



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

LINDA LINGLE  
GOVERNOR  
THEODORE E. LIU  
DIRECTOR  
PEARL IMADA-IBOSHI  
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of  
**THEODORE E. LIU**  
Director

Department of Business, Economic Development, and Tourism  
before the

**HOUSE COMMITTEE ON FINANCE**

Thursday, February 18, 2010

2:00 p.m.

State Capitol, Conference Room 308

in consideration of

**HB 2382 HD1**  
**RELATING TO DIGITAL MEDIA**

Chair Oshiro, Vice Chair Lee, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments regarding HB2382 HD1, cautioning that the measure in regards to the establishment of a new digital media incentive, manpower required to manage the program and its potential fiscal impacts require further study. Though valid in concept, we have concerns as to the time and steps required to manage such an initiative, which would require additional staffing in both DBEDT and Department of Taxation to support the mandate, neither of which are addressed in the current supplemental budget.

We agree that supporting Hawaii's digital media, film, music, culture and arts sectors are critical to a vibrant creative economy in our state, which is the mission of our Creative Industries Division. Collectively these sectors have contributed \$4 billion to the state's GDP in 2008 and are considered leading emerging industries. Hawaii's digital media infrastructure is a key

component to our creative industries division's mission, and we are focused on its development that crosses many sectors of the creative economy.

There is no question that our digital sectors are beginning to achieve a critical mass, thanks to education and workforce development programs such as the numerous high school digital media programs, the University of Hawaii's Academy for Creative Media, Kapiolani Community College and Leeward Community College programs in animation, interactive design and digital media production. We have a growing number of entrepreneurs and start-up companies in game design and 3D animation that are now making it possible for Hawaii to compete on a global scale in this lucrative, clean industry.

We also have concerns regarding the establishment of digital media subzones and suggests a broadening of Enterprise Zones. As mentioned in earlier testimony, because of the special and specific benefits provided to the digital media industry, and because these incentives would apply, in some cases, outside clearly established geographically designated enterprise zones, we recommend that this be more fully vetted with the stakeholders involved.

In addition, Part II revises Section 201-113, Hawaii Revised Statutes to repurpose the Hawaii television and film development fund into a film office special fund specifically to enhance operational resources of the Hawaii film office. We request the committee consider the more encompassing language of the administration's HB2529 and SB2682 to rename the existing fund as a creative media development fund, which would address funding for film branch operations as a priority, as well as supporting the creative industries program. We also strongly advise against the elimination of the grants program in HRS 201§112-13, as this is an important aspect to spurring growth of our local film and digital productions and was the original intent of the measure.

We want to point out and assure this committee that currently, the creative industries division and its film branch continue to provide effective management of those statutorily mandated programs, in addition to focusing on the emerging creative sectors in arts, music and digital media. These functions are being serviced and adequately addressed by existing CID staff that has great familiarity and knowledge of these industries and their constituencies.

Thank you for the opportunity to provide these comments.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

STANLEY SHIRAKI  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 2382 HD 1  
RELATING TO DIGITAL MEDIA**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: FEBRUARY 18, 2010**

**TIME: 2PM**

**ROOM: 308**

---

This measure provides, among other things, the establishment of digital media enterprise subzones, as well as digital media infrastructure and workforce development tax incentives.

The Department of Taxation (Department) **opposes** this measure because it is **outside the budget priorities this legislative session.**

Notwithstanding the merit of this measure, the Department cannot support the tax provisions in this measure because these tax breaks are not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

The Department simply cannot support this tax credit given the other more important competing priorities for general fund revenues.

This measure will result in an indeterminate revenue loss due to the unspecified data in the bill.

Testimony Presented Before the  
House Committee on Finance  
Thursday, February 18, 2010 at 2:00 p.m

by  
Chris Lee, Founder and Director  
Academy for Creative Media, University of Hawai'i System

HB 2382 HD1 – Relating To Digital Media

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

Hotel revenue is down. Businesses are closing or being auctioned off. Furlough Fridays have become the new normal. Yet unlike almost every other sector of our economy, creative media is hiring local people with living wage jobs.

While everyone's been wondering how Hawaii builds a sustainable alternative to our government/construction/service-employee economy, it's time to recognize that Hawaii is already generating and keeping an indigenous creative workforce that happens to be the most coveted kind in the world.

In 2010, Maui has already enjoyed production on Clint Eastwood's "Hereafter," Oahu and Kaua'i will see months of shooting by Johnny Depp's "Pirates of the Caribbean 4" and George Clooney's "The Descendants," Universal's "Battleship" is coming, "Lost" is in its final season, but "Hawaii Five-0" is rebooting, the Bethany Hamilton story "Soul Surfer," is in production, Korea's "Divine Hero" pilot is underway, numerous reality shows continue to flock here, Hawaii-based scripted pilots are in the works and local production companies like Talk Story ("The Tempest"), Island Film Group ("Princess Ka'iulani"), and Hawaii Film Partners ("Flight 29 Down"), have kept up a steady stream of films and tv shows. This represents hundreds of millions of dollars being spent in Hawaii and it's only February.

