



**Final Report**

**ECONOMIC  
MOMENTUM COMMISSION**

**December 19, 2005**

**RECOMMENDATIONS OF THE  
ECONOMIC MOMENTUM COMMISSION (EMC)**

12/19/05

**Purpose:**

The EMC was established to develop an action plan to sustain the state's current economic momentum over the longer term. The Commission was formed by Governor Linda Lingle and includes the bipartisan support of the Senate President and Speaker of the House, both of whom serve as commissioners, as well as other legislative and elected leaders; and representatives from small and large businesses, labor unions, non-profit, environmental, cultural and educational organizations, government and the military.

**Process:** The process was divided into five phases:

Phase I	July – August	Identify Economic Challenges
Phase II	September	Identify Solutions
Phase III	October	Prioritize Solutions
Phase IV	November	Request Public Input
Phase V	December	Vote on Final Package

After incorporating suggestions received from the public during Phase IV, the Commission has completed its work. Below is a narrative of our findings and the recommendations approved by a majority of Commission members. The Commission envisions a holistic approach to sustaining the economy of Hawai'i. Central to the core of this vision are all the people of Hawai'i. The eleven categories of recommendations reflect the Commission's strong sentiment that economic growth should go hand in hand with improvements to Hawai'i's quality of life. The Commission acknowledges these recommendations are not all-inclusive; our goal was to adopt recommendations that could be implemented within a relatively short time frame.

**I. Host Culture**

The Commission felt strongly that our report should emphasize the importance of perpetuating our host culture as a crucial element of our quality of life. The health of Hawai'i's economy and ultimately Hawai'i's collective identity are founded on a vibrant Native Hawaiian culture and value system. This in turn depends upon a host Native Hawaiian population that is: well educated, healthy, productively employed, adequately housed, and actively involved in perpetuating and sharing a vibrant Native Hawaiian culture.

Increasing legal challenges threaten to undermine significant programs in Hawai'i dedicated to perpetuating Native Hawaiian culture and practice. These legal challenges also threaten programs providing quality education, health, employment and housing for Native Hawaiians. The Commission **endorses** the Executive branch and the State legislature's support of the initiation, retention and expansion of these programs – as outlined in the Commission's "commitment to multi-level actions to perpetuate our host culture" --- including support for the Native Hawaiian Government Reorganization Act of 2005.

## II. Housing

Hawai'i is 49<sup>th</sup> in the nation in home ownership. The challenge is getting worse as the gap between what a typical working family can afford and the median price continues to widen.

Hawai'i's high home prices are a critical challenge to sustaining economic growth, as well as our quality of life. Without an adequate supply of affordable housing, Hawai'i will be unable to attract or maintain a vibrant workforce community. The lengthy, overlapping and complicated government approval and permitting process leaves us with a limited supply of developable land, resulting in a lack of housing inventory. The problem is further complicated by labor shortages, rising materials costs and a critical lack of proper infrastructure, including roads and adequate utilities.

Hawai'i is at a historical junction. Our children deserve an opportunity for home ownership. The role of government must better balance its housing policies between being a watchdog and advocacy.

### Land Use Commission (LUC):

An effective LUC is critical to balance land conservation with the need for strategic planning for long-term development. Currently, master land use planning is more reactive than proactive. Over time, the counties and the LUC have developed review processes that are redundant, inefficient and often contradictory. In addition, there are no uniform guidelines for impact fees. The result is that developers are burdened with long delays and uncertainty, while consumers face higher and higher home prices. Additionally, this lengthy process, lack of transparency of costs and uncertain predictability has driven the smaller developers out of the home development market.

The Commission **recommends** legislation to clarify and upgrade the role of the LUC and to streamline the process by eliminating costly overlapping responsibilities between the state and counties. We recommend that the legislation empower the LUC to create a long-term, strategic, statewide land use plan at a macro level. The balance of land-use authority should remain with the county planning offices, which would have the tactical responsibility of: (1) detailed zoning and development plans for each island, and (2) insuring that county plans remain consistent with the LUC's statewide strategy, while addressing the need for affordable and market housing, transportation, education and other infrastructure needs as well as quality of life and the environment. In the normal course of business, the LUC may consider applications for changes in land use designations only from the counties. In making such applications, the counties should certify that the amendments and the underlying county plans adequately address State LUC planning criteria. On an exception basis, landowners should be permitted to directly apply for designation changes **only** in the event that the county involved has failed to submit an updated plan within a five-year period.

