



**\*\*\* EMBARGOED UNTIL 10:05 a.m. \*\*\***

**"Investing Now for Hawai'i's Future"  
State of the State 2012  
The Honorable Neil Abercrombie  
Governor, State of Hawai'i  
January 23, 2012**

Mr. President, Mr. Speaker, former Governors, distinguished justices of the courts, mayors, representatives of our Congressional Delegation, members of the Hawai'i State Legislature, other elected officials, honored guests, family and friends. Aloha.

One year ago, I stood before you to present the sobering fiscal reality facing Hawai'i. At that time, we faced an enormous deficit and the effects of fractured government services. The discussion was not about "whether" we needed to find additional revenues, but about "where" we needed to find them.

But by working together and through shared sacrifice, we have started to turn the corner. This past year has not been easy but we have accomplished our purpose.

I want to thank the Legislature for your collaboration.

Thank you to the public for weathering through those difficult choices.

Thank you, especially to our state employees, who agreed to labor savings and additional payments for health benefits.

There was no way for us to have balanced our budget and achieved today's fiscally favorable outlook without the commitment of everyone. To all of you who came to work each day bearing the burden of cuts and slashes to your programs for the past three years; and to those of you who gave up furloughs because of your commitment to serving Hawai'i's people, I thank you. Mahalo plenty to each and every one of you.

Together, we are moving forward. And moving forward means leaving behind the drama of the recent past.

It is for that reason that I have again, requested that the Hawai'i State Teachers Association provide us with a proposal as soon as possible. After good faith negotiations achieving two agreements, the teachers still have not ratified a contract. I will continue to press for a resolution.

Nonetheless, we must continue our focus on our children and students' performance. We cannot wait any longer. We wanted to cross the Race to the Top finish line side-by-side with the HSTA. Make no mistake we will cross that finish line. Our students deserve no less. We will be using all management, administrative, legislative and legal tools we have at our disposal to implement an evaluation system that not only measures, but achieves student growth; turns around low-performing schools; and supports teachers in increasing their effectiveness.

Just as we must concentrate on providing for our children's future, it is critical that we continue the economic momentum we have achieved. Since last year, Hawai'i's recovery has been steady.

- The visitor industry – a key element – saw 3.4 percent growth in the number of visitor arrivals, and total visitor expenditures have grown by 15.1 percent, resulting in an additional \$5 billion dollars flowing into Hawai'i's economy.
- A solid indicator of our growth is the average 8 percent increase in our general excise tax revenue compared to last year.
- Despite the unfortunate closing of Hawai'i Medical Center, our unemployment remains one of the lowest in the nation.
- Payroll employment increased 1.3 percent after three years of decline.
- Initial unemployment claims declined 8 percent in 2011.
- Bankruptcies dropped 15.9 percent.

Nonetheless, my budget team and House and Senate fiscal committees have warned, we must remain wary of the current national and European economic uncertainties, which continue to loom ahead. Earlier this month, the Council of Revenues projected a 3 percent decline in our revenue forecast, which amounts to \$130 million.

The question then, is how do we address what could be a daunting fiscal picture.

Last year, when the revenue projections plummeted, we met the enormous challenge of our shortfall through shared sacrifice and collaboration. We instituted fiscal prudence and discipline, through tools provided by the Legislature. The result was a general fund balance of \$126 million. This was the first positive balance achieved in three years.

Despite this budget success then, current fiscal uncertainties swirling around us mean that our supplemental budget proposal must reflect continued discipline. Through our strong management of resources in 2011, we were able to achieve nearly \$86 million in general fund savings. It is these savings that we will use to propose initiatives that will support and strengthen our economic recovery.

The first is construction. All the signs show that private investment and construction appears hesitant and tentative. Therefore, it is the public sector that must step up to invest in repairs and maintenance, construction projects and infrastructure improvements. By aggressively putting these projects into action, we will ensure that job creation continues.

Our recent bond and refinancing sale of nearly \$1.3 billion, along with \$1 billion of projects that are already on the budget books and another \$300 million proposed in this supplemental budget will spur an immediate rise in job growth.