Meanwhile, digital media – animation, video games and visual effects -- is growing, too. UH grad Henk Roger's Tetris is the most successful video game in history and his Hawaii-based company has launched their Avatar Reality Blue Mars massive multi-player with scores of skilled local employees. Further up Bishop Street, Hawaii Animation Studio just opened with 30 animators – most of them local graduates of the University of Hawaii's media programs -- with plans to grow to 150 employees as they expand from series like "Veggie Tales" to animated features.

When was the last time you heard of a company planning to hire 150 local people with permanent jobs that are not in the service sector?

Creative media production in all its forms, movies, television, software, video games,

internet multi-players, animation, music, visual effects, even Apple iPhone applications, is Hawai'i's best chance to soften the cyclical blows of our aviation fuel-based service economy.

Why is this possible now?

Broadband connects us to the global economy in ways that ships and planes cannot. Creative intellectual property requires only that we harness the natural skills of our students: it doesn't need endless access to greater capital, the importation of raw materials and the physical shipping of the finished product, vast tracks of land or resources that threaten our environment, or relocation to the mainland in success.

The University of Hawaii prepared for this opportunity when the Board of Regents approved a system-wide initiative called the Academy for Creative Media (ACM) that received bi-partisan support from the legislature and the governor. Today, ACM's first campus at Manoa has 350 students, 130 majors and 39 courses thanks to a great faculty and terrific students.

Most importantly, ACM graduates have started their own companies like visual effects firm [www.bluewatermultimedia.com](http://www.bluewatermultimedia.com), high definition production companies like [www.hdarsenal.com](http://www.hdarsenal.com), and have been getting hired at Hawaii Animation Studio as soon as they have their diplomas.

In the public schools, Waianae High School's Searider Productions has been winning international awards for years and they now have over 100 students studying 2D and 3D animation. Searider graduates also formed Makaha Studios, a production and internet content company with local and national clients and the first tech business in Waianae.

But the Seariders are now just one of over 80 media programs throughout the state's middle and high school system filled with students who are not just staying in school, they're actually learning something essential for a job in the 21<sup>st</sup> century.

The reason for this is that educational achievement is largely aspirational. Students need to be engaged by their education, believe in themselves and know that their work will lead to meaningful employment opportunities.

But all these talented kids and their new companies can't just cannibalize the ever-shrinking local advertising market. What we must do is expand our global outreach. Physical film and television production like "No Reservations" or "Lost" has a fantastic multiplier effect on our vital visitor industry – it's the gift that keeps on giving as tourists seek out their sets or make reservations at restaurants visited by Anthony Bourdain.

Digital production complements our tropical setting by allowing our kids to work on computers that are not bound by location so that, for example, our graduates working at Hawaii Animation Studio can execute "Veggie Tales" which begins its creative life in

Tennessee but is now executed here in Hawaii.

In order to capitalize on our success in this industry, we need the kind of measured, transparent, metric based work force and infrastructure incentives that are fair to taxpayers, enhance our educational facilities and have been proven over the last decade to build a permanent industry in other states and countries.

In this era of the Great Recession, perhaps you've noticed that the two sectors of the economy that are actually doing well are education and entertainment. House Bill 2382 and Senate Bill 2355 are designed to combine both through digital media economic subzones within the radius of UH campuses. These bills are a blueprint for the kind of innovative public-private partnerships UH needs to fund itself while building our economy.

Here are some examples where measured incentives have worked before: New Mexico in 2001 had only \$1.5 million in annual production. In 2007, New Mexico enjoyed \$476 million in spending in the film and digital industry and opened the \$75 million Albuquerque studios which is now adding a media school. There are also new visual effects firms located in New Mexico like Sony Imageworks and even their supercomputer is being used by Dreamworks Animation.

Louisiana started tax incentives for film in 2001 when there were only two low budget pictures shot in the entire state. By 2006, 21 low budget films and 5 big budget pictures combined for \$450 million in production spending. Their incentives have also made possible the building of multiple studios.

Electronic Arts is the biggest video game company in the world and last year various states competed for their new quality assurance center offering 200 jobs for students and 20 for adults. Where did it go? The Louisiana State University campus thanks to a specific Digital Media Tax Credit.

Singapore has determined that creative media is a desirable, sustainable industry and is investing hundreds of millions of dollars in infrastructure and incentives to realize their goal of 10,000 new jobs in their media sector by 2015.

Their targeted incentives have been used to move George ("Star Wars") Lucas's animation and video game division from San Francisco to Singapore, training a local work force which recently added 120 employees to their first 280. Lucas joined visual effects companies from London and video game companies from the US as the city state builds a "Mediapolis" of studios, post production houses and a feeder system of nine film schools.

New Zealand's film and television industry is estimated by Price Waterhouse Coopers to generate \$2.5 billion a year for their economy. Most recently, the bulk of "Avatar" was produced there, spending \$307 million dollars and generating \$50 million in taxes for the Kiwi nation.

Asked in December why New Zealand was chosen as the film's production location, "Avatar" producer Jon Landau said: "to be honest, we went for the tax credit." Indeed, incentives are the first thing producers and studios take into consideration when deciding where to shoot. But the second consideration is infrastructure and workforce.

