



**EXECUTIVE CHAMBERS
HONOLULU**

**GOVERNOR LINDA LINGLE'S WEB ADDRESS
TO THE PEOPLE OF HAWAI'I
May 6, 2009**

Aloha!

I have chosen to address the people of Hawai'i via this webcast because it is a critical time for our economy, and a decisive moment in the 2009 session of the State Legislature.

In just two days from now, on Friday, May 8th, the 2009 legislative session will come to a close. The budget passed by the Legislature in conference committee late last Friday evening takes \$566 million out of the pockets of our visitors and residents, in an attempt to balance the budget. Last Friday, legislators also voted to extend the legislative session by two days so that they would be in a position to attempt to override my vetoes of tax increases without having to call a special session.

Tomorrow, on Thursday, May 7th at 3:30 p.m., I will follow through on my promise to veto these tax measures because they would further erode our already weakened economy, cause greater loss of jobs, and discourage visitors from coming to Hawai'i.

We know our economy is suffering because the evidence is all around us.

- Hotel occupancy is at a 22-year low.
- Visitor arrivals dropped 14 percent in the first quarter of this year compared to 2008, while visitor expenditures dropped 18 percent.
- Foreclosures were up 500 percent in March, compared to a year ago.
- Construction is down by at least 8 percent and the University of Hawai'i Economic Research Organization projects a 19 percent drop this year.

- Hawai‘i lost over 32,000 jobs between March of 2008 and March of this year.

I want to repeat this point. We lost over 32,000 jobs between March of 2008 and March of this year.

- Our 7.1 percent unemployment rate is the highest it has been in 31 years.
- In addition, many small and large businesses have been forced to layoff employees or close their doors completely.

Given this historically difficult economic environment, the public is asking: “Why would the Legislature raise taxes and hurt the economy now?”

More specifically, why has the Legislature passed a bill that will increase the taxes visitors and kama‘āina pay on their hotel rooms by 28 percent?

Why would they destabilize an already weakened tourism industry, which creates nearly half of all economic activity in our state and on which four out of every five jobs is dependent?

An increase in the transient accommodations tax, or TAT, as the hotel room tax is known, has already generated negative national press regarding the potentially higher cost of a Hawai‘i vacation. If this increase is allowed to stand, it will deter visitors from coming to Hawai‘i and would be counter productive to our efforts to market Hawai‘i as an affordable, value destination.

It will also decrease spending at our retail stores and restaurants, causing further job loss. Because, when visitors pay more in hotel taxes, they have less to spend on the rest of their vacation, including food, activities and gifts.

And this impacts everyone, not just the tourism industry.

It is estimated that for every one percentage point increase in the hotel room tax, 3,200 jobs will be lost in Hawai‘i. Since the Legislature wants to increase the TAT by 2 percentage points over the next two years, there will be 6,400 more of our hard-working residents without a job.

The other tax increases approved by the Legislature will also delay our economic recovery and kill job creation efforts by my Administration and others.

The conveyance tax increase would discourage investment in Hawai‘i at the exact time when we need capital to kick-start our economy. That’s because higher taxes on real estate transactions mean higher prices, which make it more difficult for businesses and individuals to finance real estate purchases. This will drive real estate investment away from Hawai‘i to more competitive locations, which in turn will result in less work for our real estate and construction industries. The conveyance tax increases are particularly steep, amounting to more than a 250 percent increase for more expensive parcels. Further, no category is exempt from this conveyance tax. This means that non-profits, including churches and schools, would also pay significantly more for a new site or building.

The increase in the personal income tax rate for those earning above \$150,000 as individuals and \$300,000 for those filing jointly has been framed by Democrat legislators as a minimal extra burden on wealthy residents; but a look at the facts uncovers a different and more disturbing picture. That’s because this tax increase would also hurt the more than 27,000 small businesses that file their business income as personal income.

