NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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

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

Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON WAYS AND MEANS
Friday, February 24, 2012
9:00 a.m.
State Capitol, Conference Room 211

in consideration of
SB2111 SD1
RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT

Chair Ige, Vice Chair Kidani, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on SB2111 SD1, which proposes increases to the Motion Picture, Television and Digital Media refundable tax credit (HRS 235-17) from the existing base of 15% and 20%. This proposal also raises the cap on total tax claims to an unspecified amount per project, and changes the repeal date to January 1, 2027. The proposed draft also combines an infrastructure tax credit originally in SB2462 and other amendments.

We support the measure's intent to allow greater access for applicable digital media projects and believe this will go a long way towards expanding Hawaii's capability in this emerging sector. We also strongly support the inclusion of internet, mobile platform, and wireless distribution since this is the wave of the future for our industry.

We have concerns, however, about merging an increase to the existing production tax credit with an infrastructure credit. We believe it would be best to move them forward as separate initiatives.

And we must point out the existing capacity issues for the State's film program and note that should there be any increases to our existing tax credit for film and digital media it will significantly increase the volume of production and digital media business, thereby increasing the need for additional funding to efficiently staff and manage the workload.

Thank you for the opportunity to testify on this measure.

ALAN M. ARAKAWA
MAYOR

200 South High Street
Wailuku, Hawai'i 96793-2155
Telephone (808) 270-7855
Fax (808) 270-7870
e-mail: mayors.office@mauicounty.gov

OFFICE OF THE MAYOR

Ke'ena O Ka Meia
COUNTY OF MAUI – Kalana O Maui

TO: The Honorable David Ige, Chair
Honorable Michelle Kidani, Vice-Chair
Honorable Members of the Senate Committee on Ways and Means

FR: Alan Arakawa, Mayor
County of Maui

HEARING: February 24, 2012
9 a.m.
Conference Room 211

SUBJECT: TESTIMONY OF MAUI COUNTY MAYOR ALAN ARAKAWA **IN SUPPORT OF SB2111 (S.D. 1)** RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT

Thank you for this opportunity to offer our testimony and support for SB2111 (S.D. 1) relating to Film and Digital Media Industry Development.

My administration **supports** SB2111 (S.D. 1) for the following reasons:

1. It includes a "Motion picture, digital media, and film production infrastructure income tax credit";
2. It includes increases to the "Motion picture, digital media, and film production income tax credit"; and,
3. The proposed infrastructure credit is tied to the hiring of residents of the State of Hawaii.

Reasons:

1) The proposed bill will benefit the entire State of Hawaii by bringing a new industry to the state, and thereby diversifying and stimulating our economy, creating new jobs for our residents, and producing long-term opportunities for our children through training/deeming programs.

2) According to presentations made to the legislature during last year's session, (a) each stage built in the State of Hawaii would inject nearly $140 million into our economy via the hiring of local labor and purchasing materials locally over a two year period; and, (b) Each movie filmed in Hawaii (i.e. $90 million budget) would create approximately 193 local jobs immediately.

3) An infrastructure tax credit is especially important to Maui County (and, the neighbor islands) as outside of the City & County of Honolulu, there isn't a single: soundstage, post-production facility; nor camera equipment rental houses; etc. The absence of any infrastructure makes it difficult for the neighbor-island counties to attract and develop a film and digital media industry. In January of 2012, the Chief Officer of the Creative Industries Division Film Office, released industry numbers at its Hawaii Film & Entertainment Board meeting. These numbers reinforced the disparity between the counties showing: (a) The City & County of Honolulu, with a 15% tax incentive, managed to file $126,441,000 spending in 2011; while (b) the three neighboring counties, with a 20% tax incentive, filed $5,183,245. The three neighbor counties combined managed a mere 4.09% of the market.

4) Our own research shows that on March 5, 2011, the governor of Puerto Rico signed a new law that increased the amount of its existing tax credits. In passing the law and developing necessary infrastructure, the PR Film Commissioner announced that in 2010, 12 projects were filmed on the island, creating 17,528 jobs and 22,671 hotel nights. Nearly $70 million was said to have been injected into their local economy through a dozen movies, TV series, and documentaries.

