



GOVERNOR LINDA LINGLE'S ADDRESS TO THE PEOPLE OF HAWAI'I

June 1, 2009

Good afternoon and Aloha.

I am addressing you today because of the critical challenge we face in balancing our state budget.

Like many other states around the country, we are facing this predicament not because of what we as a state have done, but as the result of lower than expected revenues brought about by the effects of a global recession that has seriously affected our economy.

I want to assure you that regardless of how difficult our current or future challenges may be, I am prepared to make the tough decisions that need to be made to assure Hawai'i's long-term prosperity.

As you know, we have already made many difficult decisions over the past year to address the loss of \$2 billion in revenue.

Last Thursday the State received official projections from the Council on Revenues that forecast our revenues will decline even further over the last month of the current fiscal year and the next two years.

Between now and June 30, 2011 we will need to close a gap of another \$730 million, which means we will have lost a total of \$2.7 billion in projected revenue over the past year.

And even after we take measures to close the \$730-million gap that exists between now and June 30, 2011, we will have no funds left in our State's general fund account.

In other words, we will have a zero balance in the State's bank account which is used to run most of our state's programs.

This is a fiscal emergency that is unprecedented in size and scope.

By contrast, just eleven months ago, last June 30, we had a surplus of \$330 million.

As you can see, Hawai'i has experienced a very rapid and steep economic and fiscal decline as a result of national and international events that we did not cause and cannot control.

It is unfortunate that previous estimates regarding how much money we would have to spend during the next two years were so wrong.

But just as when your household or business suffers from reduced income, we cannot spend more money than we have.

And unlike the Federal government, we cannot print money.

Before I describe the measures my Administration will implement to close the \$730 million hole in the State budget, I would like to take a few minutes to discuss how we got to this point.

Signs of an economic slowdown first began to emerge on the U.S. mainland more than a year ago.

However, few anticipated the speed with which the subprime mortgage and credit crisis would unfold, or the global financial ripple effect that these events would create.

Initially, Hawai'i fared better than states where the sub-prime mortgage problem had taken root because there were far fewer sub-prime loans made in Hawai'i.

Furthermore, our state budget was comparatively in better condition due to a growing local economy and the prudent budget policies my Administration practiced during the last six years.

The results of these efforts led to our success in turning the \$215 million deficit we inherited in 2002 into record surpluses.

At the end of June last year, the State enjoyed a budget surplus of \$330 million.

But things have changed dramatically since then, and the signs of our weakened economy are all around us and being felt in homes and businesses across the state.

- Unemployment doubled over the past year to the highest it has been in three decades;
- The construction industry has been hit hard, and private building permits have dropped significantly;
- Many small and large businesses of all kinds have been forced to lay off employees or close their doors completely;
- Foreclosures more than doubled this year;
- Visitor spending dropped substantially compared to a year ago;
- And bankruptcies are at record levels.

When families and businesses spend less money because of a shrinking economy, and fewer visitors come to Hawai'i, the State collects less money in taxes.

This translates into a decrease in available revenues that state government has to spend on public services and programs.

Prior to the news from the Council on Revenues last Thursday, the State had already lost \$2 billion in projected revenues.

This is money we thought we would receive in taxes this year and in the coming two years that did not materialize.

To cover this \$2 billion shortfall, my Administration had already taken the following steps:

- We restricted State general fund discretionary spending by 8 percent;

- Put a freeze on hiring, travel and purchases of new equipment;
- Restructured our long-term debt and debt payments;
- Transferred excess balances from certain special funds into the general fund;
- And utilized federal stimulus dollars.

None of these actions included reductions to the salaries and benefits of state workers despite the fact that 70 percent of our budget goes to pay the wages and fringe benefits of the 46,000 employees who work for State government.

Which brings us to today.

We face an additional and very substantial reduction of \$730 million in the State's revenue projections for the final month of fiscal year 2009 and the next two years.

In short, we now have a government that we cannot afford.

As important as we believe all of our services and programs are, when revenues decrease by a total of nearly \$3 billion, it is not possible to continue spending at current levels.

By law, we are required to have a balanced budget.

To balance our budget in the fairest possible way without slowing down our economic recovery, we must adopt fundamentally sound fiscal measures.

This is a time when everyone must pull together, share the burden of these unprecedented times, and be part of the solution.

