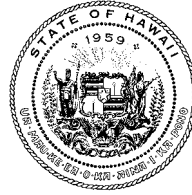


NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



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COUNCIL ON REVENUES

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

March 9, 2012

The Honorable Neil Abercrombie
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Abercrombie:

At its meeting on March 7, 2012, the Council on Revenues increased its forecast for State General Fund tax revenue growth in FY 2012 from 11.5% to 12.0%. The Council also increased its growth forecast for FY 2013 from 6.5% to 7.5%. The growth rates for FYs 2014 to 2016 were also increased, but the growth rates for FYs 2017 and 2018 were unchanged.

The FY 2012 forecast revisions reflected mainly the Council's belief that the economy is improving. The Council cited a strong visitor industry along with continued expansion in the rest of the economy, an improving job market and higher consumer confidence. The Council's forecast also accounts for tax increases that the legislature approved last year.

The Council also considered the preliminary data reported by the Department of Taxation, which shows that cumulative General Fund collections for the first seven months of FY 2012 (July through January) were \$2,811 million.

The Council members were not entirely optimistic about the future of the economy. They expressed their concerns about the uncertainty in European economies, the possibility of a war with Iran and rising oil and gas prices.

It should be noted that the model is a multi-year forecasting model from FY 2012 through FY 2018. As in all multi-year forecasts some years are over-estimated and other years are under-estimated. In most years, the growth in General Fund tax collections is greater than the growth in personal income. However, the relationship between income growth and revenue growth is variable and other factors, such as income tax credits, also affect the net collections.

Revised forecasts of State General Fund tax revenues for FY 2012 through FY 2018 are shown in the table below:

Fiscal Year	General Fund Tax Revenues	
	Amount (in Thousands of Dollars)	Growth From Previous Year
2012	4,848,828	12.0%
2013	5,212,490	7.5%
2014	5,420,990	4.0%
2015	5,757,091	6.2%
2016	5,987,375	4.0%
2017	6,286,744	5.0%
2018	6,601,081	5.0%

In producing its forecasts, the Council adopted specific adjustments recommended by the Tax Department reflecting impacts on General Fund tax revenues of recent tax law changes enacted by the 2011 Legislature, including the following:

- Act 97 (SB 570 SD2 HD1 CD1). Part II repeals State tax deduction for taxpayers with Federal AGI above \$100,000 (for single taxpayers), \$200,000 (for joint filers), and \$150,000 (for heads of households). Part III caps itemized deductions at \$25,000 for a single taxpayer with Federal AGI of \$100,000 and above; \$50,000 for a joint filer with Federal AGI of \$200,000 and above; and \$37,500 for a head of household with Federal AGI of \$150,000 and above. Parts II and III sunset on January 1, 2016. Part IV delays the 10% increase in the standard deduction and the personal exemption by 2 years and makes them permanent.
- Act 103 (SB 1186 SD2 HD1 CD1) establishes a temporary \$10 minimum daily tax on each transient accommodation furnished at no charge. The Act also temporarily limits the TAT revenue distribution to the counties to \$93 million per year, and limits the distribution to the Tourism Special Fund to \$69 million per year.
- Act 104 (HB 1039 HD1 SD2 CD1) changes the Rental Motor Vehicle Surcharge Tax to \$7.50 per day from July 1, 2011 to June 30, 2012, then \$3.00 per day beginning July 1, 2012. The Act allocates the \$4.50 per day increase to the General Fund from July 1, 2011 to June 30, 2012.
- Act 105 (SB 754 SD1 HD1 CD1) suspends certain GET exemptions and imposes tax at 4 percent on the previously exempt amounts for the period from July 1, 2011 to June 30, 2013.

The Honorable Neil Abercrombie

March 9, 2012

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The Council Chair anticipated that the Department of Taxation, separately, would prepare a report for submission with this transmittal correspondence, detailing line-item forecasts for various components of the General Fund, reconciled to the Council's forecast growth rate for total General Fund Tax revenues. These line-item component estimates typically include, for example, General Excise Tax and Income Tax revenues that the Council on Revenues does not forecast individually. The Council Chair also anticipated that the Department of Budget and Finance would prepare a report to update its projections for non-tax and special tax revenues.

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 "Richard F. Kahle, Jr." The signature is written in a cursive, slightly slanted style.