For these reasons, my administration and I **support SB2111**.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase motion picture, digital media and film production credit; infrastructure tax credit

BILL NUMBER: SB 2111, SD-1

INTRODUCED BY: Senate Committee on Economic Development and Technology

BRIEF SUMMARY: **Motion picture, digital media, and file production income tax credit.** Amends HRS section 235-17 to increase the motion picture, digital media, and film production tax credit from 15% to___% for the expenditures incurred in a county with a population over 700,000 for qualified production costs incurred by a qualified production company; and from 20% to ___% for expenditures incurred in a county with a population of 700,000 or less. In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified expenditures incurred by the entity for the taxable year. The credit may be recovered directly by the entity that incurred the qualified expenditures. The credit allowed under this section 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 under this section to any assignee who may subsequently assign a tax credit or any portion of a tax credit assigned under this subsection 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. Requires a taxpayer claiming a tax credit under this section to submit a copy of the completed assignment form to the department in the tax year in which the assignment is made and shall attach a copy of the form to the tax return on which the tax credit is claimed.

In order to qualify for the tax credit: (1) a qualified production shall have qualified expenditures totaling at least $200,000 for a qualified production, or $50,000 for a qualified digital media project or qualified independent and emerging media project; (2) provide marketing materials promoting the state as a tourist destination or film and digital media production destination, when appropriate, at no cost to the state, which shall include placement of a "Filmed in Hawaii" or "Produced in Hawaii" logo in the end credits; and (3) provide evidence that for the first two years of the production credit, at least 50%, and thereafter at least 60%, of the positions that make up the production cast and below-the-line production crew, or in the case of digital media projects, at least 75% of the positions, are filled by legal residents of this state or students enrolled full-time in a film-and-entertainment-related course of study at an institution of higher education in the state.

Requires every taxpayer claiming a tax credit for a qualified production, within 90 days following the end of each taxable year in which qualified expenditures were expended, to submit a written statement to the department of business, economic development, and tourism (DBEDT) identifying: (1) all qualified expenditures incurred in the previous taxable year; (2) the amount of tax credits claimed pursuant to this section in the previous taxable year; and (3) an estimate of the full-time equivalent positions for legal residents of this state created by each production, by category, and by county.

Increases the total tax credits that may be claimed per qualified production from $8 million to $___ million.

Delineate provisions allowing the director of taxation to revoke or modify any written decision qualifying, certifying, or otherwise granting eligibility for tax credits under this section if it is discovered that the taxpayer submitted any false statement, representation, or certification in any application, record, report, plan, or other document filed in an attempt to receive tax credits under this section

Requires DBEDT by December 31 of each year, to submit a report to the governor and the legislature that outlines the return on investment and economic benefits of the tax credits to the state, for the previous calendar year. The report shall also include an estimate of the full-time equivalent positions for residents of this state and aggregate wages and salaries paid for positions created by each production or project that received tax credits under this section and information relating to the distribution of productions receiving credits, by county and by type of production.

Defines "production expenditures" as the expenditures incurred by a qualified production that are subject to HRS chapters 235 or 237 and that have not been financed by any investments for which a credit was or will be claimed pursuant to HRS section 235-110.9, for tangible and intangible property used for, and services performed primarily and customarily in, production, including preproduction and post production, but excluding costs for development, marketing, and distribution, including but not limited to: (1) wages, salaries, or other compensation paid to legal residents of this state, including amounts paid through payroll service companies, for technical and production crews, directors, producers, and performers; (2) net expenditures for sound stages, backlots, production editing, digital effects, sound recordings, sets, and set construction; (3) net expenditures for rental equipment, including but not limited to cameras and grip or electrical equipment; (4) up to $300,000 of the costs of newly purchased computer software and hardware unique to the project, including servers, data processing, and visualization technologies, which are located in and used exclusively in the state for the production of digital media; and (5) expenditures for meals, travel, and accommodations.

Further defines "net expenditures," "qualified digital media project," "qualified expenditures," "qualified independent and emerging video project" for purposes of the measure.

This section shall be applicable to qualified production costs incurred on or after January 1, 2012 and before January 1, 2027.

Motion picture, digital media, and film production infrastructure income tax credit. Adds a new section to HRS chapter 235 to allow taxpayers to claim an income tax credit of ___% of the "qualified infrastructure costs" incurred by a qualified taxpayer in the state; provided that the tax credit claimed per project shall not exceed $______. To qualify for this tax credit, a qualified infrastructure project shall: (1) meet the definition of a qualified infrastructure project; (2) have qualified infrastructure costs totaling at least $10 million; and (3) provide evidence that for the first two years of the infrastructure project credit, at least 60%, and thereafter, at least 70% of the positions are filled by legal residents of this state or students enrolled in a construction or related course of study at an educational institution in the state. Defines "qualified infrastructure costs" as total costs incurred by a qualified infrastructure project including the costs of purchasing or leasing real property which are subject to HRS chapter 237 or 235 and that have not been financed by any investments for which a credit was or will be claimed pursuant to

HRS section 235-110.9. Defines “qualified infrastructure project”as a construction project in the state, for the development, construction, or renovation of a film, video, television, or media production or post-production facility and the immovable property and related equipment or any other facility that supports and is a necessary component of such infrastructure project.

