



HOUSE OF REPRESENTATIVES
State of Hawaii

April 24, 2009

Chair Kim, Vice Chair Tsutsui and Members of the Senate Committee on Ways and Means:

Thank you for the opportunity to testify in strong support of this concurrent resolution. As you well know, we are facing some daunting challenges this year. Although there is no point in crying over spilled milk, it does help to put this Session into some historical context.

The budget and fiscal decisions we are forced to make this year are partially a result of negligence and an inability to face reality. Granted, no one could have foreseen the magnitude of the shortfall and the global nature of this financial and economic crisis, but there were billboard-sized signs along the way for the past two years that indicated a dramatic slowdown in Hawaii's economy. Despite the efforts of the Legislature over the past two years to provide sustainable, responsible levels of funding and anticipate and plan for such times as this, the Lingle-Aiona Administration chose to criticize the Legislature for not spending enough and not providing enough tax cuts. I've attached some news articles to illustrate the point. You'll note that both of the articles were published within a few days of Sine Die of the 2007 and 2008 Legislatures.

Perhaps most shocking, to me, of the actions of this Governor was a press release that accompanied the release of preliminary tax collection data. I've also attached that release to my testimony for your perusal.

On July 11, 2008, in gigantic, bold type, the Governor declared, "State Tax Revenues in Fiscal Year 2008 Reach All-Time High of \$4.6 Billion".

Buried in the fine print of the news release was the admission that the state had a revenue shortfall of \$100 million. Perhaps most tragic in all of this is that we knew – and the Governor certainly had to know – that on July 11, 2008 – the state was already facing a \$900 million revenue shortfall by the end of FY 2011. That shortfall has since grown to \$2.1 billion.

In order to solve the looming fiscal crisis, there should have been a strategic plan to reduce \$300 million in expenditures over 3 years rather than deferring the problem to the two years of the biennium. On June 23, 2008, about a month earlier – the Governor issued Executive Memorandum 08-03, which required a spending reduction of \$34 million. Unfortunately, little further action was ordered to control state spending or increase revenues.

In fact, the only orders issued were on August 26, 2008. In Finance Memorandum 08-09, the Governor via the Department of Budget and Finance asked all agencies to

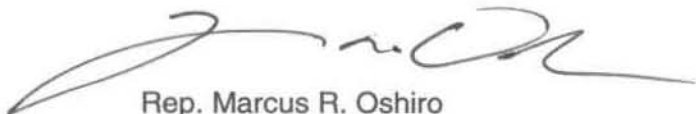
conduct a critical review of programs in their FY 2009 budget base. This review, however, was limited to programs that were created or expanded in more recent years. There was no serious consideration of what should be considered "core" functions of government.

The review process contemplated in this concurrent resolution should have begun long before this Session began. We have been put into the unenviable position of taking a critical look at the budget that the Governor has decided, for whatever reason, to avoid. In these last few months, weeks, and – more importantly – these last few days, we've been challenged to make decisions that are sustainable and responsible without constructive input from the Governor. But we can no longer do things the way we have. It's even clearer to me after going through the budget process this year. There are agencies in state government that are broken. There are many unresolved concerns out there. Remarkably, since we opened the Budget Conference on Monday, I have not heard nor received any comment or suggestion from any Department Director but the Attorney general. It appears to many that a "gag order" is in effect.

Finally, I do not believe that the difficult decisions go away at the end of this session. The global and national economies will not rebound any time soon and predictions range from months to years. There is no doubt that we will have many more challenges and difficult decisions next year when the 2010 Legislature convenes.

Given the above, I wholeheartedly endorse and support this concurrent resolution. I believe the work of this interim group will be an indispensable part of what the Legislature will have to consider in 2010 and beyond.

Thank you for your consideration,

A handwritten signature in black ink, appearing to read 'M. Oshiro', with a long, sweeping underline that extends to the left.

Rep. Marcus R. Oshiro
Chair, House Committee on Finance



Posted on: Tuesday, May 15, 2007

COMMENTARY

Legislature 2007: It was not a very good year

By Linda Smith

A recent Honolulu Advertiser editorial got it right in calling the 2007 legislative session "nothing to crow about."

