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schatz

A NEW DAY IN HAWAII

RECOVERY AND REINVESTMENT PLAN

October 5, 2010

Aloha Everyone,

For years, you have heard political leaders tell you what you *can't* expect from your government because of challenges with the state budget. No doubt, the State of Hawaii has run itself into difficult financial circumstances, and it will take a different approach to governing to get us out of this situation.

But the people of Hawaii whom I have talked to are not interested in how politicians will balance the budget. What they really want to know is how we will do the things we need to do *with the budget we have*. As I have said throughout this campaign, we have to begin the discussion by first being clear about our values and priorities.

On August 18, 2010, I released our plan called *A New Day in Hawaii*, which outlined a new direction for Hawaii based on our common values and hopes. It is an economic plan for a quick recovery focused on jobs, and it also calls for investments in our own people to ensure long-term economic prosperity and resilience.

I believe that one of the most important goals for the next Governor of Hawaii will be to restore public confidence. That means we need a government that is honest with people, competent, cost-effective, creative, able to think long-term, and inspirational to bring out the best in all of us. This plan is a preview of how I believe government should operate—with clear direction in the face of sober realities. In an Abercrombie Administration, we will all be on this journey together, working in unison to reach our common goals.

A New Day in Hawaii is a compass, a detailed map of where we need to head in order to fulfill our potential and preserve all that we cherish. The plan I am presenting today lays out how we will implement our vision beginning on the first day in office. It was developed with the help of community members, budget experts, program experts, and many others who are confident that we can change how government works in Hawaii. I thank all of them for their participation in this project and their dedication to Hawaii's future.

There is a new wave coming to Hawaii. A wave of hope and prosperity. A wave of unity and aloha.



Imua Hawaii!

A handwritten signature in black ink that reads "Neil Abercrombie".

Neil Abercrombie

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THE STATE OF HAWAII

A Status Report

All across these islands, people are lamenting government in Hawaii. They are frustrated by the gridlock that leads to an endless cycle of blame. For the past eight years, the Governor has made proposals, the Legislature passed its own proposals, the Governor vetoed bills, the Legislature overrode vetoes, and the Governor withheld funds required to implement measures. It's a paralysis of leadership.

People are rightfully worried about the state of Hawaii's economy and the fiscal health of their government, but the continual finger pointing leaves people confused and frustrated. Ultimately people are feeling more disconnected from their own government and less eager to participate or pay attention to what happens at the State Capitol.

Compounding the problem is the deeply felt sense that government is not listening to people. This was made most clear in the extended battle over Furlough Fridays—a government failure which ultimately cost our children 17 instructional days that they can never recover. People have real challenges: paying the bills, caring for aging parents, affording college, saving up for retirement or a down payment on a house, dealing with a pay cut or with credit card debt, trying to expand a small business, or just dealing with the daily monotony of traffic.

Restoring public trust in government is the number one task for the next Governor.

HAWAII'S FISCAL STATUS

Based on the latest projections provided to the Senate Ways and Means committee on August 17, 2010, the Lingle/Aiona Administration is anticipating surpluses for the next six years, even when adjusted downward by the latest estimates from the Council on Revenues. This Recovery and Reinvestment Plan for *A New Day in Hawaii* is based on these official, publicly available figures.

State General Fund Projections

In Millions of Dollars

	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Revenues (Gov. Lingle's 8/17/10 update)	5,008.0	4,852.4	5,274.4	5,521.9	5,825.7	6,120.7	6,399.1
Adjustment (Council on Revenues 9/8/10)	-	1.1	(172.6)	(16.6)	(5.2)	(5.7)	48.7
Adjusted Revenues	5,008.0	4,853.5	5,101.8	5,505.3	5,820.5	6,115.0	6,447.8
Expenditures (Gov. Lingle's 8/17/10)	5,375.2	4,837.8	5,016.0	5,452.0	5,763.1	5,819.2	6,015.0
Revenues Less Expenditures	(367.2)	15.7	85.8	53.3	57.4	295.8	432.8
Beginning Balance	330.4	(36.8)	(21.1)	64.7	118.0	175.4	471.2
Ending Balance	(36.8)	(21.1)	64.7	118.0	175.4	471.2	904.0

Source: Hawaii State Department of Budget and Finance, and State Council on Revenues