### Hawai'i Housing Finance & Development Administration (HHFDA):

In 2005, the Legislature passed Act 196 which created the Hawai'i Housing Finance & Development Administration (HHFDA) to address the need of housing in Hawai'i. The Commission commends and supports this legislation and under the leadership of DBEDT **recommends** improving this legislation to give the HHFDA flexibility in procurement and flexible authority to hire a top-quality staff. Also, the HHFDA should be required to set specific goals and timelines to accomplish its housing mission. This agency should support the counties to assist in housing initiatives (i.e. improvement district financing), coordinate public/private partnerships to develop housing and work with the Land Use Commission to ensure Hawai'i has adequate entitled lands for housing including identifying potential surplus public lands.

Hawai'i Community Development Authority (HCDA):

The Commission supports the work of the HCDA in the proposed development at Kaka'ako, Oahu. The projected \$650 million project will transform the dilapidated Kewalo Basin area into a new vibrant community that offers live/work/play "mix-use" design (Smart Growth). It calls for increased public shore access, an expanded small boat marina, a local farmers market, and an open amphitheatre to showcase Hawaiian music and hula. This public/private partnership could serve as a model for future planned developments. However, future models should place greater emphasis on affordable workforce housing.

For example, the Commission **recommends** HCDA in cooperation with the City & County of Honolulu develop and execute a plan for the development of an affordable community at Kalaeloa, Oahu (Barbers Point). The potential 500-acre development site should be a public/private partnership for a master planned community to include mixed-use live/work/play design, a convenient connector to the planned mass transit system, and have ample green open space. All homes would be for owner-occupants and sold at prices that are "workforce affordable." The Kalaeloa model should be developed as a potential prototype for other planned public/private partnerships throughout the state in order to offer our citizens affordable housing.

Impact Fees:

Additionally, the Commission **recommends** that both the state and county governments should adopt and implement a standardized transparent process for the assessment of impact fees and exactions, based on needs assessment and nexus to the proposed project. To provide greater transparency, such fees and exactions should be available to the public. An appeals process should be established to provide an avenue for further review.

Rental Housing:

Another increasing challenge for Hawai'i is residential rental costs. The large increases in single-family and condominium prices over the last several years, coupled with decreasing inventories is projected to have a significant negative impact on residential rental rates. The result will be a further reduction in disposable income, a more displaced workforce and added pressure on an already

critical homeless problem throughout the state. Unless Hawai'i has proper rental housing, we shall be unable to attract and retain a workforce.

As outlined above, the Commission **recommends** that HHFDA: (1) establish specific goals and timetables to increase the inventory of rental housing; (2) explore the model of privatizing state-owned rental inventory (similar to the public/private partnership to develop military housing in Hawai'i); (3) partner with the counties to use surplus public property; (4) aggressively seek federal grants; and (5) utilize public/private and non-profit partnerships to fill the growing critical gap in rental housing.

The Commission also commends the military for its ongoing multi-billion dollar investment in military housing development which is serving to reduce their dependence on Hawai'i's stock of rental housing.

Additionally, the Commission **recommends** University of Hawai'i system to accelerate its utilization of public/private partnership to develop student on campus/nearby housing which, like the military investments, will also serve to take pressure off the demand for rental housing and have a positive impact on transportation congestion.

#### Homeless:

Hawai'i's increasing home and rental costs combined with an increasingly under-prepared workforce is driving more and more of Hawai'i's citizens into the ranks of the homeless or "hidden homeless" (multi-families sharing the same accommodations because they cannot afford their own home and families living in vehicles). If the homeless problem is left unabated, it will eventually impact the quality of life for all of Hawai'i's citizens and visitors.

In addition to the recommendations above, the Commission **recommends** the support of public/non-profit partnerships to develop several transitional housing centers for our homeless. Several successful non-profit models exist, including The Salvation Army, IHS and Maui's Ka Hale A Ke Ola Resource Center, which operates three facilities and has experienced an 80% success rate in residents transitioning to permanent housing. We support the decision of the Housing and Community Development Corporation of Hawai'i (HCDCH) for the proposed Hawai'i Coalition of Christian Churches (HCCC) housing project at Uluwehi in Wai'anae. The proposed funding would be equally shared between federal, state and private donations (individuals, businesses and foundations).