I have had the opportunity to closely watch the state Legislature for the past four years. As Governor Lingle's senior policy adviser, one of my jobs is to help promote the governor's legislative package of improvements, as well as raise concerns about bad legislation that comes up each year.

The Democrat-controlled House and Senate fell far short of what the public deserved. For example, the session opened with speeches about the importance of affordable housing. Yet when given the chance to approve almost \$275 million in new funds to build and improve public housing, this Legislature gave us only \$112 million.

Everyone knows that our highway fund was raided in the 1990s, and we need to replenish that fund so our state roadways can be repaired and expanded. But the House and Senate failed to approve \$78 million in funds to rebuild and repair some of our worst roads.

Legislative leaders talk about improving the quality of life for Hawaii's citizens, but when they had a chance to return almost \$350 million to the pockets of working families, they chose to approve just \$82 million, a portion of which won't reach taxpayers until 2009. Governor Lingle recommended immediate relief from food taxes and a refund check this year because she realizes that working families and seniors need tax relief now.

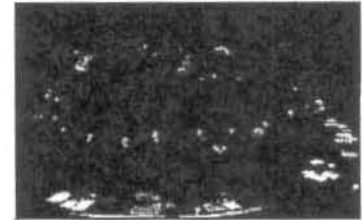
Instead of helping with housing, highways, and tax refunds, the state Senate chose to spend countless hours engaging in the character assassination of gubernatorial appointees. The House leadership attempted to defend this unprofessional behavior by reminding us that the Democrats have performed the same shameful actions against former governors. This does not justify actions to deny Cabinet positions or judgeships to community-supported persons qualified and willing to serve the public.

As The Advertiser correctly pointed out, we also saw very little progress in laying the groundwork for sensible agricultural land reform, hospital and medical malpractice tort reform, and improving the management of state and county agencies.

I must commend the members of the House and Senate minority who daily asked tough questions, fought to defend the governor's nominees, and spoke out against heavy-handed majority tactics to overturn the governor's vetoes late at night when the public wasn't watching. The minority members recognize that democracy is an ongoing engagement with the people, not a once-in-a-while flexing of political muscles because you have a lopsided number of Democrats in the House and Senate.

It is my hope that we will see more constructive behavior in the 2008 legislative session. The Lingle-Aiona administration remains ready to work with members of both parties who are willing to engage in an honest discussion of public policy issues. This is the way to advance the public's business — before another legislative session wastes precious time.

Linda L. Smith is the senior policy adviser for the Office of the Governor. She wrote this commentary for The



Viewed from the Lingle administration's fifth-floor vantage point, the 2007 Legislature's work at the state Capitol left much to be desired.

REBECCA BREYER | The Honolulu Advertiser

Linda Smith, Lingle's senior policy adviser, said the governor has the administrative tools not to release money approved by the Legislature if revenue slows. "Even though it may be appropriated, we can adjust those appropriations based on our fiscal reality," she said. "That's a tool the governor has to keep state spending in check and match it to what is happening in our economy."

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May 2, 2008

Lackluster Legislature sustained status quo

No significant progress on education, energy, housing, aid for needy

By Linda Smith

Despite opening day speeches about mastering our destiny and providing leadership for Hawai'i's future, the 2008 Legislature has once again failed to make significant progress on fundamental issues critical to our state, such as energy independence, affordable housing, improving education and helping those in need.

As in prior years, legislative leaders talked about improving the quality of life for Hawai'i citizens, but the lackluster outcome shows they're simply sustaining the status quo.

The Legislature had the opportunity to enact \$102 million in tax relief for Hawai'i's neediest families; instead, it passed a token \$1 tax credit. It is wrong for the Legislature to say that the state cannot afford tax relief. In December 2007, Gov. Linda Lingle presented a six-year balanced budget to the Legislature that included \$102 million in targeted tax relief for Hawai'i's families. She has periodically adjusted this budget to reflect changing economic conditions, and last month again issued an updated balanced financial plan that included tax relief. To claim that tax relief is not fiscally possible is not being honest with the people who support us — the taxpayers of this state.

What is particularly hurtful is the Legislature wasn't willing to find funds to help local residents cope with double-digit inflation, but it did find a way to allow a 60 percent increase in its own salaries over the next several years.