As one New Zealand official put it, thanks to "Avatar," "this is exactly where we need to be as a country - renowned for our technological know how, creativity, talent and positive, can-do attitude."

Hawaii can do the same. In many ways we already are with programs like ACM and the Seariders, all of the productions shooting here and companies like Blue Lava and Hawaii Animation Studio actively hiring new, local employees.

Why not build on our momentum? HB 2382 and SB 2355 will develop infrastructure and workforce to help bring this economic success to the next level and realize Hawaii's potential as the creative media hub of the Pacific Rim.



# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, MISCELLANEOUS, Digital media enterprise subzone workforce development tax credit

**BILL NUMBER:** HB 2382, HD-1

**INTRODUCED BY:** House Committees on Economic Revitalization, Business, and Military Affairs and Higher Education

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow a taxpayer that operates a qualified animation or visual effects business located within a digital media enterprise subzone to claim an income tax credit of \_\_\_\_ % of the wages paid to animation or visual effects hires who are Hawaii residents. To qualify for this tax credit, a business shall: (1) meet the definition of a qualified animation or visual effects business; (2) have qualified animation or visual effects labor costs totaling at least \$200,000; (3) provide evidence of reasonable efforts to hire Hawaii residents as animation or visual effects personnel; (4) keep accurate records of all animation or visual effects hires who are Hawaii residents whose wages may qualify for the tax credit; and (5) require any wages attributable to minimum cost thresholds for which the wage reimbursement tax credit does not apply to have Hawaii income tax withheld; provided that the wage and tax information is subject to verification by the department of taxation.

Any credit in excess of a taxpayer's income tax liability shall be refunded to the taxpayer; provided such amounts are over \$1. Requires all claims, including any amended claims, for tax credits to be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified labor costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. For the purposes of this section, "net income tax liability" means net income tax liability reduced by all other credits allowed under this chapter and chapter 209E.

Requires the director of taxation to prepare forms as may be necessary to claim a tax credit, may require the taxpayer to furnish information to ascertain the validity of the claim for credit, and may adopt rules necessary to effectuate the purposes of this section pursuant to HRS chapter 91.

Directs a taxpayer claiming a tax credit to submit, no later than 90 days following the end of each taxable year in which qualified labor costs were expended, a written, sworn statement to the department of business, economic development, and tourism (DBEDT), identifying: (1) all qualified labor costs incurred in the previous taxable year; (2) the amount of tax credits claimed pursuant to this section in the previous taxable year; and (3) the number of hires working in Hawaii by category (i.e., department) and by county.

Requires DBEDT to: (1) maintain records of the names of the taxpayers and qualified animation or visual effects businesses thereof claiming the tax credits; (2) obtain and total the aggregate amounts of all qualified labor costs per qualified animation or visual effects business per taxable year; and (3) provide a letter to the director of taxation specifying the amount of the tax credit per qualified animation or visual effects business for each taxable year that a tax credit is claimed and the cumulative amount of the tax credit for all years claimed. DBEDT shall issue a letter to the taxpayer, regarding the qualified animation or visual effects business, specifying the qualified labor costs and the tax credit amount qualified for in each taxable year a tax credit is claimed. Requires the taxpayer to file the letter with the taxpayer's tax return for the qualified animation or visual effects business to the department of taxation. Allows the director of taxation to audit and adjust the tax credit amount to conform to the information filed by the taxpayer.

DBEDT may impose a tax credit certification fee of up to \$\_\_\_\_\_ to cover the costs of administering the tax credit certification program established under this subsection. The proceeds of the fee shall be deposited into the Hawaii film office special fund.

Total tax credits claimed per qualified production shall not exceed \$\_\_\_\_\_ in any given tax year.

Defines "animation or visual effects" to mean animation and visual effects created primarily with digital technologies for designing, modeling, rendering, lighting, painting, animating, and composing for qualified productions, but does not include: (1) audio effects; (2) in-camera effects; (3) credit rolls; (4) subtitles; (5) animation or visual effects all or substantially all of which are created by editing activities; (6) animation or visual effects for use in promotional material for a production eligible for the motion picture, digital media and film production tax credit; or (7) activities that are of a scientific or experimental nature.

Defines "digital media" as production methods and platforms directly related to the creation of cinematic imagery and content, specifically using digital means, including but not limited to digital cameras, digital sound equipment, and computers, to be delivered via film, videotape, interactive game platform, or other digital distribution media (excluding Internet-only distribution).

Also defines "Hawaii resident," "qualified animation or visual effects business" and "qualified labor costs" for purposes of the measure.

Amends HRS section to HRS chapter 431:7 to provide that the digital media infrastructure tax credit shall be operative for this chapter.

Adds a new part to HRS chapter 209E to establish digital media enterprise subzones as a geographic area located within an enterprise zone which is: (1) located within a \_\_\_\_\_ mile radius of a University of Hawaii campus, on or off campus; or (2) any other delineated geographic area designated as a digital media enterprise subzone by the legislature; provided that effective July 1, 2010, and for the first two years thereafter, "digital media enterprise subzone" shall be limited to a geographic area located within an enterprise zone, and within a \_\_\_\_\_ mile radius, on or off campus, of the University of Hawaii-West Oahu.

