



EXECUTIVE CHAMBERS
HONOLULU

GOVERNOR LINDA LINGLE
HAWAI'I ECONOMIC ASSOCIATION
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Good afternoon and aloha everyone!

In every corner of the globe ... from central government meetings in Beijing, to board meetings in New York and London, from the presidential campaign trail, to offices in downtown Honolulu, and in every Hawai'i home ... the economy is dominating the dialogue.

Whether you are leading a multi-national corporation, a Hawai'i government agency, a small business on the neighbor islands, or a single-member household, your financial situation is being affected by global events. The economy – both its current state and its future form – is the most important issue we face today, and everyone wants to know where the economy is headed.

But before speaking specifically about Hawai'i, I believe it is important to place our discussion into the context of what is happening at the national and global levels.

Reverberations from the U.S. economy are now being felt worldwide, leading the International Monetary Fund to cut its forecast for global economic growth. A recent article in the New York Times headlined "Housing Woes in U.S. Spread Around the Globe," highlighted a drop in housing prices everywhere from Spain and Ireland in Europe to Baltic seaports and northern India. And it linked the declining values to the U.S. subprime mortgage problem.

Nevertheless, growth in most of Asia continues to be strong, particularly with our neighbors in China, Japan and Korea. Because of our close ties to these nations, this is beneficial for Hawai'i.

The condition of the U.S. economy is under intense scrutiny. We hear every day of volatile stocks, rising oil prices, increased foreclosures, and continued inflation despite decreased consumer spending. The Wall Street Journal reported last week that the "U.S. Economy Hasn't Hit Bottom," and Federal Reserve Chairman Ben Bernanke caused a stir when he just mentioned the "r" word.

National and international events obviously have an impact on Hawaii's economy. The price of gasoline, electricity, and food is heavily affected by events outside our borders. But in many ways economic and fiscal factors here at home are different from what is occurring in mainland states and foreign countries.

The differences are often blurred because of the media's tendency to highlight negative stories, and then to repeat them like a drum beat throughout the 24-hour news cycle via a wide variety of information sources, including the Internet. People locally continue to hear these reports and commentaries about how bad the economy is and how it keeps getting worse ... but the fact is that many of these stories simply don't apply to Hawai'i.

A recent editorial in the Wall Street Journal was titled "Crisis in Confidence." It discussed the high levels of pessimism Americans have about the economy. Bloomberg News just reported that consumer confidence is at its lowest level in a quarter-century.

And, even on Island Insights on PBS recently, Dr. Pearl Iboshi was drawn into an intense discussion about doom and gloom by the host and two business guests.

This abundance of negative stories about the mainland and world economies is precisely why I believe an objective perspective on our specific situation is so important – we must ensure that our residents' attitudes are based on a complete and accurate picture of our state's economy.

Attitudes shape actions ... and actions affect the economy.

Everyone has a role to play and an impact on the economy – it doesn't just operate independently of us. This is why the information you share and the statements you make, as economic leaders in Hawai'i, are so vital.

My role in this case is to paint an accurate picture of our economy for the people of Hawai'i. That picture includes specific reasons to be optimistic. I want to discuss with you three areas that inform the basis for my optimism.

First, a realistic analysis of Hawai'i's economy and our state government's financial standing.

Second, the proactive approach local businesses and my Administration are taking to improve our current economic situation and business climate.

And third, the long-term strategies that are already transforming Hawai'i's economy.

ANALYSIS AND STATE'S STANDING

When assessing the current condition of Hawai'i's economy, many people will reasonably point to the closing of Moloka'i Ranch, as well as the shutdown of Aloha Airlines and ATA, as clear signs of trouble. These were certainly very unfortunate events that have impacted the economy and the lives of many residents.

But the overall economy of our state and the fundamentals of the economy are not to blame.

Moloka'i Ranch closed in large part because of well-known, long-standing and fairly widespread community opposition to land development and specifically to its plans for second-home housing meant for non-Moloka'i residents.