Legislators talked about the need to build more affordable housing. Yet when they had a chance to approve major investments in affordable housing, they balked. Only half of the \$50 million Gov. Lingle requested to build affordable rentals and for-sale homes was approved. And the flow of funds from the conveyance tax for rental housing support will stop on June 30 because the Legislature failed to extend the deposit of the tax into the rental housing trust fund. Even a simple improvement — encouraging private investment in affordable housing through accelerated tax breaks — died in the final days of the 2008 Legislature.

On the all-important matter of increasing Hawai'i's energy-independence, there were mixed results. We are pleased the Legislature adopted the governor's proposal to facilitate government permits for renewable energy projects.

However, we were disappointed that it did not mandate that renewable energy targets should only count real, renewable energy programs, instead of giving credit to efforts to slow the growth in the use of petroleum-based electricity. Lawmakers also passed up an opportunity to endow chairs at the University of Hawai'i in energy and engineering at a time when we need to attract top-level technical talent to the state. Lawmakers rejected the governor's proposal to help low-income families retrofit their home with solar water heaters. Even the oft-touted program to require solar water heaters in homes won't start until 2010.

Finally, it is both disturbing and heartbreaking that the Legislature made a conscious decision to remove \$22 million in social services spending for those at the bottom of the income ladder. There is no logic to denying organizations who work with the poor, blind, disabled, young, elderly and sick the basic resources to help those less fortunate.

Now more than ever, these funds are needed. Claiming that the money must be "saved" for a rainy day is reverse logic. The administration believes it is more prudent to use these federal dollars now to fend off the rainy day and prevent and reduce family poverty, as is the intended purpose of these funds. As one commentator so aptly put it, this is akin to driving on a bald tire while keeping a new spare in the trunk of your car. You are only inviting disaster.

Undoing progress already made in social services and many other programs will not accomplish the goals the Legislature talks about.

The public would not object to legislators spending time on matters such as naming the state mammal, naming the state plant, or finding ways to deter the theft of beer kegs, if they also tackled the larger issues of living in an island environment in the 21st century's global economy.

One bright spot is the Legislature worked closely with the administration to approve a bill that will provide one more tool as we continue the process of acquiring the Turtle Bay property. The legislation sends a strong signal to the owners, as well as potential buyers, that the state is serious about moving forward with the acquisition to preserve this unique parcel of land on O'ahu's North Shore.

My hope remains that next year's opening-day speeches will actually be acted upon — that the bold words spoken annually will eventually result in a genuine commitment on the part of all legislators to work with the Lingle-Aiona administration and the people of Hawai'i to advance an agenda that changes lives and improves our state. The Legislature talks about change every year. It's time for the Legislature to move beyond just sustaining the status quo.

Linda Smith is the senior policy adviser for Gov. Linda Lingle. She wrote this commentary for The Advertiser.



STATE OF HAWAII
DEPARTMENT OF TAXATION

News Release

LINDA LINGLE
Governor

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For Immediate Release: July 11, 2008

**STATE TAX REVENUES IN FISCAL YEAR 2008 REACH ALL-TIME
HIGH OF \$4.6 BILLION**

General Fund Revenues Reduced by \$100 Million

HONOLULU – The State of Hawai'i collected a record \$4.6 billion in general fund revenues for the fiscal year that ended June 30, 2008 (FY08). This amount reflects a 1.2 percent increase above general fund revenues for the prior fiscal year, but is \$100 million less than the Council on Revenues had estimated would be available.

"Hawai'i is fortunate that its fiscal picture continues to demonstrate growth, albeit less than the 3.3 percent growth projected by the Council of Revenues in late May," Governor Linda Lingle said. "This means my Administration will need to find innovative ways to save an additional \$100 million in state revenues this fiscal year, which began July 1, 2008."