Credits in excess of a taxpayer’s income tax liability shall be refunded provided such amount is over $1. Requires all claims for a tax credit, including amended claims, to be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit. Directs the director of taxation to prepare the necessary forms to claim a credit, may require the taxpayer to furnish information to validate a claim for credit, and adopt rules pursuant to HRS chapter 91. In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified infrastructure 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. Distribution and share of the credit shall be determined by rule.

If the infrastructure project ceases to be a qualified infrastructure project, the credit claimed under this section shall be recaptured and 100% of the recaptured tax credit shall be added to the taxpayer’s tax liability for the taxable year in which the recapture occurs. The taxpayer shall consent to a tax lien in the amount of the tax credit claimed under this section on the property as a condition to receiving the tax credit.

As a prerequisite to receive the credit, the taxpayer shall first prequalify the infrastructure project for the credit by registering with DBEDT during the development stage. If any portion of an infrastructure project is a facility that may be used for other purposes unrelated to production or post-production activities, then the project shall be approved only if a determination is made that the multiple-use facility will support and will be necessary to secure production or post-production activity. The taxpayer may also request a comfort ruling from the department of taxation regarding the applicability of the tax credit to a specific qualified infrastructure project.

Requires every taxpayer claiming the qualified infrastructure project tax credit to submit a written, sworn statement to DBEDT no later than 90 days following the end of each taxable year in which qualified production costs were expended, identifying: (1) all qualified infrastructure 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) an estimate of the full-time equivalent positions for residents of this state created by each project, by job category and by county.

Requires DBEDT to: (1) maintain records of the names of the taxpayers and qualified infrastructure projects claiming the tax credits; (2) obtain and total the aggregate amounts of all qualified infrastructure costs per qualified infrastructure project per taxable year; and (3) provide a letter to the director of taxation specifying the amount of the tax credit per qualified infrastructure project for each taxable year that a tax credit is claimed and the cumulative amount of the tax credit for all years claimed.

Upon qualification to receive the credit, DBEDT shall issue a letter to the taxpayer regarding the qualified infrastructure project, specifying the qualified infrastructure costs and the tax credit amount qualified for in each taxable year a tax credit is claimed. The taxpayer shall then file the letter with the taxpayer’s tax return for the qualified infrastructure project to the department of taxation.

Requires DBEDT to submit a report for the previous fiscal year to the governor and the legislature that outlines the return on investment and economic benefits of the tax credits to the state, including an estimate of the full-time equivalent positions for legal residents of this state and aggregate wages and salaries paid for positions created by each qualified infrastructure project that received tax credits under this section along with information relating to the distribution of qualified infrastructure projects receiving credits, by county and by type of project.

The tax credit for qualified infrastructure costs shall be applicable to tax years beginning after June 30, 2012 and before January 1, 2027.

Amends Act 88, SLH 2006, to provide that the motion picture, digital media and film production income tax credit shall be applicable to qualified expenditures incurred on or after July 1, 2006 and before January 1, 2012.

Repeals HRS chapter 201, part IX which establishes the Hawaii television and film development board and special fund.

Establishes a Hawaii film and digital media special fund into which shall be deposited: (1) legislative appropriations; (2) donations and contributions made by private individuals or organizations; (3) grants provided by governmental agencies; (4) fees collected pursuant to HRS section 235-17; and (5) quarterly payments equal to 2% of the total aggregate wages and salaries paid to legal residents of this state beginning on July 1, 2013.

Repeals this act on January 1, 2027 and provides that HRS section 235-17 shall be reenacted in the form in which it read on the day before the effective date of Act 88, SLH 2006.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: The legislature by Act 107, SLH 1997, enacted an income tax credit of 4% for costs incurred as a result of producing a motion picture or television film in the state and 7.25% for transient accommodations rented in connection with such activity. The credit was adopted largely to address the impost of the state’s general excise tax on goods and services used by film producers. The exclusion of income received from royalties was initially established by Act 178, SLH 1999, as an incentive to attract high technology businesses to Hawaii. The original proposal would have applied to royalties and other income received from high technology businesses. This section of the law was later amended in 2000 by Act 297 which added the inclusion of royalties from “performing arts products” and again amended by Act 221, SLH 2001, to include authors of “performing arts products.”

The legislature by Act 88, SLH 2006, increased the 4% credit to 15% in a county with a population over 700,000 and to 20% in a county with a population of 700,000 or less. Act 88 also repealed the income tax credit for transient accommodations and expanded the credit to include commercials and digital media productions, and limited the credit to $8 million per qualified production.

