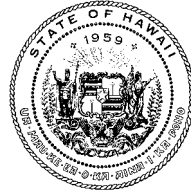


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GOVERNOR

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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

September 10, 2010

The Honorable Linda Lingle
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Lingle:

At its meeting on September 8, 2010, the Council on Revenues lowered its forecast for State General Fund tax revenue growth in fiscal year (FY) 2011 from 6.2 percent to 2.0 percent. The Council also revised its revenue growth forecast for FY 2012 from 5.8 percent to 10.0 percent. The growth rates for FY 2013 through FY 2017 were also revised slightly.

The FY 2011 and FY 2012 forecast revisions largely reflected the delay in individual income tax refunds during FY 2010. In rough proportions, the refunds delayed in June 2010 and subsequently paid out in July 2010 meant that 4 percentage points of revenues that otherwise would have accrued to the General Fund in FY 2011 did so in FY 2010, reducing the FY 2011 revenue growth rate from around 6 percent to around 2 percent. The same 4 percentage points of revenue growth appear in the FY 2012 forecast change, from around 6 percent to around 10 percent. In other words, adjusted for these accrual timing changes, the *underlying* General Fund revenue forecast is largely intact as forecast in previous meetings. This in itself is important information—that the revenue forecast is not changing much, except to taking into account special factors—because it implies that fiscal adjustments to recent macroeconomic turbulence were largely adequate, and that the pace of ongoing economic recovery is close to the expectations already embedded in previous, as well as the current, General Fund revenue growth forecasts.

To elaborately briefly, while the pace of economic recovery on the mainland appears to have slowed modestly in the second quarter of calendar 2010, leading many forecasts for U.S. real GDP growth in the second half of the calendar year to be reduced slightly, Hawaii seems to have retained its distinction for economic performance at or above the national average. Economic reacceleration continues to be forecast for calendar 2011 nationwide. Job growth across the country has been uneven, and while it is a “noisy” data set in Hawaii, the monthly change in Hawaii payroll employment has most recently displayed comparatively sustainable growth when consideration is taken into account for the temporary hiring and separation of Census workers

during the second quarter. The unemployment rate on Oahu has settled to the lower end of a range of 5-6 percent, and while it persists at closer to 9 percent on the Neighbor Islands, just below the national average, the pattern of unemployment rate decreases on Oahu and the Neighbor Islands at least has been uniform statewide. Most recently a surge in domestic travel and tourism—growing at a seasonally-adjusted annualized rate of nearly 30 percent in the March-July 2010 trimester—has provided the most reassuring evidence of ongoing economic recovery. Other metrics of tourism performance such as spending and hotel revenues appear to be participating in this same recovery. Inbound domestic airlines flew at 94 percent load factors during the early summer which, while customary in the popular summer travel season, was more impressive because of additions to scheduled inbound seats. Though the lift increases were anticipated, it was gratifying that travel demand was there to validate the increased travel supply, particularly in Neighbor Island destinations where much of the new lift is long-awaited replacement for losses from airline shutdowns two years ago. International travel has also appeared strong, but much of this year’s increase reflects the transitory adverse travel impacts of the H1N1 viral pandemic in 2009. Housing and real estate markets have a much more stable feel in Hawaii than seems currently extant across the mainland, and while the legacy of defaults and foreclosures is still being worked out, a better balance between housing supply and absorption is a prominent factor currently distinguishing Hawaii from the mainland. Construction’s long slumber continues, but public works initiatives undergird the bottom of the investment cycle and prospects for eventual construction recovery are undiminished. The Council’s expectation of steady, moderate recovery in economic activity translating into renewed General Fund revenue growth, currently at but increasingly, over time, above the rate of consumer price inflation should restore the General Fund to an economically sustainable trajectory in the course of the current FY 2010.

Revised forecasts of State General Fund tax revenues for FY2011 through FY2017 are shown in the table below:

Fiscal Year	General Fund Tax Revenues Amount (in Thousands of Dollars)	Growth From Previous Year
2011	4,451,850	2.0%
2012	4,897,035	10.0%
2013	5,190,857	6.0%
2014	5,502,309	6.0%
2015	5,832,447	6.0%
2016	6,182,394	6.0%
2017	6,553,338	6.0%

The Council adopted specific adjustments recommended by the Hawaii Department of Taxation reflecting the impacts on General Fund tax revenues of recent tax law changes enacted by the Legislature, including many reported before, for the following Acts:

- Act 21, Session Laws of Hawaii (SLH) 2010, providing for a statutory ordering of income tax credits prioritizing refundable credits over nonrefundable credits.
- Act 22, SLH 2010 amending due dates for various taxes from the last to the 20th day of the calendar month and amending periodic insurance premium tax filling and payment dates from quarterly to monthly frequencies.
- Act 59, SLH 2010 repealing the income tax deductibility of political contributions and increasing cigarette and little cigar taxes.
- Act 73, SLH 2010 temporarily raising for five years the environmental response tax on crude petroleum.
- Act 74, SLH 2010 retaining the State's ability to "pick-up" the state death tax credit as it existed in the Internal Revenue Code at the end of 2009.

