

Honolulu, Hawaii

FEB 18 2011

RE: S.B. No. 1550  
S.D. 1

Honorable Shan S. Tsutsui  
President of the Senate  
Twenty-Sixth State Legislature  
Regular Session of 2011  
State of Hawaii

Sir:

Your Committees on Economic Development and Technology and  
Tourism, to which was referred S.B. No. 1550 entitled:

"A BILL FOR AN ACT RELATING TO TAX CREDITS,"

beg leave to report as follows:

The purpose and intent of this measure is to encourage the  
growth of the film industry by providing enhanced incentives that  
attract more film and television productions to Hawaii, thereby  
generating increased tax revenues, by:

- (1) Amending the motion picture, digital media, and film  
production tax credit to increase the amounts of the tax  
credits and to provide additional non-refundable tax  
credits for qualified media infrastructure projects in  
certain qualifying counties;
- (2) Providing an additional tax credit for qualified special  
or visual effects and animation production costs;
- (3) Raising the tax credit caps; and
- (4) Authorizing certain exemptions from the transient  
accommodations tax for stays exceeding thirty days.

Your Committees received testimony in support of this measure  
from the Office of the Mayor, County of Maui; Relativity Media,  
LLC; RelativityREAL; Shangri-La Industries and Shangri-La  
Entertainment; UTICA Films; Akamai Movies; Hawaii Laborers-



Employers Cooperation and Education Trust; Hawaii Building and Construction Trades Council, AFL-CIO; Hawaii Laborers' Union; Plumbers and Fitters Union, Local 675; IATSE Local 665; IATSE Local 161; On Location Services; Black Rhino Enterprises; and nine individuals. Your Committees received comments on this measure from the Department of the Attorney General; Department of Business, Economic Development, and Tourism; Department of Taxation; and Tax Foundation of Hawaii.

Your Committees find that numerous proposals have been made over the past five years to build upon the foundation established by Hawaii's film and media production credits (Act 88, Session Laws of Hawaii 2006), but none have combined the range of components found in this measure - e.g., expansion of existing production credits, the addition of media infrastructure or facilities credits, and workforce training credits. States like New Mexico under Governor Bill Richardson, or Michigan under Governor Jennifer Granholm, have successfully pursued film and digital media industry development by taking a strong leadership role with film and media industry partners, labor constituencies, education and training stakeholders, and affiliated sectors like tourism, construction, and land use development.

For example, New Mexico's film and media industry grew from roughly \$1,500,000 of production expenditures in 2001 to over \$476,000,000 in expenditures in 2007. Its growth resulted from a strategic combination of refundable film and media production credits, a loan program, and the opening of privately-financed Albuquerque Studios (which then caused special effects companies and a media school to locate in the same area). In Michigan, refundable forty-two percent production credits, infrastructure tax credits, and workforce training credits led to rapid build-out of two new production facilities (Raleigh Michigan Studios in Pontiac, and Maxsar Digital Studios in Livonia) and production growth from five feature films a year in 2008 to eighty-nine movie or television productions in 2010.

Your Committees further find that while the initial structuring of production, facilities and infrastructure, and workforce credits may have raised eyebrows, it is undisputed that a combination of production activity, high-quality production facilities, and a skilled workforce are essential to Hawaii's development of an indigenous film and digital media industry.



Your Committees find that in 2010, an estimated \$416,000,000 in production expenditures were generated in film and television; \$395,000,000 through the provisions of section 235-17, Hawaii Revised Statutes, and \$21,000,000 in related production activity. This, in turn, provided over \$683,000,000 in an estimated positive economic impact for Hawaii. Your Committees further find that this tax credit remains crucial to Hawaii's competitive advantage in the global entertainment industry and many of the key elements in this measure would assist the State in continuing to maintain this advantage.

Your Committees agree that the interest and commitment of many of the national and international companies that testified on this measure, as well as Hawaii's local production community, are helping to define the State as a vibrant hub of creative industry development. Coupled with the creative talent of Hawaii's visual storytellers and educational programs in creative media, the State has an unprecedented opportunity to build a sustainable sector through a broad spectrum of strategic partnerships for scalable industry growth. Your Committees further find that the ideas and programs proposed in this and other related measures could provide an important flash point for establishing Hawaii as a major production center, and enhance support for digital media education, expanded training programs, and facilities development.

Your Committees have also heard concerns regarding the fiscal impact of the expanded tax credits in this measure, the need for greater safeguards by the State, and accountability when considering who might benefit from the proposed tax credits.

Your Committees have discussed these concerns with the interested stakeholders and urge the Department of Business, Economic Development, and Tourism; Department of Taxation; University of Hawai'i Academy of Creative Media; and private sector businesses and organizations to continue dialogue on this measure. In addition to the financial impacts, your Committees believe further discussion should include the provision of royalties to the State and comments made by the Tax Foundation of Hawaii.

Your Committees have also reviewed the concerns by the Department of the Attorney General and have amended this measure to address those concerns.

Your Committees are strongly supportive of the intent of this and related measures - to expand Hawaii's economic base - and



encourage continuing collaboration between lawmakers, the administration, and industry leaders to advance these concepts.

Your Committees have amended this measure by:

- (1) Replacing all tax credit percentages, dollar amounts, and caps with blank percentages and dollar amounts;
- (2) Deleting a requirement that no tax credit shall be allowed for infrastructure projects after July 1, 2011, unless thirty percent of the total base investment has been expended prior to that date;
- (3) Reinstating a provision requiring evidence of financial or in-kind contributions or educational or workforce development efforts to claim the tax credit in section 235-17(a), Hawaii Revised Statutes;
- (4) Deleting the exemption from the transient accommodations tax;
- (5) Inserting an effective date of July 1, 2050, to allow for further discussion; and
- (6) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Economic Development and Technology and Tourism that are attached to this report, your Committees are in accord with the intent and purpose of S.B. No. 1550, as amended herein, and recommend that it pass Second Reading in the form attached hereto as S.B. No. 1550, S.D. 1, and be referred to the Committee on Ways and Means.



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



DONNA MERCADO KIM, Chair

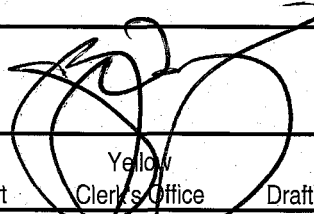


CAROL FUKUNAGA, Chair



The Senate  
 Twenty-Sixth Legislature  
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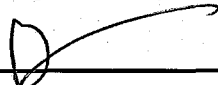
**Record of Votes**  
**Committee on Economic Development and Technology**  
**EDT**

Bill / Resolution No.:* <b>SB 1550</b>	Committee Referral: <b>EDT/ISM, WAM</b>	Date: <b>2/16/11</b>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
WAKAI, Glenn (VC)	✓			
BAKER, Rosalyn H.	✓			
SOLOMON, Malama		✓		
SLOM, Sam			✓	
<b>TOTAL</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>0</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
<b>Distribution:</b> Original     Yellow     Pink     Goldenrod File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy				

\*Only one measure per Record of Votes

The Senate  
 Twenty-Sixth Legislature  
 State of Hawai'i

**Record of Votes**  
**Committee on Tourism**  
**TSM**

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SB 1550	EDT/TSM, WAM	2/16/11		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is:				
<input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KIM, Donna Mercado (C)	✓			
KOUCHI, Ronald D. (VC)				✓
GALUTERIA, Brickwood	✓			
KAHELE, Gilbert	✓			
SLOM, Sam			✓	
<b>TOTAL</b>	<b>3</b>		<b>1</b>	<b>1</b>
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
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