



EXECUTIVE CHAMBERS
HONOLULU

GOVERNOR LINDA LINGLE

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The Future Begins Today

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Madam President, Mr. Speaker, Lt. Governor and Mrs. Aiona, members of the Legislature, Chief Justice Moon, Chair Apoliona, cabinet members, military leaders, members of the counselor corps, distinguished guests, and to all the people of Hawai'i.

Good morning and Aloha.

It is a great honor to address once again a joint gathering of the State House and Senate as well as all the people of Hawai'i to share with you my honest assessment of where we stand, paint a vision for the future, and outline the steps I think we should take to get there.

It is important for us to have a concrete, shared understanding of where we want to go.

Without this common vision, it will be too easy to get off track and stumble on our pathway to the future.

I believe there is a broad public consensus about where we should be heading, and I believe this consensus has grown stronger over time.

We all want a higher standard of living for ourselves and our children...and we want to preserve everything that makes Hawai'i unique...especially our cultural and natural resources...and our sense of 'ohana.

We want Hawai'i's young people to have first-rate educational opportunities... we want affordable housing...state-of-the-art healthcare that is accessible to all...and good-paying jobs.

But we still want to be able to go fishing at the pier...or catch a wave after work...and we want time to talk story with our families and friends.

To achieve this vision, we have to change our economy from one based on land development, to one fueled by innovation and the new ideas generated by our universities and a highly-trained workforce.

Some think it is unrealistic to change our decades-long reliance on land development as the foundation of our economy.

Some think it is easier to keep doing what we have been doing.

They think it is too hard to change.

But, hard or not...change will happen.

The question for us to answer is, will we just let change happen to us in the coming years...or will we create the change we want to see so that future generations are able to live a good life in Hawai'i?

One of my guests today is part of that next generation.

He captured our imagination here at home and around the world just days ago when he made the cut and then went on to finish tied for 20th among the pros at the SONY Open.

Please say hello to Tadd Fujikawa, his parents Lori and Derrick and his grandparents and great grandma.

The fundamental change in our economy I have been describing will require the Legislature, my administration, the county governments, our schools and universities, businesses and others to share this vision and to work together to make it happen.

Our \$732 million budget surplus can enable us to dramatically re-shape our destiny, if we make wise choices.

Over the last 15 years, the world has been profoundly changed by the development of the internet and other technologies that make it easier for people to communicate with each other and to shift capital around the world.

People from different countries can work together on the same project in real time—an engineer in India collaborating with a software programmer in California and a banker in China.

A person dressed in shorts and slippers can shake the political world with a blog that he writes from his lanai.

States used to be economically strong because they had access to natural resources...or sat at the crossroads of railroads, rivers or other lanes of commerce.

Those things will still be important in the coming years, but they are rapidly being eclipsed by the significance of human potential.

The reality is that the future economic fortunes of our state will be determined by the capabilities and creativity of our people...and by their ability to work and communicate effectively with others from around the world.

No one is better suited than the citizens of Hawai‘i to work with people from diverse backgrounds...in a global economy...that will be focused on the Asia-Pacific region.

This is our arena...and this is our era!

But we can't wait for the world to come to us.

We must seize the moment...or it will pass us by.

Before outlining the four principles I believe we must follow in order to achieve success in the global, information-based economy, let me first offer my definition of success.

Simply put, success means producing a constantly rising standard of living for all Hawai‘i's people while using fewer natural resources, including land.

And, to do this while preserving those aspects of life that make our island home so special.

The four principles that should underlie our future efforts and decisions are simple but not easy to achieve. If followed, I believe they will lead to our long-term success.

First, we need to ensure that our workforce has the skills and knowledge required to compete effectively in the 21st century.

Second, we must create an environment in which innovation, entrepreneurship, and risk-taking are encouraged, nurtured, and rewarded.

Third, we need to enable all our citizens...regardless of their economic circumstances...to be fully involved in the digital revolution that is sweeping the world.

