

**REPORT TO THE THIRTIETH LEGISLATURE
STATE OF HAWAII
2019 REGULAR SESSION**

**REGARDING ESTIMATED MOTION PICTURE, DIGITAL MEDIA AND FILM PRODUCTION
INCOME TAX CREDIT
FOR CALENDAR YEAR 2018**

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

**IN RESPONSE TO
Act 89, SLH 2013
PREPARED JANUARY 2019**

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

A. 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. Act 143, SLH 2017, amended Chapter 235-17 to include a \$35 million overall funding ceiling which is insufficient to serve the current number of filing entities and the total aggregate of qualified expenditures.

B. 2018 RESULTS FOR QUALIFIED PRODUCTION SPEND §235-17 HRS:

From January 1, 2018 through December 31, 2018, the Hawaii Film Office (HFO) processed registrations for 48 qualified productions that applied for the Motion Picture, Digital Media and Film Production Income Tax Credit with an estimated total of **\$425,527,829**, in production expenditures and an estimated total of **\$90,815,439** in tax credit claims for the calendar year. This direct spend resulted in an estimated **\$45,957,005** in tax revenue generated, **\$736,163,144** in sales or economic activity generated, and a key figure: **\$170,211,132** in Hawaii household income generated as a result of the qualified production expenditures.

Please note that these total amounts are estimates based on the respective Hawaii Production Registration applications, not the Hawaii Production Reports (HPRs) which are submitted 90 days after the close of the production's tax filing year. (Filers represent a mix of calendar and varying fiscal years, so not all reports are received at the same time.)

Given the due date of the legislative report, the Hawaii Film Office is providing all estimated data for Calendar Year 2018, which is the data available now, until all Hawaii HPRs have been received and vetted by the Film Office.

Once all production reports are received, vetted and certifications issued, for any given year, the Film Office will provide to the Legislature a revised 2018 Actual Annual Report covering the actual reconciled expenditures for the prior year.

The documents attached reflect the estimated CY2018 data, the actual reconciled CY2017 data, along with a copy of the CY2017 estimated data which was submitted previously.

C. OVERALL PRODUCTION SPEND CY2018

In addition to the qualified production estimates for CY18, when we combine all non-qualified production expenditures, it provides a total estimated spend of \$479,000,000 for CY18; a record high for Hawaii; the largest production year we have had since the inception of the credit in 2006. In consultation with DBEDT's Research and Economic Analysis Division (READ), it is estimated that \$479M generates **\$828,670,000** in economic activity, **\$52,690,000** in tax revenues, and **\$191,600,000** in Hawaii household income.

D. 2017 UPDATED ACTUALS for \$235-17 HRS:

CY2017 totals in the attached matrix were derived from Certification Letters issued by the Hawaii Film Office and the correlating Hawaii Production Reports. The Certification Letters are the documents which filers submit to Department of Taxation (DoTAX) along with their Corporate Income Tax Forms and Tax Credit Forms for review by DoTAX and issuance of final refunds.

Based on the data from the Hawaii Production Reports, the actual figures for CY2017 show that **31** qualified productions spent a total of **\$143,220,428 compared to the estimated total of \$199,004,828** in qualified expenditures, as noted in the prior year report, and are in the process of receiving **\$27,735,368** in tax credits, compared to the estimated total of **\$40,795,990** in tax credits previously reported based on registration data available at the time this Legislative Report is due.

Again, in consultation with READ, **\$143,220,428** in actual qualified expenditures for CY2017 translates to **\$247,771,340** in economic activity, compared to the prior year reported **\$344,278,352; \$57,288,171** in Hawaii household income compared to the previous estimated total of **\$79,601,931; and \$15,467,806** in tax revenues compared to the previous estimated total of **\$21,492,521** in tax revenues.

As demonstrated in actual figures for 2013-2015, each year several productions withdraw their applications for various reasons. Therefore, the actual qualified expenditures for CY2017 and corresponding certified tax credits are likely to decrease. It is important to note that despite any withdrawals, the final actual tax credit amounts will still be significantly higher than the anticipated \$35 million spending ceiling which will take effect January 1, 2019 (see section H for further detail).