These New Day Work Projects were chosen because they not only address critical infrastructure needs, but more importantly, they are primed and ready to go. We looked for projects that were not mired in permitting delays, or only in design and planning stages, but those that are ready to provide impact now.

After my initial discussions with the House and Senate, I know that we are all committed to looking at an aggressive budget schedule for these repair and maintenance construction projects. I am committed as well to working with you to make sure that we have a healthy and strong construction budget and a solid plan to continue our investment in our economy.

But, investment is not only about immediate impacts to the economy. It is about our long term vision towards the future. A prime example is the proposed Pohukaina project that is designed around the consolidation of mixed-use and mixed-income. To curtail sprawl and protect our precious available lands, we must focus on urban density and provide working families affordable housing opportunities. This is a central project, and the first step in future plans for further smart development along the 'Iwilei to Waikiki corridor.

Not only is it important to emphasize brick and mortar, we must also build an infrastructure for technology to meet the demands of the 21st century. This is the intellectual and social infrastructure that we must have to provide opportunities and experience for our people to become an advanced workforce that can compete in the global marketplace.

We will move forward on our Hawai'i Broadband Initiative by requesting \$2.9 million to enhance online services for eHawaii.gov, advance research for transpacific fiber landing stations statewide, and initiate a "one-to-one" laptop program for Hawai'i's public schools, to provide laptops for every student. Not only are these advances needed, but they are crucial in ensuring Hawai'i's global connectivity and technological advancement.

We will also be seeking to move oversight of telecommunications to the Department of Commerce and Consumer Affairs. Telecom will now be regulated by one agency, rather than having multiple functions spread out over multiple departments.

Similarly, we are moving forward on our comprehensive plan to consolidate all of our state technology under the Office of Information Management and Technology, led by Hawai'i's first Chief Information Officer. For this important mission, we are requesting \$10 million.

Finally, in this area of our economic future, we must never forget that we need to invest in being proper stewards of our Hawai'i nei. We must nurture our environment, not only because it is pono, but because it is an essential investment for kama'aina and visitors alike.

It is for that reason that I am proposing that we invest \$5 million in protecting our watersheds. If we are going to nurture the ahupua'a of every island, if we are to keep our oceans blue, then we must save Hawai'i's forests and preserve our water resources.

Paradise is our home, it needs our devotion and care.

Our islands attract travelers from around the world. So too, the film industry also depends on showcasing the beauty and variety of our aloha state. We've seen what these islands can look like on big screen and television. Having top-rated television shows and award-winning films like "The Descendants," speaks volumes about Hawai'i as a television/cinema venue.

It is for that reason that we will be requesting the legislature look at the TV and Film Tax Credit with the intention of drafting necessary changes in making it permanent.

All of our work comes down to one underlying purpose – to serve Hawai'i and its people. I mean it broadly and inclusively. It is part of our culture and our history. We are one 'ohana, one family, one state. So, we create programs, establish services and pass laws to meet that obligation. In short, we best care for our people by investing in them.

That investment begins with our youngest children. Early childhood education lays the foundation for a lifetime of learning and results in productive citizens who will someday manage our businesses, build our homes and offices, welcome our visitors, care for the sick, make new discoveries in science, and lead us into the future.

We are at a crossroads when it comes to early childhood education. For too long, we have continued old patterns that treated early education as something that is optional, a luxury for only those few who have the means.

"Research shows that 85 percent of a child's brain development takes place before the age of five and that children who have quality early experiences are more likely to graduate from high school, attend college,

and contribute positively to the economy. Yet, many of Hawai'i's children are entering school unprepared. It's time to invest in our children, and invest in our future, so that our state can thrive."

This observation from *Be My Voice Hawai'i*, illustrates without equivocation that early education is not just an option, it is a fundamental necessity if we are to set the broader educational stage for our children. It is not just about learning to read and write, it establishes healthy attitudes towards learning that will stay with them throughout their lives. We also know that early education greatly enhances a young person's sense of self-worth and confidence that, in turn, positively affects learning.