Allows a taxpayer to claim a tax credit for investment expenditures made for all qualified digital media infrastructure projects within a digital media enterprise subzone in the amount of \_\_\_\_\_% of the taxpayer's base investment; provided that the tax credit shall be reduced by any credit claimed by the

taxpayer under chapter 235 for the same base investment. No more than \$ \_\_\_\_\_ in total tax credits under this section shall be authorized in any one taxable year.

Tax credits in excess of a taxpayer's tax liability shall not be refunded but may be carried forward to offset net income tax liability under chapter 235 in subsequent tax years for a period not to exceed 10 tax years or until exhausted, whichever occurs first. Stipulates that the credit shall be claimed after all other tax credits available to the taxpayer have been claimed. Allows a taxpayer eligible to claim a tax credit under this section to assign all or a portion of a tax credit to any assignee. Allows an assignee to subsequently assign a tax credit or any portion of a tax credit to one or more assignees. A taxpayer may claim a portion of a tax credit and assign the remaining tax credit amount. A tax credit assignment under this subsection shall be irrevocable. The tax credit assignment under this subsection shall be made on a form prescribed by the department

Further delineates procedures to qualify for the credit including the submission of a \$100 application fee and a tax credit certification fee to cover the costs of administering the tax credit certification program by DBEDT. Also delineates conditions to qualify for the credit by the taxpayer.

Renames the Hawaii television and film development special fund as the Hawaii film office special fund, delineate moneys that shall be deposited into the fund and that the monies in the fund shall be used for operations of the Hawaii film office, limited to employees performing specialized duties and assigned solely to the Hawaii film office operations.

Sections of this act shall be repealed on June 30, 2020, and HRS section 201-113, shall be reenacted in the form in which it read on the day before the effective date of this act.

EFFECTIVE DATE: July 1, 2112

STAFF COMMENTS: The proposed measure establishes a digital media enterprise subzone within enterprise zones and surrounding area of the University of Hawaii campuses. It also proposes: (1) an income tax credit of \_\_\_\_\_ % of the wages paid to animation or visual effects hires who are Hawaii residents; and (2) a tax credit for investment expenditures made for all qualified digital media infrastructure projects within a digital media enterprise subzone in the amount of \_\_\_\_\_ % of the taxpayer's base investment in addition to any other tax incentives afforded to business in an enterprise zone. While this measure proposes tax credits that would result in a payout of state funds, it is incredulous that a proposal such as this would be submitted given the financial crisis in state finances.

In addition, while the measure allows any excess tax credit for investment expenditures to be assigned to any assignee, who subsequently may assign a tax credit to one or more assignees, this would create an administrative and record keeping nightmare for the department of taxation.

In an enterprise zone, businesses are attracted and encouraged to relocate to the zone through tax incentives, bonds, and other appropriate measures. Businesses located in an enterprise zone may claim a credit against taxes paid for a period of seven years and also allows the sale of items sold by such businesses to be exempt from the general excise tax.

While it appears that it is the intent of the legislature to encourage the development of digital media in the state, enterprise zones merely exacerbate what is already considered a poor climate in which to do

business. Singling out businesses for preferential treatment merely confers preferences for those businesses at the expense of all other taxpayers.

Concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses. Enterprise zones are merely an abdication of government's responsibility to create a nurturing and supportive business climate so that all businesses can thrive in Hawaii and provide the jobs the people of Hawaii need.

Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii. For example, the consultant to the most recent Tax Review Commission suggested that all business-to-business transactions be exempt from the general excise tax as a means of reducing not only the cost of doing business in Hawaii but the overall cost of living.

Indeed, has there been a comprehensive evaluation of the program and do lawmakers know exactly how much enterprise zone businesses have benefitted and whether or not they have created the jobs promised when the program was first established? If, in fact, lawmakers believe that they need these special zones to attract businesses and to create jobs, what does that say about those areas of the state that are not so favored? Does, in fact, Hawaii's harsh business climate and poor reputation for a place to invest come as a result of providing such tax breaks at the expense of those businesses and individuals who cannot claim these tax incentives? Does the high burden of taxes have to be maintained because "tax relief" is extended to only a chosen few? This is the problem that lawmakers have created in recent years as they single out zones like these or select industries for most favored status. If that is the case, then lawmakers should hang out a sign that says don't come to Hawaii or invest in Hawaii unless you can secure a tax break from the legislature.

Digested 2/17/10



HOUSE OF REPRESENTATIVES  
THE TWENTY-FIFTH LEGISLATURE  
REGULAR SESSION OF 2010

COMMITTEE ON FINANCE

**Date: Thursday, 2/18/10**

**Time: 2:00 PM**

**Place: Room 308, State Capitol**

**Testimony in support of HB 2382**

**Rep. Marcus R. Oshiro Chair**

**Rep. Marilyn B. Lee Vice-Chair**

Hawaii Animation Studios is a new company located in downtown Honolulu at 1132 Bishop St. and is dedicated to building a world class animation infrastructure in Honolulu.

