



Hawaii
The Aloha State



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PROJECT KICK-OFF

Hawaii Tax Review Commission Study of the Hawaii Tax System

March 12, 2012

THE PFM GROUP

Two Logan Square, Suite 1600
Philadelphia, PA 19103

801 Grand Avenue, Suite 3300
Des Moines, IA 50309

50 California Street, Suite 2300
San Francisco, CA 94111

601 S. Figueroa Street, Suite 4500,
Los Angeles, CA 90017



Today's Agenda

- Introductions
- Proposed Project Approach
 - Project organizational structure
 - Project timeline
 - Process for Gathering Data and Information
 - Project reporting
- Examples of Project Deliverables
- Questions and Discussion



Today's Participants

John Cape, Managing Director, joined PFM in 2006. John has led multiple projects with the Commonwealth of Pennsylvania Governor's Office, Governor's Budget Office and Department of Public Welfare. His clients have also included the States of Delaware, Virginia and Minnesota. Prior to joining PFM, he served from 2004 to 2007 as Director of the Budget for New York State, overseeing a \$113 billion operating budget. John served in state government for more than 30 years.

Heidi Patterson, Senior Managing Consultant, specializes in project management and has served as 'second chair' on multiple projects for the States of Pennsylvania and Nebraska. Prior to joining PFM, she was the Executive Director of the Iowa Accountancy Examining Board where she was responsible for the licensing and regulation of the State's 10,000 CPAs and LPAs.

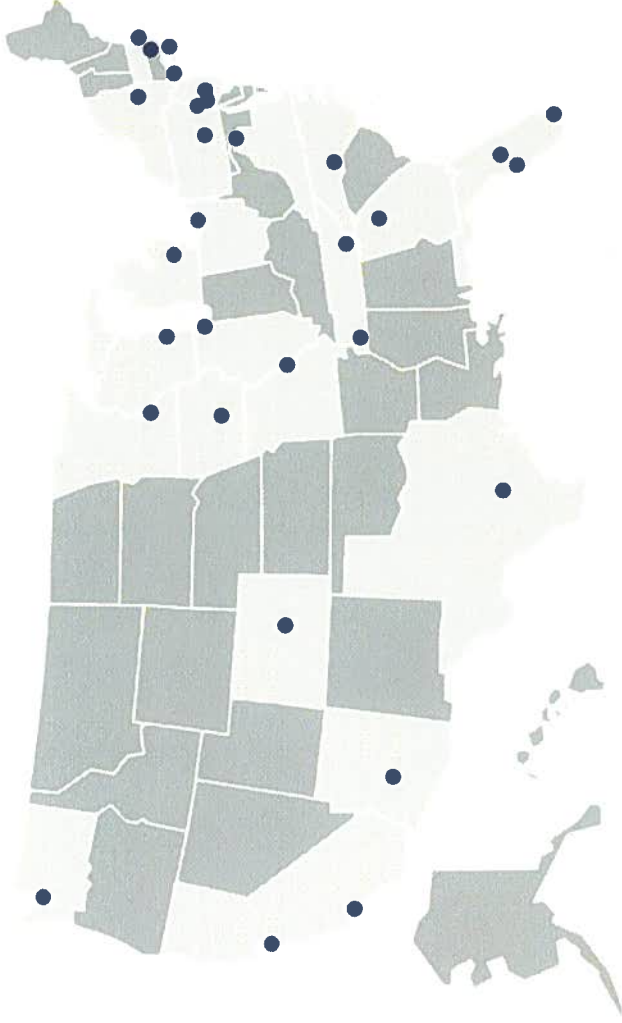
Dr. Phyllis Resnick has worked for 13 years as a consulting economist and project manager. She has collaborated with PFM on a revenue and expenditure study for Aurora, Colorado and in supporting the Sustainable Funding Committee for the City of Colorado Springs, Colorado. Dr. Resnick is currently a consulting principal economist and project manager for the University of Denver's Center for Colorado's Economic Future. The Center has recently completed a legislatively requested fiscal sustainability study for the state of Colorado.



Introduction to PFM

PFM was founded in 1975 on the principle of providing sound *independent* financial advice to state and local governments. Today PFM is the nation's leading advisory firm with offices throughout the United States, including the metro areas of eleven state capitals.

