economic reach into the world. Both the state and the industry will benefit.

Today, cost is the single most important factor for a producer in determining where a project will be located. Hawaii competes, successfully against other states, as well as nations worldwide, in attracting its share of motion picture and television productions.

The vision of the Hawaii legislature to create jobs and stimulate the economy is being realized by attracting Hawaii 5-0 and sustaining the production, which is now in its sixth season. The series currently employs 300 cast and crew members

and about 250 local background performers per episode. In addition, Hawaii has been the location recently for “Jurassic World,” “Aloha” (scheduled for release from Sony pictures this year), “Godzilla” and “The Hunger Games”...just to name a few.

Hawaii House Bill 2088 enhances that stability and paves the way for 5-0 in future years upon renewal, as well as, potentially, new television series and motion picture productions.

In addition to stimulating the economy, which is estimated to be \$400 million total spend over the past five years, and this year will be an additional \$87 million dollars, Hawaii 5-0 has been a Hawaiian showcase that has also stimulated tourism to the islands from visitors around the world. 5-0 is not only popular in the US; it has found enormous audiences worldwide.

Chair Tokuda and members of the committee, we urge you to approve House Bill 2088. On behalf of MPAA and our member company studios and television companies, we look forward to the continuation of a long and successful partnership with Hawaii, and being part of your welcoming and dynamic community for years to come.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Extend Movie/TV Production Tax Credit

BILL NUMBER: HB 2088, SD-1

INTRODUCED BY: Senate Committee on Economic Development, Environment, and Technology

EXECUTIVE SUMMARY: Extends the motion picture, television, and digital media production credit until 1/1/2024. It may be possible to make the case that the benefits have outweighed the costs.

BRIEF SUMMARY: Amends Act 89, SLH 2013, and Act 88, SLH 2006, to extend the sunset date of the credit in HRS section 235-17, so that the credit is repealed on 1/1/2024.

EFFECTIVE DATE: July 1, 2030.

STAFF COMMENTS: Act 107, SLH 1997, enacted an income tax credit of 4% for costs incurred as a result of producing a motion picture or television film in the state and 7.25% for transient accommodations rented in connection with such activity. The credit was adopted largely to address the burden of the state's general excise tax on goods and services used by film producers. Act 88, SLH 2006, increased the 4% credit to 15% in a county with a population over 700,000 and to 20% in a county with a population of 700,000 or less. Act 88 also repealed the income tax credit for transient accommodations and expanded the credit to include commercials and digital media productions, and limited the credit to \$8 million per qualified production. Act 89, SLH 2013, increased the motion picture, digital media, and film production tax credit from 15% to 20% for the costs incurred in a county with a population over 700,000 and from 20% to 25% for costs incurred in a county with a population of 700,000 or less; and increased the total tax credits that may be claimed per qualified production from \$8 million to \$15 million. The act also extended the motion picture, digital media and film production credit from 12/31/15 to 12/31/18.

In testimony before the House Committee on Finance, the Department of Taxation estimated that the revenue impact of this credit is a \$45 million per year loss in income tax revenue.

Sponsors try to make an argument that Hawaii needs to enact such incentives to compete for this type of business, but one has to ask, "At what price?" There are insufficient resources to catch up on the backlog of school repairs and maintenance, to fund social programs and not being able to provide tax relief to residents. Yet lawmakers are willing to subsidize film production, as proposed in this measure, and tighten the screws on everyone else to fund the subsidies.

While film producers may moan that they will lose money without the proposed tax credits, how do they share the wealth when the film makes millions? If promoters of the film industry would just do their job in outlining the advantages of doing this type of work in Hawaii and address

some of the costly barriers by correcting them, Hawaii could be a competitive film destination with fewer tax incentives. From permitting to skilled labor to facilitating transportation of equipment, there are ways to address the current drawbacks of filming in Hawaii. Unless these intrinsic elements are addressed, movie makers will probably demand subsidies, such as this incentive. Unfortunately, they come at the expense of all taxpayers and industries struggling to survive in Hawaii.

Certainly, the film industry promises increased opportunities. Some of them certainly have materialized. But chasing these opportunities needs to be balanced against the cold hard reality of solving the problems at hand. Lawmakers need to ask whether production tax credits create sustainable economic development. It's well known that most productions shoot for a while and then wrap; the crew that supports the production then jumps to the next one. A case may be made for the production credits if they keep the productions rolling in and contributing to the economy. But the people need to see that case. If not, the resources that are now directed to the credits could instead lower the overall tax burden not only for families but for the businesses that provide long-term employment for Hawaii's people.

Digested 4/2/2016