Fourth, we must ensure that the basic needs of our citizens...including housing and healthcare...are met, and that our cultural and natural resources are protected and enhanced.

First among the principles is providing the education and training our citizens need to compete with the best and the brightest from around the world...because that is, above all, what it will take for us to succeed.

Educator Mary Jean LeTendre said it best when she observed, “America’s future walks through the doors of our schools each day.”

I would borrow her quote and add to it “Hawai‘i’s future walks through the doors of our schools and universities each day.”

Our workforce development plan emphasizes the teaching of science, technology, engineering and math skills.

These skills are known collectively as STEM.

I recently returned from New Hampshire where I participated in the annual kick-off for an extra-curricular, teenage robotics program that teaches STEM skills, known as the FIRST Robotics Competition.

I spent three days there as the guest of FIRST founder and one of America’s most imaginative and best known inventors, Dean Kamen, who last year was inducted into the National Inventors Hall of Fame.

Dean is a passionate advocate for teaching America's students STEM skills through FIRST Robotics Competitions that combine the excitement of sports with science and technology to create what he calls "a unique varsity sport for the mind."

Hawai'i currently has four FIRST Robotics teams...Waiakea, Punahou, McKinley and Waialua High Schools.

Some of the FIRST students are with us today. Please welcome students from McKinley High School and their teacher Osa Tui and FIRST Waialua High School students and their teacher Glenn Lee.

During my visit to New Hampshire, FIRST's lead sponsor, NASA, committed \$1 million over the next three years to fund up to 20 Hawai'i robotics teams as well as a regional competition next March here in Honolulu.

The students you just recognized, their teachers and the entire Hawai'i robotics community are very excited about the Regional Competition.

We are grateful for their participation and leadership to bring this important opportunity to other students all across the state.

NASA Program Executive for Solar System Exploration, Dave Lavery, explained NASA's support for FIRST this way...

"On an individual, personal level, FIRST is having a real impact on the lives of these students, helping them realize what they're capable of.

"On a national level, we're creating new engineers who will drive the entire future economic engine of the country."

Well, I believe whether or not students become engineers or scientists, mastering STEM skills will equip them to contribute in significant ways to a sustainable economy based on innovation.

Earlier this month I unveiled a series of specific actions we can take together to make this vision a reality. They include:

- providing students in grades 6 – 9 with enhanced opportunities to develop STEM skills through hands-on, project-based learning.

- establishing high school STEM academies taught with the help of University of Hawai‘i community college instructors where students will earn both high school and college credits.

And for students who successfully complete the STEM curriculum, I am proposing we fund undergraduate scholarships at the University of Hawai‘i, or any other local college or technical school of their choice.

Whether students study STEM subjects or other fields of study we need to increase the incentives for parents to save for their children’s college education.

I am proposing that we expand the current state-sponsored college savings account plan so that parents can reduce their taxable income by \$20,000 per year and use the money to pay for tuition at any Hawai‘i college, university, or technical school.

Those parts of the world that are thriving in the global economy have several common characteristics, including being anchored by strong universities that produce graduates who excel in science, engineering and math.

These universities attract talented people who develop new ideas which can be commercially developed in the surrounding community, creating high-paying jobs.

We already have a higher education anchor here in the University of Hawai‘i... but its potential for driving the economy has barely been tapped.

I am proposing that we revamp the way the University transforms research ideas into viable businesses.

And I am proposing that we provide funding that...if matched by the private sector...will support three new endowed professorships at UH in STEM disciplines.

But higher education alone is no longer sufficient to guarantee a prosperous future. In today’s world, education cannot stop once someone graduates from school.

The rapid pace of changing technology in all fields requires companies and their employees to seek frequent upgrade training in order to keep up.

I am proposing a program for portable “Life Long Learning Accounts” to enable employees to set aside pre-tax dollars matched by tax-free employer contributions to pay for skills training and education programs.