Based on these numbers, we can conclude the following:

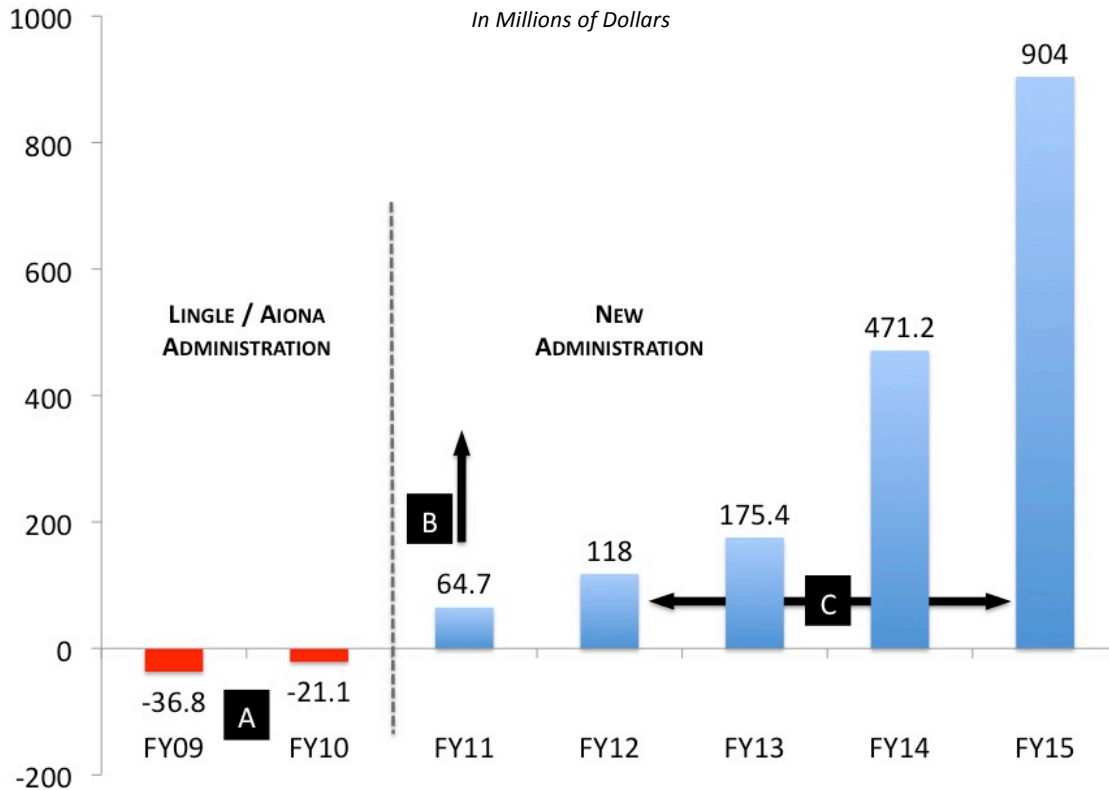
- **Lingle/Aiona Fiscal Mismanagement.** In the last two fiscal years, at the same time that it was dismantling government services, the current administration left the state with negative balances in the general fund.
- **Capacity to Repair Government Without Raising Taxes.** Based on the Lingle/Aiona Administration's own projections, there will be room in the general fund for the next Governor to restore broken services and for making smart public investments *without raising taxes*.

The state is in dire need of prudent fiscal management including better long-term planning, diligent pursuit of economic opportunities, and fewer delays caused by conflict and process. An Abercrombie Administration is ready to move on Day One to restore taxpayers' confidence that their dollars are being used wisely and in the best interests of all people.

State Fiscal Objectives

State General Fund – End of Year Balance

In Millions of Dollars



Source: Hawaii State Department of Budget and Finance, and State Council on Revenues

The next Governor needs to address these fiscal objectives:

- A. **Better manage existing public resources so we don't run negative balances as we did in the last two years.** The Governor is responsible for the State's fiscal health, and we cannot afford to run negative balances. We need to be much more targeted and clear about the use of public resources, access federal funds meant to stabilize and supplement the state budget in the short-term, and make sure departments are managed effectively.
- B. **Accelerate the economic recovery by capitalizing on lost opportunities.** We know we can do better by accessing external funds and working collaboratively with the private sector and other stakeholders in economic development.
- C. **Clearly articulate priorities for investing what public dollars we will have.** Unlike the current administration, which has expressed no clear vision, *A New Day in Hawaii* maps out an Abercrombie Administration's clear strategy for building a more resilient, people-based economy in Hawaii that will serve future generations.