This measure proposes to increase the credit from15% to ___% in a county with a population over 700,000 and from 20% to ___% in a county with a population of 700,000 or less. The measure also increases the limit of tax credits that may be claimed per qualified production from $8 million to $___ million and establishes a motion picture, digital media, and film production infrastructure tax credit.

These credits have been morphing and expanding into full-blown tax credits since they "got their foot in the door" in 1997. It should be remembered that the perpetuation and expansion of motion picture credits are a drain on the state treasury. It is incredulous how lawmakers can bemoan the fact that there are insufficient resources to catch up on the backlog of school repairs and maintenance, to fund social programs and not being able to provide tax relief to residents and yet they are willing to throw additional public resources at a subsidy of film production and media infrastructure as proposed in this measure. Taxpayers should be insulted that lawmakers can provide breaks for film productions but refuse to provide tax relief for residents, many of whom work two or three jobs just to keep a roof over their head and food on the table.

Income tax credits are designed to reduce the tax burden by providing relief for taxes paid. Tax credits are justified on the basis that taxpayers with a lesser ability to pay should be granted relief for state taxes imposed. Sponsors try to make an argument that Hawaii needs to enact such incentives to compete for this type of business, one has to ask "at what price?" Promoters of the film industry obviously don't give much credit to Hawaii's natural beauty and more recently its relative security. Just ask the actors of "Lost" or "Hawaii 5-0" who have bought homes here if they would like to work elsewhere. While film producers may moan that they will lose money without the proposed tax credits, is there any offer to share the wealth when a film makes millions of dollars? If promoters of the film industry would just do their job in outlining the advantages of doing this type of work in Hawaii and address some of the costly barriers by correcting them, such tax incentives would not be necessary. From permitting to skilled labor to facilitating transportation of equipment, there are ways that could reduce the cost of filming in Hawaii. Unless these intrinsic elements are addressed, movie makers will probably demand subsidies, such as this incentive. Unfortunately, they come at the expense of all taxpayers and industries struggling to survive in Hawaii. While lawmakers look like a ship of fools, movie producers and promoters are laughing all the way to the bank and the real losers in this scenario are the poor taxpayers who continue to struggle to make ends meet, a scenario akin to the bread and circus of ancient Rome.

So while there may be the promise of a new industry and increased career opportunities, lawmakers must return to the cold hard reality of solving the problems at hand. The long and short of it is that due in large part to the irresponsibility of handling state finances in the past, taxpayers cannot afford proposals like this. Thanks to the gushing generosity of those lawmakers who gave the state's bank away in all sorts of tax incentive schemes in recent years, taxpayers have had to bear increasing tax burdens.

Robert Tannenwald, a senior fellow at the Center for Budget and Policy Priorities, drew the following conclusions in a report entitled "State Film Subsidies Offer 'Little Bang for the Buck'," published in State Tax Notes Magazine, December 13, 2010:

> "State film subsidies are a wasteful, ineffective, and unfair instrument of economic development. While they appear to be a 'quick fix' that provides jobs and businesses to state residents with only a short lag, in reality they benefit mostly nonresidents, especially well-paid nonresident film and TV professionals. Some residents benefit from these subsidies, but most end up paying for them in the form of fewer services - such as education, healthcare and police and fire protection - or higher taxes elsewhere. The benefits to the few are highly visible; the costs to the majority are hidden because they are spread so widely and detached from the subsidies.

> State governments cannot afford to fritter away scarce public funds on film subsidies, or, for that matter, any other wasteful tax break. Instead, policymakers should broaden the base of their taxes to create a fairer and more neutral tax system. Economic development funds should be targeted on programs that are much more likely to be effective in the long run, such as support of education and training, enhancement of public safety, and maintenance and improvement of public infrastructure. Effective public support of economic development may not be glamorous, but at its best, it creates lasting benefits for residents from all walks of life."

There is absolutely no rational basis for increasing and continuing these tax credits other than that other states are offering similar tax credits. Then again, those states can't offer paradise, year-round good weather during which to film. Instead of utilizing back door subsidies through tax credits, film industry advocates need to promote the beauty that is synonymous with Hawaii. Instead of creating sustainable economic development incentives, the film tax credits waste moneys that could otherwise create an environment that is nurturing for all business activity, activity that lasts more than the six or eight months of a production. The overall tax burden could be lowered not only for families but for the businesses that provide long-term employment for Hawaii's people.

Digested 2/23/12

February 22nd, 2012

TO: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Members of the Committee on Ways and Means

DATE: Friday, February 24th, 2012
TIME: 9:00a.m.
PLACE: Conference Room 211
Re: SB 2111 RELATING TO RELATING TO CREATIVE MEDIA DEVELOPMENT.