Co-founded by 4 industry leaders and a team of visionary investors in Hawaii, the studio is ideally suited to performing full-production CGI features, TV episodic shows, and direct to DVD work. By bringing together leading creative, technical and production talents, Hawaii Animation Studios is capable of providing topnotch, cost-effective, digital visual images for feature films, commercials, television, multimedia and direct-to-video features.

Hawaii Animation Studios offers a creative, supportive environment for both staff and clients. Our goal is to utilize our experience and knowledge to enable young and burgeoning talent to gain the most from our own collective, substantial and diverse experience.

We have recently hired 20 people in Hawaii on full-time staff positions to complete productions currently in-house. We have a hiring requirement for 25 more people to place prior to the end of April.

Our business plan calls for additional hires over the next 12 months, up to as many as 150 employees. In an effort to achieve this goal we have entered into a contract with UH and associated campuses to supply internships for 10 students that are currently enrolled at our facility on Bishop St. It is our intent to mentor the youth on the island and give them a primary

opportunity to gain valuable employment experience in the digital arts without leaving the island.

Based on the assumption that other companies will follow our success and lead, we anticipate that there will be at least 3 or 4 similar companies to Hawaii Animation Studios operating in the state over the next 3 years. Motivated by the proposed tax incentives, we believe that a conservative estimate for the industry would be the creation of over 1,000 new jobs in the state to complete an estimated 10 to 12 major projects over the next 5 years. Each project would average spending on labor and incidentals of \$8,000,000 to \$10,000,000 and could conceivably create revenue approaching \$1,000,000,000 in sales and box Office over this time frame.

Verification of these numbers can be confirmed through the historical box Office results of computer animated films since the release of Toy Story as reported by Box Office Mojo.

<b>TOTAL (All Movies):</b>	<b>\$7,863,656,906</b>	-	-	-	-
<b>AVERAGE (All Movies):</b>	<b>\$117,368,014</b>	3,084	\$28,826,048	2,946	-
<b>TOTAL (Wide Releases Only):</b>	<b>\$7,863,593,111</b>	-	-	-	-
<b>AVERAGE (Wide Releases Only):</b>	<b>\$120,978,356</b>	3,178	\$31,619,827	3,179	-

*Please see appendix A for complete listing as reported in Box Office Mojo*

My partners and I decided to come to Hawaii and start this business as a result of 3 factors. We are an act 221 company and forged an alliance with Hawaiian investors that believed in our 23 year track record of computer animation. The investment opportunity made Hawaii a very attractive destination for us. The second factor was geographic location. At one time Hawaii was considered in the middle of nowhere. Today, in the digital world, it is in the middle of everywhere!! 80% of the world's population surround the islands within a ten hour flight, but more importantly all the international cables and data infrastructure cross through Hawaii. Strategically, we are the center of the digital world. Finally, after a visit to the island, my partners and I fell in love with the people, the culture and the spirit of the State. It is a seamless blend of Asian, Polynesian and mainland cultures that result in a unique culture all it's own in the world of business.

HB 2382 gives Hawaii state employers, investors, employees and entrepreneurs the tools required to swiftly develop the digital media industry in Hawaii. By creating digital media enterprise subzones and designating them as enterprise zones and by establishing labour based tax credits and incentives for digital media infrastructure development, the state is promoting growth on par to any state and/or any country in the world in the burgeoning digital media industry.

I can personally attest to this, because I was involved in the first digital tax incentive given by the Province of Ontario, in Canada, in 1999. Today Ontario boasts one of the world's most active digital media industries, due largely to the labour based incentive package.

By passing this bill you will attract investment dollars into the state for a multitude of reasons. Money will come in by way of construction dollars. New facilities will abound in the digital realm. New facilities will require new support industries such as new equipment sales and service. New facilities will create jobs and require training facilities within the University of Hawaii and the Academy of Media Arts.

More importantly, these new facilities will be able to provide services never available previously in the state. Rather than being a location destination for mainland production companies that come here, shoot their production and leave, these new resources will provide world class services that are now only available on the mainland. Production companies will be attracted to the fact that the entire production can now be shot, processed, animated, edited and even transmitted back to the mainland, saving these companies millions of dollars and bringing millions of dollars into the state.

The key ingredient to the success of this bill is the implementation of the labor based tax credit. This tax credit provides the animation studio owners to attract business from outside the state, hire Hawaii personnel and keep the money in the state. There is a huge incentive to create new jobs. This tax credit model is extremely successful in Ontario, British Columbia and Quebec in Canada. This is one of the few tax credit models in which everyone wins.

Based on the history of other states and provinces, the introduction of this bill will attract enough new business to the state to at the very least double the number of employees required to complete the influx of work that this bill will attract. This will be a huge boost to the employee tax base in the state. For Hawaii Animation Studios alone, passage of this bill will likely be the motivator for our studio to grow to 150 employees or beyond within the first year, rather than outsource certain aspects of production in an effort to keep our overhead down. This number represents a 300% growth in the employee base of the company.