Calendar Year 2017	Total Qualified Spend	Total Tax Credit Claim	State Taxes Generated
Estimated	\$268,596,154	\$55,350,562	\$29,008,385
Actual	\$216,954,022	\$43,804,654	\$23,431,034

Calendar Year 2016	Total Qualified Spend	Total Tax Credit Claim	State Taxes Generated
Estimated	\$217,564,291	\$44,512,633	\$23,932,072
Actual	\$199,004,828	\$43,827,784	\$21,492,521

E. INCREASED WORKFORCE DEVELOPMENT:

As part of the Temporary Hawaii Administrative Rules issued by the Department of Taxation October 20, 2016, the required education, workforce development contribution that is mandated in §235-17 HRS, was significantly increased. This was done to better support the film and media arts programs in Hawaii’s public and charter schools. The contribution level must now be 0.1% of a qualified spend in Hawaii or \$1,000, whichever is greater. (NOTE: These contributions are determined once the Hawaii Production Report (HPR) is received, 30 days after the filing entity’s tax year. For 2017, the results of workforce development contributions will be provided as part of the 2018 report to the Legislature in January 2019.)

For example, a feature film or television series that spends \$50 million - \$60 million in Hawaii is required to make an education/workforce development contribution of \$50,000-\$60,000 to Hawaii’s public and charter schools and universities, significantly increasing a critical funding and/or in-kind resources for our creative, media and film education programs. Contributions combine cash and in-kind including internships, professional training workshops, and donation of equipment.

Working with the Department of Taxation, this section of the Administrative Temporary Rules is providing a more substantial baseline to grow our pool of film industry professionals through cash investments, workshops or seminars which augment their current coursework, providing professional, real world experience/training to grow our base of film industry professionals.

F. WORKFORCE DEVELOPMENT CONTRIBUTIONS CY2018:

In calendar year 2018, Hawaii public and charter schools throughout the state were the direct beneficiaries of the education and workforce development program that has served as a

successful mandate for productions accessing the tax credit. These educational institutions will receive both cash and in-kind contributions that are dedicated to supporting that school's film/video and digital media programs. The data of contributions for CY2017 are still being compiled and verified.

The Film Office will provide an updated tally and matrix of contributions for CY2016 in early March of 2019.

Since the start of the tax credit program in 2006, hundreds of Hawaii public and charter school students have participated in meaningful internships with major film, television and commercial productions. Many of the productions applying for 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.

For example, one of the major studios plans this year to sponsor apprenticeships and training seminars in conjunction with Hawaii's local film industry unions. Film and Digital Media students from the University of Hawaii's Academy for Creative Media and Hawaii's public high schools that have dedicated film and digital media programs will be invited to attend this seminar.

G. 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, who work 60% and 25% respectively on the administration of the credit and are currently working on implementation of the Act 143 changes to 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 duties of film permit processing and production support comprise the balance of their time. The employees also work part-time on production crisis management, film permits and logistical support, and, together with support of READ and CID, provide analysis of this tax credit to the Legislature and industry.

The program and department recommended in response to the Hawaii State Auditor, that a full-time unit of two new employees with accounting and data management skills be added to the division's budget to be on par with other states who manage this level of tax credit program.

Currently, 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.

H. UPDATES - ACT 143 SLH 2017:

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

The Legislature, recognizing the tremendous economic value of a thriving film industry to the state, agreed last session to grant an extension to the tax credit program to January 1, 2026. This stability is critical for studios and television networks in their production planning, especially with television series – Hawaii's core economic driver in this sector.

We are concerned however, that this first-time limitation of a \$35M funding ceiling under Act 143 SLH 2017, effective January 1, 2019, will mean a loss of production business, and most importantly, the jobs that come with it. Already, with the registrations that have already come in for 2019 productions, we are nearing the \$35M aggregate figure. As of January 28, 2019, allocation remaining for this calendar year is \$5 million, based on the estimated production spend and estimated rebates. By the time we reach March/April of 2019, the spending ceiling will have been reached, requiring tapping into the roll forward into the 2020 spending ceiling as allowed by law.

Hawaii simply will not be competitive with other jurisdictions that do have not funding ceilings in place.

The best example of this is what happened in 2015 when Louisiana imposed a \$180 million funding ceiling for this state's booming film industry. As a result, new film business in Louisiana dropped by nearly 80 percent. Louisiana's loss was Georgia's gain. With no sunset date and no funding ceiling on its tax credit program, Georgia quickly became and has remained the top filming destination in the U.S. after New York and Los Angeles.

Also, with the funding ceiling requirement in statute, the new unit of skilled accounting staff becomes even more critical.

While there is a provision now that all tax credit claimants will need to complete a third-party review by a qualified tax professional, the imposition of the funding ceiling requires new procedures, new systems for data gathering/reporting as well as the up to date tracking of fund depletion, including tracking the carry over impact to following year. Included in this new

element of the tax credit, is the critical timing of notification to applicants for these projects – the producers, studios and networks – when the ceiling has been reached.