Both the Maui program and the proposed Wai'anae project are good examples of how public/private partnerships should be constructed and serve as learning models for further expansion of homeless solutions.

### **III. Education**

An essential component in sustaining and diversifying our state's economy is having a well trained workforce. Too many of our people are attempting to enter the workforce ill-prepared. They are not ready for the increasing job vacancies in

education, health care, construction, finance, technology, accounting, engineering and many other higher paying fields. These jobs are being created as a result of our state's economic expansion and the demographic fact that older workers are retiring at a much faster rate than young people are entering the workplace. Hawai'i is experiencing very low unemployment. Additionally, a portion of our workers are not well prepared for advancement. Our employment challenges are further compounded by the fact that Hawai'i has a very high cost of living and a poorly performing education system which discourage skilled workers and their families from transfer to our state. All these factors are projected to continue to worsen resulting in a major threat to our economic future.

The Commission commends the legislature for enactment of Act 51 which addressed the need for changes in our public education system. In order for Hawai'i to be more competitive and productive, we need an increasing number of workers with education beyond high school. Unfortunately, Hawai'i ranks as one of the lowest states in the nation for 9<sup>th</sup> graders who complete post-secondary education from our public schools.

Major improvements to our public education system are essential to our economic future as a state. While progress is being made, the Commission **recommends** immediate changes in five critical areas: teachers, principals, facilities, curriculum and parents.

#### Teachers:

The public school system has a shortage of qualified teachers, as do schools across the nation. Hawai'i's present process for hiring teachers has hiring restrictions including lengthy evaluations and very specific credentials required by the Hawai'i Teacher Standards Board (HTSB) and the No Child Left Behind (NCLB) Act. These requirements restrict the superintendent's flexibility to hire quality teachers. To attack this shortage, the Commission **recommends:** (A) that HRS 302A-802 be amended to provide that the state be allowed to consider for employment persons who have (1) accredited college bachelor's or higher degree(s) to teach in subjects in which they have a degree(s) and (2) have prior teaching experience or teacher training (i.e. Teach for America, etc.); and (B) because the shortage is as much a problem of retention as supply, that the DOE implement programs such as mentoring of beginning teachers to improve retention.

Further, the Commission **recommends** that the HTSB should provide that at least one of its 13 members should come from a non-teaching background (i.e. Parent Teacher Student Association (PTSA), Hawai'i Business Roundtable, etc.)

#### Principals:

Based upon demographic projections, Hawai'i will experience a significant turnover of its public school principals over the next 5 years. Act 51 places a major emphasis on the leadership, training and proper evaluation of our principals for improving the academic achievement of our schools. Hawai'i's school system will improve if we recruit, train and support principals that have the capacity and committed to academic excellence. Again, the current principal application

procedure is antiquated and restrictive. It is weighted too much on DOE experience versus most qualified. The Commission **recommends** changes to the hiring procedures to ensure the superintendent and her complex area supervisors have the ability to hire the most qualified candidates. Hawai'i must seize upon this timely opportunity to make a significant impact upon the public education system.

#### Facilities:

The average age of our public school buildings is 59 years. A significant proportion of the schools are significantly overbuilt for the current student body population. Due to demographic trends, many of the urban elementary schools have been hollowed out while many suburban schools are bursting at the seams. Despite an actual decline in student population over the last 25 years, Hawai'i has added a significant number of new schools, while continuing to maintain the old facilities, adding costs that burden the entire system. This has occurred because we have lacked the political will and leadership to close and consolidate these older schools and transfer education resources to localities where our population is expanding. The result is a \$468 million backlog of repair and maintenance.

Additionally, with strategic consolidation, the state and Department of Education could free up valuable real property assets that could be leveraged to provide financial resources to reinvest back into upgrading our schools. Hawai'i's children deserve first class schools and, with over one-third of the state budget dedicated to public education, we should expect quality school facilities. To address this challenge, the Commission **recommends** that the Board of Education establish an Education Facilities Revitalization Committee with a charter similar to that of the federal Base Realignment and Closure (BRAC) that is tasked with military base realignments. The committee should objectively examine our future public education requirements, recommend the proper DOE infrastructure to meet those needs and recommend specific facilities closures/consolidations and the use or disposal of surplus real property. Proceeds of sales or leases of DOE surplus properties would be exclusively reinvested to upgrade and build other public school facilities.