Along with other elected officials across the state, I have an obligation to implement solutions that are in the best interest of the entire State rather than any particular district or constituent group.

These solutions must be realistic, fairly applied and immediate, and they must enable us to maintain our economic stability over the long term.

Some have suggested that we simply raise more taxes to cover the deficit.

As I have said on previous occasions, I cannot support raising taxes because it would cause further hardship for families, businesses, and the overall economy.

Furthermore, even if taxes were increased, we cannot guarantee that they would generate enough revenue to close the budget gap.

What we can guarantee is that higher taxes will discourage spending and travel as well as growth in the private sector, further delaying our economic recovery.

Evidence shows that states with the highest levels of taxation also experience the greatest amount of unemployment.

Others have suggested that we deal with the deficit by legalizing gambling.

This is another proposal that I cannot support because it would not generate revenues for at least two years, would harm our social fabric, and has failed to solve the revenue crisis in other states where gambling is allowed.

Any further discussion of gambling at this time is simply a distraction from the difficult task at hand.

As your Governor, it is my responsibility to make the hard decisions that represent the best solution for the people of our State.

We have two options: we can continue to tax and spend to pay for a government that we would like to have but can no longer afford, or we can take the steps necessary to create the government that we need and are able to afford.

In my judgment, the right choice is clear.

The State Constitution gives me the duty to ensure that our spending is in line with our State revenues.

To enable me to do this, I am vested with the power to restrict the use of funds appropriated by the Legislature, when circumstances warrant.

Unlike the Legislature which meets for only 60 days a year, I review tax revenues and spending levels year round to ensure that our State departments make spending decisions that are in the best interest of the public, and that we have the revenue to cover those decisions.

At this juncture, I must propose a comprehensive budget plan that has an immediate solution to address this current crisis.

Therefore, let me share the plan my Administration will implement over the next 30 days in order to close the additional \$730 million budget shortfall.

First, I have authorized the Budget Director to delay by a few days paying some of the larger bills that the State usually pays in June.

These include payments to the state employees' health and retirement funds, and reimbursements to managed care health plans for Medicaid expenditures.

No one's pension or health benefits will be jeopardized or affected in any way by this delay.

These bills, which total \$130 million, will be paid in full only a few days late in July.

We are not forgoing our financial responsibility and obligation for these payments, but merely shifting these costs to the next fiscal year.

By delaying payment for a few days, we create time to implement additional steps to address the unprecedented budget shortfall that we face.

As you might imagine, this is not an action I would take if the circumstances were different.

But because part of the large reduction in revenue must be addressed with only 30 days left in the fiscal year, my options are limited.

As I described earlier, since we implemented over the last year a freeze on hiring, travel and most equipment purchases; transferred funds, and restructured our debt, we have been able to close the previous \$2 billion budget gap without having to reduce our labor costs.

However, based on the most recent estimates that forecast even further decline in projected State revenues, it is clear we must immediately address these costs.

Therefore, effective July 1st, and continuing for the next two years, I am implementing three furlough days per month for all state employees.

Implementing this statewide furlough program will save an estimated \$688 million over the next two years, and it will likely allow us to avoid having to lay off employees.

If we do not implement the furlough plan, we would have to lay off up to 10,000 employees to realize an equivalent amount of savings.

Because the law does not allow me to order furloughs for the Department of Education, the University of Hawai'i or the Hawai'i Health Systems Corporation, their spending will be restricted in an amount equivalent to the three-day-per-month furlough.

I am also asking that the Judiciary, the Legislature, and the Office of Hawaiian Affairs implement equivalent furlough days or restrict their budgets in a like amount.

While the law does allow me to lay off State employees, I remain committed to avoiding doing so to the greatest extent possible.

While I recognize the serious financial impact that furloughs will have on our State employees and their families, this is a decision that I must make given the current fiscal challenges facing our state and the fact that we have already cut the budget where we could in other places.

This is the most difficult decision I have had to make since becoming Governor.

It is not something that I want to do, but something I have to do because it is in the State's best interest.

I ask for the public's patience as our departments and their employees work to minimize the effects of these furloughs on public services.

Our goal remains the same—to provide you with the best services possible.

But now we must find ways to achieve our goal with severely reduced revenue.

We will not use the furloughs as an excuse for poor services.

