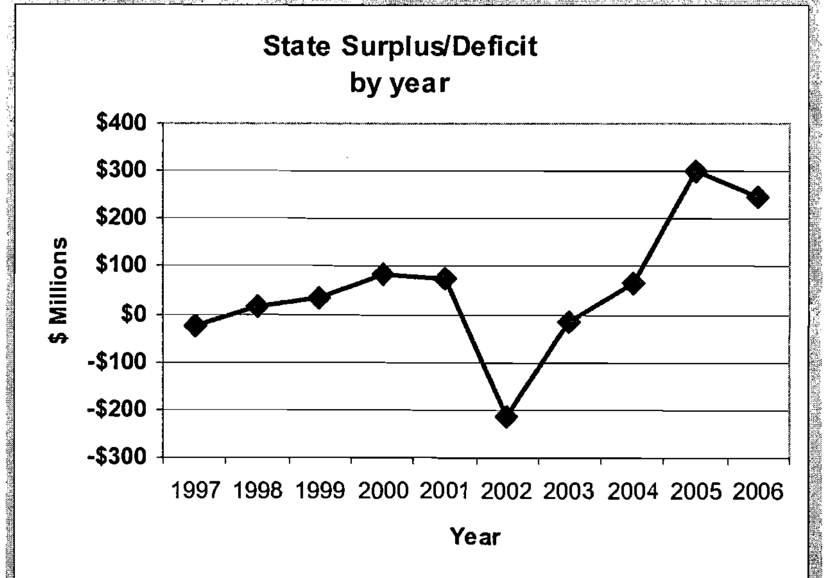
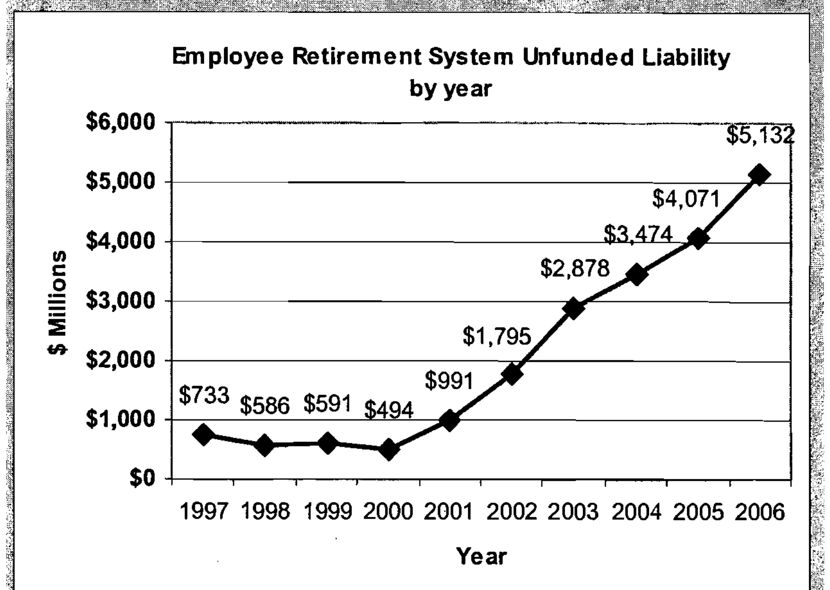
Chart 1.



Source: Tax Review Commission Report 2005 – 2007.

Chart 2.



Source: Employees' Retirement System Actuarial Valuation Report 2006.

Taxpayers of this state have their own set of responsibilities too. Should we take the Governor's proposed $100 rebate and allow these problems to percolate or should we apply the phantom surplus to solve the problems choking the future development of our state?

Ultimately, it is up to you to decide.

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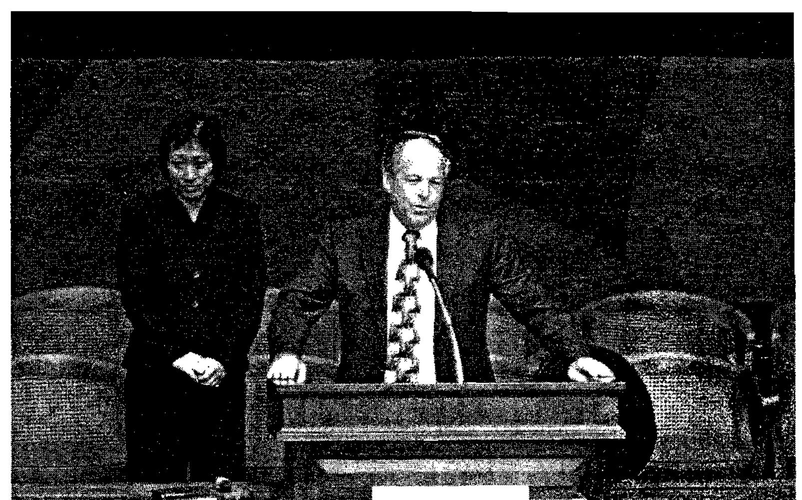


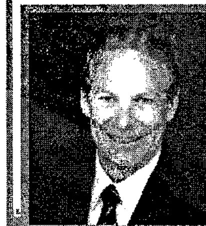
Senator Gordon Trimble delivers the invocation on the floor of the Senate on February 24, 2007 as Senate President Colleen Hanabusa looks on.