A small business with an income of \$1 million will have to pay \$22,625 more in taxes, giving it less money to pay its workers, create jobs and invest in equipment purchases. Hawai‘i will also earn the distinction of having the highest state income tax rate in the nation at 11 percent. It is wrong to call this a tax on the wealthy. It is a tax on the very people who create jobs, contribute to non-profit organizations, and fuel our economy.

Democrats in the Legislature say they passed these tax increases because there were no other practical ways of closing the budget gap. They say they had no choice. That is not true.

In fact, the opposite is true.

There are clear alternatives to balancing the budget, and my Administration has recommended them over and over again in order to avoid tax increases that will be destructive to our economy and result in more lost jobs. Unfortunately, the Democrat majority in the Legislature has chosen to ignore these alternatives. You are right to ask why they preferred raising taxes instead of reducing labor costs associated with state government workers.

To help close the revenue shortfall, my Administration took proactive steps to restrict spending, freeze state government hiring, restructure debt, and scale back ineffective programs, resulting in over \$1 billion in savings. In addition, we proposed several revenue enhancement measures and the use of new federal stimulus funds.

We also proposed labor savings of about \$140 million in each year of the two-year budget as a way to prevent layoffs of public employees.

Because the state's annual labor costs are about \$3.6 billion, the savings we are seeking amounts to approximately 4 percent a year. This is the same kind of sacrifice that has already been made by union and non-union workers in the private sector all across our state.

Unfortunately, too many lawmakers have allowed their sense of obligation to the public employee unions to obstruct their view of the bigger picture and what's best for our economy and all the people of Hawai'i.

During this time of shared sacrifice, lawmakers have shown little willingness to compromise. Instead, they are doing everything they can to pull the rug out from under the labor negotiations process so that public employees remain completely untouched by the enormous economic challenges we should all be facing together.

Legislators are gambling with the future of our state because of one constituency.

Unfortunately, misinformation about labor negotiations has been reported in the media and spread by some public employee union leaders. This only serves to stoke employee fears, and compromise what is supposed to be, by mutual agreement, a confidential process. I have not and will not negotiate in the media.

Negotiations are ongoing and we are making some positive headway, despite the obstructionist tactics of some legislators, who are supposed to be representing all taxpayers.

It is important to stress that labor negotiations are not an attack on public employees. We are not trying to, as some Democrats have asserted, balance the budget on the backs of public employees. We are asking for a shared sacrifice so we don't have to break the backs of taxpayers.

I, and members of my Administration, have great respect for Hawai'i's public workers and the work that they do. This is why we have offered wage increases of between 16 and 29 percent over the past four years when times were good. This is also why our current budget recommendations include no layoffs.

I believe the people of Hawai'i are looking to us to set a positive example of collaboration, and to agree on labor contracts that are fair to public employees but that also reflect a sense of shared sacrifice during these historically difficult economic times. I remain confident we will still be able to achieve this goal.

More than ever, Hawai‘i’s elected officials, including myself, Lt. Governor Aiona, and our state lawmakers, need to do more than merely react to what is right in front of us. Even as we work to deal with a crisis that is immediate in nature, we need to be thinking ahead – about the long-term future of our state.

It was therefore with deep disappointment that I learned that four major initiatives we introduced to the 2009 Legislature did not pass this session – each under distressing circumstances. These initiatives would have modernized our state’s long-neglected infrastructure and contributed to Hawai‘i’s pursuit of a clean energy future, while creating thousands of new jobs and helping our struggling construction industry.

Due to a lack of foresight and without any explanation as to why these bills were killed, Hawai‘i will fall behind other states instead of fulfilling its potential to be a top visitor attraction, as well as a center of business and innovation. We’ve put off good initiatives for another year, at a time when we simply cannot afford to delay planning for the future any longer.

The Department of Transportation introduced an innovative plan to modernize our highways, but in the final days of the session, this bill, which had the support of the chairs of the House and Senate transportation committees, died.

The public, which has suffered in ever-increasing traffic is right to ask, “How come?”