I know that our State employees will do their very best under very trying circumstances, and I ask for your understanding as we adjust to this new situation.

Many state employees have told me they want to be part of the solution.

And while these furloughs and loss of pay will impose a hardship on them and their families, they understand that given the severity of the fiscal emergency we face as a state, and the sacrifices their neighbors, family members and friends in the private sector have had to make, avoiding any impact on State employees is not only unfair, but unrealistic.

Some will claim that the measures I am taking amount to balancing the budget on the backs of State workers, but this is simply not true.

As I mentioned earlier, we have already closed a \$2 billion budget gap over the course of the past year with no reduction in our labor costs.

And, as I explained earlier, labor costs account for approximately 70 percent of our operating funds. This includes wages as well as benefits.

When our economy was thriving over the past four years, the State was able to provide employees wage increases of between 16 and 29 percent, as well as generous benefits.

I have always believed, and my past actions reflect, that during good economic times we should share increased revenues with our State employees.

But in today's weakened economy, and with the impact that it is having on the State's budget, we cannot operate in a business-as-usual fashion.

If we fail to undertake these significant but necessary labor savings, we will be faced with the kind of dire situation now facing California—it has enormous deficits that are necessitating selling long-term debt to pay for short-term operating expenses, massive layoffs, and the possibility of the early release of criminals from its State prisons.

Faced with significant decreases in revenue projections, and the possibility that revenues could decrease even more when the Council on Revenues meets in September, it would be irresponsible not to seek savings from the single largest expense in our State's operating budget—labor.

The three-day-per-month furlough plan will save \$688 million over two years.

But as I mentioned before, in order to meet our financial obligations over the next two years, we need to close a gap of \$730 million.

After implementing furloughs, we will need to realize an additional \$42 million in savings.

We will do this by scaling back the free health insurance benefits that the State now provides for low-income adults.

This reduction will not affect the free health insurance we provide to children from low-income families. These children will maintain all of their current healthcare benefits.

The reduction of \$42 million represents about 4.3 percent of the total amount the State spends on health insurance under the Medicaid program.

While I believe this is a modest reduction considering total Medicaid spending, I recognize it will in some cases have a big impact on those whose benefits will be scaled back.

Some will criticize my decision to reduce the Medicaid expenditures because it will impact the poor, while others will point out that the State will lose the ability to maximize the federal funds it can attract.

But the reality is that we simply do not have the money needed to attract the federal matching funding or to maintain the program at current levels.

We must live within our means, and that requires that we provide what the government can afford while maintaining service levels as best we can.

Implementing the three actions I have described – delaying bills until July, instituting a statewide furlough plan, and scaling back free Medicaid benefits to low-income adults – will allow us to avoid deeper cuts in education, environmental protection, public safety, and other core services the State provides.

These are not easy choices that I must undertake but they are the right choices in order to address our short-term fiscal crisis while setting the stage for our long-term economic recovery.

My Administration will take additional actions throughout the coming fiscal year to assure our State capitalizes on the economic recovery when it occurs.

Today I am focused on our immediate budget challenge, but we must also pay attention to our long-term vision for Hawai‘i.

The right combination of short-term actions and a focus on our future will assure Hawai‘i’s economy is at the front end of the economic recovery rather than the back.

I want to thank you for your patience, understanding and confidence throughout the past year as I have worked to address our rapidly shrinking revenues.

The steps I have had to take are in some cases painful, but they are necessary if we are to overcome the fiscal emergency we now face.

The last few months have been a stressful time for people all across the State because the unprecedented economic downturn we have experienced has been so steep and happened so fast.

It has also been frustrating for all of us because the problems and hardships we are dealing with were created by people and events beyond our control.

The majority of people living in Hawai‘i today have not previously experienced this kind of economic dislocation.

I want to remind everyone that this downturn is temporary.

I would also point out that we have faced much bigger challenges that were beyond our control before.

We have looked into the eye of massive natural disasters, worked with our family and friends to clean up after immense physical devastation, and gone on to better days.

We will get through this economic disaster and emerge stronger than ever, but it will require that we all pull together as only Hawai‘i can.

Together, we can balance our State budget while at the same time provide the foundation for us to emerge stronger when our economy starts growing again.

Mahalo for listening and watching and for the privilege you have given me to serve as your Governor.