#### Parents:

Holding the public school system solely responsible for the poor performance of our students is not totally fair. Clearly, Hawai'i like other states is suffering from a breakdown of the family unit. A major contributor is the tragic effects of alcohol, tobacco, drug and substance abuse (ATDSA). These risk factors are directly linked to poor performance in school, as well as a variety of other health concerns/costs. Recent national studies reveal that parents today are often less knowledgeable about the risks and consequences of substance use than their own children. Studies also show that parent education can greatly reduce these risk factors. The Commission **recommends** the design and implementation of a pilot education and prevention program concerning ATDSA aimed at parents. The program should be built from existing successful state programs administered via the public school system.

#### Curriculum Choice:

Military activity is a major component of Hawai'i's economic vitality, providing more than 16,000 civilian jobs and a significant share of our Gross State Product. Military families face the same quality of life issues as our own residents, including the desire for a good education for military dependent children.

By national standards, Hawai'i has a disproportional share of military dependents within our public school system. Twelve of our public schools are actually on military bases. The federal government pays the Department of Education a subsidy for each student. These children have special challenges as a result of frequent relocations and parent deployments. Our under performing public education system is cited as a major concern for military families that are required to transfer to Hawai'i. A number of these children transfer from DoD schools using a comprehensive federal curriculum. Students taught utilizing this standard curriculum consistently perform above national standards. The Commission **recommends** that several pilot schools on military bases be allowed to adopt the federal curriculum for these predominantly military dependent schools. We understand the military parents would welcome this change. If necessary, the schools could function as public charter schools (the cap should be raised) or as conversion charter schools.

University-Affiliated Research Center:

The University of Hawai'i system is about to make an important decision concerning the proposal for a partnership with the Navy to establish a university-affiliated research center (UARC) at Manoa. We respectfully **recommend** that the Board of Regents adopt a comprehensive, cost-benefit analysis to this important decision, considering carefully its potential benefits for both the University of Hawai'i system and our state as a whole. In their deliberations, consideration should be given to optional organizational models that might minimize concerns within the academic community, such as operating the UARC within the Research Corporation of the University of Hawai'i or as a separate entity like the Maui High Performance Computing Center (MHPCC), an Air Force Research Laboratory Center Managed by UH.

**IV. Workforce Development**

Workforce training is one of the most important issues facing the state. Hawai'i must better train our current and future workforce. Substantial amounts of both federal and state funding is already available to get the job done. Current programs are fragmented and poorly coordinated due to independent bureaucracies at both the county and state levels. We need political will and a comprehensive strategy to bring focus to this critical opportunity.

University of Hawai'i:

The University of Hawai'i system should be a major change agent in addressing Hawai'i's workforce development challenges. Not enough post-secondary educational opportunities currently exist to meet Hawai'i's regional workforce needs. Additionally, the workforce training mission among all our UH campuses needs to be more fully aligned with the future needs of our state, especially in critical areas

(i.e., nursing, teaching and engineering). The Commission **recommends** that the UH system should identify specific workforce development goals aligned with existing and future workforce needs and lay out a plan to train our students to fill those positions. The plan should include benchmarks, allowing for transparency to measure UH's progress; incentives (including financial incentives) for success; and a financial strategy to allow UH to help meet the state's future workforce development needs.

#### Adult Education:

Our current DOE adult education system was established to improve reading, math and other basic academic skills to better prepare our youth and adults. In many parts of the country, adult education is placed within community colleges under the concept that all adult learning should be consolidated. Hawai'i's community colleges (UHCC) have proven to be entrepreneurial and in tune with the workforce needs of the communities they serve. The Commission **recommends** that the Legislature revisit and consider the 2002 recommendation of the State Auditor that all or a portion of adult education responsibilities and federal/state funds should be transferred from the DOE to the UHCC.

The Commission also **recommends** the UHCC be responsible to establish a set of "Rapid Response" training programs tailored to the economic needs of the communities they serve. This process has already been implemented very successfully in a growing number of states.