Various revenue estimates provided to the Council by the Hawaii Department of Budget and Finance (B&F) at the Council's September 8, 2010, meeting were accepted as submitted. Notable changes to those estimates are highlighted in the next several paragraphs.

General Fund Non-Tax Revenues estimates for FYs 10-17 reflect decreases in investment earnings; adjustments for special fund assessments and health fund premium reimbursements; and corrections for the Department of Health's (DOH) Tobacco Settlement Revenues.

Special Tax Revenues estimates for FYs 11-13 reflect decreases from cigarette tax for DOH's Trauma System Special Fund and Emergency Medical Services Special Fund; and decreases in the transfer of transient accommodation taxes for the Department of Business, Economic Development and Tourism (DBEDT).

Special Fund Non-Tax Revenues estimates for FYs 10-17 reflect decreases in investment earnings for DOH and the Department of Transportation (DOT); increases in federal grants for the Hawaii Health System Corporation's (HHSC) and DOT Highway Division; increases in DOT Airport's rent-a-car, parking revenues, and rental motor vehicle customer facility charges; and decreases in charges for current services for the HHSC's hospital patient and Medicaid payments.

Other than Special Fund Non-Tax Revenues estimates for FYs 10-17 reflect decreases in investment earnings for the DOH and DBEDT; increases in federal grants for the Department of Human Services' (HMS), DOH, and the UH; increase in the American Recovery and Reinvestment Act (ARRA) grants for DBEDT, DHS and the Department of Labor, increases in bond issues for various housing projects (DBEDT); and increases to other post employment benefit plan contributions from the counties and Board of Water Supply.

The Honorable Linda Lingle
September 10, 2010
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Please advise us if we can be of further assistance or if we can answer any questions.

Sincerely,

A handwritten signature in black ink that reads "Paul H. Brewbaker". The signature is written in a cursive, flowing style.

PAUL H. BREWBAKER, Ph. D.
Chair, Council on Revenues

Attachments

STATE OF HAWAII
CONSOLIDATED MULTI-YEAR GENERAL FUND REVENUES FROM SOURCES OTHER THAN TAX,
AND SPECIAL REVENUES FROM TAX & SOURCES OTHER THAN TAX
FISCAL YEARS 2010 - 2017
(in thousands of dollars)

<u>Sources</u>	<u>Actual/Est*</u> <u>FY 2010</u>	<u>Estimated</u> <u>FY 2011</u>	<u>Estimated</u> <u>FY 2012</u>	<u>Estimated</u> <u>FY 2013</u>	<u>Estimated</u> <u>FY 2014</u>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>	<u>Estimated</u> <u>FY 2017</u>
REVENUES - TAX								
Special Revenue Fund	434,453	814,042	815,331	719,835	703,838	720,477	722,482	722,472
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	307,856	368,484	362,245	376,750	371,273	343,705	362,681	328,399
Federal	2,478,939	2,463,945	2,416,843	2,407,545	2,401,424	2,400,581	2,399,325	2,399,325
Federal-American Reinvestment & Recovery Act	656,861	390,184	48,124	3,184	0	0	0	0
Charges for Current Services	1,625,207	1,677,381	1,744,074	1,799,498	1,845,373	1,870,579	1,890,721	1,908,715
Non-Revenue Receipts	1,305,326	1,290,919	1,341,821	1,259,484	1,293,389	1,329,883	1,371,732	1,372,312
Office of Hawaiian Affairs	17,790	15,100	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>45,996</u>	<u>46,321</u>	<u>47,241</u>	<u>47,989</u>	<u>48,861</u>	<u>49,858</u>	<u>50,042</u>	<u>50,042</u>
Subtotal Revenues - Other Than Tax	<u>6,437,975</u>	<u>6,252,334</u>	<u>5,975,448</u>	<u>5,909,550</u>	<u>5,975,420</u>	<u>6,009,706</u>	<u>6,089,601</u>	<u>6,073,893</u>
TOTAL REVENUES	6,872,428	7,066,376	6,790,779	6,629,385	6,679,258	6,730,183	6,812,083	6,796,365
ADJUSTMENTS - Revenue Transfers	<u>148,632</u>	<u>135,050</u>	<u>125,409</u>	<u>115,023</u>	<u>114,913</u>	<u>114,911</u>	<u>105,875</u>	<u>106,026</u>
TOTAL ADJUSTED REVENUES	<u>6,723,796</u>	<u>6,931,326</u>	<u>6,665,370</u>	<u>6,514,362</u>	<u>6,564,345</u>	<u>6,615,272</u>	<u>6,706,208</u>	<u>6,690,339</u>

Prepared by: Department of Budget & Finance

September 8, 2010

Note: Due to rounding, details may not add to totals.