According to its management's public statements, Aloha Airlines primarily suffered due to competition, as well as the soaring costs of fuel. ATA also encountered difficulties because of high fuel costs, and they lost their largest client, the military, and this loss forced them to cease operations nationwide.

It was unfortunate that these events happened within a 10-day time period, but they were not connected to the status of Hawai'i's overall economy or based on weak fundamentals.

Yes ... it is obvious that we are no longer enjoying the robust, dynamic economic growth of 2003 to 2006. That blistering growth fueled prosperity and progress in Hawai'i, but it was unsustainable over the long-term.

Certainly, Hawai'i has entered a new phase of our economic cycle, but this slowdown is not like the 1990s, when often irrational foreign investments created a bubble that was bound to burst. In that case, money brought into our state by those looking for a quick profit added nothing long-term to the foundation of our state's economy, and left as quickly as it arrived.

Clearly that is not the case today.

Our state's economic growth has slowed, but it has not stopped. Many important indicators show moderate growth, that, when contrasted with the rest of the nation, is a fortunate position for Hawai'i.

The latest forecast from the University of Hawai'i Economic Research Organization predicts that our state will not slip into a recession.

The Council on Revenues projects 3.9 percent growth for Fiscal Year 2008. While this is a decline from the double-digit growth of previous years, it still shows revenue growth for our state and, this growth is on a much larger base of annual revenue built over the last few years.

The Department of Business, Economic Development and Tourism estimates that the GDP will increase by 2.5 percent in calendar years 2008 and 2009. Here we see a sign of an up-tick on the horizon.

Hawai'i's unemployment rate is tied for fourth-lowest in the nation. In fact, our state experienced positive job growth during each of the first three months of 2008, including the addition of 2,000 jobs during March.

The very sad layoff of 1,900 employees of Aloha Airlines, which was our state's 10th largest employer, motivated the state, city and private sector to move quickly to offer job placement and training assistance. I am cautiously confident that these talented and hard-working people will quickly find new positions and careers, some of them in our innovation sector, which I will talk about later.

Our state has also largely escaped what is perhaps currently the single most damaging factor to the nation's economy – the subprime mortgage crisis. While foreclosures have increased in Hawai'i, we still rank just 45th in the country in foreclosure rates. In fact, in 1997 there were more than four times as many foreclosures in Hawaii as there were in 2007.

I am proud that Hawai'i's fiscal standing is also drastically different from many parts of the mainland because of our strong economy during the last few years and prudent management of our state government. Fiscal accountability has been a priority since I first took office in December 2002.

My Administration inherited a \$215 million deficit and a proposed budget based on the complete depletion of the Hurricane Relief Fund. We have since had record surpluses, and even during the most robust period of growth in our state's history, we exercised prudence and controlled spending. This has allowed us to maintain a positive financial position, and in spite of reduced revenues in 2008, our state is still projected to have a surplus of \$420 million when we end the fiscal year on June 30. In addition, the principle in the Hurricane Relief Fund remains intact.

Our Administration will continue to be prudent in our spending and careful with taxpayer's money. And I want to be clear, that I am committed to leaving the state budget in a better condition than the one in which I found it.

The financial health of state government and our economy are closely linked. The growing economy, coupled with fiscal discipline, have kept the state's bond ratings at their highest levels in our history.

Budget and Finance Director Georgina Kawamura and Pearl Iboshi met with bond raters recently, and I am proud to say our state will maintain this high bond rating. It is significant that these meetings took place after the demise of Moloka'i Ranch, Aloha Airlines and ATA.

Standard & Poor's and Moody's cite Hawai'i's fiscal conservatism, consistent positive fund balances, and positive tax revenue and employment growth as reasons for the high rating.

This allows us to invest prudently in long-term infrastructure projects at the lowest possible interest rates and, more importantly, it highlights Hawai'i as a place with a stable and healthy economy.

Our budget situation also is in stark contrast to that of many other states.

For example, in Fiscal Year 2009, 22 states and the District of Columbia face a combined projected budget deficit of \$39 billion. California alone faces a \$14.5 billion deficit. Arizona's \$1.8 billion budget gap equals 16 percent of the state's general fund. Kentucky is facing the worst budget crisis in that state's history.

These budget deficits have detrimental effects on businesses and residents in the form of reduced services and increased taxes.

For example, California is talking about cutting education funding by \$4.4 billion. Maryland already raised the sales tax from 5 percent to 6 percent, and corporate taxes from 7 percent to 8.25 percent.

Because our state government will continue to be disciplined in its spending, Hawai'i's businesses and citizens should not suffer similar economic hardships.

PROACTIVE APPROACH

Earlier I mentioned that everyone has a role to play and an impact on the economy. The business community has an especially important role to play. I am a firm believer that during an economic slowdown, businesses should not hunker down, be stagnant and adopt a defensive mentality. This only exacerbates the situation.

Rather, these are times when true business leaders adapt, look for efficiencies, cut non-essential costs, exercise outstanding entrepreneurial skills and capitalize on opportunities as they arise.

In a March commentary and analysis by Bank of Hawai'i's chief economist Paul Brewbaker, he found that owners of Hawai'i companies are more upbeat about their own business prospects than the direction of the overall economy.

This is because business owners know the facts and figures of their operations, and tend to hear about the economy from bleak stories in the media.

Just as the best businesses find opportunities in a slowing economy, the State has also found an opportunity that in part resulted from a slowing national economy and the credit crisis.

The financial situation of Kuilima Resort Inc. and the foreclosure suit that has been filed has created a once-in-a generation opportunity for the State to acquire the Turtle Bay property, to preserve the undeveloped land and protect the long-term economic viability of the existing resort.

In fact, a reporter from the Wall Street Journal will be in Hawai'i next week to include the Turtle Bay situation in an article on the "green lining" of the nation's economic downturn – how the downturn is creating opportunities for the purchase and conservation of land that might, in better financial times, be unavailable and developed.

INVESTMENT IN STATE

Just as businesses can't become stagnant during this point in an economic cycle, neither can state government. Our capital improvement projects in particular are vital to Hawai'i's economic engine.

Investment in infrastructure not only spurs economic growth and jobs, it also allows for increased efficiency and expansion by businesses.

A key part of these efforts is our Airports Modernization Plan, which is underway and will invest \$2.3 billion over 12 years to upgrade airports around the state. This will improve the travel experience for residents and visitors, facilitate the transport of cargo, and assist the operations of airlines.

My Administration, in cooperation with legislators and harbor users, has also launched the Harbors Modernization Plan that allocates \$845 million over six years to improve harbors on O'ahu, Maui, Kaua'i and the Big Island.

Our state commercial harbors are Hawai'i's economic lifeline, with 98 percent of imported cargo coming through our ports. Modernization will increase harbor capacity to accommodate the dramatic increases in cargo and commercial use projected for the next 30 years.

We will continue investing statewide in schools and the university system to make necessary repairs, maintenance and upgrades. Modern facilities are critical to successful education and the development of our state's future workforce.

Also in progress are the first comprehensive, systemwide improvements to our state parks in 40 years. These parks are the jewels of Hawai'i and caring for them will be beneficial to tourism, as well as the residents who enjoy them.

I appreciate the Legislature's consensus that spending to upgrade our state's infrastructure is imperative. State lawmakers realize the tremendous return on investment this spending will yield for our state's current and future economic well-being.

Any analysis of Hawai'i's economy must also consider the ongoing development of West O'ahu and Kapolei. By 2025, the area's population is projected to double from 85,000 to 172,000. During the same time, jobs are projected to almost triple to nearly 70,000.

Many state government projects are contributing to this boom. These include the construction of a new UH-West O'ahu campus, the relocation of the Department of Hawaiian Home Lands headquarters and construction of DHHL homes and other affordable housing. DHHL land will also become home to the largest commercial development in Hawai'i since Ala Moana Shopping Center – a 1.6 million square-foot mall. And it will be home to the state's largest multi-purpose community facility – the Kroc Center.

Economic growth in West O'ahu will be bolstered by major transportation infrastructure projects, including the construction of North-South Road, the widening of Fort Weaver and Fort Barrett roads, and the building of a new H-1 interchange.

Economist Dr. Leroy Laney in a speech on April 7 to the Kapolei Chamber of Commerce said development in Kapolei is expected to generate about \$93 billion in economic activity and represents a "boom amidst a national bust."

Additionally, Disney's plan to build a family resort at Ko Olina will bring 1,000 jobs, and opportunities in new media and digital technology.

We aren't just developing land in West O'ahu – we are building communities with long-term economic drivers.

The neighbor islands are also experiencing growth. My Administration has just awarded a contract for the development of 272 acres in North Kona that will infuse \$760 million dollars in new construction over the next 12 years – much of it aimed at workforce housing development.

No discussion about Hawai'i's economy would be complete without mentioning the enormous impact of the military. Because of Hawai'i's location and its strategic importance to the nation's security, the military is among the most reliable sectors of the economy.

For Fiscal Year 2008, defense projects will total nearly \$742 million. The stationing of the Stryker brigade on O'ahu will add another \$250 million in new construction and increased annual spending. Ongoing programs to privatize construction, renovation and operation of military housing will contribute an estimated \$3 billion over the next decade.

Even as we diversify our economy, the visitor industry will continue to be an important part of our economy. Hawai'i is one of the most unique places in the world, and although there may be fluctuations in visitor numbers, the spectacular beauty and legendary lifestyle of our islands will always have international appeal.

My Administration is working with the visitor industry to bolster tourism, particularly by encouraging airlines to add capacity and by reaching into new markets. We are in contact with new Taiwan President Ma Ying Jeou, as well as China, to pursue direct flights to Hawai'i.

On April 18, a visa waiver agreement was finalized between the United States and the Republic of Korea, and we are pushing to accelerate its implementation. There are many in Korea eager to visit our state.

This ability to reach out and work with other countries highlights another aspect of Hawai'i that makes our economy different, and stronger. Because of our role as a geographic and cultural bridge between East and West, and our uniquely and genuinely welcoming nature, Hawai'i is seen by many as almost a nation-state. This special perception others have of us is manifested in business and defense agreements we sign with countries.

We have close relationships with countries throughout the Asia-Pacific region that our Administration continues to cultivate for business, educational and cultural purposes. Our international outreach has included trips to China, Japan, Korea, the Philippines and Indonesia, which continue to yield economic benefits for Hawai'i.

Here at home, many of our state departments are taking steps to reduce fees and increase efficiencies in order to stimulate the economy.

The Department of Commerce and Consumer Affairs will continue efforts to reduce business registration and filing fees over the next six months. Since 2003, DCCA has lowered its charges by \$45 million to help reduce costs for new and existing businesses in Hawai'i.

The Department of Taxation will continue to speed up tax refunds this year in order to quickly return money to individuals and families when they need it most. In fact, over the last three years, our tax department has reduced by 65 percent the time that residents wait for the return of their hard-earned money.

And, beginning in January we implemented a major cut in unemployment taxes that will save businesses \$151 million over the next three years.

TRANSFORMING THE ECONOMY

When it comes to the economy, there is a tendency to focus on the next quarter or the fiscal year ahead. That approach is necessary, but it will not take Hawai'i where we need to go.

We need to take a long-term, strategic approach in order to fundamentally transform our economy. I have spoken previously in my inaugural and State of the State addresses of the need to end our over-reliance on land development and tourism, and to focus more attention and resources on an innovation economy that relies instead on the human capacity of Hawai'i's people.

If we overdevelop, we destroy our spectacular natural resources and the unique quality of life that are Hawai'i's most valuable assets ... that define this place and define us as a people.

Before our eyes, the world is rapidly changing through the forces of globalization, technology and innovation. If we do not make every effort to stay ahead of the curve, we will be left behind it.

The time for planning ... studies ... debate ...and political tinkering is over.

This is why I launched the Hawai'i Innovation Initiative. Our state's efforts must be focused on developing the limitless potential of human ingenuity.

Our approach is to foster innovation in our education system, in the workforce, and across the economy. I have mandated that state government lead by example.

Beginning in the middle of May, I will present a monthly Governor's Innovation Award to highlight the best examples of innovation by individuals, by organizations and by government. I encourage you to submit nominations through our website.

I am pleased that we have made some progress through the Innovation Initiative. There are STEM academies on Kaua'i and Maui for students to engage in science, technology, engineering and math.

This legislative session, we have added creative academies to provide high school students with experience in digital media. The Music Enterprise Learning Experience, or MELE program, supports Hawai'i's music industry through college courses in artistry, production and business.

We are providing some of the funding for a world-class life sciences and biotechnology research facility in Kaka'ako. We have revived the Office of Space Industry and partnered with NASA to pursue space exploration related projects in Hawai'i.

But perhaps our most visible innovation accomplishment took place in the Stan Sheriff Center in March. Anyone in attendance saw Hawai'i's economic future in action. I'm referring to student robotics.

Through primary funding from NASA and BAE Systems, Hawai'i hosted a FIRST Robotics Regional Competition, in which high school teams compete in a game with robots they build with help from community mentors.

Robotics immerses students in STEM learning, and it develops problem-solving, communication, teamwork and critical thinking skills that are vital to any career.

Last year there were only four Hawai'i high school teams capable of competing at this level. Because we hosted a Regional, that number grew to 25 this year, or 32 percent of our high schools, the second highest rate in the nation.

These schools run the gamut from Nanakuli and 'Iolani on O'ahu, to Hilo and Honoka'a on the Big Island. Honoka'a won Rookie of the Year at our state's Regional.

Six of these teams earned spots in the Championships in Atlanta, which I attended last week. Waialua High School was presented the second highest award of the competition – the FIRST Engineering Inspiration Award, which celebrates outstanding success in advancing respect and appreciation for engineering within a team's school and community. All Hawai'i robotics students demonstrated tenacity, established a foundation for their peers in this program and displayed remarkable ability in the kind of skills needed in the 21st century.

Our goal is for every high school in the state to have a robotics team.

Hawai'i will need these students to excel in STEM and as innovative thinkers in order to tackle the transformation of our economy. They will especially be needed in our shift to energy independence.

ENERGY INDEPENDENCE

I consider leading Hawai'i on a path toward energy independence as important as anything else I will do as Governor.

I just returned from Dallas, where I met with five other governors on this issue. Our focus is bold and proactive ... and we are resolute. We are not willing to wait for leadership at the Federal level that may not materialize.

Yes, energy independence is a worthy goal because of the positive impacts it has on the environment. But perhaps more important is how it provides stability in prices and security in supply.

Hawai'i is in a precarious position – we are the most oil dependent state in America. 90 percent of our electricity and transportation fuels come from imported oil. We send \$5 billion a year out of the state to buy that oil, and 99 percent of that oil is from foreign countries, some of which are less than stable governments.

The price of a barrel of oil stands at \$119 and seems to increase daily to new record highs. Hawai'i has the highest utility rates in the nation. On O'ahu, electricity bills rose 84 percent from 2002 to 2007.

Hawai'i has the second highest gasoline prices in the nation, behind California. At the pump, motorists are paying a staggering \$3.74 per gallon. Molokai residents pay \$4.40 per gallon! You can be certain these prices aren't going down any time soon.

These energy costs are stifling our state's economic growth, and should motivate us to make a dramatic shift in our energy sources – from oil to indigenous renewables.

Every business is directly bearing the costs ... in the form of electricity bills, shipping fees, gasoline prices and other operating expenses, and also in the ability of customers to continue paying for products and services.

The impact of the rising price of oil is exacerbated by our location, 2,300 miles from the nearest continent. Everything must be imported by ships and planes that burn fuel.

I am certain that Hawai'i can reverse its standing and become among the least oil dependent states in America. We have an incredible opportunity for energy transformation, with abundant, diverse renewable resources that rival any place on Earth. From solar and photovoltaic, to wind, to geothermal, to wave, to ocean thermal energy conversion, to biofuel – the possibilities are vast.

Energy independence is not a catchy phrase to describe something we would like to achieve at some unknown point in the future, it is an economic imperative that we need to make progress on right now. My Administration is aggressively pursuing energy independence today.

And, although we have made some progress during the past few years, the landmark moment came this past January, when we launched the Hawai'i Clean Energy Initiative. This partnership with the U.S. Department of Energy aims to have 70 percent of Hawai'i's power come from clean energy sources by the year 2030.

This is an unprecedented program – Hawai'i is the only state in the nation in such a partnership, and it will make our islands a test bed of innovative technology.

The progress has already begun.

The Department of Transportation is building large solar arrays at 10 locations, including most airports. Numerous state buildings, including the State Capitol, are targeted for retrofitting to increase energy efficiency.

The first private wave energy project in the U.S. is planned for the coast of Maui. The Valley Isle will also be home to the first federal wind energy technology research center outside of Colorado.

This year, the Big Island should increase its current rate of 30 percent of its power from renewable sources. Maui and Kauai will soon be home to biofuel production plants. Planning is underway to have Lanai and Molokai powered by 100 percent clean energy.

A recent Public Utilities Commission ruling has allowed residents and businesses with renewable energy generators, such as solar or wind, to double the amount of power that qualifies for net energy metering.

Net energy metering enables customers to be connected to the power utility grid. When renewable generators produce more power than a customer needs, that electricity can then be fed back to the grid. Customers are credited when the surplus is fed back, reducing their overall electric bill.

And this past Monday, the U.S. Department of Energy announced that Hawai'i has been selected as the location for a \$15 million project to develop an advanced electrical grid system, capable of efficiently incorporating high levels of renewable energy.

While \$7 million of the funding is from the federal government, the other \$8 million is from private companies, including Hawaiian Electric and Maui Electric. The same utility companies that originally provided resistance to rapidly increasing our energy independence have now realized that this fundamental change is good for business. It diversifies the economy, creates new businesses and careers, and advances technology and innovation.

One of the main challenges to a clean energy economy is a regulatory system that isn't geared to accept and provide incentives for renewable power. This week, the U.S. Department of Energy held training sessions for state government, the PUC and utility companies on how to transform Hawai'i's regulatory framework to favor renewable energy by incorporating best practices from around the country.

I know economists enjoy statistics, projections and “what if” scenarios. I ask you to think about this: Instead of the \$5 billion currently spent importing oil to Hawai‘i each year, imagine if that money was invested in renewable energy businesses, that produce quality jobs here at home.

If we can reduce our oil dependence by 20 percent, that will circulate another \$1 billion through our local economy.

If we reach the 70 percent goal, that will pump \$3.5 billion into the economy. Now that’s an economic stimulus package.

CONCLUSION

When studying the economy, we often look back in history for insights and ideas. I believe it is worth taking a trip back more than two centuries to America’s infancy to heed the wisdom of our founding fathers.

They were concerned, as we are now, about both their immediate financial situation and the long-term structure of the economy. Among our nation’s first leaders, there was tremendous debate and differences of opinion, particularly between the first Secretary of the Treasury, Alexander Hamilton, and the first Secretary of State, Thomas Jefferson.

These two brilliant men were known for starkly contrasting economic beliefs, including on issues such as central banking, national debt and foreign trade.

But the common ground between Hamilton and Jefferson is quite revealing. Both believed the success of the economy would be determined by the hard work and ingenuity of the American people.

More than 230 years later, I too believe that our economic success relies upon the determination and innovative spirit of our people.

I am also confident in the direction our Administration is taking our economy.

The models of Hawai‘i’s past cannot provide progress and prosperity over the long term. But Hawai‘i’s future, promises to be a successful and sustainable new era for our economy, one based on innovation and energy independence.

Although I am a big admirer of Alexander Hamilton, in this case I find myself agreeing with Thomas Jefferson, who said, “I like the dreams of the future better than the history of the past.”

Mahalo.

A video of Governor Lingle’s speech can be viewed on the Governor’s website at www.hawaii.gov/gov/economy.