In summary, we at Hawaii Animation studios strongly advocate support for HB 2382. These progressive measures will provide Hawaii with the incentives required to develop a vibrant digital media industry and give us the opportunity to be a world leader in this industry. We are developing the talent here, we are providing the financial incentives here and we are geographically located at the center of the digital world. HB 2382 is the catalyst for that infrastructure to emerge.

Sincerely,

Daniel J. Krech  
President  
Hawaii Animation Studio

Appendix A

Rank	Title (click to view)	Studio	Lifetime Gross / Theaters	Opening / Theaters	Date
1	<b>Shrek 2</b>	DW	\$441,226,247 4,223	\$108,037,878 4,163	5/19/04
2	<b>Finding Nemo</b>	BV	\$339,714,978 3,425	\$70,251,710 3,374	5/30/03
3	<b>Shrek the Third</b>	P/DW	\$322,719,944 4,172	\$121,629,270 4,122	5/18/07
4	<b>Up</b>	BV	\$293,004,164 3,886	\$68,108,790 3,766	5/29/09
5	<b>Shrek</b>	DW	\$267,665,011 3,715	\$42,347,760 3,587	5/16/01
6	<b>The Incredibles</b>	BV	\$261,441,092 3,933	\$70,467,623 3,933	11/5/04
7	<b>Monsters, Inc.</b>	BV	\$255,873,250 3,649	\$62,577,067 3,237	11/2/01
8	<b>Toy Story 2</b>	BV	\$245,852,179 3,257	\$300,163 1	11/19/99
9	<b>Cars</b>	BV	\$244,082,982 3,988	\$60,119,509 3,985	6/9/06
10	<b>WALL-E</b>	BV	\$223,808,164 3,992	\$63,087,526 3,992	6/27/08
11	<b>Kung Fu Panda</b>	P/DW	\$215,434,591 4,136	\$60,239,130 4,114	6/6/08
12	<b>Ratatouille</b>	BV	\$206,445,654 3,940	\$47,027,395 3,940	6/29/07
13	<b>Monsters Vs. Aliens</b>	P/DW	\$198,351,526 4,136	\$59,321,095 4,104	3/27/09
14	<b>Happy Feet</b>	WB	\$198,000,317 3,804	\$41,533,432 3,804	11/17/06
15	<b>Ice Age: Dawn of the Dinosaurs</b>	Fox	\$196,573,705 4,102	\$41,690,382 4,099	7/1/09
16	<b>Ice Age: The Meltdown</b>	Fox	\$195,330,621 3,969	\$68,033,544 3,964	3/31/06
17	<b>Madagascar</b>	DW	\$193,595,521 4,142	\$47,224,594 4,131	5/27/05
18	<b>Toy Story</b>	BV	\$191,796,233 2,574	\$29,140,617 2,457	11/22/95
19	<b>The Polar Express</b>	WB	\$181,320,482 3,650	\$23,323,463 3,650	11/10/04
20	<b>Madagascar: Escape 2 Africa</b>	P/DW	\$180,010,950 4,065	\$63,106,589 4,056	11/7/08
21	<b>Ice Age</b>	Fox	\$176,387,405 3,345	\$46,312,454 3,316	3/15/02
22	<b>A Bug's Life</b>	BV	\$162,798,565 2,773	\$291,121 1	11/20/98
23	<b>Shark Tale</b>	DW	\$160,861,908 4,070	\$47,604,606 4,016	10/1/04
24	<b>Over the Hedge</b>	P/DW	\$155,019,340 4,093	\$38,457,003 4,059	5/19/06
25	<b>Dr. Seuss' Horton Hears a Who!</b>	Fox	\$154,529,439 3,961	\$45,012,998 3,954	3/14/08
26	<b>A Christmas Carol (2009)</b>	BV	\$137,855,863 3,683	\$30,051,075 3,683	11/6/09
27	<b>Dinosaur</b>	BV	\$137,748,063 3,319	\$38,854,851 3,257	5/19/00
28	<b>Chicken Little</b>	BV	\$135,386,665 3,658	\$40,049,778 3,654	11/4/05



