



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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DEPT. COMM. NO. 226

December 30, 2016

The Honorable Ronald D. Kouchi,
President and Members
of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki,
Speaker and Members of the
House of Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Motion Picture, Digital Media and Film Production Income Tax Credit Annual Report, as required by Section 235-17, Hawaii Revised Statutes. This report covers actual figures for qualified productions that took place during calendar years 2013-2015. In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at: <http://dbedt.hawaii.gov/overview/annual-reports-reports-to-the-legislature/>.

Sincerely,

Luis P. Salaveria

Enclosure

c: Legislative Reference Bureau

**REPORT TO THE TWENTY-NINTH LEGISLATURE
STATE OF HAWAII
2017 REGULAR SESSION**

**REGARDING ESTIMATED MOTION PICTURE, DIGITAL MEDIA AND FILM PRODUCTION
INCOME TAX CREDIT
FOR CALENDAR YEAR 2016**

**PREPARED BY THE HAWAII FILM OFFICE, DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT AND TOURISM**

**IN RESPONSE TO
Act 89, SLH 2013
PREPARED December 29, 2016**

**REPORT REGARDING THE ECONOMIC IMPACT OF
THE ESTIMATED PRODUCTION TAX CREDIT PURSUANT TO SECTION 235-17(i) (4)**

INTRODUCTION:

Act 89, SLH 2013, Section 2, amended Chapter 235-17, by increasing the production tax credit to twenty percent of the qualified production costs incurred by a qualified production in any county of the State with a population of over seven hundred thousand and twenty five percent of the qualified production costs incurred by a qualified production in any county of the State with a population of seven hundred thousand or less.

RESULTS:

From January 1, 2016 through December 30, 2016, the Hawaii Film Office processed registrations for 39 productions that applied for the Motion Picture, Digital Media and Film Production Income Tax Credit. Two productions withdrew their applications because they could not meet the minimum spending threshold. So there were 37 qualified productions in 2016 with an estimated total of \$217,564,291 in production expenditures and an estimated total of \$44,512,633 in tax credit claims for the calendar year.

Please note that these total amounts are estimates based on the respective Hawaii Production Registration applications. As noted in the Office of the Auditor's report dated November 22, 2016, prior years included a combination of estimated data from registrations for the tax credit, as well as totals from the Hawaii Production Reports which were completed at the end of each production. Given that the legislative report is due 20 days prior to the opening of session, the Hawaii Film Office provided the data available at that point in time. Going forward, to address this concern, HFO will provide only estimated amounts for the current year annual report, with a follow up reconciliation of actual expenditures taken from actual Certification Letters and Hawaii Production Reports.

As demonstrated in actual figures for 2013-2015, DBEDT anticipates that several productions will withdraw their applications for various reasons. Therefore the actual qualified expenditures and corresponding certified tax credits are likely to decrease. DBEDT will provide a subsequent report to the Legislature prior to the 2018 legislative session that details actual production expenditures and corresponding data for 2016.

WORKFORCE DEVELOPMENT CONTRIBUTIONS:

In calendar year 2016, an estimated 50 Hawaii Public and charter schools throughout the state will be the direct beneficiaries of the education and workforce development program that is a mandate for productions to access the tax credit. These educational institutions will receive both cash and in-kind contributions that are dedicated to supporting that school's film/video or digital media programs.

More than 250 students from Hawaii Public and Charter Schools have participated in meaningful internships with major film, television and commercial productions over the past year. Several of the productions that have taken advantage of the tax credit have presented workshops, educational seminars and mentoring opportunities which included Hollywood creative professionals and industry leaders providing students in college-level film programs access to major producers, directors, writers, and actors, advancing professional development in the creative sectors.

ADMINISTRATION OF CREDIT:

The Hawaii Film Office presently has an Economic Development Specialist VI and Film Office Manager as the two regular full-time employees working on the Act 89 tax credit program. To manage the overall workload of the Film Office, both positions work on the tax credit program part-time, as the other statutory duty of film permit processing and production support comprise the balance of their time. The employees also work part-time on marketing, management, film permits, and reporting the analysis of this tax credit to the Legislature.

There are no non-state, part-time employees, or contract personnel involved in the management of the motion picture, digital media and film production income tax credit.

RECOMMENDATIONS:

The Motion Picture, Digital Media and Film production tax credit is performing as the Legislature intended: Stimulating the economy and creating well-paying jobs for Hawaii residents to serve a clean industry that preserves Hawaii's natural and cultural resources and provides valuable exposure for our Islands as a world-class filming and visitor destination.

- DBEDT continues to strongly recommend an extension of the tax credit beyond its scheduled sunset date of December 31, 2018, in order to provide the stability and predictability the industry requires.
- DBEDT recommends that taxpayers planning to claim the production tax credit be required to secure an independent third-party review of the qualified production costs, as recommended by the State Auditor.

A NOTE ABOUT AUDIT REPORT 16-08:

The Office of the Auditor conducted a seven-month audit of the Motion Picture, Digital Media, and Film Production Income Tax Credit. Its findings were released in late November. Although DBEDT does not agree with all of the Report's findings, the department has already taken corrective action in several areas that include:

- 1) agreeing to mandating independent third-party reviews for larger productions spending a minimum of \$1 million or more;
- 2) implementing the newly adopted temporary Hawaii Administrative Rules;
- 3) recommending an increased workforce education contribution component that is more commensurate with the levels of tax credits given;
- 4) implementing better internal controls in the administration of the tax credit program; and
- 5) improving data tracking to provide stronger analysis to the Legislature. DBEDT will report on these improvements to the program in the 2018 Legislative Session Report to the Legislature.