FROM: Todd J. Robertson, President/CEO
Hyperspective Studios, Inc.

Hyperspective Studios, Inc. is in support of SB 2111 relating to film and digital media industry development because we believe that such a bill will foster expanded growth of the film industry as well as development of a new and emerging digital media industry in Hawaii.

Hyperspective Studios, founded in April 1996, has been headquartered in Hawaii since 1999 and produces digital media projects including animation, visual effects, interactive media and film. The company has produced award winning media for several Hawaii companies as well as large domestic and international projects, with a large portion of it's revenue coming from the export of digital media.

Hyperspective currently employs 8 to 11 specialists and technicians, and is currently hiring three additional positions. The company regularly hires 10 to 30 or more subcontractors annually within the state of Hawaii. The company expects to increase it's workforce by 40% in 2012, with a steady increase of job openings over the next four years. SB2111 will greatly support and assist that growth and development.

The digital media production workforce largely overlaps and supports the film industry through visual effects, animation, post-production and stereography. I believe that digital media sector shows great potential for growth within the film and digital media industry in Hawaii. Digital media workers are those who are highly skilled and talented individuals. The digital media industry not only requires creative development teams to write scripts, create digital artwork and music, but employes technicians who are skilled in 3D technologies, information technology, computer science, engineering and programming.

The benefits that SB2111 will bring to Hawaii-based companies will help develop a new industry with a massive potential for growth and sustainability. The interactive media/game industry was measured at USD $10.3 Billion domestically in 2004. The industry has shown rapid growth since then to UDS $65 Billion in 2011 and is expected to continue this pattern of growth for years. Fostering growth of this industry in Hawaii has the prospective to create a large volume of high quality jobs within an industry that can become a pillar of Hawaii's economy.

Hyperspective Studios, Inc. 2800 Woodlawn Dr. Ste. 253 Honolulu, HI 96822 www.hyperspective.com

Adding definitions for digital media and independent and emerging media in conjunction with a lower qualification threshold of $50,000 provides expanded opportunity for Hawaii-based companies to develop intellectual property that create potential for successful sales of digital products. Companies that produce digital media and independent media projects typically spend less in initial development than film and television, but have a huge potential for profit. (please see Exhibit A for examples)

Digital media projects are not variable-location-based. They require computer hardware and software infrastructure development and once built, do not quickly move. Therefore, digital media projects provide a long-term, sustainable opportunity for jobs and development of products, while maintaining a work-force of Hawaii residents.

I believe that the added definitions for digital media, digital media projects, independent and emerging media projects in conjunction with a lower qualification threshold for these projects will foster growth of a strong, sustaining digital media industry that will provide opportunities to create high quality jobs within the state of Hawaii.

Thank you very much for the opportunity to testify.

Hyperspective Studios, Inc. 2800 Woodlawn Dr. Ste. 253 Honolulu, HI 96822 www.hyperspective.com

Exhibit A:
The following digital media game projects are a few examples of how small teams with relatively low budgets can create large success, illustrating the need to lower the qualification threshold:

Title: *Minecraft*
Two-developer team, under one year of development.
1,717,096 sales as of march 28th 2011, USD$32 million.
Current valuation of property is USD$84.2 million.

Title: *Amnesia: Dark Descent*
Two-developer team.
391,102 units sold, USD$7.8 million.

Title: *Terraria*
Two-developer team.
Over 1,000,000 copies sold, USD$10-15 million.

Title: *Limbo*
Two-developer team.
Over 1 million copies sold, USD$15 million.

Hyperspective Studios, Inc. 2800 Woodlawn Dr. Ste. 253 Honolulu, HI 96822 www.hyperspective.com

February 11th, 2012

Re: Proposed Amendments to SB 2111 RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

Hyperspective believes that it is not only important to support the digital media industry with changes proposed in SB2111 SD1, but also believes that it would be important to make the following changes and additions to the bill:

1. In **Section 3.b.2, change** the statement [or $50,000 for a qualified digital media project] to [or **$10,000** for a qualified digital media **or qualified independent emerging media project**]

    Hyperspective believes that a lower threshold with addition of qualified independent and emerging media will help support development and growth of a new industry with large potential for success as many local developers would require this lower threshold. Please see Exhibit A for case study examples that this opportunity can create.
2. In **Section 3.p change** the statement [“Digital media" means 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] to [“Digital media" means production methods and platforms directly related to the creation of cinematic imagery and **interactive media 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, **internet, wireless** or other digital distribution media]
3. In Section 3.p change the statement ["Qualified digital media project" means a production of interactive entertainment that is produced for distribution in commercial or educational markets, including a video game or production intended for internet or wireless distribution.] to [“Qualified digital media project" means **development of animation, graphics, visual effects, post-production, and interactive media for** entertainment **and/or education** that is produced for distribution in commercial or educational markets, including **but not limited to** a video game or production intended for **game platform, physical media,** internet or wireless distribution.”]
4. In **Section 3.p add** the statement “**Qualified independent and emerging media project" means a qualified production of film, video, television, interactive entertainment that is produced for distribution in commercial or educational markets, including but not limited to feature film, short film, television show, television series, a video game or production intended for game platform, physical media, internet or wireless distribution.**]