Additionally, I believe it is time to recognize that workforce development fundamentally is part of economic development and should be located in the Department of Business and Economic Development, rather than the Department of Labor.

The second principle is that innovation, entrepreneurship and risk-taking need to be encouraged, nurtured and rewarded.

Innovation and risk-taking are part of our cultural DNA in Hawai‘i.

The Polynesian voyagers were among the foremost innovators and risk-takers of their time, from developing and implementing new transportation technologies to their use of the stars as navigation devices.

The immigrants who arrived later were also risk-takers, and they too had to innovate to get ahead in life.

It is not enough to encourage today’s citizens and businesses to innovate and think big ideas...we in government have to be willing to do the same.

In that spirit, I am following up on Speaker Say’s proposal from last year and proposing to establish a \$100 million Hawai‘i Innovation Fund.

I am proposing that the State Employees Retirement System invest \$100 million in this professionally managed fund to finance promising high technology and creative industry companies as an affirmation of our belief in Hawai‘i’s innovative capabilities.

Too often in recent years, we have seen small, high-tech companies reach the edge of profitability...only to move elsewhere where they can get the funding to continue to grow.

The ERS, at \$10.5 billion, is the state’s largest institutional investor, and can play a major role in spurring new companies that create high-paying jobs here at home, while earning good returns for its beneficiaries.

These newly created companies, including those focused on life sciences, will need quality incubator facilities, including wet lab space.

We are proposing to meet this need by partnering with Kamehameha Schools which is planning to build the Asia-Pacific Research Center near the medical school in Kaka‘ako.

The state’s High Technology Development Corporation would become the Center’s master lessee.

Another way we can spur new industries...including renewable energy research and development...is for the state to purchase the 500-acre land holding that the Navy is on the verge of selling at Kalaeloa.

After reviewing the land use and ownership patterns on O‘ahu, we have identified Kalaeloa as the best place to achieve positive economic growth for the Leeward Coast while repositioning our economy to one based on innovation.

When ownership of this land is coupled with HCDA’s zoning authority, opportunities for workforce housing, innovative technologies and job creation, and other government initiatives can be more readily pursued.

My staff has had some discussions with the Navy about this proposal and I have had conversations with senior Navy officials as well.

I have also had a brief conversation with U.S. Senator Daniel Inouye about this proposal and a follow-up conversation with his senior staff about how the Senator can help us achieve our vision for a new economic future for West O‘ahu.

I have been encouraged by these initial conversations and will be talking further with both the Senator and the Navy in the days and weeks ahead.

Two other “Big Idea” innovations I want to discuss with you today are a “Digital Media Center” and “MELE”, which stands for — Music Enterprise Learning Experience.

As you know we have spent millions of tax dollars building and renovating the Diamond Head Studio, granting tax credits for film and television productions, and funding the Academy of Creative Media program at UH.

After all that spending we remain pretty much just a back-lot for Hollywood and other media industry centers.

Hawai‘i’s film and television productions, as well as interactive game development and digital design are all exciting growth industry areas that could flourish here with the development of a local incubator facility that provided a cohesive and integrated site with digital media infrastructure.

In addition to providing a collaborative learning environment for students, faculty, and professionals, this facility will serve as an incubator for digital media businesses, and a research and development lab for the creation of intellectual property.

I think one of the most exciting pieces of our Innovation Initiative is MELE, a partnership with Honolulu Community College to build a training program and facility for the development of Hawai‘i’s music industry.

While Hawai‘i has an unusually high concentration of raw musical talent, we have never fully developed the broad support infrastructure needed to create an industry.

HCC is developing a partnership with Nashville’s Belmont University, one of the premier music and entertainment educational programs in the nation.

HCC proposes that MELE be developed around three strands—artist creativity, entertainment business expertise, and technical production skills.

Belmont University will help to jump-start the process by collaborating on joint use of their curriculum, technical facility and equipment specifications, training of local faculty, and dual credit for course offerings in Hawai‘i.