Act 89 CY 2016 - ESTIMATED STATS - AS OF DECEMBER 2016

Production	Prod. Year	Type	Estimated Qualified Expenditures	Estimated Tax Credit Claim	Estimated Oahu Qualified Expenditures	Estimated Neighbor Isle Exp.	Estimated Big Island Exp.	Estimated Kauai Exp.	Estimated Maui Exp.	Estimated Molokai Exp.	Estimated Lanai Exp.	Estimated Resident Hires ⁴	Estimated Non-Resident Hires ⁴
Prod 1 ¹	2016	Television	21,055,535	4,211,107	21,055,535	0						1,356	180
Prod 2 ²	2015-16	Feature	8,937,142	1,787,486	8,935,994	1,148	856		292			395	43
Prod 3 ²	2015-16	Television	1,776,064	441,516	50,000	1,726,064	50,000	1,526,064	50,000	50,000	50,000	70	16
Prod 4 ²	2015-16	Feature	202,262	50,566		202,262			202,262			80	0
Prod 5 ²	2015-16	Feature	7,490,000	1,797,600	1,498,000	5,992,000	5,992,000					176	62
Prod 6 ²	2015-16	Television	386,500	77,375	385,000.00	1,500			1500			15	4
Prod 7	2015	Television	232,308	46,462	232,308	0						44	0
Prod 8	2016	Television	245,397	49,079	245,397	0						44	0
Prod 9 ³	2016	Internet Product	-	0	0	0						5	14
Prod 10	2016	Television	550,000	130,000	150,000	400,000	150,000	150,000	100,000			23	27
Prod 11	2016	Television	550,000	130,000	150,000	400,000	150,000	150,000	100,000			23	27
Prod 12	2016	Television	5,510,114	1,337,617	798,220.00	4,711,894			4,711,893.50			67	68
Prod 13	2016	Commercial	342,025	68,405	342,025	0						6	4
Prod 14 ³	2016	Commercial	-	0	0	0							
Prod 15	2016	Short Film	300,000	67,500	150,000	150,000	150,000					18	8
Prod 16	2016	Television	236,011	56,003	60,000	176,011	63,000	50,000	63,011			12	6
Prod 17	2016	Feature	970,000	194,000	970,000	0						44	9
Prod 18	2016	Television	10,562,786	2,112,557	10,562,786	0						0	0
Prod 19	2016	Commercial	350,000	70,000	350,000	0						68	15
Prod 20	2016	Television	2,899,198	721,300	69,981.12	2,829,217	2,829,217					126	101
Prod 21	2016	Feature	249,998	62,500		249,998	12,498		237,500			140	10
Prod 22 ²	2016-17	Feature	33,315,064	6,664,683	33,281,652	33,412		33,412				848	120
Prod 23	2016	Commercial	419,485	104,871		419,485			419,485			30	9
Prod 24	2016	Commercial	556,630	111,326	556,630	0						81	35
Prod 25 ²	2016-17	Television	54,144,224	10,828,845	54,144,224	0						0	0
Prod 26 ²	2015-16	Feature	234,703	46,941	234,703	0						326	25
Prod 27	2016	Commercial	526,222	105,244	526,222	0						108	17
Prod 28	2016-17	Feature	53,564,072	10,712,814	53,564,072	0						488	137
Prod 29 ²	2016-17	Television	993,432	198,686	993,432	0						23	15
Prod 30	2016	Commercial	256,250	63,063	20,000	236,250	236,250					54	23
Prod 31 ²	2016-17	Feature	2,466,250	616,563		2,466,250	2,466,250					52	14
Prod 32	2016	Commercial	552,443	110,489	552,443	0						57	2
Prod 33	2016	Television	5,693,961	1,138,792	5,693,961	0						300	150
Prod 34	2016	Commercial	428,509	85,702	428,509	0						69	

¹ Production anticipated to hit credit cap

² Split yr

³ *Production withdrew app*

⁴0-0 indicates duplicate production/hires

Total Television	14
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Total Features	10
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Total Commercials	12
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Total Short Films	1
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Total Qualified Productions	37
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Updated 12/29/16

DBEDT Personnel Time/Cost to Manage Tax Credit Program

<u>Personnel</u>	<u>% of Time</u>	<u>Total Est. Staff Time</u>	
<u>Jan - Dec 2013</u>		\$77,241	12 months
EDSVI	60%	\$35,649	
Branch Manager	25%	\$24,900	
Division Administrator	15%	\$14,599	
Division Secretary	5%	\$2,093	
		\$77,241	

<u>Personnel</u>	<u>% of Time</u>	<u>Total Est. Staff Time</u>	
<u>Jan - Dec 2014</u>		\$92,851	12 months
EDSVI	60%	\$47,397	
Branch Manager	25%	\$27,846	
Division Administrator	15%	\$15,432	
Division Secretary	5%	\$2,176	
		\$92,851	

<u>Personnel</u>	<u>% of Time</u>	<u>Total Est. Staff Time</u>	
<u>Jan - Dec 2015</u>		\$89,975	12 months
EDSVI	60%	\$47,397	
Branch Manager	25%	\$24,336	
Division Administrator	15%	\$15,978	
Division Secretary	5%	\$2,264	
		\$89,975	

<u>Personnel</u>	<u>% of Time</u>	<u>Total Est. Staff Time</u>	
<u>Jan - Dec 2016</u>		\$95,279	12 months
EDSVI	50%	\$41,150	
Branch Manager	35%	\$40,689	
Division Administrator	15%	\$11,131	
Division Secretary	5%	\$2,309	
		\$95,279	