Richard F. Kahle, Jr.
Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF March 7, 2012: FY 2012 TO FY 2018
Line item projections generated by Tax Research and Planning Office to be consistent with the Council's total growth forecast

(in thousands of dollars)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
General Excise and Use Tax	\$2,316,434	\$2,495,807	\$2,623,348	\$2,915,570	\$2,963,372	\$3,134,952	\$3,335,255	\$3,499,286	\$3,667,697
Individual Income Tax	1,527,619	1,246,672	1,456,113	1,572,994	1,693,770	1,826,621	1,967,582	2,076,740	2,207,745
Corporate Income Tax	59,186	34,573	77,446	59,108	90,749	89,096	93,597	102,690	92,282
Public Service Company Tax	157,661	117,940	122,545	126,460	130,724	135,133	139,450	144,152	149,269
Tax on Insurance Premiums	104,721	140,456	142,612	151,461	159,584	168,394	178,949	186,852	195,498
Cigarette and Tobacco Tax	85,503	106,137	119,264	124,781	106,926	112,264	117,907	123,668	129,505
Liquor Tax	44,074	48,054	49,004	49,697	50,377	51,039	51,621	52,271	52,993
Tax on Banks and Other Financial Corps.	18,666	31,677	27,955	29,797	30,292	31,507	32,407	33,186	33,932
Inheritance and Estate Tax 1/	0	6,899	19,600	19,600	19,600	19,600	19,600	19,600	19,600
Conveyance Tax	18,216	21,527	18,615	15,972	12,513	13,584	14,879	15,858	16,938
Miscellaneous Taxes 2/	781	19,812	79,649	19,112	19,129	14,133	938	931	912
Transient Accommodations Tax	31,698	59,757	112,677	127,938	143,954	160,768	35,190	31,510	34,710
GENERAL FUND TOTAL	\$4,364,559	\$4,329,311	\$4,848,828	\$5,212,490	\$5,420,990	\$5,757,091	\$5,987,375	\$6,286,744	\$6,601,081
GROWTH RATE	3.9%	-0.8%	12.0%	7.5%	4.0%	6.2%	4.0%	5.0%	5.0%

Notes:

1/ Act 74, SLH 2010, reinstates Hawaii's estate tax for persons who die after April 30, 2010.

2/ The figures on this line include penalty and interest charges, fees and license charges from various taxes, and allocations to the General Fund from the environmental response, energy and food security tax and from the rental motor vehicle surcharge.

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March 7, 2012

General Fund Revenues from Sources Other Than Tax, Special Revenues from Tax, and Sources Other Than Tax

Report from the Department of Budget and Finance Significant Changes from January 2012 Report

General Fund Non-Tax Revenues

There are no significant changes to the general fund non-tax revenue estimates.

Special Tax Revenues

Liquid Fuel, Highways – decreases in FYs 12-18 reflect lower liquid fuel tax collection estimates due to lower anticipated growth as well as an increase in the use of more fuel efficient vehicles (Department of Transportation's (DOT) – Highways Division).

Conveyance Tax – the decrease in FY 12 reflects a slight decline in home sales and subsequent reduction in conveyance tax revenues into the Natural Area Reserve Fund (Department of Land and Natural Resources (DLNR)).

Special Fund Non-Tax Revenues

Federal Grants – the increase in FY 11 reflects an increase in New Starts and Small Starts Program funds for the DOT's General Administration (pass through grant for the DLNR). Decreases in FYs 13-18 reflect projected decreases in Medicare payments for the Hawaii Health Systems Corporation (HHSC).

Charges for Current Services, Others – the changes in FYs 11-18 reflect an increase in FY 11 actual revenues and decreased FY 12-18 revenue projections from Hawaii Medical Service Association and Medicaid payments received by the HHSC.

Charges for Current Services, Utilities – the decreases in FYs 13-18 reflect lower terminal rental payments for the DOT's – Airports Division. The decreases are offset by increases in FYs 12-18 to reflect increases in concession fees resulting from a larger number of overseas passengers as well as higher spending rates per passenger (DOT's – Airports Division).

Other than Special Fund Non-Tax Revenues

Federal Grants – the increases in FYs 12-14 reflect increases in federal grants available to fund federally-aided low-income housing projects (Hawaii Housing Authority) and the Hawaii Health Insurance Exchange that was established pursuant to Act 205, SLH 2011 (Department of Commerce and Consumer Affairs).

ARRA Funds – the net decreases in FYs 11-14 reflect federal reimbursements for Race to the Top funds coming in at a slower rate than originally projected (Department of Education) and revision of expenditures for Water Pollution Control funds (Department of Health) in FY 12 instead of FY 11.

Non-Revenue Receipts – net increases in FYs 12-14 reflect increased revenues from the sale of real property deposited into the Hawaiian Home Lands Trust Fund (Department of Hawaiian Home Lands) and increased projections in employer and employee contributions by the State, City and County of Honolulu, County of Hawaii, Kauai County, Maui County, and Hawaii Department of Water to the Employees-Union Trust Fund (Department of Budget and Finance) based on actual contributions received through the first seven months of the fiscal year.