* Unaudited, preliminary revenues.

Table 1

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2010 - 2017
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</u> <u>FY 2010</u>	<u>Estimated</u> <u>FY 2011</u>	<u>Estimated</u> <u>FY 2012</u>	<u>Estimated</u> <u>FY 2013</u>	<u>Estimated</u> <u>FY 2014</u>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>	<u>Estimated</u> <u>FY 2017</u>
Licenses & Permits	1,430	1,030	1,030	1,030	1,030	1,030	1,030	1,030
Revenues from Use of Money and Property	22,760	34,200	27,694	26,888	25,941	24,978	24,037	24,037
Federal	5,803	4,134	4,134	4,134	4,134	4,134	4,134	4,134
Revenues from Other Agencies	15,239	16,152	16,152	16,147	16,147	16,147	2,505	2,505
Charges for Current Services	224,221	249,837	251,316	261,572	264,431	266,802	269,905	270,904
Fines, Forfeits & Penalties	465	390	360	390	360	390	360	360
Repayment of Loans & Advances	19,588	23,806	21,935	19,561	19,560	20,217	19,636	19,636
Non-Revenue Receipts	163,661	182,776	173,054	172,665	172,554	172,554	172,554	172,554
Judiciary	<u>35,749</u>	<u>35,915</u>	<u>36,666</u>	<u>37,441</u>	<u>38,237</u>	<u>39,054</u>	<u>39,054</u>	<u>39,054</u>
Total	<u>488,916</u>	<u>548,240</u>	<u>532,341</u>	<u>539,828</u>	<u>542,394</u>	<u>545,306</u>	<u>533,215</u>	<u>534,214</u>

Prepared by: Department of Budget & Finance
 Note: Due to rounding, details may not add to totals.
 * Unaudited

September 8, 2010

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2010 - 2017**
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</u> <u>FY 2010</u>	<u>Estimated</u> <u>FY 2011</u>	<u>Estimated</u> <u>FY 2012</u>	<u>Estimated</u> <u>FY 2013</u>	<u>Estimated</u> <u>FY 2014</u>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>	<u>Estimated</u> <u>FY 2017</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	20,027	19,775	19,780	19,780	37,070	37,070	37,070	37,070
Liquid Fuel:								
Highway	81,271	87,679	88,334	88,995	89,661	90,555	91,232	91,232
Aviation	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549
Small Boats	<u>1,507</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>
Subtotal	86,327	92,628	93,283	93,944	94,610	95,504	96,181	96,181
Transfer of Transient Accom Tax	102,878	115,526	110,417	114,000	145,552	150,971	150,971	150,971
Motor Vehicle Weight Tax	32,937	34,248	34,676	35,109	35,548	35,992	36,442	36,442
Vehicle Registration Fee Tax	25,721	26,455	26,722	26,992	27,264	27,540	27,820	27,820
Vehicle Surcharge:								
Rental /Tour	40,401	40,550	30,852	29,920	30,514	31,120	31,738	31,738
Environmental Response Tax	1,341	1,341	1,341	1,340	1,340	1,340	1,340	1,340
Unemployment Comp Tax	98,559	461,000	475,000	375,000	308,000	317,000	317,000	317,000
Employment & Training	527	500	950	950	950	950	950	950
Election Campaign Contrib T.F.	217	220	210	200	190	190	170	160
Transfer of Banks & Fin. Corp Tax	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Transfer of Conveyance Tax	22,418	18,600	18,800	19,300	19,500	19,500	19,500	19,500
Transfer of Tax on Ins. Premiums	<u>1,100</u>	<u>1,200</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>
Total	<u>434,453</u>	<u>814,042</u>	<u>815,331</u>	<u>719,835</u>	<u>703,838</u>	<u>720,477</u>	<u>722,482</u>	<u>722,472</u>

Prepared by: Department of Budget & Finance

Note: Due to rounding, details may not add to totals.