THE CURRENT STATE OF GOVERNMENT OPERATIONS

It has become all too easy to say that government is too big and ineffective, and then dismantle it to the detriment of everyday citizens. The people of Hawaii want to see solutions. In particular, people are experiencing three specific problems in Hawaii State Government today.

- **The Lingle/Aiona administration's dismantling of government has become an obstacle to business.** The private sector is the fundamental vehicle of Hawaii's economy. Everyone is harmed when businesses are stuck in government processes trying to get permits, file paperwork, or meet regulatory requirements in a timely fashion. Under the current administration, critical government functions have been slashed and there has been no rational investment in integrated information technology systems for government. People don't want government to do everything, but they want it to do what it is supposed to do and do it well.
- **Partisan differences between the current Republican Administration and the Obama White House have left Hawaii with a mediocre economic stimulus.** Like other states led by Republican governors, Hawaii took a non-cooperative stance when President Obama launched the federal stimulus program to help the states. As a result, Hawaii has been slow to capitalize on federal funding opportunities meant to stimulate the local economy. Many other opportunities have been lost.
- **Eight years of disparaging and demoralizing public employees have left taxpayers with an overstrained workforce of public servants.** Under the current administration, creativity was stifled and there has been very little planning, training, or leadership development within the ranks of public employees. The result has been an unproductive war between the administration and public sector unions in which everyone has lost. Like all workers, government employees want to be productive and fulfilled in their work. There is a tremendous potential for government efficiency and effectiveness if we start managing public employees as one would in the private sector by having high expectations, investing in human resources development, and encouraging excellent work.

CHALLENGES ON THE HORIZON

There are three significant challenges threatening the State's fiscal health that have been essentially ignored and left to future generations by the current administration. Each could be very costly if not addressed by all parties together with the goal of resolving the issues.

- **Collective bargaining.** The argumentative approach by the current administration with public sector unions led to all sides digging into inflexible positions. In the end, the general public felt left out and ignored in the process. In the next set of negotiations, the Governor and public sector unions must face the severe budget challenges together to find a solution that best serves the public interest. Rather than looking at it as a win-lose proposition and pitting unions against one another, an Abercrombie Administration will approach negotiations as a joint problem-solving endeavor with a clear view of what the public values and priorities are. The era of furloughing school children will be over.
- **Medicaid.** The rising cost of Medicaid is on a path to exceed our ability to pay unless we can do two things: first, alongside other states, we need to immediately lobby the federal government for more favorable federal matching provisions so that the Medicaid program can continue serving those people who need it. Second, we must implement the Abercrombie plan to aggressively attack the skyrocketing costs of healthcare statewide including a greater focus on prevention.
- **Public employees health fund.** We've known for years that the cost of healthcare was rising at a pace that would outstrip our ability to pay, and yet we continued to ignore the enormous obligations owed to government workers for far too long. We must gather all the interested parties together to come to a fair solution before the health fund reaches a critical point. This will require leadership that has been lacking in the Governor's office. In addition, as with Medicaid, the problem with the State's health fund makes even more urgent the need to address the rising cost of health care in Hawaii.

The silver lining in the face of these challenges is that states all across the country are encountering similar fiscal challenges, and the Obama Administration and Congress are aware of this and looking for ways to help. A Governor with strong ties to the White House and to Congress, armed with a clear vision, can move Hawaii to the front of the line for these opportunities.

IMPLEMENTATION STRATEGY

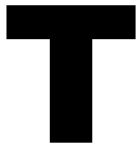
Hawaii is in a difficult position right now. Rather than dwell on who is to blame, we must put all our focus on the next steps. The people of Hawaii are ready to apply their enormous talents and energies into moving in a new direction. The key for the next Governor is to tap into every opportunity with the effort of every individual to get Hawaii back on its feet and to ride the new wave of economic and social change that is coming.