HCC students will be able to pursue their bachelor’s and master’s degrees at Belmont University in Nashville, with internships there as well as in Los Angeles and New York.

This development model is based on 40 years of industry experience in Nashville, a music center that has created a \$5 billion industry in country music.

Nashville’s success is based on having both a distinctive music and a unique culture. Hawai‘i possesses its own distinctive music and one of the world’s most unique cultures.

For a modest \$2.7 million investment, Honolulu Community College would be on its way to creating a true music industry for Hawai‘i that could also become a production magnet for the growing music industry throughout Asia.

The third principle we need to adopt is the notion that it is important for all of our citizens to be able to take full advantage of the benefits offered by the digital revolution.

Pulitzer Prize winning author Thomas Friedman in his most recent book, *The World Is Flat*, notes that the internet has leveled the global economic playing field.

As a result, opportunities that were once available only to a select few are available now to anyone, anywhere, with the access to participate in this new borderless society.

While high-speed broadband access is not the kind of infrastructure we’re used to planning for...and connectivity isn’t as necessary as food, shelter, clothing or healthcare...it is absolutely critical that all the people of Hawai‘i have affordable internet access in order to participate fully in the 21st century global economy.

High-speed internet access should not be restricted to those who can afford an expensive broadband connection...nor should our citizens or visitors have to be tethered to a desk to communicate across the globe.

Municipalities across the country are moving to establish wireless internet access...and the City and County of Honolulu has announced a pilot project in Chinatown.

We need a coordinated approach to ensure that digital democracy becomes a reality in Hawai‘i.

Because those without connectivity are falling further and further behind in this new, inter-connected world.

My administration will work with the counties and the private sector to establish affordable, wireless internet access everywhere it is feasible by 2010.

We will begin by establishing wireless service at public libraries across the state, followed by other state buildings, most notably schools.

If we succeed, Hawai‘i’s students will be able to digitally access the best physics instructor in the nation...or watch an art lesson by a renowned painter anywhere in the world.

These are ambitious goals, and achieving them will require focus and commitment at the highest levels of state government.

That is why I am proposing the creation of a Chief Information Technology Officer position to guide this effort.

The fourth principle recognizes that giving citizens the tools they need to compete in the 21st century economy, increasing their STEM skills, and achieving economic success, will be a fool’s choice if we lose the Hawai‘i that we all cherish.

Nor will we have succeeded if our citizens’ most fundamental needs are unmet and the cost of living rises to a level that forces them to leave Hawai‘i.

The recent shame we felt reading about our homeless problem on the front page of the *Wall Street Journal* and in the *New York Times* is an uncomfortable reminder that we can’t take our eye off the ball in our efforts to help thousands of our fellow citizens regain their self-sufficiency.

I want to thank the members of the Legislature for supporting my issuance of an emergency proclamation last year that allowed us to move quickly to address this crisis...and for your ongoing financial support.

I also want to thank the many community organizations, churches and temples, businesses, government agencies and individuals for being such an important part of the solution.

And I want to give special recognition to my Chief of Staff Bob Awana, Comptroller Russ Saito, and Executive Assistant to the Chairman of the Hawaiian Homes Commission Kaulana Park for working well outside of their job descriptions on this multi-faceted challenge.

Together, we have made a lot of progress addressing the homeless situation over the last few months.

We've opened an emergency shelter in Kaka'ako, another in Waipahu, and a transitional shelter in Kalaeloa during the past few months.

And our largest transitional housing project to date is set to open across from the Waianae Civic Center by the end of next month.

But successfully opening emergency and transitional housing alone will not solve the housing problem.

To do this, we must generate many more affordable rental and for-sale housing units.

I am calling for an immediate deposit of \$50 million in cash into the Rental Housing Trust Fund...\$50 million for the Dwelling Unit Revolving Fund...and another \$50 million to repair and renovate public housing projects.