#### New Role for DBEDT:

The trend in other states that face similar challenges is to link economic development with workforce development. The Commission **recommends** the merger of the economic development programs of the Department of Business, Economic Development and Tourism (DBEDT) with the workforce development programs of the Department of Labor and Industrial Relations (DLIR), aligning these two missions. There should be one agency that has accountability and responsibility for all federal and state training programs; these programs should be focused upon the comprehensive workforce needs of Hawai'i. The DBEDT office would provide strategic oversight and coordinate with county workforce investment boards, which would continue to do training at the county level and drive a bottom-up idea process.

#### Partnerships:

Lastly, workforce training is the responsibility of all stakeholders, including business, labor and education. Business and labor involvement in workforce training is uneven and fragmented, varying widely among communities and organizations. Business and labor have a considerable stake in an effective education and workforce development system that delivers work-ready employees and provides skills training for current workers. The Commission **recommends** formation of a business/labor/education partnership council to work with the Economic Development Boards and DBEDT to strengthen and expand internships, hands-on learning programs, teacher training/orientations, target school

adoptions/partnerships, best practices/outcomes analysis and website development.

## V. **Tourism**

Tourism is and will continue to be a major contributor to Hawai'i's overall economy. Ongoing success within the tourism sector is a vital component to maintaining our economic momentum. Historically, we have measured the success of tourism in terms of visitor count growth. Tourism industry leaders agree this model is no longer sustainable. Given our limited supply of visitor accommodations, stretched infrastructure/environmental resources and social-cultural concerns, growth at any cost is not an option. The industry is in the process of making a fundamental shift in visitor mix from quantity to quality (or volume to margin).

The higher-end visitor spends more per capita, is typically a repeat visitor, tends to respect/appreciate Hawai'i's natural beauty and host culture, is not as susceptible to tourism down cycles, and is more interested in activities beyond sun/surf. In order to attract and retain this visitor segment, we need a continued commitment to improve both private and public infrastructure. The public infrastructure and hotel/retail upgrades in Waikiki are an excellent example of public/private partnerships that will pay long-term dividends to our economic vitality.

However, our Honolulu Airport is a poor example: the Wiki Wiki shuttle is dilapidated, customs facilities are overcrowded and the aloha spirit/experience is lacking. Our Commission **recommends** that the Department of Transportation to immediately implement a redevelopment plan for the Honolulu Airport as well as upgrades for our Neighbor Island airports. The plan should combine the establishment of a state-of-the-art facility with an authentic Hawaiian experience. Also, we **recommend** (1) that the county permitting process continue to be streamlined and (2) zoning regulations be reviewed to eliminate those that clearly are prohibiting tourism plant infrastructure upgrades throughout our state.

## VI. **Agriculture**

Agriculture is another of Hawai'i's legacy industries that has embarked upon a transformation in order to ensure its sustainability. With the declines of the commodity crops of sugar and pineapple, the agriculture industry has also shifted from quantity to quality via diversified agriculture. Domination in agriculture by commodity sugar and pineapple is being replaced by a diversification to high-value niche floriculture and horticultural crops. Additionally, commodity crops are also transforming – to high-value fresh pineapple and specialty sugars, along with expanded efforts at renewable energy production. Overall, the diversifying agriculture business has shown steady economic growth, but severe challenges threaten its sustainability. These require changes in land designation, outdated regulatory restrictions and infrastructure, especially reliable and affordable water to support sustainable agriculture.

Although ample amounts of agricultural lands exist, current conditions have severely curtailed agriculture investments, especially for smaller farmers. Act 183 of the Session Laws of Hawai'i 2005 established a process to identify important

agricultural lands (IAL) and to explore incentives to encourage investment in agriculture on these lands. The Commission **recommends** that the industry, the counties and the State be required to collaboratively develop and implement incentives directed under Act 183 within 12 months. Secondly, the Commission **recommends** that the counties amend inappropriate residential subdivision requirements for these agricultural lands. For example, sidewalks and street lights are cost prohibitive and unnecessary for large farming properties. Lastly, Act 183 recommended incentives for agriculture use. The Commission **recommends** that owners of agricultural lands be allowed to apply for a rezoning to allow development on the periphery of agricultural subdivisions to address our housing needs with a buffer green-belt required to separate the residential and agricultural land. These agricultural land subdivisions should be designated "Important Agricultural Lands (IAL)" to perpetuate their exclusive availability for agricultural use. The residential zoning (subject to LUC's state master plans) would help alleviate the housing shortage. In addition, we propose adoption of rules to require, in lieu of other exactions, that a portion of the revenues generated be reinvested in these IAL subdivisions for needed infrastructure -- irrigation water, roads and other utilities to make these lands suitable for farm use.