The vision described in *A New Day in Hawaii* lays out a new economic future for Hawaii. It is focused on the creation of good jobs that will be attractive to our own children, wise utilization of our natural resources to become more self-sufficient so we can keep dollars and jobs here in the islands, and an unprecedented investment in human capital—in the education, skills, creativity, health, and wellness of our people so they can become the drivers of the 21st Century economy.

Across the United States, President Obama has implemented an economic stimulus plan called the American Recovery and Reinvestment Act. Here in Hawaii, we need our own plan for recovery and for reinvestment. For *Recovery*, we will spark the economic boom that we needed two years ago by going after every available external dollar, supporting local small businesses, and building a new infrastructure for Hawaii. And when we can *Reinvest*, we will do so in the areas that will sustain our people for the long haul: technology and innovation, high-quality affordable healthcare, energy, food production, education, and a modern infrastructure.

A New Day in Hawaii is our compass. Much of it requires no new state spending, but rather a redirection of the dollars that are already there with clearer missions for our public agencies. How fast we can move in this new direction is a function of how fast we can get our economy to recover, our small businesses to grow, our entrepreneurs to make their ideas happen, our workers to become employed, and our families to prosper. If the economy continues to struggle, we may not move as quickly as we would like, *but we will move*. More likely, our economy will take off with our initial actions and we can begin to make wise investments for our future. Whatever the case, our direction will be clear, and we will move with determination and focus.

IMPLEMENTATION PRINCIPLES



he following are the guiding principles for implementing this plan:

- **Action begins on Day One.** People are tired of waiting. No new audits or studies will delay immediate implementation of the plan.
- **Implementation in stages.** *A New Day in Hawaii* will be implemented over time, beginning with low or no cost items that help the economy recover and that make key structural changes in government to orient it to future priorities. Based on the rate of economic growth, larger initiatives will be started in future years.
- **Strict spending philosophy.** Every program that requires state funding will be based on this comprehensive vision and therefore designed to expand the State's economy and/or save public money in the short- or long-term.
- **The General Excise Tax will not be raised.** Given the public's lost confidence in government, no reasonable argument can be made to raise the GET. Government will have to make better use of the revenues that it has and grow the economy if more revenues are needed.
- **Maximum participation of the private sector.** An Abercrombie Administration will employ a new level of listening, fairness and collaboration. It will look to form public-private partnerships in all fields to produce public benefits at minimal costs.
- **Team with our public employees.** Public employees are an untapped resource to help run government more effectively. Right now, constant demoralization has shrouded the good ideas, initiative, and expertise that already exist in the public workforce. The ultimate beneficiary will be the general public by improving the work experience and maintaining high expectations while providing the respect that is due.

PHASE 1 – RECOVERY (2011)

The immediate task of the next Governor is to supercharge the economy without delay. While economic conditions around the world are getting better, Hawaii has been relatively passive at a time when we should have been showing urgency in a concerted effort to inject and circulate dollars in the local economy.

Every single federal and private external dollar that can make its way into the local economy should be secured. This should not be done in a haphazard way. Rather, we need to go after funding that can be quickly turned into paychecks to be spent in our own economy. Government needs to make its policies clear and stick to them so that the private sector can operate and plan with a high level of certainty. We need to make investments into emerging parts of the economy, and restructure government to better handle its 21st Century obligations.

According to the Governor’s estimates, there are general funds available to spend on this phase, but that spending will be kept at a minimum. The focus of this effort will be the following economic recovery activities:

- A. **Recovery maximization.** There will be an unprecedented effort by state government to identify and access every available external dollar into Hawaii’s economy, with the goal of converting as many of these dollars into paychecks as possible. These are not dollars for Hawaii to live off of indefinitely. Rather, they constitute a down payment on *A New Day in Hawaii*. The effort will have three main parts: 1) Accelerating the use of, and if necessary, redeploying all remaining federal stimulus dollars—currently an amount in the hundreds of millions; 2) Assisting businesses, nonprofits, and government agencies in the pursuit of federal and private grant opportunities that advance Hawaii’s economic and social agenda; 3) Prioritizing and going after key federal matching opportunities and determining where to put State dollars to maximize those funds for Hawaii programs and services.
- B. **Restore critical deficiencies in government functions.** Some recent cuts in government services are doing more harm to the economy than good and they should be immediately restored. These include an adequate number of agricultural inspectors to move local produce, adding service provision capacity to the Department of Human Services to avoid payments to ineligible clients and potential federal penalties, and improving enforcement capacity in the Department of Land and Natural Resources so it can uphold its responsibilities to move permits and enforce laws. Other government functions may also need to be restored as identified.
- C. **Make structural changes to improve government effectiveness.** Many aspects of the plan can be implemented immediately to improve how government operates. The Superintendent of schools and the President of the University of Hawaii system will immediately be treated as cabinet members to ensure smooth operation and united effort. Early childhood functions currently spread across departments will be consolidated. A Governor’s advisory group for Technology and Innovation will be assembled. The new Governor’s cabinet will be selected based on community input and each will be tasked with improving morale and performance within departments.
- D. **Develop public-private partnerships.** Housing will be an immediate focus, with government partnering with private developers. Private