* Unaudited

Table 3

September 8, 2010

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2010 - 2017
(in thousands of dollars)

<u>Sources</u>	<u>Estimated *</u> <u>FY 2010</u>	<u>Estimated</u> <u>FY 2011</u>	<u>Estimated</u> <u>FY 2012</u>	<u>Estimated</u> <u>FY 2013</u>	<u>Estimated</u> <u>FY 2014</u>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>	<u>Estimated</u> <u>FY 2017</u>
Licenses & Permits	14,284	14,893	17,167	17,194	17,263	17,303	17,221	17,293
Revenues from Use of Money and Property	61,622	79,326	80,332	78,530	77,095	77,058	76,918	76,817
Federal	454,194	303,986	300,158	298,604	299,176	301,717	301,217	301,217
Revenue from Other Agencies	38,487	55,306	40,306	40,306	40,306	40,306	53,948	53,948
Charges for Current Services:								
Utils & Other Enterprises	363,174	429,991	490,078	527,482	568,415	589,986	605,178	620,226
Others	854,035	862,848	886,774	893,016	895,006	899,582	901,358	903,214
Fines, Forfeits & Penalties	8,328	4,037	3,879	3,896	3,914	3,932	3,950	3,950
Non-Revenue Receipts	125,132	112,508	112,594	112,620	112,620	112,618	117,224	117,375
Judiciary	<u>10,247</u>	<u>10,406</u>	<u>10,575</u>	<u>10,548</u>	<u>10,624</u>	<u>10,804</u>	<u>10,988</u>	<u>10,988</u>
Total	<u>1,929,503</u>	<u>1,873,301</u>	<u>1,941,863</u>	<u>1,982,196</u>	<u>2,024,419</u>	<u>2,053,306</u>	<u>2,088,002</u>	<u>2,105,028</u>
Adjustments:								
Revenue Transfers	87,031	77,003	77,084	77,088	77,088	77,086	81,692	81,843
Adjusted Total	<u>1,842,472</u>	<u>1,796,298</u>	<u>1,864,779</u>	<u>1,905,108</u>	<u>1,947,331</u>	<u>1,976,220</u>	<u>2,006,310</u>	<u>2,023,185</u>

Prepared by: Department of Budget & Finance

Note: Due to rounding, details may not add to totals.

* Unaudited, preliminary

September 8, 2010

Table 4

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2010 - 2017
(in thousands of dollars)

<u>Sources</u>	<u>Estimated*</u> <u>FY2010</u>	<u>Estimated</u> <u>FY2011</u>	<u>Estimated</u> <u>FY2012</u>	<u>Estimated</u> <u>FY2013</u>	<u>Estimated</u> <u>FY2014</u>	<u>Estimated</u> <u>FY2015</u>	<u>Estimated</u> <u>FY2016</u>	<u>Estimated</u> <u>FY2017</u>
Licenses & Permits	601	582	582	582	582	582	582	582
Revenues from Use of Money and Property	76,021	74,087	75,185	75,594	75,446	75,645	75,974	76,180
Federal	2,018,942	2,155,825	2,112,551	2,104,807	2,098,114	2,094,730	2,093,974	2,093,974
Federal-American Recovery & Reinvestment Act	656,861	390,184	48,124	3,184	0	0	0	0
Revenues from Other Agencies	19,312	20,139	20,310	20,554	18,395	18,395	18,395	18,395
Charges for Current Services	183,777	134,705	115,906	117,428	117,521	114,209	114,280	114,371
Fines, Forfeits & Penalties	910	923	923	923	923	923	923	923
Repayment of Loans & Advances	28,809	43,613	56,390	75,155	74,311	46,799	67,202	32,743
Non-Revenue Receipts	1,016,533	995,635	1,056,173	974,199	1,008,215	1,044,711	1,081,954	1,082,383
Office of Hawaiian Affairs	<u>17,790</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>
TOTAL	<u>4,019,556</u>	<u>3,830,793</u>	<u>3,501,244</u>	<u>3,387,526</u>	<u>3,408,607</u>	<u>3,411,094</u>	<u>3,468,384</u>	<u>3,434,651</u>
Adjustments:								
Revenue Transfers	34,155	13,646	13,646	3,646	3,646	3,646	3,646	3,646
Adjusted Total	<u>3,985,401</u>	<u>3,817,147</u>	<u>3,487,598</u>	<u>3,383,880</u>	<u>3,404,961</u>	<u>3,407,448</u>	<u>3,464,738</u>	<u>3,431,005</u>

Prepared by: Dept. of Budget & Finance

September 8, 2010

Note: Due to rounding, details may not add to totals.

* Unaudited, preliminary

Table 5