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 2011 - 2018
(in thousands of dollars)

<u>Sources</u>	Actual/Est* <u>FY 2011</u>	Estimated <u>FY 2012</u>	Estimated <u>FY 2013</u>	Estimated <u>FY 2014</u>	Estimated <u>FY 2015</u>	Estimated <u>FY 2016</u>	Estimated <u>FY 2017</u>	Estimated <u>FY 2018</u>
REVENUES - TAX								
Special Revenue Fund	631,286	748,482	855,134	763,193	716,834	760,581	768,678	780,408
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	325,863	352,369	355,217	342,124	417,154	349,606	359,464	335,947
Federal	2,835,416	2,761,574	2,575,678	2,627,412	2,725,710	2,755,220	2,911,910	2,911,910
Federal-American Reinvestment & Recovery Act	464,876	143,785	31,896	20,850	20,000	0	0	0
Charges for Current Services	1,805,521	1,788,535	1,847,787	1,882,773	1,924,329	1,957,353	1,971,460	1,987,016
Non-Revenue Receipts	1,506,315	1,531,518	1,326,415	1,334,652	1,337,605	1,343,270	1,346,358	1,345,425
Office of Hawaiian Affairs	20,588	18,874	18,207	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>52,231</u>	<u>49,420</u>	<u>50,779</u>	<u>51,888</u>	<u>53,016</u>	<u>53,924</u>	<u>54,850</u>	<u>55,051</u>
Subtotal Revenues - Other Than Tax	<u>7,010,811</u>	<u>6,646,076</u>	<u>6,205,979</u>	<u>6,274,798</u>	<u>6,492,914</u>	<u>6,474,473</u>	<u>6,659,142</u>	<u>6,650,449</u>
TOTAL REVENUES	7,642,097	7,394,558	7,061,113	7,037,991	7,209,748	7,235,054	7,427,820	7,430,857
ADJUSTMENTS - Revenue Transfers	<u>335,823</u>	<u>137,492</u>	<u>93,340</u>	<u>95,719</u>	<u>95,716</u>	<u>100,322</u>	<u>100,473</u>	<u>100,472</u>
TOTAL ADJUSTED REVENUES	<u>7,306,274</u>	<u>7,257,066</u>	<u>6,967,773</u>	<u>6,942,272</u>	<u>7,114,032</u>	<u>7,134,732</u>	<u>7,327,347</u>	<u>7,330,385</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

March 7, 2012

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2011 - 2018
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2018</u>
Licenses & Permits	7,180	5,820	5,820	5,820	1,020	1,020	1,020	1,020
Revenues from Use of Money and Property	24,368	27,759	26,999	26,131	25,168	24,227	24,227	24,227
Federal	13,087	4,548	4,548	4,548	4,548	4,548	4,548	4,548
Revenues from Other Agencies	14,178	27,677	27,672	16,171	16,170	2,528	2,528	2,528
Charges for Current Services	296,445	253,213	263,383	266,735	269,704	272,547	274,885	276,841
Fines, Forfeits & Penalties	478	435	465	435	465	435	435	435
Repayment of Loans & Advances	23,003	22,012	19,638	19,662	20,319	19,738	19,738	19,738
Non-Revenue Receipts	373,269	179,054	167,432	174,045	176,008	177,989	179,994	179,994
Judiciary	<u>41,135</u>	<u>38,310</u>	<u>38,965</u>	<u>39,651</u>	<u>40,351</u>	<u>41,065</u>	<u>41,793</u>	<u>41,793</u>
Total	<u>793,143</u>	<u>558,829</u>	<u>554,922</u>	<u>553,197</u>	<u>553,753</u>	<u>544,097</u>	<u>549,168</u>	<u>551,124</u>

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

March 7, 2012

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2011 - 2018**
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2018</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	19,661	19,339	19,339	38,759	38,759	38,759	38,759	38,759
Liquid Fuel:								
Highway	89,599	90,696	91,601	92,514	93,207	93,904	94,606	95,314
Aviation	4,045	3,549	3,549	3,549	3,549	3,549	3,549	3,549
Small Boats	<u>1,666</u>	<u>1,500</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>
Subtotal	95,310	95,745	96,750	97,663	98,356	99,053	99,755	100,463
Transfer of Transient Accom Tax	121,776	103,000	103,000	103,000	103,000	136,600	134,000	134,000
Motor Vehicle Weight Tax	33,423	52,920	66,846	67,681	68,527	69,384	70,251	71,129
Vehicle Registration Fee Tax	26,053	38,143	46,827	47,244	47,665	48,090	48,519	48,953
Vehicle Surcharge:								
Rental /Tour	43,892	44,960	45,632	46,315	47,007	47,710	48,419	49,139
Environmental Response Tax	8,400	8,266	8,266	8,266	8,265	4,740	4,740	4,740
Unemployment Comp Tax	251,264	362,000	441,000	326,000	277,000	288,000	296,000	305,000
Employment & Training	1,409	1,800	0	800	800	800	800	800
Election Campaign Contrib T.F.	223	210	200	190	180	170	160	150
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	26,379	18,600	23,775	23,775	23,775	23,775	23,775	23,775
Transfer of Tax on Ins. Premiums	<u>1,496</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>
Total	<u>631,286</u>	<u>748,482</u>	<u>855,134</u>	<u>763,193</u>	<u>716,834</u>	<u>760,581</u>	<u>768,678</u>	<u>780,408</u>