- | | |
|-------------|---------------|
| Albany | Memphis |
| Ann Arbor | Miami |
| Arlington | Milwaukee |
| Atlanta | Minneapolis |
| Austin | New York |
| Boston | Orlando |
| Charlotte | Philadelphia |
| Chattanooga | Phoenix |
| Chicago | Princeton |
| Cleveland | Providence |
| Denver | Richmond |
| Des Moines | San Francisco |
| Harrisburg | Seattle |
| Long Island | St. Louis |
| Los Angeles | Tampa |
| Malvern | |



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Project Team’s Relevant Experience



Commonwealth of Pennsylvania

Assisting Department of Revenue identify best practices in revenue estimating and modeling. Developed a statewide weighted student funding school finance model. Developed a tax reform projection model. Created multi-year financial projection models for Pittsburgh, New Castle.



State of Delaware

Assessed state revenue changes to assist City of Wilmington. Analyzed changes to Medicaid program to achieve budget savings and programmatic improvements.



State of Colorado

Comprehensive review of state revenue system and options for addressing long-term structural imbalance.



State of New York

Evaluation of gaming facility proposals’ potential revenue generation.



State of Washington

Analyzed financial assumptions and cash management alternatives for the State transportation system.



City of S. Louis

Provided a comprehensive revenue study with baseline projections and alternatives. Analyzed alternatives for a phase out of the City Earnings Tax.



City of Aurora

Long-range revenue and expenditure study.



Cities of New Orleans, Pittsburgh, Portsmouth

Assisted with developing city revenue estimates.



City of Colorado Springs

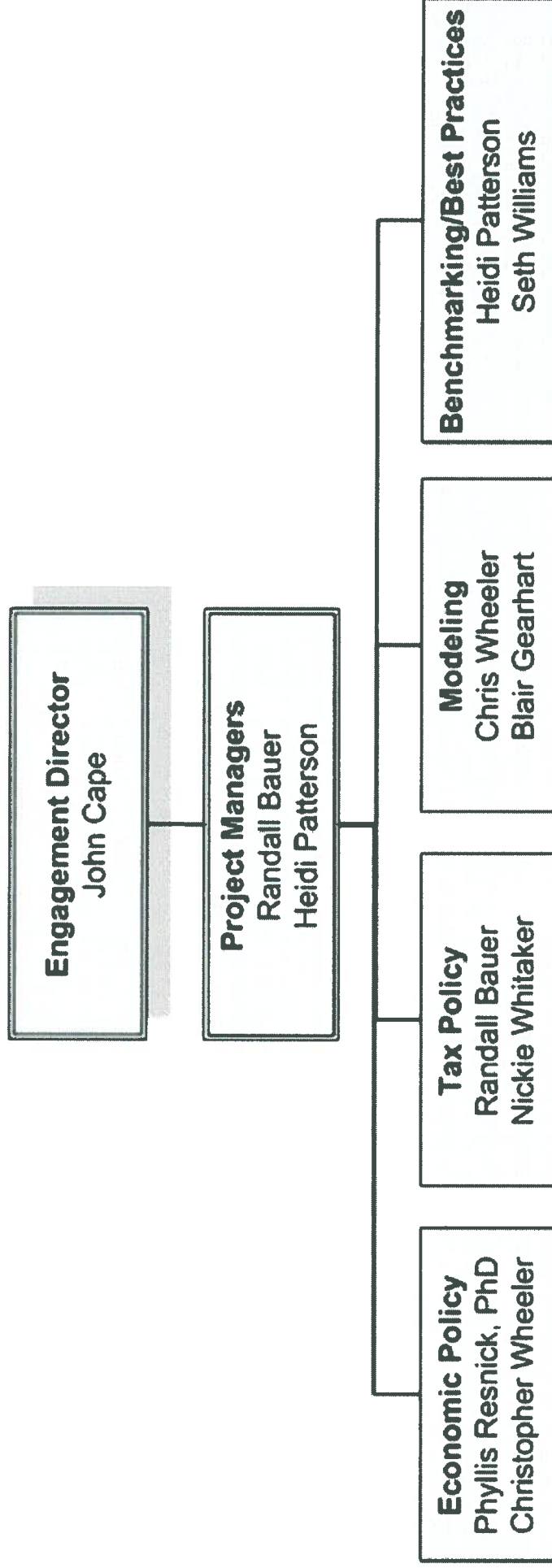
Staff and modeling support for a City Council appointed Sustainable Funding Committee.