Early childhood education must be the initial step on the education ladder. Failure to act now virtually ensures that our children will fall behind. If they are not our priority, then we no longer know the meaning of the word.

The state's Early Childhood Coordinator Terry Lock has put together a team to create a unified framework. This early education plan for the state will be the guide for building a stronger quality early care and education system for our youngest children and their families.

Investing in the next generation is the wisest decision that we can make as a people. And make no mistake – it is an investment with long-term returns that will far outweigh initial costs.

Last session, I forwarded difficult proposals to address difficult times. In stark contrast to one year ago, as a result of tough-minded administrative and legislative action, the state finds itself in an all-too-rare financial situation of not having to pay for debt or to balance the budget by raising taxes.

We will continue on this path of strong fiscal management and strategic financial investments, as indicated in Opening Day remarks by President Tsutsui and Speaker Say.

We now have the luxury of weighing solutions to behavioral and societal issues on their own merit. We can ask ourselves what will be most effective and do the most good for our children without the distraction of having to balance the budget on a new tax program.

The fact remains that the link between sugar-sweetened beverages and health is undeniable. I have proposed the establishment of a task force, with members from the public and private sectors, to identify and then implement a solution to this very real health issue in our state. The group's objective will be navigating us away from the path that has led obesity rates in Hawai'i to have doubled in the last 15 years. Sadly, more deaths and illnesses have occurred from chronic diseases than from contagious diseases in Hawai'i.

As our Director of the state Department of Health recently noted, obesity is not just about losing weight for our children... "It is a deadly accurate predictor of cancer, heart disease, stroke, diabetes and other mental and physical ailments" that can follow our children throughout their lives.

For these early childhood education and health initiatives, we are requesting \$1 million.

As important as these issues are for our children, the issues affecting our kupuna are growing in importance in conjunction with their numbers. Last year, the first of the Baby Boomers reached retirement age. Hawai'i acutely felt this demographic shift not only because of their sheer numbers, but also because Hawai'i enjoys one of the highest life expectancies in the nation.

That is why I am proposing \$1.4 million to begin to create one-stop shops across the state for information on aging, to assist all of our kupuna who face the challenges of aging and restricted mobility. We are working with federal, county and community partners to establish Aging and Disabilities Resource Centers, which will serve as a single point of entry for all long-term care support and services in the state. The centers will streamline

eligibility determination, minimize the need to navigate multiple bureaucracies, and facilitate informed choices about long-term care.

But this initiative to ease access to services is only the start. We need to have a further and deeper conversation about long-term care. Seniors want to age in their communities, they want to age in their homes. But more importantly, they deserve to do so. And they deserve to do so with dignity. That is why I am committed to strengthening our system of home- and community-based services. Their needs can no longer, and should no longer, be ignored.

The sudden shut down of two Hawai'i Medical Center hospitals on 'Oahu at the start of this year emphasizes this issue and had widespread ramifications through the medical community and the state, including those who suffer from kidney-related illnesses.

An emergency appropriation for a grant of \$1.8 million to the National Kidney Foundation of Hawai'i will support this important health service. We pledge to help those who have stepped forward in the private sector to ensure that the people of Hawai'i have crucial medical care and expertise.

Our state Department of Labor and Industrial Relations immediately provided rapid response services to employees at both Hawai'i Medical Center worksites, giving them information on applying for unemployment benefits, health insurance options, potential workforce training programs and other services.

We appreciate all the assistance the department has received in putting together these opportunities, which will help workers transition. In Hawai'i, we must think of ourselves as 'ohana first.

This spirit of aloha is deeply rooted in the diverse cultures of these islands. We must never forget that it is the culture of our Native Hawaiians that we so proudly share with ourselves and the world. The recent settlement in principle with the Office of Hawaiian Affairs directly addresses ongoing issues that have remained unresolved for decades. The proposed settlement transfers about 25 acres in Kaka'ako to the Office of Hawaiian Affairs. OHA can use that resource to immediately benefit Native Hawaiians. In turn, the proposal provides approximately \$200 million in value to settle claims against the state. More importantly, it brings closure to this longstanding rift allowing both the Native Hawaiian community and the state to move forward. It is my hope that this heals old wounds.

