

**GOVERNOR LINDA LINGLE'S REMARKS  
KAILUA CHAMBER OF COMMERCE**

**Wednesday, September 17, 2008**

Thank you all very much. It's great to be back here. This is an audience I look forward to talking with, not only because you're attentive, but because you're so knowledgeable about events locally, as well as nationally and internationally. I hope we'll get to some good questions and I'm sure that we will.

I want to say that Art Lum must be a great physical therapist because just listening to him I feel better. That was a very nice presentation. Thank you, Art.

I want to thank Jim Slavish and your president Evan Sherman for inviting me here today. I want to acknowledge State Representative Cynthia Thielen and tell you how lucky I feel you are to have her as your representative. When she gets on something, and she's always on Kailua, she never lets go. She is an outstanding representative for this part of O'ahu.

I want to recognize our State Director of Transportation Brennon Morioka and thank him for coming today, my Senior Policy Advisor Linda Smith who many of you may know, and one of the newest members of our team and one of the most important for our future happens to be a Kailua resident. You may not have met him yet, and I'm going to talk a little more about his position later in my remarks, he's the new State Energy Facilitator Josh Strickler.

It's a particular honor, as I said, to speak to this group. I equate the Kailua Chamber of Commerce with preserving a way of life in Kailua, but I must tell you I also equate it with the Fourth of July parade because it's something we all look forward to. You might not believe that, but it's something about that particular parade. I've done many, many parades in many parts of the state for many different holidays, but it's so All-American to come to the Kailua Fourth of July parade.

We've been able to maintain that real sense of community in the parade and I enjoy it very much. I know it takes a lot of effort, a lot of sponsorship and I appreciate it very much and hope you'll continue to invite me back.

The economy has been dominating the dialogue as you know: the recent stock market issue going on today, the investment banks, the Lehman issue, Merrill Lynch, the AIG issue, the volatility of oil prices, the subprime meltdown that has affected California – our main domestic tourism market – the tight credit markets that all this has brought about and our own downturn in tourism. Your chamber members are continuing to find innovative ways to succeed in this environment; and I was very impressed that in a time such as this, you have gone out and, just since the last meeting, brought in 32 new members. And that's because you're showing them value – that there is value in being a part of this organization. I really applaud your entrepreneurship not only as individuals but as an organization.

Instead of sitting around and wringing your hands about what's happening in New York, you're going out and getting more members because it makes for a stronger organization.

This innovative approach is critical for our state and we're continuing on that path as well. As a result, Hawai'i's underlying economic foundation is improving: Forbes Magazine this year ranked us the 27<sup>th</sup> best place to do business among all the states. That's up 10 spots from just a couple of years ago. The Milken Institute has ranked us 28<sup>th</sup> in the State Technology and Science Index. That's up 11 spots from 2004. I'm also very proud that we're one of only 12 states in 2007 that saw a decline in the number of people living in poverty. Each one of these is an important statistic and it shows us that we're headed in the right direction.

The United States Census said that our median household income rose 3.7 percent this past year, and I can tell you one of our benchmarks is how they rate our bonds.

When we go into the bond market, what do people think about a State of Hawai'i bond? Is it good? Is the rating high? What is the outlook?

We are in New York right now, coincidentally, with all this turmoil going on. We're selling just over \$600 million worth of bonds – half refunding and half new money – and our rating was maintained at 'AA' with a "stable outlook" by all three of the bond rating agencies. That is pretty remarkable considering the Aloha, the ATA impact and the oil price on tourism.

To maintain a stable outlook at this time is a real credit to you as business people. It's a credit to our team who makes these presentations to the bond raters, and really has to make the case about why they should keep our rating and why they should tell anyone who wants to buy this bond that our outlook over the long-term is stable. So there are a lot of good signs.

Now, having said that, we're also all realists and we know that tourism is lagging. We know that state revenues are being reduced in their rate of growth, and even though the Council on Revenues did not revise its projection downward in its latest report just a few days ago, since August of 2007, that's just over a year ago, the Council on Revenues has reduced its forecast by \$2.9 billion that the state will have to spend between FY09 which is the year we're in now, through FY14 (2014). So that's just in one year that shows the rate of decline in the revenue growth. It's still positive revenue growth, but very slightly positive.

So between now and the final two-year budget that I'm going to submit in December to the Legislature, they're telling us we have \$903 million less than we thought we had to spend. And what that means is a daily exercise on our part to do a number of things. Obviously, it's to cut expenses and we do that every day.

We cut out state travel. We've required that anyone wanting to travel out of the state get personal approval from me and that's highly unusual. Previously, the directors, if they felt it was necessary to travel, they just traveled. Any expenditure over \$10,000, any contract is coming to me, any vehicle purchase. We are really tightening up to make certain that we've got a handle on our own expenses.

But likewise, we know that the economy needs to continue to be stimulated, and so as I mentioned we're in the bond market, we're pushing our capital improvement program. Brennon is a big part of that because airports, highways and harbors make up the majority of our capital improvement projects.

We've got a \$2.3 billion airport modernization plan that affects airports on all islands over the next few years. We've got more than \$600 million in harbor improvements planned. The majority is here and on Maui, but it helps harbors all across the state.

Brennon also oversees the highway modernization plan. So there is a lot of money involved just in his department, and we're pushing hard to get those projects out because the construction industry does serve as a major stimulus that helps a lot of other parts of the economy.

It's also a time to make certain that we maintain a good level of public service – the highest level we can with fewer resources. And what that means is more government partnerships.

I've been meeting with the labor unions, the public employee labor unions. I started yesterday. I have two meetings today and one more on Friday to ask them to agree, "Let's just hold the line right now. Let's not spend a lot of our time in discussions about salary increases because we have no money. So it's senseless to talk about it. It's a waste of your time and my time. Let's put it off for a year. Let's get a handle on our fiscal situation and come back next year and talk about it."

I'm getting a good reception. They're well-aware of the current fiscal situation. They're also aware that when times are good and revenues were coming in, we were very fair with the public employees and I think that's helping us at this time.

Also, we're calling meetings with the social service agencies – the main providers and the main funders of social services – to talk about how we can maintain a good high level

of social services, knowing that the state is going to have substantially fewer revenues at least in the foreseeable future.

I want to make a point here about the \$903 million. When you hear that figure, I don't want you to picture it as some big bundle that we carry around on our back and in 2011 we're going to have a deficit of \$900 million. We're not going to have any deficit in 2011. By law we cannot have a deficit.

That means our effort between now and then is to make certain that we don't have a deficit and we do it by cutting expenses, we do it by stimulating the economy, we do it by more heavily marketing tourism. We have a number of strategies that we're going to be employing to make certain that there is no deficit. In fact, we want to get back to the years of surplus.

I should mention the reasons we're able to withstand this very tough time where other states are having a hard time. Two reasons: one, because we built up a good surplus over the last two years; and secondly, because in our state, according to the Constitution, the governor has the right not to spend money that the Legislature appropriates.

They don't like it. They want me to release all the money they appropriate, but being able to restrict it, when I can look ahead – whether the Council on Revenues tells me or I can just see it in the revenues because I track them on a monthly basis, some months on a weekly basis to see how we're doing – I can make those restrictions.

Most states, the governor does not have that ability. So I think it's a real strength of our system. The other states simply spend themselves into a very large deficit. It's why California is looking for \$19 billion right now, because they had to spend everything they had appropriated.

Another strategy is to do our best to lower business fees and provide tax relief. We've had some good success in the last couple of years. The Department of Commerce and

Consumer Affairs, since we came into office, has saved businesses and licensed professionals more than \$45 million in waived fees and assessments.

That means we kept operating more efficiently, we didn't need to build up big reserves and we kept cutting the professional licensing fees. We've also moved online with a lot of our fees and we've reduced your fee if you register online, rather than coming into the office.

We convinced the Legislature last year to lower the unemployment insurance tax rate. And that is saving businesses \$50 million a year over this three-year period. It is affecting every single business here because you all pay unemployment insurance taxes and this lowered it in some amount for everyone.

We also were a part of restructuring the personal income taxes to widen the tax brackets and to change the standard deductions. In total, between 2007 and 2009, we had \$218 million of tax relief.

So think about it. Start adding it up: \$150 million for businesses, more than \$200 million for individuals and \$45 million in fees. This is money that, yes, the government just used to take in. If we had taken it all in and not spent it, it would have helped us with the projected deficit. But the fact is, it would have been spent and not by you. And that's what I like about our approach: it's spent by you. You decide how best to use that money in your own business or in your own family.

We're also working hard to attract outside investment, especially in the renewable energy field. This gives me a good opportunity to talk about the Hawai'i Clean Energy Initiative, which we launched in January in partnership with the U.S. Department of Energy – the only such partnership in America. Our goal for the Hawai'i Clean Energy Initiative is that we will be 70 percent on clean energy by the year 2030. That means 70 percent of our energy will be generated from sources that are non-fossil fuel and non-polluting.

We've already made several advances, many of them exciting. We have public-private partnerships on Maui and on Lānaʻi and the Department of Transportation is working very hard in this field to put solar arrays on a lot of our state airports so we generate our own energy, and the public does not have to buy electricity to run the airport.

Brennon just spoke to me recently about a new approach where they're actually putting solar attractors in asphalt on highways. The sun is pulled down by the dark asphalt, and they're somehow using that to generate energy. There's so much going on in this field – so much research and so much development and our state is at the forefront of it.

We're also looking at options for transportation, and I'm hoping we can have some exciting announcements between now and the end of the year that will get us off of fossil fuels for our cars as well.

A Kailua company named Suntech Hawai'i is involved in renewable energy projects across the state, and I participated with them recently at the Navy Halsey Terrace Community Center. They put up a photovoltaic solar electric power system and I helped "flip the switch" to bring attention that the one community center alone is saving 266 barrels of oil per year.

Now I want to pause here to share one of the major reasons for our state to get off of fossil fuel, besides the pollution issue is we're the most oil-dependent state in America.

Ninety percent of our electricity comes from burning fossil fuel. The next closest state to us is 17 percent. We're at 90 percent. The next closest is 17 percent. Some of you look shocked by that. It's Florida that's the next state. The other states have nuclear, or they have hydropower, wind power, geothermal. They have a much different alignment of sources than we do. We stayed with oil partly because the utility in our state was given an automatic pass-through – a 100 percent pass-through – on any increase in the price of oil.

Historically, there has been a disincentive to get off of oil because there was no reason. "If it shows up, I'll pass it along to the customer." All the risk was absorbed by us. We

believe we have been able to get the utility to see this in a different way. And we are working with them cooperatively to bring about some major structural changes in how energy is delivered and produced and how their shareholders can maintain shareholder value sometimes not by selling electricity, but by *not* selling electricity. It's a different set of incentives and hopefully before the end of the year, we'll be able to announce that.

Why is this so important besides that we're the most oil-dependent and it causes pollution? It's because we spend \$7 billion per year buying oil from foreign governments.

Ninety-nine percent of the oil used in this state for vehicles, for electricity, 99 percent is purchased from foreign governments with our money. Seven billion dollars a year that could be here in our community helping a Kailua company that is in photovoltaics, helping a wind farm here, helping a wave generation company to generate energy for us. Creating jobs here, rather than just sending \$7 billion to foreign governments – we don't get anything for it. We get the product, but there is no economic stimulus because we're sending that \$7 billion per year out of the state. So it's critically important and that's where our new energy facilitator Josh Strickler comes into play.

Josh's position was created by a specific law that the Legislature and I both supported very strongly. Josh has a tremendous background as both an attorney and an engineer. He's worked in the private sector and the military sector. His role is to coordinate for our state any energy investment that wants to come in, to coordinate between the federal, state and local governments, between the private and public sector, to help us get down the amount of time it takes to bring one of these projects online.

Typically, a wind project has to go through 30 different agencies in successive order in order to be permitted. So you have a company that is standing by and says, "I have \$100 million and I want to invest in your state. I want to produce energy from a clean source. I want to reduce pollution and I want to keep you from spending your money out of the state." And we tell them, "Great. You have to go to 30 agencies and you have to figure out what they are and you have to go from one to the next."

Josh's position is to take the typical project now that is taking six to seven years to bring online and to reduce it down to one year. It's a big job and if anyone can do it, my confidence is with him. I believe he is already having a great impression on people around the state and he recognizes that it's not just having a technical knowledge, but having the ability to interact with other people and with other agencies to get people to feel they are part of one team.

This is one area – energy independence for Hawai'i – where we have to be one team. We can't have political parties, we can't have the governor and the Legislature, we can't have the public and private sector, the environmentalists and the business people. We have to recognize that anything is better than being 90 percent reliant on a polluting source of energy that takes our money and sends it out of state. Anything has to be better than that, right?

The “anything else” – none of the anything else is perfect either. There's always going to be an issue. If it's wind, there are going to be aesthetic issues. If it's geothermal there are going to be cultural issues with it, but whatever it is, there are going to be issues.

I think this is one area where we like consensus in Hawai'i. We strive for consensus. We love consensus and I do too. I'd much rather have all of us agree on something than have five people not agree. I'd much prefer that we all agree, but in an area of energy independence, we have to recognize that we're not going to gain consensus on every single project, and we can't use that as an excuse not to move forward. Again, anything is better than this over-reliance on a polluting source that sucks money out of our state and hands it over to a foreign government.

You're going to be hearing a lot about this in the years ahead, and I hope you'll exercise some understanding and patience if we don't reach a hundred percent consensus on all of our projects but we move forward anyway.

Another part of our strategy, besides attracting this outside investment, is to maximize our federal dollars and the partnerships we have and we've been very successful at that.

In a wide variety of fields, our Department of Human Services has attracted over \$100 million that they've given to our private hospitals for uninsured costs of treating people who couldn't afford the treatment, but they have an obligation to treat them anyway.

We went to the federal government and made a case that not only should they give us the money for this, but they should let us go back several years and re-create the records – and they did. So that was terrific.

We recently got \$14 million for a transformation grant for mental health services in Hawai'i, \$1 million from NASA for robotics programs in our schools, millions from the Department of Energy for undersea cable plans and development, for grid integration studies and a variety of other energy projects.

Having talked about what we need to do in the short-term, cut taxes and fees, push our capital improvement projects out, maximize our federal dollars, encourage private investment.

We also need to keep our eye on the long-term economic transformation needs of our state.

Like all of you, we're combining these steps to deal with the immediate situation with our steps for the long-term. Our long-term approach, as you probably are aware, is to move away from an over-reliance on land development to an economy that is based on transformation.

A key part of that is the human capacity of our people and that starts with education. Education has to be a focal point for us this year and every year, and we appreciate programs such as Teach for America, spearheaded by Castle Foundation's Mitch D'Olier. They're doing a terrific job. There are over 100 of these teachers in our most challenging schools. This is an example of the kind of programs that are fundamentally changing the Department of Education from the outside in, rather than from the inside out.

We're trying to do the same thing by bringing more science and technology programs to the schools through robotics. Science, technology, engineering and math skills are the skills for the future. They are the skills that will best position the young people in our state to succeed.

We currently have 203 robotics teams in the state, up from just 95 in January of this year. However, here in Kailua, only three of 20 charter, public and private schools have robotics teams. Kaelepulu has a *FIRST* LEGO League, Kailua High School has an underwater robotics program and Olomana at the Youth Correctional Facility has a Botball team. We're working to increase the number of these teams but we need your help.

Our goal is that by 2010 every school in Kailua and statewide has some robotics program. The Pan Pacific Vex Robotics Championship is happening at the Hawai'i Convention Center, December 4-6 and I hope you'll come out and watch. It's very, very exciting.

I want to thank you all again for the innovation that you show day-in and day-out. And, as you say at the chamber, "The service we provide the community and the face we show to the visitor is not only important but healthy for our town's economy and for O'ahu."

You can say the same thing for the state.

Thank you for showing that businesses can thrive even during challenging times and for serving as a role model for other communities.

Mahalo.