Proposed Approach





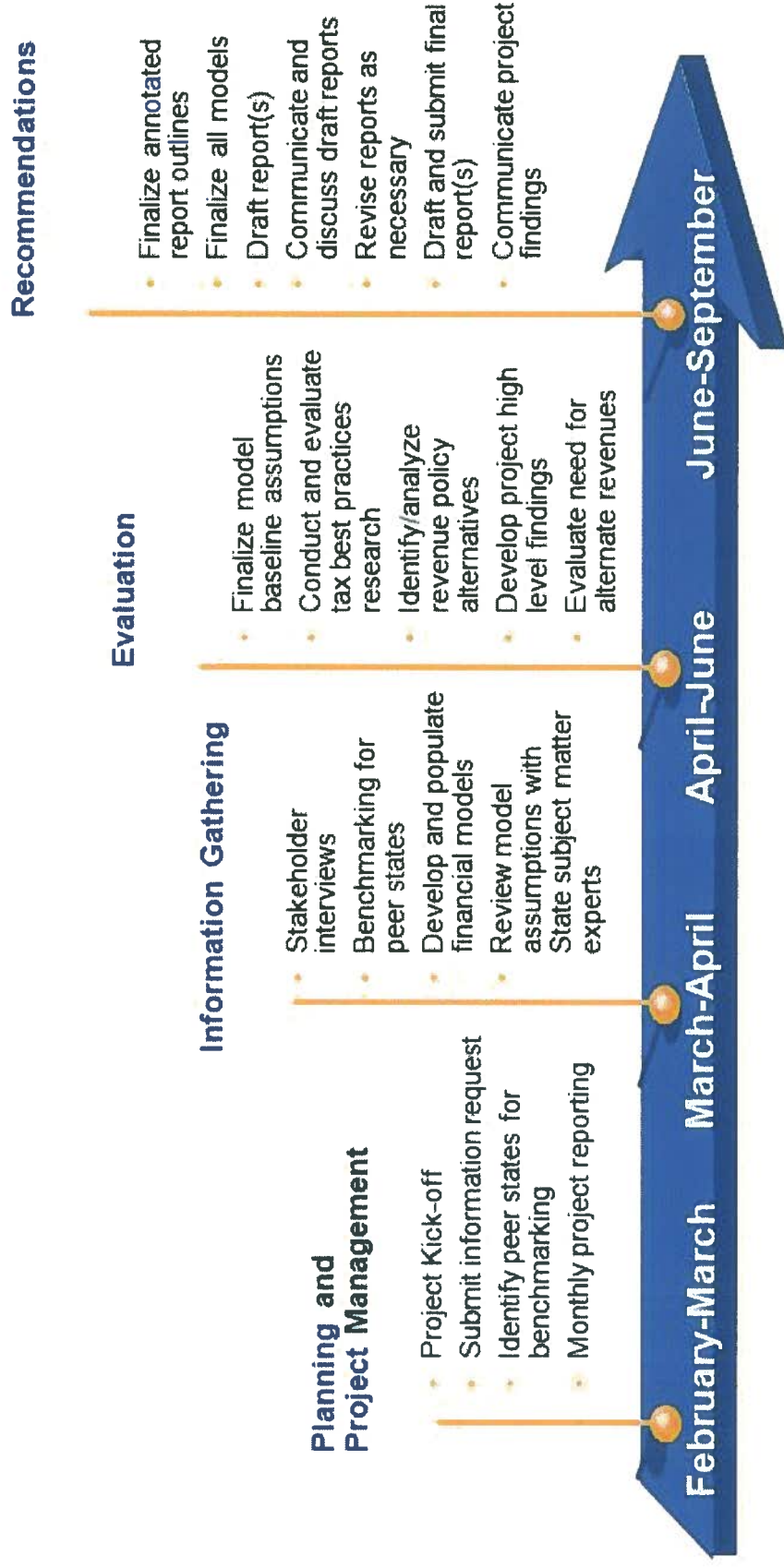
Project Organizational Chart





Project Timeline – High Level

- The project is structured in four phases
- If the Commission desires, it would be possible to accelerate the time line by about one month





Process for Gathering Information

- An initial information request has been provided, and data is currently being gathered
- Detailed interviews are being scheduled, to include State department leadership, subject matter experts, and internal and external stakeholders
 - Interviewees have been provided written areas for discussion prior to the meetings to aid in preparation
 - Follow-up calls or emails will be used to clarify issues raised during the interviews
- Benchmarking and best practices research will be conducted
- State financial information will be used to construct revenue and expenditure models for further analysis