HYPERSPECTIVE STUDIOS, INC. 2800 WOODLAWN DR. STE. 253 HONOLULU, HI 96822 WWW.HYPERSPECTIVE.COM

February 23rd, 2012

TO: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Members of the Committee on Ways and Means

DATE: Friday, February 24th, 2012
TIME: 9:00 A.M.
PLACE: Conference Room 211

Re: SB 2111 RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

FROM: Erich Nemcek, Multimedia Specialist
Hyperspective Studios, Inc.

I am in support of the intent of SB 2111 relating to film and digital media industry development because I believe that such a bill will foster expanded growth of the film industry as well as development of a new and emerging digital media industry in Hawaii.

As an employee of a small Hawaii-based production company, I wear multiple hats as a multimedia specialist and have experience as a camera operator, editor, and writer. I believe this bill will not only allow me to continue working in Hawaii, but also provide significant opportunities for growth in my career.

The video game industry itself has already surpassed the music and film industries in terms of overall revenue, so there is clearly an enormous potential for success and growth in the emerging digital media industry. I believe this bill will help Hawaii's media companies and talent realize that potential and become viable, competitive companies on an international level.

Hyperspective Studios, Inc. 2800 Woodlawn Dr. Ste. 253 Honolulu, HI 96822 www.hyperspective.com

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	charisse@hyperspective.com
Subject:	Testimony for SB2111 on 2/24/2012 9:00:00 AM
Date:	Thursday, February 23, 2012 7:51:45 PM

Testimony for WAM 2/24/2012 9:00:00 AM SB2111

Conference room: 211
Testifier position: Support
Testifier will be present: No
Submitted by: Charisse Lindsey
Organization: Hyperspective Studios
E-mail: charisse@hyperspective.com
Submitted on: 2/23/2012

Comments:
I am in support of SB2111 RELATING TO RELATING TO CREATIVE MEDIA DEVELOPMENT. Passing this bill will provide opportunities for small business to continue to operate in Hawaii and will promote growth within the media industry. Passing this bill will open doors for companies as well as Hawaii residents. Our creative media students have been subjected to moving away in order to utilize their skills and talent. Supporting the creative media industry in Hawaii will bring many more opportunities for our students.

Tetris Online, Inc.
55 Merchant Street, Suite 2100
Honolulu, Hawaii 96813

February 24th, 2012

TO: Senator David Ige, Chair
Senator Michelle Kidani, Vice Chair
Members of the Committee on Ways and Means

DATE: Friday, February 24th, 2012
TIME: 9AM
PLACE: Conference Room 211, State Capitol

RE: S.B. No. 2111 S.D. 1 – Relating to Film and Digital Media Industry Development

FROM: Dean Hirata, CFO, Tetris Online, Inc.
Michael J.W. Chun, Marketing Manager, Tetris Online, Inc.

Tetris Online, Inc. continues to support the intent of S.B. No. 2111 S.D. 1 – Relating to Film and Digital Media Industry Development

Founded in January 2006 by Minoru Arakawa, Henk Rogers and Alexey Pajitnov, Tetris Online, Inc. is a developer and publisher of social games and other electronic entertainment properties. Tetris Online is privately held and headquartered in downtown Honolulu.

As of January 2012, Tetris Online has grown to become a top 5 social games developer on Facebook, trailing only such large, publicly traded companies as Zynga and Electronic Arts. Tetris Online's biggest game, Tetris Battle, is currently ranked in the top 10 of highest performing games on Facebook, and users of Tetris Battle play more than 50 million games each day.

Social games are experiencing exponential growth in the lucrative online games segment, which has grown from $1.84 billion in 2009 and is estimated to reach $8.64 billion in 2014 (Casual Games Association – Social Gaming Report).

Today, Tetris Online employs 57 people in Hawaii. Nationwide, competition for digital media employees is fierce, which makes it increasingly difficult to attract and retain employees, even the ones who have strong family ties to the islands. SB 2111 will help create and retain jobs in Hawaii, while increasing the state's revenues. This bill will support Hawaii's small local companies in the digital media industry so they can continue to flourish and provide jobs for Hawaii's talented workforce.

