SB 1133

EDT

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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STATEMENT OF

RICHARD C. LIM, INTERIM DIRECTOR
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM

BEFORE THE

SENATE COMMITTEES ON ECONOMIC DEVELOPMENT AND TECHNOLOGY, AND EDUCATION

Friday, February 11, 2011
2:45 p.m.
State Capitol, Conference Room 016
in consideration of

SB1133
RELATING TO DIGITAL MEDIA

Chairs Fukunaga, and Tokuda, Vice Chairs Wakai, and Kidani, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments and recommendations regarding SB1133. The measure proposes the establishment of a new digital media enterprise zone and a digital media infrastructure tax credit incentive. We defer to Department of Taxation as to the fiscal impacts of the measure and any impacts to their operations/staffing created by this new tax credit.

Regarding establishing a digital media enterprise zone, we estimate that for each $1 million dollars spent by a digital media company, it will create 5.31 direct jobs at an average annual wage of $59,572. We also estimate that the total direct, indirect and induced tax to be realized will be $109, 679.

This bill also provides for funding which can then be used by DBEDT for operations, including repairs and maintenance of the Hawaii Film Studio, personnel and programs that accelerate the growth and sustainability of Hawaii’s creative sectors. However, it should be noted that the Hawaii Television and Film Development board is currently inactive. The department does not believe that changing the board name will affect the status/activity level of the board. The department respectfully requests amending the language in 201-112 and 201-113 HRS to provide the director of DBEDT the ability to designate the use of these funds.

Thank you for the opportunity to provide these comments and recommendations.

UNIVERSITY OF HAWAI‘I SYSTEM
Legislative Testimony

Testimony presented before the
Senate Committee on Economic Development and Technology and
Senate Committee on Education
February 11 2011 at 2:45 p.m.
By Linda K. Johnsrud
Executive Vice President for Academic Affairs and Provost, University of Hawai‘i

SB 1133: RELATING TO DIGITAL MEDIA

Chairs Fukunaga and Tokuda, Vice Chairs Wakai and Kidani and members of the Senate Committees on Economic Development and Technology and Education:

Thank you very much for this opportunity to testify on Senate Bill 1133 that establishes a digital media infrastructure tax credit for projects located in enterprise zones around University of Hawai‘i campuses and specifies how the Hawai‘i film office special fund will be used.

The University of Hawai‘i intends to extend digital media programs to UH West O‘ahu and supports the effort of this bill to assist the campus in its development. While we are not in a position to comment on the implications of an infrastructure tax credit, we have recognized a need to expand the University’s digital media programs to include the establishment of an applied baccalaureate degree in this area at UH West O‘ahu. In the past year the UH system and campuses have held a series of systemwide academic planning meetings around the development of program pathways tied to creative media.

Thank you very much for the opportunity to testify.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LIEUTENANT GOVERNOR

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CATHY L. TAKASE
ACTING DIRECTOR

To:	Senate Committee on Economic Development and Technology Senate Committee on Education
From:	Cathy L. Takase, Acting Director
Hearing:	Friday, February 11, 2011, 2:45 p.m. State Capitol, Room 016
Re:	Testimony on S.B. No. 1133 Relating to Digital Media

The Office of Information Practices (OIP), which administers the State's public records law, the Uniform Information Practices Act (Modified), HRS chapter 92F (the UIPA), takes no position on the purpose of this bill, but offers the following comment on a proposed confidentiality provision.

A proposed new subsection (l) (page 14, lines 1 thru 11) provides that information submitted by a taxpayer applying for a tax credit shall not be subject to public disclosure when the information is "considered by the taxpayer and acknowledged by the department as confidential" under criteria set forth. The section then sets forth a standard for confidentiality that is nearly identical to the standard used to withhold confidential business and financial information under the frustration exception to disclosure under the UIPA.

The UIPA provides a uniform scheme to address public disclosure and protection of government records, including confidential commercial or financial information. The proposed confidentiality statute appears to afford slightly different treatment to information submitted for the proposed tax credit than is given to other similar commercial and financial information submitted to other government agencies, which may withhold information in accordance with standards adopted for this type of information under the UIPA.

For uniform treatment of similar records, OIP suggests that, if a confidentiality provision is desired, that it be worded to require the department to keep confidential commercial and financial information to the extent that this information falls within an exception to disclosure under chapter 92F.

Thank you for the opportunity to testify on this bill.

Testimony to

Senate Committee on Economic Development and Technology

and

Senate Committee on Education

Friday, February 11, 2011

By: Stephan D. Smith

President, SHM Partners

SB 1133—Relating to Digital Media

I am writing in ardent support of SB 1133, especially as it relates to the infrastructure credit, because without it the type of studio facilities necessary to attract continuous production and build a sustainable film and television industry in Hawaii will not be built.