This money, when leveraged with private funds, can result in the development of thousands of additional affordable rental units as well as for-sale units.

Finally, we can attack the problem by funding infrastructure that will open up lands for affordable housing that otherwise would have remained unused.

One such opportunity exists in Kona, where for an expenditure of \$14.4 million to develop a water system...we can create a true partnership between the State's Housing Finance and Development Corporation and the Department of Hawaiian Home Lands to build over 2600 more affordable homes and rental units.

These are bold steps, and represent a significant commitment of our state's resources.

But they are steps that we must take if we wish to erase the stain of homelessness from our community...and ensure that the American dream of home ownership remains alive for our families.

Housing is a fundamental need of all our citizens. Another is affordable, high quality and accessible healthcare.

We were recently rated the 4th healthiest state in the nation, and while that is a great distinction, the paradox is that our healthcare system is itself in nearly critical condition.

The signs are all around us... from the decision of Kahuku Hospital to close its doors...to a lack of emergency room physicians at our major trauma center...to a lack of certain specialists, especially on the neighbor islands.

The problem is mostly about the bottom line.

High costs and low reimbursements are driving hospitals out of business and physicians out of the practice of medicine.

We must act now, or there might not be an emergency room physician or other medical specialist available when our loved ones need them most.

I am offering several specific healthcare proposals.

First, I am renewing the call for sensible, medical malpractice reform based on the California model.

This proposal ensures that plaintiffs can recover for their actual damages...while putting reasonable limits on so-called non-economic damages. This bill has been stalled in committee...while more hospitals threaten to close, and more doctors leave.

We can't afford to wait any longer...we must not let anyone hold this up.

I am asking you to make reasonable, medical malpractice reform a priority.

Second, we must revamp the Certificate of Need process, which is used to determine whether a hospital or other medical facility can be built.

Just last year, this process resulted in the denial of a request to build a privately-funded, state-of-the art hospital on Maui—a facility that was supported by the majority of Maui citizens.

We must revise this process so that local communities have the final say in determining which new medical facilities and services to support.

And let us join together with our Congressional delegation to work at the national level to increase Medicare rates, the basis for most payments to doctors and hospitals.

I am also proposing that we pass a “Good Samaritan” law that exempts from lawsuits those doctors who provide medical treatment without compensation, except in cases of gross negligence.

I also ask you to reinstate the Insurance Commissioner’s authority to disapprove rates that are excessive, inadequate or unfairly discriminatory.

This is the same authority he has to review rates for other lines of insurance.

Finally, we need to make sure that health insurance is affordable...by eliminating tax barriers that have kept competition out of the marketplace...and by enabling sole proprietors to obtain the same rates as larger companies.

A lack of nurses is another healthcare system deficiency that needs to be addressed.

We are requesting more funding for the University of Hawai‘i School of Nursing to increase the number of graduates...and we want to create a nursing specialty in geriatrics to prepare for our increasing aging population.

Many of these initiatives for housing and healthcare focus on affordability—ensuring that our citizens can afford to live in Hawai‘i.

The most direct and immediate way government can address affordability is by lowering the tax burden on its citizens.

I am proposing a substantial but prudent \$346 million tax relief package.

Passage of this package will show people all across the state that the Legislature really does understand the struggle they face to meet day-to-day expenses while at the same time saving for their child’s education and their own retirement.

Because the State Constitution requires us to give all taxpayers a refund this year, I have left enough room in my budget for a \$100 per person tax refund for those filers with less than \$100,000 in income and \$25 per person to the small minority of residents whose income exceeds \$100,000.

Besides a one-time refund, we need to give our residents long-overdue, permanent tax relief.

First we need to fix an insidious tax problem that affects everyone and causes your taxes to go up without you even knowing it.

Because tax brackets, personal exemptions, and standard deductions are not adjusted for inflation, their value diminishes over time...so you end up paying a bigger share of your income in taxes.