Once again, Tetris Online supports the intent of S.B. No. 2111 S.D. 1 – Relating to Film and Digital Media Industry Development. Thank you for your time.

TO: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Senator Mike Gabbard
Members of the Committee on Ways and Means

DATE: Friday, February 24th, 2012
TIME: 9:00a.m.
PLACE: Conference Room 211

Re: SB 2111 RELATING TO RELATING TO CREATIVE MEDIA DEVELOPMENT.

FROM: Gerard Elmore, Filmmaker, Commercial director

I fully support SB 2111 relating to film and digital media industry development because I believe that such a bill will help foster emerging local talent and will provide opportunities for the emerging digital media industry.

As a filmmaker, I wrote and directed a feature film called All for Melissa. It's currently available nationally via Netflix, Hulu, and Amazon.com. It was made with a 100% local cast and crew. The film helped to build my career as a commercial director here in Hawaii.

I have directed commercials for clients such as McDonald's, All State, Oceanic Time Warner Cable, Central Pacific Bank, First Hawaiian Bank, Wet N Wild, Taco Bell, Kanu Hawaii, and many others. I have also directed music videos that have aired nationally on Fuse TV and Country Music Television. Additionally, I have directed the 2008 Hawaii International Film Festival Trailer and I'm the Executive director of a local short film showcase called the `Ohina Short Film Showcase. `Ohina showcases short films made by local directors or films with local subject matter. All the proceeds we raise at the event go to help benefit the Doris Duke Theatre at the Academy of Arts.

I mention all of this because a lot of it would have never happened if I didn't take the high risk bet of making my first feature length movie. It was my first feature film and I was told that I would never get funding to make it. I had no track record, no demo reel, and no proof that I could pull it off. I had a dream and a story to tell and nothing was going to stop me from making it. So, I did what you are never ever suppose to do. I used my own money.

I just wanted a chance.

After massive credit card debit, sleepless nights and a lot of hard work, we made a movie. It premiered at the 2007 Hawaii International Film Festival to a sold out crowd and was very well received.

Not only was the film a huge success, it did what I was hoping it would do, it helped me to get my foot in the door as a local director.

Currently, each commercial I direct employees 12-25 freelance individuals. The positions range from on-set technicians and cameramen to digital artists and editors in post production. The work we have done recently has attracted the attention of mainland clients and puts us in a position to bring in new sources of revenue, bigger budgets and new opportunities for our local team.

The benefits that SB2111 would bring to Hawaii-based companies, like myself, would be tremendous. Not only will other filmmakers have the incentive to go bigger with projects but it will help filmmakers/digital media artists chase bigger projects here and in the mainland. I definitely see future `Ohina filmmakers working on commercial spots for the next Superbowl. We can do it and we can build it. We just need to give local talent a chance to succeed.

I succeeded but only after taking a huge risk and I feel there's got to be an easier way. A way that will also help build our infrastructure and create new opportunities.

Every year we put on the `Ohina Short Film Showcase we get to know each of the filmmakers. All of them have stories to tell and a dream just like I had. They always ask what jobs are out there for them and I always tell them the same thing, chase your dreams. Make them happen.

This bill will make more dreams possible and it will help create new high quality jobs within the state. It will also help position our industry and our state for the future. A future where Hawaii leads the way in an exciting and vibrant emerging media industry.

Thanks you very much for the opportunity to testify.

Gerard Elmore

Filmmaker, Commercial director

February 11th, 2012
Re: Proposed Amendments to SB 2111 RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

I believe that it is not only important to support the digital media industry with changes proposed in SB2111 SD1, but I believe that it would be important to make the following changes and additions to the bill:

1. In **Section 3.b.2, change** the statement [or $50,000 for a qualified digital media project] to [or **$10,000** for a qualified digital media **or qualified independent emerging media project**]

I believe that a lower threshold with addition of qualified independent and emerging media will help support development and growth of a new industry with large potential for success as many local developers would require this lower threshold.

2. In **Section 3.p change** the statement ["Digital media" means 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] to ["Digital media" means production methods and platforms directly related to the creation of cinematic imagery and **interactive media 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, **internet, wireless** or other digital distribution media]

3. In Section 3.p change the statement ["Qualified digital media project" means a production of interactive entertainment that is produced for distribution in commercial or educational markets, including a video game or production intended for internet or wireless distribution.] to ["Qualified digital media project" means **development of animation, graphics, visual effects, post-production, and interactive media for** entertainment **and/or education** that is produced for distribution in commercial or educational markets, including **but not limited to** a video game or production intended for **game platform, physical media,** internet or wireless distribution."]