SENATOR GORDON TRIMBLE

LEGISLATIVE UPDATE

MARCH 2007

WAIKIKI
NEIGHBORHOOD BOARD NO. 9



The Phantom Surplus

(regretfully told by Senator Grimm-ble)

The average Hawaii resident was exhilarated when Governor Lingle announced a $734 million surplus in her 2007 State of the State address (See Chart 1). The constitutionally mandated refund to taxpayers made the news more appealing: > $500 in excess revenue for every man, woman, and child. But then the hard reality hits.

Before we get too ecstatic about the refund, we should take a step back and use a macroscopic lens to examine the fundamental issues at hand. Population growth coupled with the anticipated retirement of aging baby boomers present a tremendous challenge for the limited resources of our Hawaiian islands. Is our state able to meet the demands of basic operational needs? As taxpayers, yes, we are happy when our government is attempting to combat the escalating cost of living with a refund. In return, we pay a dear price for ignoring government responsibilities, such as construction and maintenance of infrastructure and management of government bureaucracy.

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Hawaii's state and county governing entities are the largest employers in the state, supporting more than 88,000 employees. This is a uniquely large ratio, making nearly 1 in every 7 workers is a government employee. A major feature of the employee benefit package is retirement, comprising of health benefits and a lifetime pension. The latter is mandated by law, the former is not.

A major concern of public retirees is the solvency of the Employee's Retirement System (ERS). It is projected that 22% of the government labor force will retire in the next five years. Moreover, government employees live longer than the general population. Accounting for these new developments makes it imperative to address the unfunded liability of the pension system.

According to the 2006 ERS report, unfunded liability amounts to $5.1 billion, and growing (See Chart 2). Under the current rules spelling out the state's contribution, it will take an estimated of 27 years to fully fund the ERS, assuming that the state's currently mandated rate. Barring inevitable economic tidal waves in the future, one wonders how the state will catch up with its massive liability. From a fiduciary perspective, as well as one of common sense, it would be prudent to change our method of record keeping. We can no longer afford to report a surplus when our unfunded liabilities are ignored or dismissed.

There is no better opportunity to close this gap than when we are in a midst of a growing economy generating revenue beyond daily operations.

Secondly, we must address health benefits granted to government retirees. Unlike the ERS, health benefits are funded with a pay-as-you-go system. Health care costs and the sheer numbers of retirees are growing—it is essential that we recognize potential for shortfalls. When costs are predictable and funds available, money should be set aside to provide for times of scarcity. As a pressing matter, pre-funding methods are being studied to determine if they can better address concerns over future costs. Since our state's machinations are dependent on a vibrate economy that generates revenue, we need to ask if we can keep our promise to the retirees who are depending on these benefits.

Of more tangible importance than the state's unfunded liability is our transportation infrastructure. State government is charged with ensuring infrastructure is adequate to promote the flow of people, goods, and services. Our growing population's contribution to traffic gridlock means that roads and highways need to be enhanced. 90% of the goods our islands consume are imported through our harbor system. For years, our more precious harbors have not been properly maintained and supported. Continued deferral of important infrastructure construction and maintenance creates higher prices and strangles our ability to expand economically.

Lastly, and perhaps of gravest importance, we need to improve the quality for our public education system. Education is the fundamental tool to grow our future workforce. In 2005, the State appropriated 37% of the state budget towards education, yet we are plagued with a building repair and maintenance backlog of $350 million in the DOE and a lack of air-conditioning in many schools (and we all know about the problems at our flagship university). We need to provide reasonable learning conditions in school facilities so that we can bring our children up to speed academically and equip them with the necessary skills and knowledge to be competitive here at home and around the world.

These fundamental needs are quickly growing too large to ignore. It is incumbent on public officials to lead with foresight and sound policies for the coming years. Road congestion calls for an expansion and upgrade of the transportation infrastructure. The shift to a sustainable knowledge-based economy begs a strengthened public education system to grow a skillful and educated workforce. Our state government must minimize its own unfunded debts to provide these basic measures.

We must change our philosophical direction and start with fiscal responsibility and a different approach to budget methodology, reflecting the real

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