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LATE TESTIMONY

Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEES ON
ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS
AND
HIGHER EDUCATION**

Thursday, February 4, 2010
10:30 a.m.

State Capitol, Conference Room 312

in consideration of

**HB 2382
RELATING TO DIGITAL MEDIA**

Chairs McKelvey, Chang and vice-chairs Choy and Nakashima.

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments on HB2382, cautioning that some aspects of the measure could have fiscal impacts that, because of the timing, could adversely affect our economic recovery.

In the recent report by DBEDT's research and economic analysis division, the digital media, film, music, culture and arts sectors collectively 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. 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. Established companies such as Avatar Reality and new companies such as Hawaii Animation Studios have signaled an important milestone in the advancement of this sector, with their hiring of a significant number of Hawaii-based residents for full and part time employment.

While HB 2382 and its companion bill SB2355 seek to support 1) the growing digital media sector and 2) develop incentives and tax benefits for investments in digital media, animation and effects infrastructure, we have concerns about the fiscal implications and defer to Department of taxation to comment further on these impacts.

In relation to Part II, amending HRS 201§112-13 to rename the fund the film office special fund, we request the committee look at a broader scope as proposed in the administration's HB2529 and SB2682 which seeks rename the fund the creative media development special fund, which is more encompassing of all the creative industry sectors including film branch operations and digital media. We strongly advise against the elimination of the grants program as this is an important aspect to spurring growth of our local film and digital productions.

We also want to point out and assure this committee that the creative industries division and its film branch continue to provide operations and 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 and film branch staff that have great familiarity and knowledge of these industries and their constituencies.

HB2382 also creates a special Enterprise Subzone and broadens the definition of Enterprise Zones.

Part 1 establishes digital media enterprise subzones within the Enterprise Zone Statutes. This bill provides for additional and specific benefits for the digital media industry, such as automatic inclusion of geographic areas surrounding University of Hawaii campuses to be designated as enterprise zones; tax benefits for digital media infrastructure development and operation and local workforce employment.

Digital media, effects, animation and post production infrastructure are critical elements to enhance Hawaii's reputation as a center for IP export and digital production . We feel the creation of the digital media enterprise subzones would be of benefit for our state and our constituents. However, we caution that the fiscal implications of some areas of this proposed bill will have an adverse effect on our economy, and defer to the Department of Taxation as to these and other fiscal impacts of this measure.

Furthermore, because of the special and specific benefits provided to the digital media industry, and because these incentives would apply outside clearly established geographically designated enterprise zones, we recommend that the Legislature consider amending the Hawaii

Revised Statutes by adding a new chapter specifically related to the creation of digital media enterprise subzones. These changes would be more beneficial to the digital media industry as they would not be constrained by requirements of the Enterprise Zones Partnership Program. However, should the proposal to create a special Enterprise subzone workforce development tax credit prevail, we suggest that under “digital media enterprise subzone,” the geographic area in regards to the University of Hawaii be expanded to include the neighbor islands and the areas surrounding their respective campuses.

- 1) 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. While this is good, the purpose of the fund was to help develop the economic expansion of the industry sector. We suggest that instead of limiting the fund to just Hawaii film office operations, that the section be expanded to include creative industry division operations.

Thank you for the opportunity to provide these comments.

LATE TESTIMONY



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

COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS, & MILITARY AFFAIRS

Date: Thursday, 2/04/10

Time: 10:30 am

Place: Room 312, State Capitol

Testimony in support of HB 2382

Rep. Angus L.K. McKelvey 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.

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

LATE TESTIMONY

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Testimony by Harry Saunders
President, Castle & Cooke Hawai'i
February 4, 2010

Before the House Committees on

ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS

and

HIGHER EDUCATION

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In Support of HB 2382
RELATING TO DIGITAL MEDIA

Chair McKelvey, Vice Chair Choy; Chair Chang, Vice Chair Nakashima and Members of the Economic Revitalization, Business & Military Affairs and Higher Education Committees.

Castle & Cooke supports HB 2382 as it will establish digital media enterprise subzones as unspecified geographic areas surrounding University of Hawai'i campuses that are also designated as enterprise zones; establishes tax benefits for digital media infrastructure development and operation and local workforce employment; authorizes insurance companies to invest in qualified digital media infrastructure projects in lieu of pay certain state taxes.

It is our understanding that this initiative will help stimulate economic activity in the digital media sector and provide positive synergies in and around UH campuses.

Mahalo for your consideration of our testimony. If you have questions, please feel free to contact us:

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