The State Department of Taxation reported that individual income taxes reflected a 1 percent decline from the prior year attributable to faster processing of refunds, and more taxpayers likely filing Hawai'i tax returns together with their federal income tax returns in order to qualify for a federal stimulus check. In order to qualify for a federal stimulus check, which could exceed \$1,200 for a married couple, a taxpayer must file a 2007 federal income tax return. In addition, many taxpayers who are generally not required to file their state tax returns filed their state returns in order to claim the State Constitutional refund of up to \$160 per return. The Department noted that as of June 30, 2008, 513,853 taxpayers (which includes married couples) who filed state tax returns qualified for a tax refund compared to 460,652 taxpayers last year, about 53,000 additional taxpayers who qualified for a tax refund.

"It is positive that more taxpayers are receiving tax refunds, and the department is proud that it is processing these refunds promptly," said Tax Director Kurt Kawafuchi. "However, it means about \$50 million less general fund tax revenues from individuals than the Council on Revenues had estimated."

In June, the Council also revised its projections for general excise tax (GET) collections. Although these collections increased a healthy 2.5 percent (\$63 million) over last year, showing signs that the State's economy is still sound, the growth was about \$47 million less than the Council had anticipated.

"While Hawai'i's overall economy continues to show positive growth, this new fiscal environment along with global economic factors require that the State maintain fiscal prudence in managing our budget and that we exercise judicious spending of taxpayers' money," said Governor Lingle.

In total the state received \$4,640,923 in general fund taxes from sources such as corporate taxes, individual income taxes, and general excise and use taxes. Transient accommodations taxes, gasoline taxes and other fees generally go into special funds that are not part of general fund revenues. General funds account for about 90 percent of the total State annual tax receipts, and pay for basic State government services provided to Hawai'i residents.

The Council on Revenues is scheduled to meet again in September to determine if adjustments should be made for general fund revenue estimates in FY 2009 through FY 2014. Currently the Council is projecting a 2.0 percent increase in FY 2009 revenues above its estimated 2008 level.

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July 11, 2008

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PRELIMINARY COMPARATIVE STATEMENT OF STATE GENERAL FUND TAX REVENUES - JUNE 2008

	CUMULATIVE TOTALS			
	JUNE 2008	2007-2008	2006-2007	% CHANGE
GE/Use Taxes	\$230,637	\$2,618,787	\$2,555,762	2.5%
Income Tax - Corp.	14,922	85,081	81,834	4.0%
Decl Est. Taxes	16,713	131,462	138,769	
Payment w/returns	2,581	21,851	22,653	
Refunds	(4,372)	(68,232)	(79,588)	
Income Tax - Ind.	140,739	1,544,307	1,559,690	-1.0%
Decl. Est. Taxes	49,100	430,197	428,754	
Payment w/returns	18,675	179,209	229,964	
WH Tax on Wages	100,139	1,370,854	1,279,649	
Refunds	(27,075)	(435,424)	(378,081)	
Special Funds	(99)	(528)	(596)	
Trans. Accom. Tax	17,985	229,378	224,931	2.0%
Convention Ctr. Enterprise Fund	(3,111)	(32,453)	(33,758)	
Tourism Special Fund	(6,151)	(78,229)	(73,328)	
TAT Trust Fund	0	0	0	
County Fund	(8,057)	(102,761)	(100,769)	
SUB-TOTAL	665	15,935	17,076	
All Others	21,897	376,813	371,218	1.5%
TOTAL GENERAL FUND	\$408,860	\$4,640,923	\$4,585,580	1.2%

Dollars in thousands.

State general fund revenues for the month of June 2008 totaled \$408.9 million. For the just ended 2008 fiscal year, general fund deposits were up 1.2% over FY2007 to a cumulative \$4.64 billion.

General excise and use taxes (GET), the greatest single category of collections, amounted to \$230.6 million in June. For FY2008, GET collections increased by 2.5% over last year, to nearly \$2.62 billion overall.

Transient accommodations tax (TAT) collections were nearly \$18.0 million for the month, and were up 2.0% for the 2008 fiscal year to total \$229.4 million.

Individual income tax collections were \$140.7 million in June 2008. For FY2008, individual income taxes totaled \$1.54 billion, down by 1.0% compared to FY2007. It should be noted that faster processing by the State of individual tax refunds this year has contributed to the 1.0% decline in total income tax revenues for 2008.

Corporate income tax collections were up 4.0% for the 2008 fiscal year to a cumulative \$85.1 million.

KURT KAWAFUCHI
Director of Taxation