The Highways Modernization Plan would have allowed the state to embark on an ambitious improvement program for our highways, saving motorists time and money and saving lives by focusing on highway safety. The six-year, \$4.2 billion plan had a built-in funding structure that only would have kicked in after job growth had increased by 1 percent for two consecutive quarters. The plan was sensitive to the financial pressures residents are feeling right now. Only after the economy had begun to recover would modest increases in fuel and vehicle taxes and fees have taken effect. Furthermore, these

increases would have been offset by hundreds of dollars in fuel savings because of less time spent sitting in traffic.

The Department of Land and Natural Resources this legislative session introduced a visionary Recreational Renaissance to restore and improve our state parks, trails and ocean recreational areas. This initiative would have used virtually no tax payer dollars. It would have upgraded the places that attract visitors to our islands and enhanced the quality of life of residents. This legislation also had the support of the House Majority Caucus, but in the final days of the legislative session, it too died.

Now \$100 million in shovel-ready construction projects that would have kept our small boat harbors from falling into the water and our state parks safe for residents and visitors won't happen. The projected 3,000 jobs these projects would have created won't happen either.

When select legislators prevent an innovative plan from becoming reality with no explanation and behind closed doors, the public becomes concerned and is right to ask, "how come?"

The same question can be asked about the plan that was introduced this session to upgrade Hawai'i's broadband telecommunications infrastructure.

A 21st century information highway is essential to creating the kind of high-paying jobs we want in the coming years. But right now, Hawai'i lacks the kind of bandwidth required for competitive advancements in education, health care diagnosis and treatment, research and innovation, creative media, and our overall economic transformation.

In planning for that future, my Administration worked with the Broadband Task Force to create a bill that would have accelerated our transformation into a true information economy, and which was aligned with the broadband initiative President Obama is embarking on nationally. Although the Legislature failed to act, Hawai'i will still compete for \$200 million in federal stimulus funds for broadband infrastructure projects.

We could have been poised to be one of the most advanced locations for internet service, instead we will remain one of the slowest.

In addition to these major initiatives, another disappointment was the failure of the Legislature to pass a ban on the construction of any new fossil fuel burning power plants. This was a measure which our Administration supported and which Hawaiian Electric Company, the state's largest energy utility, agreed to. Rarely is there a time that the Legislature gets an issue handed to them with a ribbon around it, all tied up and ready to go. And still, the measure did not pass.

The public is right to ask, "How come?"

The failure of these initiatives amounts to missed opportunities.

Democrat legislators have said "no" to innovation, but offered no fresh ideas of their own. Their primary – and most destructive – action this session was to raise your taxes. The actions they took and those they didn't take this session will delay Hawai'i's economic recovery and stall job creation.

While it may be too late to revive the Highways Modernization, Recreational Renaissance, Broadband initiative, and the ban on fossil fuel burning power plants, there is still an opportunity for Hawai'i residents and businesses to make their voices heard on those tax increases that would hurt our economy and add to our already high unemployment numbers, by causing more jobs to be lost.

Tomorrow, Thursday afternoon at 3:30, I invite the public to join me at the State Capitol Rotunda when I plan to veto these tax increases – for the sake of our economy, our residents and our future.

All the people of Hawai'i can have a place at the table in determining how we overcome the current economic challenges we face as a state. I ask that you join me in choosing the wise, responsible and fair course of action. Tell your legislators that you oppose tax increases, before they meet on Friday to try to override my vetoes. If enough of our voices come together in opposition to these tax hikes, legislators may reconsider how they vote.

Mahalo for watching and listening to this Webcast and for participating in your state government. Please e-mail my office at governor.lingle@hawaii.gov with your thoughts and opinions on the 2009 legislative session and on Hawai'i's future.

I am both honored and humbled to serve as Governor of the great State of Hawai'i. I will do everything in my power to ensure our economic recovery and lay the groundwork for a prosperous future.

Mahalo.