

**DEPARTMENT OF TAXATION
ANNUAL REPORT AS REQUIRED BY ACT 213, SLH 2007, SECTION 120**

January 6, 2009

Section 120 of Act 213, Session Laws of Hawaii (SLH) 2007, appropriated to the Department of Taxation ("Department") \$25,000 for fiscal year 2008 and \$25,000 for fiscal year 2009 for improving the revenue forecasting accuracy for the Council on Revenues. This report on the Department's efforts to improve revenue forecasting is submitted pursuant to the provisions of this section.

Status of the New Revenue Forecasting Model

In April 2008, the Department solicited proposals for the development of an econometric model for forecasting the State of Hawaii General Fund tax revenues and personal income. It subsequently entered into a contract, effective June 30, 2008, with The UCLA Anderson Forecast, a research center of the UCLA Anderson School of Management, in the amount of \$19,500. This contract is for one year, with an option to extend the contract for an additional 12 months. Under this contract for, The UCLA Anderson Forecast will, in part, develop a quarterly mini/macro econometric model for Hawaii utilizing EViews software.

Information regarding the current model was provided to The UCLA Anderson Forecast, and communications between the Department and the principal investigators for this project have been ongoing. Principal investigator, Jerry Nickelsburg, Ph.D., traveled to Hawaii to meet with Department staff and give a presentation at the Council on Revenues Workshop on January 8, 2009. Dr. Nickelsburg also attended the Council's January 9, 2009, General Fund revenue forecast meeting, and participated in a discussion of the forecast model.

As part of the current contract, The UCLA Anderson Forecast will develop the model, train Department research staff on the new model's assumptions and other details, and give a presentation of the model to the members of the Council on Revenues.

Additional expenditures are planned to acquire necessary data, software, and hardware. Thus far, the following amounts have been expended for such acquisitions:

- The UCLA Anderson Forecast economic forecasts for the United States and the state of California (regular subscription, not a part of \$25,000 appropriated for FY2008).
- 3,000 – EViews software for Department Tax Research and Planning staff.
- \$1,718 – Laptop with appropriate features and software.

Additional Improvements

The Department anticipates extending the contract for an additional year at a cost of approximately \$20,000 to \$25,000 to allow for further testing and refinement of the model. It is hoped that the Department's research staff will be able to work with the model to make future adjustments as conditions warrant.

The Department is dedicated to providing the highest level of service to the Council on Revenues, and thanks the Legislature and the Administration for supporting its efforts to improve forecasting accuracy by the Council on Revenues.