29	<b>Robots</b>	Fox	<b>\$128,200,012</b>	3,776	\$36,045,301	3,776	3/11/05
30	<b>Bee Movie</b>	P/DW	<b>\$126,631,277</b>	3,984	\$38,021,044	3,928	11/2/07
31	<b>Cloudy with a Chance of Meatballs</b>	Sony	<b>\$124,870,275</b>	3,119	\$30,304,648	3,119	9/18/09
32	<b>Bolt</b>	BV	<b>\$114,053,579</b>	3,654	\$26,223,128	3,651	11/21/08
33	<b>Meet the Robinsons</b>	BV	<b>\$97,822,171</b>	3,435	\$25,123,781	3,413	3/30/07
34	<b>Antz</b>	DW	<b>\$90,757,863</b>	2,929	\$17,195,160	2,449	10/2/98
35	<b>Open Season</b>	Sony	<b>\$85,105,259</b>	3,833	\$23,624,548	3,833	9/29/06
36	<b>Beowulf</b>	Par.	<b>\$82,280,579</b>	3,249	\$27,515,871	3,153	11/16/07
37	<b>Jimmy Neutron: Boy Genius</b>	Par.	<b>\$80,936,232</b>	3,151	\$13,832,786	3,139	12/21/01
38	<b>Monster House</b>	Sony	<b>\$73,661,010</b>	3,553	\$22,217,226	3,553	7/21/06
39	<b>Barnyard: The Original Party Animals</b>	Par.	<b>\$72,637,803</b>	3,311	\$15,820,864	3,311	8/4/06
40	<b>Flushed Away</b>	P/DW	<b>\$64,665,672</b>	3,707	\$18,814,323	3,707	11/3/06
41	<b>Surf's Up</b>	Sony	<b>\$58,867,694</b>	3,531	\$17,640,249	3,528	6/8/07
42	<b>TMNT</b>	WB	<b>\$54,149,098</b>	3,120	\$24,255,205	3,110	3/23/07
43	<b>Hoodwinked</b>	Wein.	<b>\$51,386,611</b>	3,020	\$12,401,900	2,394	12/16/05
44	<b>The Tale of Despereaux</b>	Uni.	<b>\$50,877,145</b>	3,107	\$10,103,675	3,104	12/19/08
45	<b>Planet 51</b>	Sony	<b>\$41,583,183</b>	3,035	\$12,286,129	3,035	11/20/09
46	<b>The Wild</b>	BV	<b>\$37,384,046</b>	2,854	\$9,684,809	2,854	4/14/06
47	<b>Star Wars: The Clone Wars</b>	WB	<b>\$35,161,554</b>	3,452	\$14,611,273	3,452	8/15/08
48	<b>Final Fantasy: The Spirits Within</b>	Sony	<b>\$32,131,830</b>	2,649	\$11,408,853	2,649	7/11/01
49	<b>9</b>	Focus	<b>\$31,749,894</b>	2,060	\$10,740,446	1,661	9/9/09
50	<b>Toy Story / Toy Story 2 (3D)</b>	BV	<b>\$30,702,446</b>	1,752	\$12,491,789	1,745	10/2/09
51	<b>Space Chimps</b>	Fox	<b>\$30,105,968</b>	2,538	\$7,181,374	2,511	7/18/08
52	<b>The Ant Bully</b>	WB	<b>\$28,142,535</b>	3,050	\$8,432,465	3,050	7/28/06
53	<b>Jonah: A VeggieTales Movie</b>	Art.	<b>\$25,581,229</b>	1,625	\$6,201,345	940	10/4/02
54	<b>Astro Boy</b>	Sum.	<b>\$19,551,067</b>	3,020	\$6,702,923	3,014	10/23/09
55	<b>Igor</b>	MGM	<b>\$19,528,602</b>	2,341	\$7,803,347	2,339	9/19/08
56	<b>Valiant</b>	BV	<b>\$19,478,106</b>	2,016	\$5,914,722	2,014	8/19/05
57	<b>Happily N'Ever After</b>	LGF	<b>\$15,589,393</b>	2,381	\$6,608,244	2,381	1/5/07
58	<b>Arthur and the Invisibles</b>	MGM/W	<b>\$15,132,763</b>	2,248	n/a	1	12/29/06
59	<b>Everyone's Hero</b>	Fox	<b>\$14,523,101</b>	2,898	\$6,061,762	2,896	9/15/06

60	<b>Fly Me to the Moon</b>	Sum.	<b>\$13,816,982</b>	713	\$1,900,523	452	8/15/08
61	<b>The Pirates Who Don't Do Anything</b>	Uni.	<b>\$12,981,269</b>	1,340	\$4,251,320	1,337	1/11/08
62	<b>Doogal</b>	Wein.	<b>\$7,417,319</b>	2,319	\$3,605,899	2,318	2/24/06
63	<b>Battle for Terra</b>	LGF	<b>\$1,647,083</b>	1,159	\$1,082,064	1,159	5/1/09
64	<b>The Ten Commandments (2007)</b>	RM	<b>\$952,820</b>	830	\$478,910	830	10/19/07
65	<b>Delgo</b>	Free	<b>\$694,782</b>	2,160	\$511,920	2,160	12/12/08
66	<b>Roadside Romeo</b>	Yash	<b>\$55,202</b>	29	\$41,770	29	10/24/08
67	<b>Kaena: The Prophecy</b>	IDP	<b>\$8,593</b>	3	\$2,173	1	6/25/04
-	<b>Foodfight!</b>	LGF	<b>n/a</b>	-	n/a	-	N/A
<b>TOTAL (All Movies):</b>			<b>\$7,863,656,906</b>	-	-	-	-
<b>AVERAGE (All Movies):</b>			<b>\$117,368,014</b>	3,084	\$28,826,048	2,946	-
<b>TOTAL (Wide Releases Only):</b>			<b>\$7,863,593,111</b>	-	-	-	-
<b>AVERAGE (Wide Releases Only):</b>			<b>\$120,978,356</b>	3,178	\$31,619,827	3,179	-



Formatted: Indent: Left: 0"

Formatted: Left: 1", Right: 1"

February 17, 2010

Rep. Marcus R. Oshiro, Chair  
Rep. Marilyn B. Lee, Vice Chair  
Committee on Finance

Re: Testimony in STONG SUPPORT of HB 2382 HD1

My name is Ricardo Galindez and I am co-founder of Island Film Group (IFG), a local independent producer of film and television projects in Hawaii. Since 2007 has produced or co-produced three television movies, a television series, three feature films and numerous national and international television commercials. During that time our companies have used Hawaii's film incentives to help employ hundreds of local residents, spend tens of millions in the local community, purchase thousands of room nights from local hotels and broadcast the beauty of Hawaii to millions of people worldwide.