4. In **Section 3.p add** the statement "**Qualified independent and emerging media project" means a qualified production of film, video, television, interactive entertainment that is produced for distribution in commercial or educational markets, including but not limited to feature film, short film, television show, television series, a video game or production intended for game platform, physical media, internet or wireless distribution.**]

Dear Senator Fukunaga,

I strongly support this measure. Hawaii can do better than just being a vacation house for continental US and Japanese visitors. The unique location and multicultural diversity could make Hawaii what Singapore is now -- a HUB for IT development, for the whole Pacific region.

I have a PhD in computer graphics and came to Hawaii from Australia in 1999, to work for Final Fantasy, the first cinematic CG feature film. SquareUSA, the Honolulu based company who made that film, had 31 people in Research and Development division at that time. To compare, ILM ("Industrial Light and Magic") company, created by George Lucas for all his Star Wars movies and innumerable other CG productions, had only 27 people in R&D. The research potential was immense.

When SquareUSA closed its doors in 2002, 4 spin-offs were founded immediately, based on the intellectual property developed in SquareUSA. Out of these 4, only one remained on the island and it's still a one-man shop. The second company (Multimedia and Video production) did not survive, and the 3rd one moved its Headquaters to Canada.

I stayed on the island, changing jobs 4 times already (mostly grants-based), which I find increasingly difficult to do.   Funding for science is getting smaller and smaller. There are no places (almost no places) in Hawaii, where computer graphics professionals can fully apply their skills and talents. During years 2001 - 2012, Konami office in Waikiki closed its doors and moved to Japan. Hawaii Animation Studio make a strong start, but had to close also. Smaller companies, such as Hyperspective, are busy surviving and can not afford to hire full time R&D staff, except for on project-based conditions.

I do believe that Multimedia and interactive CG are the landmarks of the 21 century. It's time to acknowledge that and help this industry grow.

Kind regards

Andrei Sherstyuk, PhD
Hawaiian resident and father of two

TO: Senator David Y. Ige, Chair
Senator Michelle N. Kidani, Vice Chair
Members of the Committee on Ways and Means

DATE: Friday, February 24th, 2012
TIME: 9:00a.m.
PLACE: Conference Room 211

Re: SB 2111 RELATING TO RELATING TO CREATIVE MEDIA DEVELOPMENT.

FROM: Richard M. Hirata, Multimedia Artist
Hyperspective Studios, Inc.

My name is Richard Hirata and I am a multimedia artist currently employed at Hyperspective Studios. As an industry professional here in Hawaii, I strongly support SB 2111. My support for this bill is motivated directly from my employment experiences. I received my Digital Animation degree in 2006 from the University of Hawaii at Manoa and I also attended digital arts courses at Kapiolani Community College with high hopes of finding stable work locally. The reality that hit me after graduating was that there was no strong creative media industry here in Hawaii, and that students were often being encouraged by career counselors to move out of their home state to find employment on the mainland. Unable to find work here in Hawaii, I moved to California in 2008 with the intent of finding any kind of work related to my field. What struck me then was that Hawaii's standards in digital media, film, and computer graphics were far behind that of the mainland. I struggled to learn more and better my skills to find work, but the reality was that unless communities back an industry, young professionals find themselves left behind as they do not have access to experience-building opportunities.

I returned to Hawaii in 2009 as I was unable to find steady work in California. I was employed with Hawaii Animation Studios in 2010, only to have my hopes of stable employment crushed again as the company shutdown in 2011. We were told it was due to financial reasons. I do not pretend to understand the logistical aspects of business, but I do understand that computer graphics and creative media are both steadily growing, lucrative industries. I fail to comprehend why Hawaii, a focal point in the Pacific that functions as a media hub for Asian and U.S. Markets, has not been keen on taking advantage of this industry by supporting new businesses here run by local professionals and people. The greatest shame, however, is that our state is losing so much of its talented professionals who are willing to find work, pay their taxes, and thus contribute to the local economy. Why does the state encourage academic programs such as the Academy for Creative Media at UH or New Media Arts Program at KCC when it fails to aid an industry these young graduates can work in? I have so many friends and colleagues right now who are very talented and willing to work, but are unable to find work locally. Many of them are ultimately planning to leave Hawaii.

The reality we face is that Hawaii is being left behind in technology and media, and we are rapidly losing talented professionals who could be supporting a strong, lucrative industry here. A personal testimony coming from a mere artist like myself may mean little in the grand scheme of things, but my experiences and employment challenges I have faced thus far are painfully genuine. I am always in favor of finding and maintaining a career, and if SB 2111 will be helping me help Hawaii in some way through my profession, it has my full support. Thank you very much for your consideration.

Richard M. Hirata