Prepared by: Department of Budget & Finance

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

* Unaudited

Table 3

March 7, 2012

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2011 - 2018
(in thousands of dollars)

<u>Sources</u>	Estimated * <u>FY 2011</u>	Estimated <u>FY 2012</u>	Estimated <u>FY 2013</u>	Estimated <u>FY 2014</u>	Estimated <u>FY 2015</u>	Estimated <u>FY 2016</u>	Estimated <u>FY 2017</u>	Estimated <u>FY 2018</u>
Licenses & Permits	16,828	19,145	22,347	22,276	21,614	20,131	20,728	20,254
Revenues from Use of Money and Property	55,378	51,397	54,555	62,626	64,998	66,508	67,748	67,915
Federal	465,896	460,200	273,509	277,013	279,054	279,054	279,054	279,054
Revenue from Other Agencies	35,754	53,908	28,924	40,426	40,425	54,067	54,067	54,067
Charges for Current Services:								
Utils & Other Enterprises	441,537	430,066	485,267	508,838	538,347	566,813	575,098	588,204
Others	915,332	966,059	979,392	984,251	989,330	994,256	998,675	1,000,284
Fines, Forfeits & Penalties	5,788	4,599	4,034	4,136	4,229	4,274	4,321	4,369
Non-Revenue Receipts	116,512	107,915	108,177	115,687	115,685	120,291	120,442	120,441
Judiciary	<u>11,096</u>	<u>11,110</u>	<u>11,814</u>	<u>12,237</u>	<u>12,665</u>	<u>12,859</u>	<u>13,057</u>	<u>13,258</u>
Total	<u>2,064,122</u>	<u>2,104,399</u>	<u>1,968,019</u>	<u>2,027,490</u>	<u>2,066,347</u>	<u>2,118,253</u>	<u>2,133,190</u>	<u>2,147,846</u>
Adjustments:								
Revenue Transfers	77,391	69,732	68,972	76,482	76,480	81,086	81,237	81,236
Adjusted Total	<u>1,986,731</u>	<u>2,034,667</u>	<u>1,899,047</u>	<u>1,951,008</u>	<u>1,989,867</u>	<u>2,037,167</u>	<u>2,051,953</u>	<u>2,066,610</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

March 7, 2012

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2011 - 2018
(in thousands of dollars)

<u>Sources</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>	<u>Estimated</u> <u>FY2018</u>
Licenses & Permits	621	557	600	600	599	599	599	599
Revenues from Use of Money and Property	71,938	77,479	79,126	79,552	79,746	79,844	79,952	79,616
Federal	2,356,433	2,296,826	2,297,621	2,345,851	2,442,108	2,471,618	2,628,308	2,628,308
Federal-American Recovery & Reinvestment Act	464,876	143,785	31,896	20,850	20,000	0	0	0
Revenues from Other Agencies	18,874	18,928	18,828	18,406	18,396	18,396	18,396	18,396
Charges for Current Services	152,207	139,197	119,745	122,949	126,948	123,737	122,802	121,687
Fines, Forfeits & Penalties	1,947	868	868	868	868	868	868	868
Repayment of Loans & Advances	49,528	41,785	65,341	45,015	123,137	56,971	64,837	41,915
Non-Revenue Receipts	1,016,534	1,244,549	1,050,806	1,044,920	1,045,912	1,044,990	1,045,922	1,044,990
Office of Hawaiian Affairs	<u>20,588</u>	<u>18,874</u>	<u>18,207</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>
TOTAL	<u>4,153,546</u>	<u>3,982,848</u>	<u>3,683,038</u>	<u>3,694,111</u>	<u>3,872,814</u>	<u>3,812,123</u>	<u>3,976,784</u>	<u>3,951,479</u>
Adjustments:								
Revenue Transfers	34,225	41,364	7,364	2,313	2,313	2,313	2,313	2,313
Adjusted Total	<u>4,119,321</u>	<u>3,941,484</u>	<u>3,675,674</u>	<u>3,691,798</u>	<u>3,870,501</u>	<u>3,809,810</u>	<u>3,974,471</u>	<u>3,949,166</u>

Prepared by: Dept. of Budget & Finance

March 7, 2012

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

* Unaudited, preliminary