Proposed Project Reporting

- The Team will provide monthly written project updates
These updates will include summaries of activities, issues requiring resolution and future planned activities and events

- The Team will schedule regular project management conference calls on an as-needed basis
- We can also provide scheduled briefings for the Project Sponsor and key stakeholders if desired

ISSUES AND RISKS (Carried Over as well as New)

Team Agency	ISSUE	Proj. Impact (High/M ed/Low)	Responsibility Assigned To	Actions & Status	Date Logged	Target Resolve Date
MCBE	Scheduling Mid-Project Update	Low	Travis Brown	Looking for dates in late May to schedule the update.	4/27/09	5/4/09
MCBE	Scheduling Business Contacts	Low	Travis Brown	Provide additional private sector contacts for interviews	4/27/09	5/4/09
MCBE	Connect with Show-Me Institute	Low	Travis Brown	Would like to meet with Institute Director during next two weeks trips to St. Louis	4/27/09	5/4/09

High-Issue needs resolution or progress cannot be made or quality will be severely impacted

Medium-Progress can be made, but will be slower, or quality will be somewhat impacted

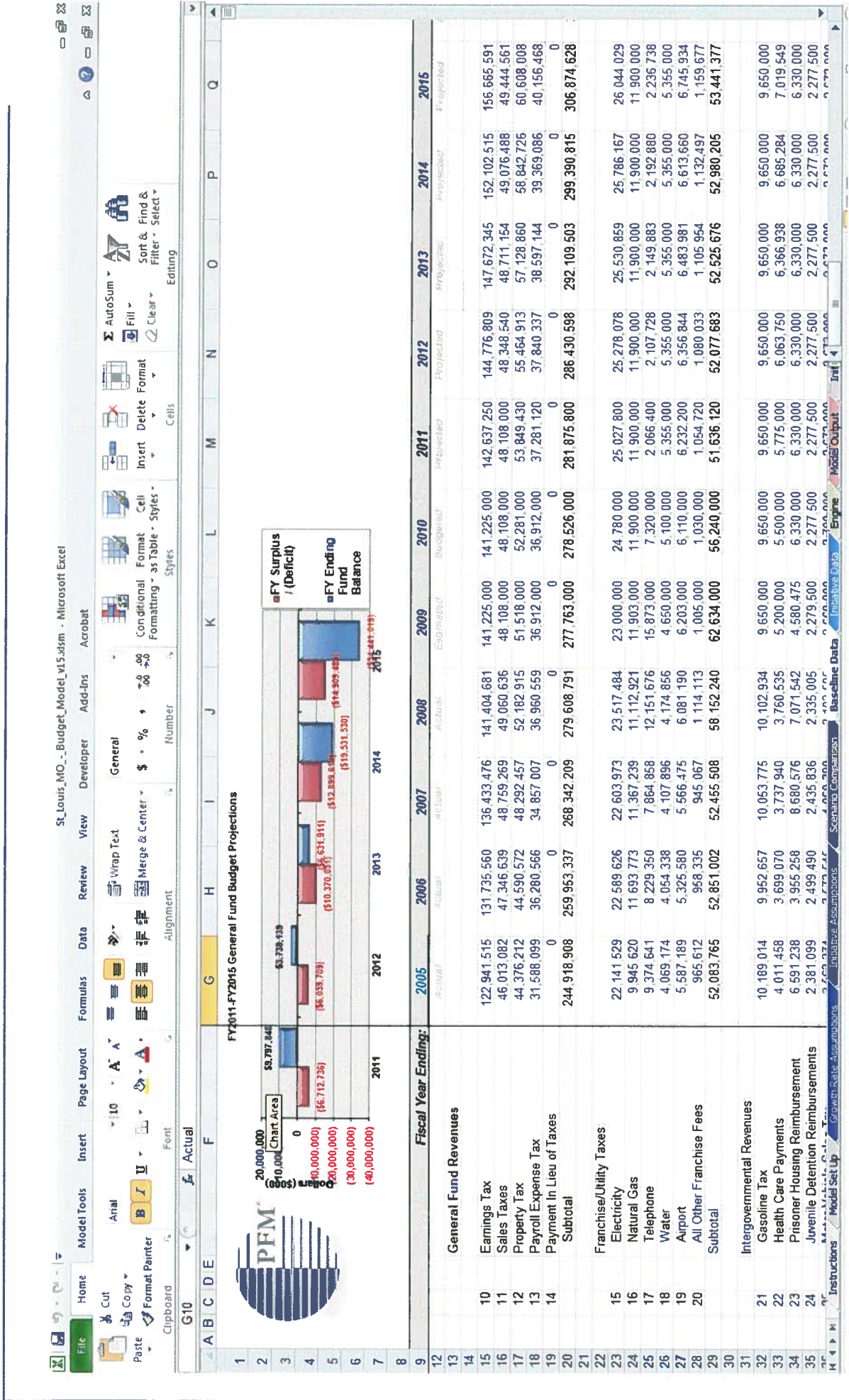
Low-Issue should be resolved to ensure quality and completeness at deliverable date