Public assistance in building film and television production infrastructure is not new internationally but is relatively new in the U.S. Cinecitta in Rome, Studio Babelsberg in Potsdam-Babelsberg, Barrandov in Prague and Ciudad de la Luz in Alicante, Spain were all built with government funds (the former two have since been mostly privatized) while Fox Studios Australia, Warner/ (Village) Roadshow Studios in Queensland, Central City Studios in Melbourne, Stone Street Studios (Peter Jackson's) in Wellington, N.Z. Bridge Studios in Vancouver, B.C. were all built with very substantial government assistance in the form of free or subsidized land, grants, low interest loans and/or direct investment.

Vancouver's assistance to the Province's film infrastructure, together with its wage-based incentive program, is the reason it has grown into one of the four largest film centers in North America with over $1.2 billion in 2008 expenditures and $1.3 billion in 2009.

Meanwhile, Toronto's considerable assistance in underwriting Toronto Film Studios in the Portlands area and New York's sweetheart deal with Steiner Studios in the Brooklyn Navy Yards cemented them as two of the other primary production hubs in the Americas.

New motion picture/television studios now being considered in New Zealand and Puerto Rico will include considerable government assistance. While the former is an established production center with a moderate film incentive but a hunger for more of the benefits filming has brought them, the latter is an up-and-coming production location with a 40% film incentive but little in the way of infrastructure (yet).

Louisiana's 40% infrastructure credit was a key component in helping to underwrite a number of small studios and raise production from $10 million in 2002 to over $500 million in 2007. Arguably, Louisiana was less in need of the credit than Hawaii because of its plentiful underutilized resource options for filming, not the least of which has been the convention center in Shreveport.

Michigan's 25% infrastructure credit, in place for a couple of years, has led to the opening of one studio and a handful of projects in planning. While production in the state has increased

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from 5 or fewer features per year to 31 in 2008, representing $174 million in expenditures, 41 in 2009 ($224 million) and over 65 projects in 2010 based on the nation's highest incentive, 40-42%, it is still too early to gauge the impact of studio infrastructure. However, while Michigan is in severe financial distress, they understand that without studio infrastructure the state will only ever be a film location rather than the new industry they so critically need.

Thanks to the combination of its 25% tax rebate, 0% film investment loan program, film-friendly environment and proximity to Los Angeles, New Mexico's production expenditures rose from $1.5 million in 2001 to over $475 million in 2007. Albuquerque Studios, built with union funding rather than government assistance, has attracted a considerable amount of this activity-- to the state's benefit--but has struggled financially due to its high cost structure and "stand-alone" basis, i.e. lack of non-studio revenue streams. It could not be reproduced today.

It's clear that production is increasingly gravitating to places with studios, so jurisdictions which have supported studio infrastructure have set themselves apart from those offering only location opportunities by dramatically increasing local expenditures (location spending typically amounts to well under 50% of total production cost) and building an industry comprised of skilled, high paying jobs.

Hawaii offers lush tropical locations as well as more urban settings, optimal natural lighting, safety and talented crew. Interestingly, the State also boasts an abnormally high incidence of creative, media-savvy young people. However, unless there is public investment in infrastructure, Hawaii, which is already relatively expensive, will progressively lose productions to alternative tropical locations which offer studio facilities. This will inevitably lead to an ever greater exodus of students graduating in media disciplines seeking job opportunities elsewhere.

The lure of Hawaii for producers of visual content is incontrovertible—over 50 years of television production and nearly 100 years of filmmaking, not to mention hundreds of commercials—and production spending climbed from $135 million in 2009 to over $390 million in 2010, thanks in large part to Act 88 tax credits. However, most of this production is location-based with the majority of the spending occurring elsewhere, and *Lost*, accounting for nearly $80 million per year in expenditures, wrapped last year.

Fortunately, *Hawaii Five-0*, which is off to a strong start, will prove to be as successful as *Lost*, and it's too early to tell how *Off the Map* will fare. Feature films, such as *Pirates of the Caribbean* and *Battleship*, really didn't have a local option for stage work, so the bulk of this work was done elsewhere. The film business is changing, and modern stage facilities are needed in order for the State to build a stable industry rather than enduring the boom and bust of the location-based business.

TESTIMONY OF WILLIAM G. MEYER, III

HEARING DATE/TIME: Friday, February 11, 2011
2:45 p.m. in Conference Room 016

TO: Senate Committee on Economic Development and Technology

RE: Testimony in Support of SB1132 and SB1133

Dear Chair, Vice-Chair and Committee Members:

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

I support both SB1132 and SB1133 which, collectively, will create reasonable and measured incentives to build our digital media infrastructure and further develop our local creative media workforce so that Hawaii's talented students and other members of our creative community can study, and thereafter find jobs, in Hawaii. In this regard, creative media productions, in all its forms, including motion pictures, television, software, video games, internet multi-player games, animation, music, and visual effects continue to be Hawaii's best choice to mitigate the cyclical impacts of our current tourism/aviation fuel-based economy.

Accordingly, I support the letter, spirit and intent of both SB1132 and SB1133.

Respectfully submitted,

/s/ William G. Meyer, III

William G. Meyer, III