## VII. **Energy**

Hawai'i is the most oil dependent state and pays the highest energy prices in the nation, especially for electricity or automobile gasoline. Our challenge is to reduce our dependence through better conservation and to better utilize our state's abundant supply of renewable energy resources. A major component of the high cost of electricity is the power necessary for peak usage for residential consumers. The Public Utilities Commission (PUC) is currently evaluating rate adjustment for peak users. This would give consumers more choice in electricity cost and allow consumers to obtain rate reductions. The Commission **recommends** that the PUC adopt a time/usage rate base formula to give consumers choice and to encourage conservation and that Hawai'i's utilities move with dispatch to put in place the technology for such a policy to produce results.

The Commission also **recommends** that state take the lead by requiring all new state buildings to meet the energy efficiency standards set forth in the Leadership in Energy and Environmental Design (LEED) and the UH Center for Smart Building and Community Design, as well as to encourage the counties to adopt building codes that require increased energy efficiency in new construction and major remodels.

The Commission supports the state's Renewable Portfolio Standard calling for 20% of our electricity to be generated from renewable sources by 2020. The Commission **recommends** legislation that would encourage the production and use of biofuels and require biodiesel fuel utilization. The legislation should also include support for streamlining the permitting process to facilitate the development of renewable energy projects. Energy tax credits are scheduled to expire in 2008. The Commission **recommends** these credits be extended and increased for both residential and commercial renewable energy.

## VIII. Healthcare

Advances in science and medicine should provide Americans with a healthcare delivery system that is the envy of the world, yet the system is marked by spiraling costs, inefficiencies, and unacceptable and uneven quality. Access to quality healthcare consistently remains one of the greatest concerns to all Americans. We need to control costs, while insuring that the providers of healthcare are adequately reimbursed by both private insurers and government programs. Without adequate reimbursement, there will not be sufficient healthcare providers to meet Hawai'i's needs.

There is a need to develop an infrastructure to deploy electronic medical records (EMR) and digital connectivity among healthcare providers to develop individual personal health records for the people of the state of Hawai'i. EMR's and digital connectivity make it possible for providers to coordinate a patient's care with other providers, thereby: (1) eliminating duplication of tests; (2) sharing life-saving information instantaneously, reducing medical and drug errors; (3) monitoring drug compliance and crucial preventive screenings, thereby reducing medical emergencies and hospitalizations, and (4) measuring outcomes and performance, thereby improving quality of healthcare. Experts agree this automation would not only save money, but also improve the quality of healthcare, reduce illness and prolong life.

The Commission **recommends** the formation of a Regional Health Information Organization (RHIO) through the Hawai'i Life Sciences Council. The organization would collaboratively develop policies for standards, interconnectivity and interoperability while addressing the needs for individual privacy. A statewide Hawai'i RHIO would, among other things: provide a neutral forum for discussion and decision making body for community wide policies on interoperability, data exchange, privacy and other issues related to Personal Health Records; coordinate a community-wide effort to obtain government and private funding, including funding for smaller practitioners to adopt EMR technology; and standardize methodologies to measure health outcomes.

## IX. Environment

The health of our economy and lifestyle is linked to the health of our natural resources. Hawai'i is truly unique. We are the most isolated land mass on the planet. Our state represents only .2% of the land area of the U.S. Yet, we have the 4<sup>th</sup> longest coastline of any state. We possess in excess of 25% of the reef fish, 32% of the corals and have the 11<sup>th</sup> largest state forest reserve system. Ninety percent of Hawai'i's 10,000 native plants, animals and fishes exist nowhere else on earth. Hawai'i is indeed a special place. However, our natural resources require stewardship.

Healthy forested watersheds are an essential part of the mountain ecosystem that intercept rain, create condensation, reduce erosion, and increase percolation to deliver a consistent and dependable supply of surface and ground water for Hawai'i's residential, agricultural and commercial uses. Across the state, there are predictions of water consumption exceeding aquifer recharge, wells are producing

less water, and water managers are urging conservation. Yet, there is little connection between water use and caring for the ultimate source of that water – forested watersheds.