Tools and Deliverables



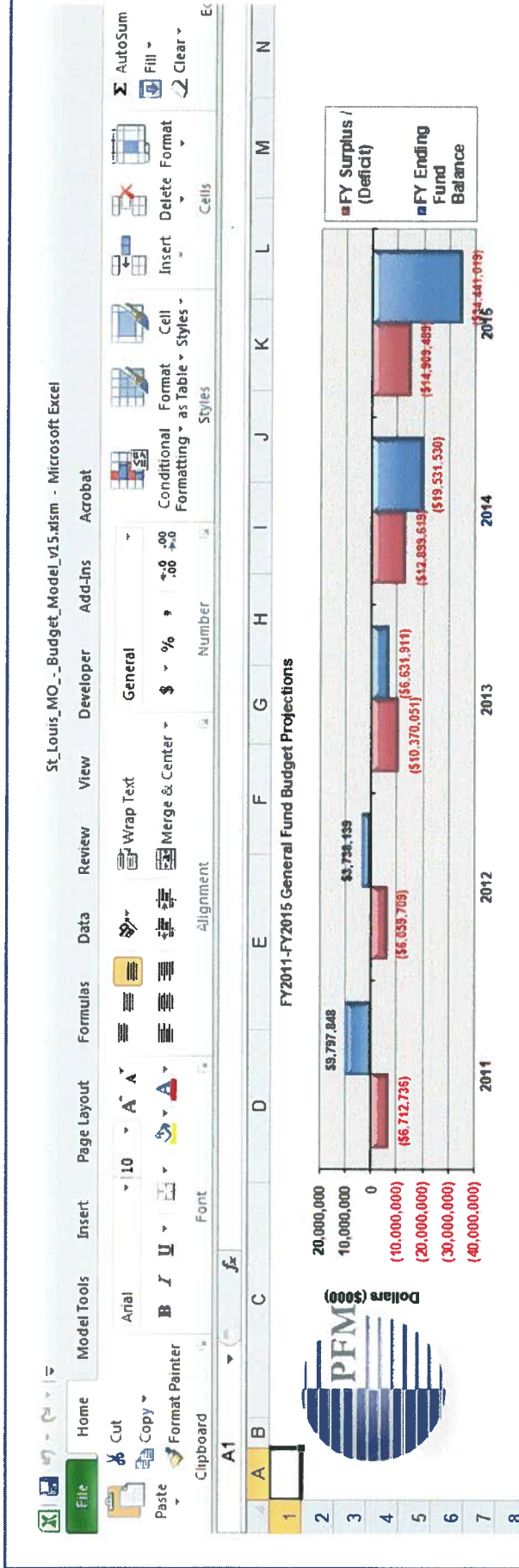


Financial Models: Baseline Projections





Financial Models: Baseline Assumptions



Multi-Year Budget Projection Model

Growth Rate Assumptions

Fund Name	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
General Fund Revenues	1.00%	1.50%	2.00%	3.00%	3.00%	0.00%	0.00%	0.00%	0.00%	
Earnings Tax	0.00%	0.50%	0.75%	0.75%	0.75%	0.00%	0.00%	0.00%	0.00%	
Sales Taxes	3.00%	3.00%	3.00%	3.00%	3.00%	0.00%	0.00%	0.00%	0.00%	
Property Tax	1.00%	1.50%	2.00%	2.00%	2.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	0.00%	0.00%	20.00%	40.00%	50.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	2.00%	2.00%	2.00%	2.00%	2.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	5.00%	5.00%	5.00%	5.00%	5.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
General Fund Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	





