

Honolulu, Hawaii

FEB 12 2010

RE: S.B. No. 2355  
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 S.B. No. 2355 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  
University of Hawai'i System, University of Hawai'i Academy for  
Creative Media, The Chamber of Commerce Hawaii, SHM Partners,



Hawaii Animation Studios, Building Industry Association of Hawaii, Home Baked Entertainment 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 Commerce and Consumer Affairs, the Department of Business, Economic Development and Tourism and one individual.

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

Your Committees find that using the enterprise zone model for measurable job creation and business growth within targeted geographic zones, this measure establishes a digital media subzone within an existing enterprise zone that is located on or in close proximity to a University of Hawaii campus; and incorporates two digital media incentives with proven track records.

Currently, the list of Enterprise Zone Partnership eligible businesses in the Hawaii program includes about twenty-two separate types of activities covering a wide range of industry sectors - each a category that the State is trying hard to attract or grow internally - and 179 businesses are enrolled in the program, with an estimated 4,100 jobs.

The digital media infrastructure tax credit is based on a Michigan film and digital media infrastructure credit adopted in 2007 to complement Michigan's forty to forty-two per cent tax rebate for Michigan film and media production work and a fifty per cent refundable film and digital media worker job training tax credit (adopted in 2008, and sunseting in 2015). In February 2010, Hangar42 Studios became Michigan's first fully-financed major film studio - in a renovated auto manufacturing plant - to open utilizing the infrastructure credit, and is a major milestone in that state's development of a film industry. Since Michigan passed its package of credits in 2008, more than thirty major productions were filmed in the state in 2008 and approximately fifty in 2009.

The digital media enterprise subzone workforce development tax credit is based upon Ontario's animation and visual effects tax credit, which leverages the past fifteen years' growth of Canada's digital media and games sector in cluster regions like Ontario, British Columbia, Manitoba, Alberta, Prince Edward Island, Nova Scotia, and Quebec. Canada is home to some of the best-known brands in the video games industry, with over 500



companies across the sector (from hardware, development tools and enablers, to support services, developers and publishers). In 2008, roughly 250 game development companies employed 14,000 people, generating \$2,200,000,000 in revenues.

Today, the Greater Toronto Area in Ontario is the third largest television, film, and digital media cluster in North America, generating annual revenues of more than \$1,000,000,000. Its package of digital media tax incentives includes a generous research and development credit that can cut research and development costs by over sixty per cent, a refundable Ontario interactive digital media credit for thirty per cent of labor, distribution and marketing costs for digital games created in Ontario, a refundable Ontario computer animation and special effects tax credit for twenty per cent of labor costs for computer animation and visual effects employees, as well as credits for sound recordings and an additional twenty per cent refundable credit for production expenses if an animation business works with a university or college.

Your Committees also note that since 2001, the Hawaii Film Office has supported more than 7,000 film, television, and commercial projects; a \$7,300,000 renovation of the Hawaii Film Studio; and a competitive production tax credit (Act 88, Session Laws of Hawaii 2006) that has resulted in more than \$400,000,000 in direct expenditures since its inception.

In all three cases, the businesses must expend moneys on the various production activities before earning the tax credits - creating a win-win for both the business and the jurisdiction where the production activities take place.

To address several of the issues raised during the hearing, your Committees have amended this measure by:

- (1) Adding a findings and purpose section to clarify the requirement for locating digital media subzones within existing enterprise zones that are located on or in close proximity to University of Hawaii campuses;
- (2) Amending the definition of "digital media enterprise subzone" to specify that it is within an existing enterprise zone;



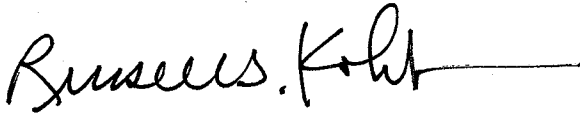
- (3) Replacing the specific tax credit percentage and tax credit caps with unspecified amounts;
- (4) Authorizing the Department of Business, Economic Development, and Tourism to establish an unspecified fee to process the taxpayer letter required for the digital media enterprise subzone workforce development tax credit, with the fee to be deposited in the Hawaii film office special fund;
- (5) Adding a definition of "Hawaii resident" as a 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;
- (6) Clarifying the language for digital media tax infrastructure tax credit in chapter 431:7- , Hawaii Revised Statutes, regarding investments by insurance companies;
- (7) Expanding revenues to the Hawaii film office special fund to include rents from usage of the Hawaii Film Studio; and fees collected by the Department of Business, Economic Development and Tourism for processing taxpayer letters pursuant for the digital media enterprise subzone workforce development tax credit and the Act 88 (Session Laws of Hawaii 2006) motion picture, digital media, and film production income tax credit, and the tax credit certification program for the digital media infrastructure tax credit;
- (8) Amending the effective date to July 1, 2020, for the purpose of encouraging further discussion; and
- (9) Making technical amendments for the purposes of clarity and consistency.

Additionally, your Committees encourage the University of Hawaii to propose use of its University of Hawaii-West Oahu Campus lands for public-private facilities development on a competitive basis, to assure the broadest range of development partners and digital media expertise can be secured for the campus' digital media subzone facilities.



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 S.B. No. 2355, as amended herein, and recommend that it pass Second Reading in the form attached hereto as S.B. No. 2355, 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,



RUSSELL S. KOKUBUN, Chair



CAROL FUKUNAGA, Chair



The Senate  
Twenty-Fifth Legislature  
State of Hawaii

**Record of Votes**  
**Committee on Economic Development and Technology**  
**EDT**

|  |  |                           |          |          |
|--|--|---------------------------|----------|----------|
| Bill / Resolution No.:*<br><b>BB 2355</b>  | Committee Referral:<br><b>EDT/HRE, WAM</b> | Date:<br><b>2-10-2010</b> |          |          |
| <input type="checkbox"/> The committee is reconsidering its previous decision on this measure.<br>If so, then the previous decision was to: _____  |  |                           |          |          |
| The Recommendation is:<br><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)  | ✓  |                           |          |          |
| BAKER, Rosalyn H. (VC)   | ✓  |                           |          |          |
| HEE, Clayton   |  |                           |          | ✓        |
| IGE, David Y.  | ✓  |                           |          |          |
| SLOM, Sam  |  | ✓                         |          |          |
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| <b>TOTAL</b>   | <b>3</b>                                   | <b>1</b>                  | <b>-</b> | <b>1</b> |
| Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted   |  |                           |          |          |
| Chair's or Designee's Signature:<br>   |  |                           |          |          |
| <b>Distribution:</b> Original     Yellow     Pink     Goldenrod<br>File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy   |  |                           |          |          |

\*Only one measure per Record of Votes