The funding for watershed management via the conveyance tax revenues is inadequate. The Commission **recommends** that the state actively pursue additional financial support for our watersheds. An estimated \$4-5 million annually is needed to properly protect our watersheds. A consideration is a new dedicated county funding source through a watershed management fee assessed through our municipal water rates. The proposal would be modest at \$.06 per 1,000 gallons or less than \$1.00 per month for an average Hawai'i household.

Another major threat to Hawai'i's economy, natural environment, health and lifestyle is the continuous introduction of invasive weeds, animals, insects and diseases. The cost to control invasive species already in Hawai'i, such as termites, fruit flies and Miconia, runs in the hundreds of millions of dollars annually. The cost of prevention of invasive species has been shown repeatedly to be exponentially less than the cost to control pests once established. The Hawai'i Department of Agriculture (HDOA) carries the State's responsibility for border inspections, yet is well below capacity to carry out these duties adequately.

The Commission **recommends** a review of user fees from importers/shippers to ensure these fees are adequate to properly fund the needed prevention and quarantine programs. Additionally, we should revise state plant import regulations to include an "approved list" approach for new plant introductions.

Lastly, marine life in near-shore fisheries of the main Hawaiian Islands has decreased significantly over the years due to over/destructive fishing practices, habitat degradation from invasive species and polluted runoff. Selective use of Marine Managed Areas (MMA) has proven highly successful in restoring near shore fisheries and coral formations. The Commission **recommends** the DLNR take responsibility to develop a comprehensive MMA statewide program that balances the cultural, community and recreational requirements with the need to replenish our fisheries.

## **X. Tax Policy**

The state is projected to have a significant budget surplus in the near term due to a much stronger economy than originally forecasted. The debate will be how to spend/invest/rebate the surplus. Hawai'i's General Excise Tax (GET) is the largest source of tax revenue for the state. The GET is a flat consumption tax on nearly all goods and services purchased for both visitors and residents alike. The tax also has a pyramid-effect because, unlike many other states, our GET applies at the wholesale and retail level and even taxes the tax.

The Commission **recommends** a rebate of a major portion of the surplus back to the taxpayer as well as investment in significantly underfunded infrastructure. One recommended method that other states have effectively utilized is a moratorium on the GET for food and over the counter drugs/medication. This tax reduction would

be applied to all consumers equally but the reduction would have the added benefit of lowering the cost of living proportionally more for the lower income earner.

A State Tax Review Commission is currently conducting a systematic review of the equity and efficiency of Hawai'i's tax structure, The State Administration and Legislature should carefully consider its findings.

## **XI. Infrastructure**

Hawai'i's port system is of primary importance to this island state and to its visitors. Not only does the vast majority of everything that Hawai'i consumes come to us via our ports, the harbors are also experiencing increased use by the passenger cruise industry.

Ensuring adequate, efficient, and safe harbor facilities is essential to the health and future of Hawai'i's economy. At present, Hawai'i's harbors are at capacity, and there are not adequate plans to address the imminent overcrowding that will occur with the advent of new users, expansion of the cruise industry and increasing cargo volumes resulting from a growing economy. It is projected that Honolulu Harbor will run out of space for international cargo this year and for domestic cargo in 2010. Further, the last Harbor Master Plan for Oahu was prepared in 1997 and the needed harbor improvements have yet to be implemented despite cargo volumes considerably exceeding the projections in that plan. Master plans for most of the neighbor island harbors do not exist.

The Commission **recommends** a public/private partnership to pursue the immediate update and implementation of a master plan that addresses all of Hawai'i's commercial harbors. The plan should incorporate the views of the harbor users, the community, and government. It should accurately forecast the future needs of all our harbor users, identify appropriate harbor and port improvements, discuss the need for land acquisition adjacent to overcrowded harbor facilities and identify funding priorities and funding mechanisms that assess users equitably. Lastly, the plan should have specific deadlines to hold the state Department of Transportation accountable for results.

Additionally, our small boat harbors are at overcapacity and in disrepair. Hawai'i deserves better. These harbors should be a showcase for Hawai'i, both in terms of local recreational use and tourism.

The Commission **recommends** that the Legislature pass a resolution directing the DLNR to establish an agreement allowing the lease of small boat harbors to either the counties or private concessions. This step would place the management of these facilities closer to the people. Regulations would require at least 50% of the slip inventory to be affordably priced. Such leases would also require the lessees to significantly upgrade and expand these facilities for the benefit of our economy and our citizens.