We have also begun to make progress in one of the biggest challenges faced by our community – homelessness. A coordinated approach and strong desire to help people has been the basis of a multi-pronged effort to assist the homeless in Hawai'i – to provide not only temporary shelter for those who need it but to help them to become productive citizens.

We have and we will continue to invest in the potential of those who are currently homeless. In July 2011, I signed an executive order that established the Hawai'i Interagency Council on Homelessness, a 24-member council comprised of community leaders, state department directors, and federal agency representatives to develop a unified plan on addressing homelessness. The Council aligns its efforts with the U.S. Interagency Council on Homeless, established by President Obama in 2009.

Led by the state's first Coordinator on Homelessness, Marc Alexander, the council worked to bring together a patchwork of organizations that are now seamed together as a single quilt to meet their goals of 1) increasing transitional and permanent housing options, and 2) acquiring increased federal funding.

All these initiatives are not only about saving or spending money or programs and projects. It is about "how" to spend precious taxpayer dollars. A key example of this is the Justice Reinvestment Initiative. The data is clear that from 1997 to 2010, violent and property crime has steadily decreased by nearly half. Despite these improvements in public safety, the incarceration population has remained the same. We must change the way in

which our laws work, change the way in which the system works, so that we can make a clear distinction between those who need to stay in prison to keep the public safe versus those who present little risk. But, we must also provide proper and consistent supervision to those who are released so that we act with dispatch when any offender fails to take advantage of the opportunity offered for a productive life.

After an unprecedented collaboration between the Governor's Office, Justice Department, Public Safety Department, key lawmakers, the Judiciary and The Council of State Governments Justice Center, we will be proposing legislation that improves the criminal justice system utilizing the most up-to-date strategies. And we will do this with existing resources.

And when we talk about "how" we spend our money, we must ask ourselves about why we continue to send billions of dollars a year outside of our islands to meet our energy needs.

Two weeks ago, Tesoro Corporation announced it would be selling its refinery here in Hawai'i. This news was not a surprise. Over the years, I have indicated we are at risk given the rising cost of crude oil and the severity of speculation in the global oil market. I know that there is uncertainty for current employees at Tesoro as it starts the process of seeking an appropriate buyer. Our Department of Labor and Industrial Relations stands ready to provide job assistance for those who need it.

I also know there is uncertainty for those who are wondering what the sale of the state's largest refinery means for the cost of fuel in the state. Well, Hawai'i has never had control over the high cost of energy. So, one thing is certain – and you have heard this before – we must lessen our dependence on imported oil.

This is not just an issue about sustainability. This is about the survival of our state. In moving forward on our path to advance a clean energy future, failure is not an option. Reducing our dependence on imported oil will take an equal commitment by government, business, community, family and individuals. We can no longer view energy production or distribution in an island-by-island context. We must be united on a statewide basis. My administration is committed to clean alternative and renewable energies for the benefit of all of our islands.

In November, I signed two international agreements that demonstrate that commitment.

The first was signed during the APEC Summit with the Vice Chairman of the China Council for Promotion of International Trade to pursue mutual interests in clean energy development. This year, we will continue to build upon that relationship and, by April, I hope to have a more defined memorandum of understanding to advance projects that will result in business opportunities.

I signed a second agreement with Japan-based New Energy and Industrial Technology Development Organization (NEDO) to collaborate on building a first-of-its-kind smart grid demonstration project on the island of Maui.

For this project, Hitachi, NEDO and Mizuho are investing \$37 million in advanced smart grid technology to improve integration of variable renewable resources into the electrical grid.

These agreements mark Hawai'i's emergence as the test bed of the Pacific for clean energy demonstrations and clearly indicate the promise that energy projects offer for economic growth.

