

STAND. COM. REP. NO.

2796

Honolulu, Hawaii

MAR 19 2010

RE: H.B. No. 2382
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Madam:

Your Committees on Economic Development and Technology and Higher Education, to which was referred H.B. No. 2382, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO DIGITAL MEDIA,"

beg leave to report as follows:

The purpose of this measure is to encourage further expansion of Hawaii's digital media industry by:

- (1) Establishing digital media enterprise subzones as unspecified geographic areas surrounding University of Hawaii campuses that are also designated as enterprise zones;
- (2) Establishing tax benefits for digital media infrastructure development and operation and local workforce employment;
- (3) Authorizing insurance companies to invest in qualified digital media infrastructure projects in lieu of paying certain state taxes; and
- (4) Renaming and amending the Hawaii television and film development special fund to the Hawaii film office special fund.



Testimony in support of this measure was submitted by the University of Hawai'i System; Local 665, International Alliance of Theatrical and Stage Employees; Building Industry Association Hawaii; Hawaii Developers' Council; Hawaii Animation Studios; Home Baked Entertainment; Castle and Cooke Hawai'i; SHM Partners; and three individuals. Testimony in opposition of this measure was submitted by the Department of Taxation. Comments for this measure were submitted by the Department of Business, Economic Development, and Tourism.

Written testimony presented to the Committees may be reviewed on the Legislature's website.

Your Committees find that this measure will provide significant incentives for private investment to develop a digital media industry in Hawaii. In addition, providing incentives around the University of Hawaii campuses leverages the public funds invested to expand the knowledge-based digital media industry in Hawaii, and the successful digital media programs already in place in Hawaii's schools and University of Hawai'i.

The Department of Taxation has raised concerns about the potential for "double-dipping" with respect to existing provisions for royalties that are based on original work created by local musicians, entertainers, or film and media filmmakers, writers, and their cast members. However, your Committees believe that the differences between traditional film and entertainment media and animation and special effects industries will ultimately show that this concern is unfounded.

The incentives proposed in this legislation - digital media workforce credits (based on successful Canadian digital media workforce development incentives at the provincial, regional, and city level) and digital media infrastructure credits (based on Michigan infrastructure tax credits that have since helped quadruple film and digital media production work in that state) - are similar to Hawaii's Act 88, Session Laws of Hawaii 2006, film and digital media production credits in that the tax revenue loss is lower than the total amount of new tax revenue gains from increased production activity in the State of Hawaii and total number of jobs created.

Act 88 credits - and the new workforce and infrastructure credits established in this measure - require job creation, infrastructure investments, and production taking place first,



before certification and award of the credits. The costs and benefits of these credits can be quantified and measured every year in terms of their economic stimulus value. As such, your Committees believe that the digital media workforce and infrastructure credits complement the University of Hawai'i System's role in building a strong pipeline of workforce talent to stimulate long-term economic growth for this state. As pointed out by one of the testifiers on H.B. No. 2382, H.D. 1:

I want to share with you my situation as just one example of the situation the upcoming generation is facing. I was born and raised on Maui, where I progressed through the Hawaii Public School System. ... The sad state of affairs is that, out of [the] entire pool of our best and brightest of around 100 students, the number who remained in Hawaii, or, to my knowledge, have plans to return to Hawaii after college can be counted on one of my hands.

I stayed in Hawaii because I became aware of the Academy for Creative Media (ACM) at the University of Hawai'i at Manoa ... ACM has a very [healthy] community of young filmmakers and digital media students who wish to see Hawaii become an international player for film and digital media. This has already been expressed by the creation of local companies founded by ACM graduates like Blue Water Multimedia, Hdology, Realspace and Enlight as well as student enthusiasm for the opportunities supplied by Hawaii Animation Studios and Avatar Reality.

. . . .

Right now we have this powerful, talented, local workforce being built, but it won't remain here if there is no future for growth. I know this because I will not stay here. I will have little choice but to follow in my friends' footsteps in [our] exodus [from] Hawaii.

Your Committees have replaced the language in this measure with language from S.B. No. 2355, S.D. 1, which was previously heard and approved by your Committees. As amended, this measure:




- (1) Amends the definition of "Hawaii resident" to mean any person residing in Hawaii and who has paid Hawaii general excise taxes within the prior six months or Hawaii income taxes in the last calendar year;
- (2) Adds fees collected for processing taxpayer letters pursuant to section 235-17, Hawaii Revised Statutes, and deletes fees and penalties collected pursuant to section 209E-B, Hawaii Revised Statutes, from deposits to the Hawaii Film Office Special Fund;
- (3) Changes the effective date from July 1, 2112, to July 1, 2020, with a ten-year sunset date, for the purposes of further discussion; and
- (4) Makes numerous technical amendments for the purposes of clarity, consistency, and style.

As affirmed by the records of votes of the members of your Committees on Economic Development and Technology and Higher Education that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 2382, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 2382, H.D. 1, 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
Higher Education,



JILL TOKUDA, Chair



CAROL FUKUNAGA, Chair