It's important to note that even with the carry forward option included in the statute, this will still require the film office staff to ensure the accuracy of depletion of funds in the following year's allowance, should productions opt to carry forward the credits two years out, vs. one year.

This further limit the number of productions we can host, may impact the local production market adversely, and reduces the jobs and economic benefits these productions generate, while reducing funds available to apply to current and future productions seeking the tax credit.

The Hawaii Film Office is one of only a handful of film commissions worldwide that is not only responsible for demanding production support on the ground, and the statutory responsibilities of film permitting statewide, but also includes the administration and certification of a comprehensive film tax credit program.

Hawaii's film industry is an anchor of our state's growing Creative Economy. There is no doubt that this spending ceiling will negatively impact business attraction, reduce direct and indirect jobs, as well as further stretch the capacity of current staffing and operations of the Hawaii Film Office.

If jurisdictions such as Louisiana, Michigan and other states are any indication, it is anticipated that the state could see a decrease in production activity beginning in 2019 through all the out years.

With the potential reduction the economic engine of production activity brings to Hawaii, we will surely see a reduction of jobs, and, in turn, an increase unemployment claims. With less production activity, along with an extension that is under ten to fifteen years, the Legislature and Administration's vision for a public private partnership to develop new studio infrastructure for creative media/film and television may not be able to proceed as planned. DBEDT and its film and creative industries offices are committed to working with the Legislature to provide the background and data necessary to highlight the benefits vs. the impacts of this valuable program.

Attachments:

Calendar Year 2017 – Estimated Spend, impacts and jobs

Calendar Year 2017 – Updated Actuals, impacts and jobs

Calendar Year 2018 – Estimated Spend, impacts and jobs

CY 2017 ESTIMATED HAWAII EXPENDITURES

Production	Prod. Year	Type	Total Estimated Qualified Hawaii Expenditures	Estimated Tax Credit Claim	Sales Generated on Estimated Qualified Expenditures	Household Income Generated on Estimated Qualified Expenditures	State Taxes Generated on Estimated Qualified Expenditures	State Tax Forgone	Estimated Oahu Expend.	Estimated Neighbor Isle total	Estimated Big Island Expend.	Estimated Kauai Expend.	Estimated Maui Expend.	Estimated Molokai Expend.	Estimated Lanai Expend.	Estimated Resident Hires	Estimated Non-Resident Hires
Prod 1	2017	Television Series	27,072,112	5,405,422	46,834,754	10,828,845	2,923,788	427,028	27,027,112							1356	180
Prod 2	2017	Television Series	993,432	198,686	1,718,637	397,373	107,291	15,696	993,432							23	15
Prod 3	2017	Feature	33,750	8,438	58,388	13,500	3,645	667		33,750	33,750					12	4
Prod 4	2017	Commercial	256,530	97,017	443,797	102,612	27,705	7,664	485,087							53	0
Prod 5	2017	Feature	3,350,706	661,717	5,796,721	1,340,282	361,876	52,276	3,308,531	42,175			42,175			119	28
Prod 6	2017	Commercial	213,919	46,384	370,080	85,568	23,103	3,664	231,919							48	19
Prod 7	2017	Commercial	362,245	72,449	626,684	144,898	39,122	5,723	362,245							35	0
Prod 8	2017	Television special	245,000	56,350	423,850	98,000	26,460	4,452	98,000	147,000	140,000	2,000	5,000			72	0
Prod 9	2017	Commercial	325,518	65,104	563,146	130,207	35,156	5,143	325,518							77	23
Prod 10	2017	Television special	231,718	46,344	400,872	92,687	25,026	3,661	231,718							44	0
Prod 11	2017	Television Series	550,000	130,000	951,500	220,000	59,400	10,270	150,000	400,000	150,000	150,000	100,000			50	27
Prod 12	2017	Television Series	550,000	130,000	951,500	220,000	59,400	10,270	150,000	400,000	150,000	150,000	100,000			50	27
Prod 13	2017	Commercial	977,176	244,294	1,690,514	390,870	105,535	19,299		977,176		977,176				70	13
Prod 14	2017	Commercial	207,500	44,298	358,975	83,000	22,410	3,500	221,489							24	1
Prod 15	2017	Commercial	210,000	42,000	363,300	84,000	22,680	3,318	210,000							40	0
Prod 16	2017	Television Series	39,593,615	7,918,723	68,496,954	15,837,446	4,276,110	625,579	39,593,615							2529	174
Prod 17	2017	Commercial	233,704	46,741	404,307	93,481	25,240	3,693	233,704							45	18
Prod 18	2017	Feature	49,390,409	9,878,082	85,445,408	19,756,164	5,334,164	780,368	49,390,409							985	333
Prod 19	2017	Commercial	223,280	50,124	386,274	89,312	24,114	3,960	250,619							60	10
Prod 20	2017	Feature	49,822,850	9,996,267	86,193,531	19,929,140	5,380,868	789,705	49,188,913	633,937			633,937			706	101
Prod 21	2017	Feature	1,580,592	316,868	2,734,424	632,237	170,704	25,033	1,565,592	15,000			15,000			242	45
Prod 22	2017	Commercial	217,000	43,400	375,410	86,800	23,436	3,429	217,000							24	2
Prod 23	2017	Feature	249,000	49,800	430,770	99,600	26,892	3,934	249,000							25	2
Prod 24	2017	Television Series	3,500,000	871,500	6,055,000	1,400,000	378,000	68,849	70,000	3,430,000	3,410,000	10,000	10,000			152	109
Prod 25	2017	Television Series	1,265,844	315,711	2,189,910	506,338	136,711	24,941	15,000	1,250,844	1,242,844	3,000	5,000			140	97
Prod 26	2017	Commercial	201,879	40,376	349,251	80,752	21,803	3,190	201,879							51	8
Prod 27	2017	Feature	774,263	159,853	1,339,475	309,705	83,620	12,628	674,263	100,000			100,000			42	18
Prod 28	2017	Commercial	211,580	42,316	366,033	84,632	22,851	3,343	211,580							35	4
Prod 29	2017	Television Series	53,310,604	10,662,121	92,227,345	21,324,242	5,757,545	842,308	53,310,604							1198	180
Prod 30	2017	Commercial	216,402	43,280	374,375	86,561	23,371	3,419	216,402							13	0
Prod 31	2017	Documentary	260,000	52,000	449,800	104,000	28,080	4,108	260,000							4	0
Prod 32	2017	Commercial	427,265	85,453	739,168	170,906	46,145	6,751	427,265							45	0
Prod 33	2017	Music Video	200,000	40,000	346,000	80,000	21,600	3,160	200,000							25	0
Prod 34	2017	Commercial	295,500	59,100	511,215	118,200	31,914	4,669	295,500							10	0
Prod 35	2017	Television Series	266,245	53,249	460,604	106,498	28,754	4,207	266,245							45	TBD
Prod 36	2018*	Feature	21,513,398	5,378,350	37,218,179	8,605,359	2,323,447	424,890		21,513,398			21,513,398			800	100
Prod 37	2017	Internet web series	1,398,804	279,761	2,419,931	559,522	151,071	22,101	1,398,804							110	33
Prod 38	2017	Commercial	305,931	61,186	529,261	122,372	33,041	4,834	305,931							54	28
Prod 39	2017	Feature	204,860	40,972	354,408	81,944	22,125	3,237	204,860							300	10
Prod 40	2017	Commercial	285,492	57,098	493,901	114,197	30,833	4,511	285,492							68	25
Prod 41	2017	Commercial	209,470	41,894	362,383	83,788	22,623	3,310	209,470							35	5
Prod 42	2017	Feature	576,224	115,245	996,868	230,490	62,232	9,104	576,224							84	36
Prod 43	2017	Television Series	387,753	54,361	670,813	155,101	41,877	4,295	268,644	2,528	1,394				1,133	15	0
Prod 44	2017	Commercial	355,934	71,187	615,766	142,374	38,441	5,624	355,934							54	2
Prod 45	2017	Commercial	211,315	42,263	365,575	84,526	22,822	3,339	211,315							46	3
Prod 46	2017	Television Series	4,779,913	1,125,296	8,269,249	1,911,965	516,231	88,898	1,393,642	3,386,271	3,386,271					125	70
Prod 47	2017	Commercial	208,560	41,712	360,809	83,424	22,524	3,295	208,560							14	4
Prod 48	2017	Commercial	338,862	67,772	586,231	135,545	36,597	5,354	338,862							35	0
		TOTALS	\$ 268,596,153.92	\$ 55,350,562.34	\$ 464,671,346.28	\$ 107,438,461.57	\$ 29,008,384.62	\$ 4,372,694.43	\$ 236,390,379.00	\$ 32,289,946.18	\$ 8,514,259.00	\$ 22,905,574.00	\$ 911,112.00	\$ -	\$ 1,133.00		

Total Television	13
Total Features	10
Total Internet web ser	1
Total Documentaries	1
Total Commercials	22
Total Music Videos	1
Total Qualified Productions	48

*Split year filing

