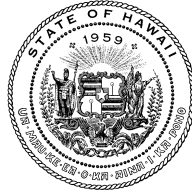


**NEIL ABERCROMBIE**  
GOVERNOR

**SHAN TSUTSUI**  
LT. GOVERNOR



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## **COUNCIL ON REVENUES**

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

March 14, 2014

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 11, 2014 the Council on Revenues lowered its forecast for growth in State General Fund tax revenues in fiscal year (FY) 2014 from 3.3% to 0.0%.

The Council expressed concern that general fund tax revenue collections during the first eight months of this fiscal year have been lower than expected since its last forecast on January 7, 2014. In particular, the general fund revenue through the end of February had declined (1.1%) and general excise tax collections through the same period had declined (1.8%) before allocating the \$55.5 million to the Hurricane Relief Fund. The Council discussed the visitor and construction sectors of Hawaii's economy noting the decline in visitor spending since its last meeting.

The Council thought that the shortfall in tax revenues was due to a number of factors, including declining visitor spending and the effects of fiscal austerity on spending of residents which may have resulted from the expiration of the federal payroll tax holiday and its impact on spending in January 2013. Also, replenishing the Hawaii Hurricane Relief Fund reduced General Fund tax revenues by about 1% in FY 2014 and will do so again in FY 2015.

The Council also lowered its forecasts for revenue growth from 7.4% to 5.5% for FY 2015 and from 7.7% to 5.0% for FY 2016. The Council remained optimistic about the economy, however, and believes that it is still growing, although not at the same rate as expected before. Among other reasons, the Council cited to a number of major construction projects.

Revised forecasts of State General Fund tax revenues for FY 2014 through FY 2020 are shown in the table below. As in all multi-year forecasts, the estimates for the later years are subject to greater uncertainty.

Fiscal Year	General Fund Tax Revenues	
	Amount (in Thousands of Dollars)	Growth From Previous Year
2014	5,466,923	0.0%
2015	5,767,604	5.5%
2016	6,055,984	5.0%
2017	6,407,231	5.8%
2018	6,804,479	6.2%
2019	7,171,921	5.4%
2020	7,559,205	5.4%

In producing its forecasts, the Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on General Fund tax revenues of tax law changes enacted by the 2013 Legislature, including the following:

- Act 89 amends the motion picture digital media and film production tax credit. The Act increases the credit rate from 15% to 20% for productions on Oahu and from 20% to 25% for productions on the neighbor islands. The Act also increases the cap on the amount of the credit per production from \$8 million to \$15 million and moves the expiration date for the credit from January 1, 2016 to January 1, 2019. The Act is estimated to raise the annual cost of the tax credit by about \$21 million over the level in FY 2013.
- Act 160 eliminates the General Excise Tax (GET) exemption for liquor, tobacco and food sold to common carriers. The Act is estimated to raise GET collections by about \$6 million per year.
- Act 161 makes permanent the Transient Accommodations Tax (TAT) rate of 9.25% and the caps on TAT allocations to the special funds. The Act raises the cap on the allocation to the Tourism Special Fund by \$11 million. Act 161 is estimated to reduce General Fund revenues by \$11 million in FY 2014 and FY 2015, but is expected to increase General Fund revenues by amounts ranging from \$177 million in FY 2016 to \$246 million in FY 2020.
- Act 163 makes permanent the GET exemption for certain expenses paid by hotel operators and timeshare projects and removes the cap on the aggregate amount of the exemptions that can be claimed. The Act is estimated to reduce GET collections by about \$20 million in FY 2014 and by about \$13 million annually thereafter.

The Honorable Neil Abercrombie

March 14, 2014

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The Council also took into account provisions from earlier legislation, including the following:

- Act 105, SLH 2011, eliminated certain GET exemptions. The Act expired June 30, 2013. Its expiration is estimated to reduce GET collections by about \$70 million annually relative to the level in FY 2013.
- Act 62, SLH 2011, allocates GET revenues directly to the Hurricane Relief Fund to replace amounts that were taken from the Fund in prior years. The Act will reduce GET allocations to the General Fund by \$55.5 million in each of FY 2014 and FY 2015.

The Department of Taxation has prepared 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. The line-item forecasts include components, such as revenues from the General Excise Tax and from the Individual Income Tax that the Council does not forecast separately. Also, the Department of Budget and Finance has prepared the attached report to update its projections for change in non-tax and special tax revenues from its report on January 7, 2014.

Please advise us if we can be of further assistance or if we can answer any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Kurt Kawafuchi', with a stylized flourish at the end.

KURT KAWAFUCHI  
Chair, Council on Revenues

Attachments