Currently there are about 80 renewable energy projects that are demonstrating progress in becoming commercial enterprises that have the potential to help the State of Hawai'i achieve its collective energy goals. This Administration will continue to look at every option – wind, solar, natural gas, photovoltaic, geothermal, biofuels, ocean energy and other technologies. We will be aggressive but respectful in our approach to our island environment.

These projects are just the first step, and in the next few months we will be unveiling a comprehensive roadmap for the state, beginning on Hawai'i Island, for building a world leading, sustainable economy standing on our people's history of self-sufficiency in both food and energy. It is time for us to work together to put willpower to our resources and make this a reality for the state.

That is why I have assigned Lt. Governor Brian Schatz to coordinate and support our energy priorities. We must stay the course when it comes to advancing our clean energy future and ensure that collaborative decisions are being made. Swift and appropriate regulation must take place, as well as healthy competition and local entrepreneurship, community involvement and integration.

The time of sustainability rhetoric is over. Bold action is needed now. We must address two critical issues to position ourselves for increasing use of alternative energy – reliability and infrastructure.

While Hawai'i has an abundance of natural resources to tap into, the system cannot maintain itself solely with sources that shift with changing winds or the sun hiding behind the clouds. The system demands a clear measure of reliability of energy to feed into the grid. Therefore, one of my primary energy initiatives will be to provide the Public Utilities Commission with the explicit authority to develop, adopt and monitor electricity reliability standards. This will include jurisdiction over how independent power producers connect to the grid. Currently, while the PUC can take on issues through its formal docket process, there is no comprehensive authority to oversee reliability standards. To ensure that we have control over the reliability of the energy feeding into the system, we need to give the PUC this authority.

But more importantly, we need to create the infrastructure for stability. This means making the long-term infrastructure investments that ensure our electric grids are stable, reliable and modern enough to integrate alternative and renewable energy technologies. Our investment now will benefit future generations. Had we made this commitment in years past we would be benefitting from it today.

One of those investments is an undersea cable that can connect our island grids to provide stable, reliable electricity between islands. This integrated grid will provide stable energy prices and equalize rates between the islands, which will benefit all of us. To pay for this critical piece of infrastructure, we are proposing legislation that will attract private capital resources and expertise. In today's uncertain world, we cannot postpone Hawai'i's clean energy future any longer. We can only get there if we move now. There is no legislation more critical to our future.

I assure you, the energy debates that will take place this session will echo the debates that took place here when I was a legislator in these chambers in the 1970s. Let us not repeat a history of failure to act in 2012.

Whether these initiatives are aimed at reducing our dependence on fossil fuels, or to assist and uplift the homeless, or to help our kupuna or our children, all represent wise and prudent investments in our people. The cost of not taking action now will most certainly result in higher costs not only in dollars, but in social dysfunction as well.

I am deeply grateful to Speaker Say and President Tsutsui for clearly recognizing and delineating the opportunity to work together on these issues in their respective Opening Day remarks.

With the theme of "Pupukahi I Holomua – Unite to Move Forward," they specifically referenced the main objectives – growing a sustainable economy, investing in people and transforming government. I want to extend my pledge to members of both the House and Senate here assembled, to work collaboratively with you as we serve all our constituents.

I know for many it is hard to see beyond today's needs when today's needs loom so large and immediate. But unless dealt with now, today's challenges can only multiply in difficulty. This is not acceptable. We have the

obligation to make a better future for our children. We live in paradise and taking care of each other is a value that is fundamental to the aloha spirit. This is about having aloha for one another and doing what is pono.

I want to close then with something that exemplifies what aloha for each other is all about. At one point when the way forward was not always clear, Representative Karen Awana gave me a note, the essence of which was "A'ohē Hana Nui Ke Alu 'Ia" – no task is too big when done together by all. I keep it in my desk for those times when I can use a little reminder of the meaning of aloha for each other. Her kindness and goodness is truly aloha in every way.

I pledge my aloha to you all in that spirit. Mahalo nui.