#### TAX INCENTIVES WORK...

Currently, there are at least five film and television productions slated to be produced in Hawaii in 2010, all of which would not have come to Hawaii without tax incentives:

"Soul Surfer" a feature film about Hawaii's own Bethany Hamilton

"Hawaii 5-0" a television pilot remake of Hawaii's best-known television series

"The Descendants" a feature film based on a novel written by Hawaii's own Kauai Hart

"Battleship" a feature film set in Hawaii and featuring the Mighty Missouri

"Pirates of the Caribbean" one of the highest-grossing theatrical franchises in history

Formatted: Indent: Left: 0.5"

#### TAX INCENTIVES WORK...

Unfortunately, we have lost the multi-year, \$100m+ projects ("Pacific" and the bulk of production for "Battleship") due to our lack of large soundstages and other physical infrastructure. Without such facilities Hawaii will not be able to attract or retain interest for the larger film and television productions, which are necessary to firmly establish Hawaii as a thriving production hub for years to come. Given the high cost of construction in Hawaii, a

viable infrastructure credit is essential. By requiring such facilities to be located near a UH campus, support of the ACM and its efforts will be achieved as well.

← Formatted: Indent: Left: 0"



Testimony of C. Mike Kido  
External Affairs  
The Pacific Resource Partnership

House Committee on Finance  
Representative Marcus Oshiro, Chair  
Representative Marilyn Lee, Vice Chair

HB 2382, HD1 – RELATING TO DIGITAL MEDIA  
Thursday, February 18, 2010  
2:00 pm  
Conference Room 308

Chair Oshiro, Vice Chair Lee and members of the House Committee on Finance:

My name is C. Mike Kido, External Affairs of the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union. PRP strongly supports the intent and purpose of HB 2382, HD1 – Relating to Digital Media.

The purpose of this bill is to develop Hawaii's digital media industry by establishing digital media enterprise subzones within enterprise zones and surrounding UH campuses; establishing a Digital Media Infrastructure Tax Credit and Digital Media Enterprise Subzone Workforce Development Tax Credit for infrastructure development and Hawaii workforce employment within these subzones; encouraging insurance companies to invest in digital media infrastructure projects by authorizing the use of the Infrastructure Credit to offset certain state taxes on insurance Companies; renaming the Hawaii Television and Film Special Fund the Hawaii Film Office Special Fund; and allowing the imposition of fees for the administration and certification of the tax credits to be deposited in the Hawaii Film Office Special Fund.

The creation of incentives will help build Hawaii's digital media infrastructure and develop our local creative media workforce so that our talented students can stay here in Hawaii. As stated by Chris Lee, Founder and Director of the UH Academy for Creative Media, "This is about jobs, right here, right now, right in Hawaii".

PRP would like to thank you for the opportunity to share our views with you and respectfully ask for your support on HB 2382, HD1 – Relating to Digital Media.

**TESTIMONY OF WILLIAM G. MEYER, III**

HEARING DATE/TIME: Thursday, February 18, 2010  
2:00 p.m. in Conference Room 308

TO: House Committee on Finance

**RE: Testimony in Support of HB 2382, HD1**

Dear Chair, Vice-Chair and Committee Members:

My name is William G. Meyer, III. I am an intellectual property attorney who has been practicing law in Honolulu for over 30 years. I represent both locally based and national and international motion picture and television production companies and high technology businesses.

I support the spirit and intent of HB 2382, HD1.

Respectfully submitted,

/s/ **William G. Meyer, III**

William G. Meyer, III

## **FINTestimony**

---

**From:** mailinglist@capitol.hawaii.gov  
**sent:** Wednesday, February 17, 2010 10:03 PM  
**to:** FINTestimony  
**Cc:** ssmith@shmpartners.com  
**Subject:** Testimony for HB2382 on 2/18/2010 2:00:00 PM  
**Attachments:** HB 2382 Testimony 2-18-10.doc

Testimony for FIN 2/18/2010 2:00:00 PM HB2382

Conference room: 308  
Testifier position: support  
Testifier will be present: No  
Submitted by: Stephan D Smith  
Organization:  
Address: 350 South Grand Ave. Los Angeles, CA 90071  
Phone: 2136807402  
E-mail: [ssmith@shmpartners.com](mailto:ssmith@shmpartners.com)  
Submitted on: 2/17/2010

Comments: