



**EXECUTIVE CHAMBERS  
HONOLULU**

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GOVERNOR

**Testimony of Linda Lingle  
Governor of the State of Hawaii**

Before the

**United States Senate Appropriations Committee on  
The Impact of the American Recovery and Reinvestment Act of 2009**

Monday, August 24, 2009  
Hawaii State Capitol

Chairman Inouye and Members of the Senate Appropriations Committee:

Welcome to our State Capitol. I want to address a topic of utmost importance to the citizens of our state -- our economic well-being and the role of the federal government in stimulating Hawaii's economy.

Passage of the American Recovery and Reinvestment Act (ARRA) in February of this year occurred at a time of significant financial difficulties for our nation as a whole, including the State of Hawaii. Hawaii is facing its worst economic recession since we became a state on August 21, 1959. Not only is the depth and breadth of this recession greater than we have experienced historically, it is anticipated that the recovery will not look like past recoveries. We may see prolonged periods of economic stagnation as our state, nation, and world adjust to the dynamics of global economic uncertainty and its fiscal impact.

To understand this changing reality and Hawaii's response to it, I'd like to begin with a snapshot of the current economic climate in Hawaii, then review the steps my Administration took prior to passage of the federal economic stimulus program to address the economic downturn. I would then like to review the funding Hawaii is expecting to receive as a result of the ARRA and how we are using these funds to re-establish conditions for growth. I'd like to conclude by talking about some important competitive opportunities available under the federal stimulus bill and how Hawaii is well-poised to utilize these competitive grants.

### **Economic Indicators**

Looking at the basic benchmarks used to measure the economic well-being of a community, Hawaii is relatively healthy, but is significantly less well off than we were only a year ago.

- Our July unemployment rate was 7.4%, below the national average of 9.5%, but significantly above the 4.3% unemployment rate we enjoyed just 12 months ago.
- Visitor arrivals declined 13.1% between FY 2008 and FY 2009. Visitor spending dropped 15.1 % during the first half of calendar 2009.
- As of July 2009, Hawaii's rate of growth in foreclosures was 14<sup>th</sup> in the nation. We currently rank 40<sup>th</sup> in the total number of housing foreclosures.
- Commercial real estate investments declined 44% for the first six months of 2009 when compared to the same period a year ago. This is usually considered a lagging indicator and foreshadows continued difficulties ahead.
- State tax revenues are projected to experience no growth this fiscal year while inflation-adjusted personal income growth is expected to grow for the calendar year at a very modest 0.4%.
- For the first month of this fiscal year, the State experienced a 3.4% general revenue decline and last year State general fund revenues declined 9.5%.

The drop in revenues created a \$2.8 billion funding shortfall in estimated revenues for our State budget through June 30, 2011. The State's entire general fund biennium budget passed by the Legislature just three months ago is \$10.4 billion, but we will not have the money to support this budget. Under these circumstances, we cannot operate in a "business as usual" manner. The size and shape of State government must change to reflect these economic and fiscal realities.

### **Five-Point Proactive State Recovery Plan**

Given these sobering trends, my Administration launched a five-point proactive economic recovery plan last year. Hawaii's five-point plan has the same objectives as the federal economic stimulus effort -- to create and retain jobs and to lay the foundation for future success.

The elements of the five point plan include:

- #1 Refocusing and increasing Hawaii's tourism marketing and outreach efforts. Campaigns have been launched in targeted U. S. markets such as the West Coast, traditional international markets such as Japan, and emerging markets such as Korea and China. A couple of weeks ago we were pleased to announce the intention of Hainan Airlines to establish direct scheduled air carrier service between Beijing and Honolulu. Hotel occupancy levels are beginning to level off with a slight increase recorded in July. The indication of some improvement in hotel occupancy supports the effort being made to attract visitors at a time when consumers are curtailing most discretionary spending, and also reflects deeply discounted room rates.
- #2 Accelerating Public Infrastructure Investment. Last September our Administration launched a plan to expedite \$1.8 billion in budgeted public construction projects that were ready to contract within an 18-month period.

These included roads, bridges, school repairs, airport and harbor modernizations, and other public works projects. I am pleased to report that through July we started, awarded, or are in the process of bidding out a total of \$1.19 billion and anticipate meeting the entire \$1.8 billion goal by the end of September. We established a website to permit public monitoring of the progress of the effort, similar to what the federal government is doing under ARRA. I invite members of this U. S. Senate Committee to check our progress by visiting our state website at <http://hawaii.gov/cip>.

- **#3 Lowering Fees and Providing Tax Relief.** Economic history has repeatedly demonstrated that we cannot tax our way out of a recession. Keeping business fees and taxes low allows small companies -- the backbone of Hawaii's economy -- to retain workers, increase marketing, and weather a contraction. Early in my Administration we were able to lower fees and taxes on businesses by an estimated \$210 million and reduce personal income taxes by \$310 million. These efforts have helped cushion what might otherwise have been a steeper decline in our state's well-being. Some of this progress has been eroded by recent tax increases passed by the State Legislature.
- **#4 Attracting and retaining private investment, especially in the renewable energy sector.** Our Administration has worked hand-in-hand with firms willing to invest in our state. We are pleased that Walt Disney Enterprises has made significant progress on its first major resort not connected to a theme park. Also, in West Oahu the DeBartolo Development LLC, one of the largest retail shopping center developers in the United States, is following through on its \$500 million commitment to construct a major new project adjacent to Hawaiian Home Lands and complementary to a new University of Hawaii campus. Similarly, Forest City, Inc. is developing a master planned community of nearly 2,000 homes on the island of Hawaii. First Wind, LLC is investing in the expansion of its wind farm on Maui and Castle and Cooke Ltd. recently completed construction of a photovoltaic farm producing nearly 30% of the power on the island of Lanai. And, most recently, Hawaii was proud to be chosen as the site of the new \$1.2 billion thirty-meter telescope project.
- **#5 Maximizing federal dollars and partnerships.** Hawaii has served as the focal point for critical federal investments in ocean sciences, health research, astronomy, and the military. Pacific Missile Range Facility on the island of Kauai played a pivotal role in the recent response to North Korea's missile launching efforts. Pearl Harbor, Hickam Air Force Base, Kaneohe Marine Corps Base, and Schofield Barracks have a long history of serving as America's first line of defense in the Pacific region. Through the support of our Congressional delegation, we have been able to realize continuing improvement and investment in our military installations in Hawaii. And, we are proud of the work of our soldiers, sailors, marines, Coast Guard, and airmen for their role in supporting America's effort to stabilize conditions in Iraq and Afghanistan.

## **Closing the State Spending Gap**

In addition to pursuing this five-point recovery plan, my Administration implemented decisions to address our state's immediate funding gap. We were able to address over \$2 billion of the shortfall faced in our state budget. These decisions included:

- Instituting an 8% across the board cut on all State Cabinet agencies
- Severely restricting travel, new equipment purchases, and the filling of vacant positions
- Refinancing State debt to reduce current payments
- Utilizing federal funds, including ARRA funds, to address shortfalls in critical areas such as Medicaid payments and education
- Eliminating duplicative programs and programs with poor results

To address the balance of the \$2.8 billion budget gap, we will need to reduce the State's labor costs which comprise 70% of our operating budget. My Administration developed a well-thought out State employee furlough plan that will protect jobs and minimize the disruption to public services. We remain hopeful we will be able to implement furloughs, but are prepared to complete reduction in forces to lay off State workers if the public unions fail to support the furlough plan.

## **American Recovery and Reinvestment Act Overview**

This brings me to the American Recovery and Reinvestment Act (ARRA) and its impact on Hawaii's economy. The Act has made it possible to obtain federal support for a range of activities and the opportunities it provides will be beneficial to the State.

Hawaii is slated to directly receive \$1.4 billion. This amount does not include funds going directly to individuals, such as tax credits and the bonus social security checks. Nor does it include direct federal agency spending in Hawaii that will take place over the next two years.

It should be noted that a portion of these funds have not yet been received from the federal government. Our records show that between passage of the Act in February and now, the State government has been officially awarded \$629.6 million, or about 46% of the total.

We have been fortunate to have the assistance of Senator Inouye's office to gain familiarity with the ARRA programs. Jennifer Sabas, in particular, has been a source of support and a key facilitator bringing together stakeholders to coordinate the pursuit of grants available under the federal stimulus program.

In passing this bill, Congress recognized the importance of having the governor of each state serve as a single point of accountability for the expenditure of such large

sums within a relatively short time frame. I take this responsibility seriously. I have asked my Chief of Staff, Mr. Barry Fukunaga, to play a central role in overseeing the receipt and expenditure of funds. I have also appointed Mr. Mark Anderson, Deputy Director of the Department of Business, Economic Development and Tourism, to serve as the ARRA Coordinator for the State of Hawaii. And, the State's Chief Economist, Ms. Pearl Imada Iboshi, is playing a key role in developing the databases and tracking systems we will use to manage these funds.

My entire Cabinet understands the importance of spending the funds wisely and avoiding waste or misuse. Each cabinet director has an active part in receiving and overseeing those funds that impact programs within their respective departments. We participate in the many webcasts and conference calls arranged by federal officials that provide guidance on the administration of the stimulus funds. I have personally had an opportunity to discuss directly with Vice President Biden the opportunities and challenges Hawaii is facing as we implement the federal economic stimulus projects.

Recognizing the importance of greater efficiency to expedite the administration of the federal stimulus funds, my staff developed and lobbied for passage of Act 150 in the State Legislature. This Act addresses procurement hurdles that traditionally impede the award of public funds. The Act became State law on June 24<sup>th</sup>. It allows certain exemptions from the State procurement code, shortens the time frame for contract bids and awards, and provides a quicker resolution of bid protests by allowing the chief procurement officer of each department to resolve protests rather than using a protracted administrative hearings process.

## **ARRA Funding**

ARRA funds flowing to Hawaii are targeted for a number of areas, with the larger amounts in the following categories:

- Health Care: Hawaii is receiving \$360 million that will help offset State dollars used for federal Medicaid services to low-income individuals. These funds will be paid out to the State over a 27-month period. We are also receiving \$64 million for clean water projects and federally qualified health centers.
- Education: Hawaii's share is \$279.6 million. \$192 million will be available in State fiscal stabilization funds, of which \$157 million will be used to cushion funding reductions in K-12 public education and the University of Hawaii and community colleges. Please note that the ARRA requires State Education Agencies, in our case the State Department of Education (DOE), to prepare and submit a spending plan to the governor before federal funds can be spent. The DOE will also directly receive \$87.6 million in formula funds for special education, education technology, and Title I monies for disadvantaged youngsters.

- **Housing:** Hawaii is receiving a total of \$ 52.2 million for housing, including funds to assist affordable housing projects that are experiencing funding gaps. I am pleased to point out that the Hawaii Housing Finance and Development Corporation (HHFDC) just awarded almost \$9.9 million in Tax Credit Assistance Program (TCAP) funding to three affordable housing projects -- ensuring prompt distribution of these moneys into Hawaii's housing economy. Another \$16.3 million of the above amount will be used to renovate and repair public housing units.
- **Transportation:** A total of \$246 million has been allocated to Hawaii for transportation projects including roadway resurfacing, bridge repairs, country transit, and airport upgrades. This money will supplement our State-accelerated CIP program described earlier. Our Director of Transportation, Mr. Brennon Morioka, will be providing details on the State's transportation expenditure plans later in this briefing.
- **Employment:** A total of \$ 40.1 million for Hawaii will allow us to extend unemployment benefits for those unable to find new jobs, as well as fund various worker support programs.
- **Energy:** We expect to receive a total of \$47.38 million in formula grants, including funds for the State Energy Program, Energy Efficiency and Conservation block grants, and the Weatherization Assistance program, as well as two smaller grid grants to the State Energy Office and the Public Utilities Commission. We note that to date \$14,985,330 has actually been released to the State. Mr. Ted Liu will be providing details on the planned expenditure of these funds.
- **Social Services and Law Enforcement:** \$149.6 million in assistance to help those who are most in need, including food stamps, child care grants, Head Start funding, community service block grants, seniors meals, and assistance to law enforcement units.

### **ARRA Competitive grants**

In addition to the direct funding identified above, Hawaii is well positioned to compete effectively for moneys being made available to states on a competitive basis. We are focused on five areas which we believe can become the foundation for economic achievements in Hawaii in the years ahead. They are broadband communications, healthcare information technology, renewable energy generation and transmission, Race to the Top educational improvement, and harbors modernization.

1) **Broadband Communications Deployment:** On August 14<sup>th</sup> Hawaii submitted a comprehensive competitive grant application to the Department of Commerce for its "State Broadband Data and Development Grant Program" -- commonly referred to as broadband mapping. The application proposes to spend \$4.2 million, of which \$2.9 million would be federal funds and the balance of \$1.3 million is in-kind resources. In

addition to gathering detailed data and mapping this information into a geographic information system (GIS) for the entire state, our application recognizes the importance of promoting public access for education, health care opportunities, and commercial uses. My Administration is also working with the University of Hawaii on a \$44 million proposal to provide and upgrade fiber optic connections to all public schools, libraries and university campuses, as well as a smaller \$1.5 million grant to improve public computing for the underserved at public libraries and community colleges.

2) Health Information Technology: In keeping with the HITECH Act portion of ARRA, the State is working with the Hawaii Health Information Exchange (HHIE), a consortium of employers, health plan providers, hospitals, physicians, clinics, members of the academic community, and non-profit organizations to develop Hawaii's application for Health IT funds. Because HHIE has been in existence for a number of years and represents a broad cross-section of the community experienced in this field, we believe Hawaii's proposal for these competitive grant moneys will reflect the real world issues that health information databases must address.

3) Renewable Energy and Interisland Transmission Cable: The Hawaii Clean Energy Initiative launched in 2006 has been recognized both nationally and internationally. We appreciate the technical and financial support from the U. S. Department of Energy that has allowed us to make significant progress in such critical areas as changing the regulatory framework for energy utilities, mapping the electricity grids for each island, biofuels assessments, and deploying renewable sources including wind, photovoltaic, solar, and ocean energy. The ARRA competitive grants present an opportunity to build on these areas of work. Working with Senator Inouye's office and with other agencies and private energy companies, Hawaii will pursue competitive grants in areas including smart grids and distributed energy systems. Already Hawaii has been awarded grants in electrification of the transportation sector in partnership with Chrysler Corporation. We also received a Hawaiian Electric Company utility integration grant for wind power and a smart grid grant for the Hawaii Natural Energy Institute.

4) Race to the Top: Using national test scores (NAEP), Hawaii ranks 47<sup>th</sup> out of 51 States and the District of Columbia. A total of 187 out of 284 schools are now in corrective action or not meeting annual yearly progress (AYP). Under the ARRA, the State Department of Education must submit a plan to me before we can start using the State Fiscal Stabilization Funds (SFSF), which shows how we will address such fundamental issues as improving struggling schools. To address this requirement, my ARRA Administration Team has been working to develop a joint Memorandum of Agreement (MOA) with the DOE to implement a college and career ready curricula in every school. The MOA builds upon the initiative my Administration launched several years ago to work with schools focused on STEM skills -- science, technology, engineering and math. To comply with additional federal requirements, Hawaii will need to change State law to remove the cap on charter schools and not statutorily prohibit the use of student-achievement data for evaluating teachers and principals. When enacted, Hawaii believes we will be poised to compete for Race to the Top Funds that will become available under ARRA in October.

5) Harbors Modernization: Our Department of Transportation will be seeking TIGER grant transportation competitive funding to undertake much-needed harbor improvement projects at the Honolulu, Hilo and Kawaihae Harbors. Given our State's dependence on shipping between U.S. and foreign ports and between our islands, harbor improvements are a critical area for infrastructure modernization. The ARRA formula grant money for transportation did not address this specific area, so the competitive grants are the only opportunity to finance upgrades to our harbors.

## **Challenges and Opportunities**

Federal economic stimulus funds flowing into Hawaii come from a wide variety of funding sources and will touch numerous state departments, county governments, private companies, and even individuals. There are also stringent accountability and reporting requirements associated with the receipt and disbursement of funds. This presents a daunting task for states, particularly governors, who are charged with tracking the receipt and expenditure of ARRA moneys and providing accurate reports.

ARRA encompasses two primary objectives -- a high standard of accountability and a desire for expedient disbursement. This establishes competing conditions between the demands for immediacy and the necessity to be accurate and ensure that federal dollars are spent in a manner that will have long-lasting impacts.

As a result, challenges have been encountered in a number of areas.

1. Federal formats, guidelines and instructions for the required reporting systems were delayed in reaching states. The guidelines have also been changed after issuance, in some cases more than once. State bid, procurement, and award documents have had to be revised to reflect changing guidelines.
2. Hawaii, like many other states, has an older financial management system that does not contain the capacity to track the expenditure details required for reporting. This has necessitated the need to develop technical "work-around" alternatives to ensure we are able to incorporate into our state financial tracking systems all of the reporting elements necessary to meet the federal reporting standards. Initial provisions under the ARRA did not provide states with the ability to apply for funds to address technical support deficiencies. States are now being allowed to apply for some limited funding.
3. State agencies are employing existing arrangements to channel funds to organizations that are the ultimate beneficiaries of the money. Some of these organizations have traditionally not had experience in meeting federal reporting obligations. As such, they need to be trained on how to track and document the manner in which they are using their ARRA dollars, and we are taking the time to reach out to them to ensure they are aware of the reporting obligations.
4. States are being asked to track funds through both the initial recipient and all sub-recipients and vendors, which means the money may pass through four or five

layers before it gets into the hands of the entity that actually spends it. For example, money coming to Hawaii's Department of Labor and Industrial Relations may flow to the Office of Community Services which, in turn, parcels the funds to counties, who in turn distribute the funds to non-profit service providers, who then send the money to a private contractor who delivers the service or goods. Given that all expenditures of \$25,000 or more must be tracked to the final spending entity, educating and acquainting recipient organizations on their reporting obligations has proven to take time.

5. It takes resources to manage and track the funds. Initial guidelines did not allow states to use stimulus funds for administrative purposes. We appreciate that the federal government is allowing funding to be used for effective state-based oversight after states pointed out they were unable to absorb these costs. Hawaii is currently preparing its application for administrative funds.
6. Standard federal cash-management requirements do not allow states to draw down federal dollars unless we can spend those dollars within a short window of time – usually within 3 days. While this provision is prudent for the federal government, it is restrictive on states. In effect, what this means is states must front the money for federal projects and then seek reimbursement from the relevant federal agency. It is not yet definitive whether these same federal cash management requirements will be applied to ARRA.
7. It is difficult to figure out what is being awarded to Hawaii since the Governor's office often does not receive direct notification from federal agencies when an award is made to an entity in Hawaii. This is a problem other states have also voiced. It is particularly challenging to track down awards to non-profits, for-profits, and research organizations.

We encourage the Chair and members of the Senate Appropriations Committee to consider these points as you meet with state and local officials across the country. If steps can be taken to simplify the notification and reporting obligations, Hawaii would welcome engaging in that dialogue.

## **Conclusions**

Passage of the American Recovery and Reinvestment Act earlier this year has been beneficial for the State of Hawaii. The federal funding comes at a time when our state is coping with the most severe economic and fiscal downturn since becoming a state. My Administration has been executing a five-point plan to manage through the recession and position Hawaii for economic success in the decades ahead. The ARRA economic stimulus funds have fit into this effort and made it possible to fill funding gaps in State programs, repair and renovate state facilities, and protect those vulnerable populations hurt most by the economic downturn.

Just as importantly, the economic stimulus funds build upon the five-point recovery plan my Administration launched last year and position Hawaii to re-establish

the conditions for growth. Our state Congressional delegation has supported this effort and their role is appreciated.

Finally, we believe key competitive grant opportunities will lay the foundation for a new economic base in the decades ahead. That economic base will be built on swift, accurate communications of voice and data; clean, renewable energy that is domestically produced; harbors and transportation systems that are state-of-the-art; and a skilled, well-educated workforce that is ready to compete nationally and internationally.

Thank you for the opportunity to appear before you today.