I am proposing the Taxpayer Protection Act of 2007 that will require the Director of Taxation annually to adjust these three factors.

It is also time for us to take the first step to eliminate the tax on the food that families eat at home.

I am proposing that we exempt 11 different foods from the general excise tax, including milk, eggs, cereals and baby formula—foods recognized by the USDA as healthy and basic to a child's diet.

This will save the people of Hawai'i an estimated \$40 million per year.

To give extra tax relief to families, I am proposing the 'Ohana Tax Reduction Act of 2007.

This new law will provide an additional \$1,000 exemption for children under 19 years old...and more than double allowable dependent care expenses for families caring for young children, aging parents or both.

I am also asking you to pass other permanent tax relief...including raising the standard deduction to 75 percent of the federal level...reinstating the blended gasoline excise tax exemption...and eliminating the taxes and fees on vehicles owned by members of the National Guard and Reserves.

We are honored today by the presence of soldiers from Charlie Company, First Battalion, 207th Aviation Regiment and their families.

The 75 members of the 207th will leave in a few months, and will be the last major Guard unit to be deployed to Iraq. (Please stand and be recognized).

I will be presenting to you later today a legislative package that is robust in its attempt to deal with our state's ongoing challenges...including preserving agricultural land through incentives and by addressing the issue of fake farms...upgrading our harbors, airports and highways...improving pedestrian safety and lowering crime...expanding consumer protection...increasing renewable energy...ensuring food security by helping poultry and dairy farmers remain in business...and protecting our environment.

A lot of time and effort has been spent by the staff in our departments to develop the 219 proposals I will send you later today.

Out of respect for them and the public...and in the spirit of collaboration...I ask that you give each of the bills a fair hearing

I would be remiss if I didn't pause for a moment to recognize the incredible contributions our state government employees have made during my first four years as governor.

From creating the Next Step emergency shelter in only six days...to working around the clock to clear the landslide at the Pali Tunnels...to removing rockslides by hand so that Big Island farmers could get the water they needed to survive after the October earthquake last year...to flying supplies to isolated Kaupo on Maui after the same earthquake.

To the men and women of our state government workforce...I recognize your dedication to the public and I am grateful for your hard work and contribution to the success we have achieved.

And contrary to public comments by some observers over the last few weeks, my budget recognizes your performance, and anticipates fair wage increases.

As we look into the future, we have a fundamental choice to make.

Are we just going to tread water...and hope we can somehow sustain our standard of living by doing the same things we have done in the past?

Or are we going to be true to the heritage of innovation left to us by our ancestors and embrace the new global economy by making certain our citizens have the education and training they need to compete with anyone, anywhere, anytime?

I want to lead us down the path of innovation...because it is the path of hope and opportunity.

I recently read the following in a book on leadership.

It said...“ships in harbor are safe, but that's not what ships are built for.”

The same can be said of governments. It is safe for government to cling to what has been done in the past and hope for the best, but that's not what governments were formed for.

The people have elected us to leave the harbor...to take to the open seas of new ideas...and to make certain that the Hawai'i they know and love will be a place they and their children can afford to live in for generations to come.

I have tried to outline for you today a shared vision of what our Hawai'i of the future can look like.

It is a Hawai'i in which our location in the Pacific and our cultural diversity will be significant advantages as we compete with the rest of the world.

It is a Hawai'i in which prosperity will be created more through the power of innovation and new ideas...and less through the development of land and overuse of our natural resources.

And most important, it is a Hawai'i that will still be the Hawai'i that we all love...a place of unsurpassed natural beauty that cares for those in need...a place that honors its rich, multi-cultural heritage...and a way of life that is unique in all the world.

Let us work together this session to refine this vision...and to agree on the steps that we need to take to achieve it.

The new global economy is a wave crashing on our shores—we can ride it, or we can be swept away by it. Please make the choice to ride it with me.

The future begins today!

Mahalo and God Bless you all.