entities will also be asked to invest in public schools, assist in the advancement of the high-tech sector, help develop opportunities for aging in communities, install new clean energy projects, and help create a network of opportunities in early childhood education.

- E. **Direct new revenues to new priorities.** We will move immediately to develop an independent Hawaii Energy Authority to drive the clean energy agenda in Hawaii. Revenues from the new barrel tax can help fund its operations. Other food and agriculture initiatives in the Abercrombie plan can be funded from these new revenues.

- F. **Utilize the bonding power of the state.** We will use the bonding power of the state to fund necessary improvements in information technology systems. This will save the state tremendous amounts of money over time in increased efficiency while also improving services for taxpayers. We will also release up to \$1 billion of already appropriated and authorized funds for modern infrastructure projects, improvements to schools, the university, airports, harbors, roads, information and energy infrastructure.

PHASE 2 – REINVESTMENT (2012 TO 2014)

It is anticipated that Phase 1 will accelerate economic recovery in Hawaii, increase state revenues, and create new opportunities to invest in Hawaii that will ultimately fuel an expansion of Hawaii's private sector. Depending on the pace of recovery, we will begin a phased investment into the following priorities as outlined in *A New Day in Hawaii*.

- A. **Infrastructure.** We need to finish the job of building an infrastructure upon which we can have a 21st Century vibrant and sustainable economy. Besides bond funding, there are federal resources including partnering with the Department of Defense. The focus will be the energy grid, information networks, irrigation, and transportation.
- B. **Early Childhood.** We know for a fact that the brain is shaped for life in early experiences beginning at birth. We know that it is much more difficult and expensive to remediate problems later in life than it is to support parents in getting their children off to a good start. Resources dedicated to the early stages of human development pay off many times in helping children reach their full potential.
- C. **Public Education.** With the recent award from President Obama's Race to the Top initiative, Hawaii schools are on a path to improvement. In this critical time of change, the state must maintain a commitment to appropriately fund all public schools and to make sure those resources are best serving students.
- D. **University of Hawaii System.** UH will contribute to and have a leadership role in every element of our comprehensive plan for Hawaii: educating our young people; developing new technologies for commercial use; training health professionals, educators, and entrepreneurs; piloting innovative programs; being a focal point of statewide pride; simultaneously providing learning opportunities and valuable community services; attracting the best minds from around the world.
- E. **New Economy Industries.** Our biggest economic priorities in emerging sectors—clean energy, agriculture, high-tech, creative industries, and bringing our core industries into the 21st Century—will be led by our private sector of entrepreneurs and businesses of all sizes. Government's role is to provide proper supports and incentives, build the public infrastructure, provide efficient government services, open up markets, and help develop the workforce. These will be high priorities.
- F. **Housing, Families, and Human Services.** For our economy and our communities to thrive, we need everyone reaching their potential. In our most challenged families are future artists, scientists, entrepreneurs, managers, teachers—all looking for hope and opportunities. In an Abercrombie Administration we will work together and provide *hands up and out* of poverty, isolation and despair. We will rebuild our communities around our common values and make investments in our human capital.
- G. **Healthcare.** We must be proactive about addressing the rising cost of healthcare and our growing aging population. Unless we get ahead of these issues, they will continue to overtake us in financial and social costs. We have some opportunities if we build off of national healthcare reform, look at our aging population as an asset, and bring all parties together to put our system of healthcare back at the forefront. We need to invest in information technology, a significant focus on prevention and wellness, and unprecedented partnership between public and private sectors.



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