Financial Models: Options

St. Louis MO - Budget Model V15.432.m - Microsoft Excel

File Home Insert Page Layout Formulas Data Review View Developer Add-Ins Acrobat

Clipboard Font Alignment Styles Conditional Formatting as Table Styles Cell Formatting as Table Styles Insert Delete Format AutoSum Fill Clear Sort & Filter Select Editing

Proposal_Assumpt... FY2011-FY2015 General Fund Budget Projections

Year	FY Surplus / (Deficit)	FY Ending Fund Balance
2011	\$9,797,848	\$6,712,728
2012	(\$3,798,129)	(\$6,035,708)
2013	(\$10,370,051)	(\$13,858,618)
2014	(\$51,911)	(\$19,331,530)
2015	(\$55,441,019)	(\$19,305,068)

Multi-Year Budget Projection Model

Row	Initiative Selection	Model Set-Up	Growth Rate Assumptions	Initiative Assumptions	Scenario Comparison	Baseline Data	Imitative Data	Engine	Model Output	Year	
1	Off	General Fund							Off	General Fund	2011
2	Off	General Fund							Off	General Fund	2011
3	Off	General Fund							Off	General Fund	2009
4	On	General Fund							Off	General Fund	2009
5	Off	General Fund							Off	General Fund	2013
6	Off	General Fund							Off	General Fund	2014
7	On	General Fund							Off	General Fund	2015
8	Off	General Fund							Off	General Fund	2009
9	Off	General Fund							Off	General Fund	2009
10	Off	General Fund							Off	General Fund	2009
11	Off	General Fund							Off	General Fund	2009
12	On	General Fund							Off	General Fund	2009
13	Off	General Fund							Off	General Fund	2009
14	Off	General Fund							Off	General Fund	2009
15	Off	General Fund							Off	General Fund	2009
16	Off	General Fund							Off	General Fund	2009
13	Off	General Fund							Off	General Fund	2011
14	Off	General Fund							Off	General Fund	2012
15	Off	General Fund							Off	General Fund	2011
16	On	General Fund							Off	General Fund	2011
17	Off	General Fund							Off	General Fund	2011
18	Off	General Fund							Off	General Fund	2011
19	On	General Fund							Off	General Fund	2011
20	Off	General Fund							Off	General Fund	2011
21	Off	General Fund							Off	General Fund	2011
22	Off	General Fund							Off	General Fund	2011
23	Off	General Fund							Off	General Fund	2011
24	On	General Fund							Off	General Fund	2011
25	Off	General Fund							Off	General Fund	2011
26	Off	General Fund							Off	General Fund	2013
27	Off	General Fund							Off	General Fund	2013
28	Off	General Fund							Off	General Fund	2013





Benchmarking: Comparative Analysis

- PFM provides extensive benchmarking of identified comparable governments. This provides another basis for determining what is the appropriate revenue policy for your state.

Category	Tax	Tax	Details	Collector of Revenue	Rate	Compliance %	BT Charge	Assess Cr.	Salvage	Levy	Minerals	Levy	Other
Goods and Services Tax	Cable Franchise Tax	Utah Tax	Tax on the gross receipts of utility companies operating within the state	Collector of Revenue	0.00%	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goods and Services Tax	Lease Tax	Utah Tax	Tax on the rental of tangible personal property or services	Collector of Revenue	3.35%	1.50%	3.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goods and Services Tax	Use Tax	Utah Tax	Tax on the sale of tangible personal property or services not already subject to sales tax	Collector of Revenue	3.35%	1.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income Tax	Wage Franchise Tax	Utah Tax	Tax imposed on sales, wages, commissions	Collector of Revenue	1.00%	1.51%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income Tax	Wage Franchise Tax (No-Franchise)	Utah Tax	Tax imposed on sales, wages, commissions	Collector of Revenue	1.00%	1.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
License or Permit Fee	Business Privilege License Fee	Utah Tax	Fee to conduct business within the state	Licenses Collector	\$200.00 to \$37,500.00	N/A	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Property Tax	Library Tax	Utah Tax	Property tax imposed on borrowed books for library use	Collector of Revenue	4.94 mbs	2.59	0.00%	4.94	0.00%	0.00%	0.00%	0.00%	0.00%
Property Tax	Property Tax	Utah Tax	Tax based on property value	Collector of Revenue	13.23 mbs	\$7.59	0.00%	28.51	22.00%	4.50%	11.50%	11.51%	0.00%
Property Tax	Personal Property Tax on Business	Utah Tax	Tax assessed on businesses for their property as well as furniture and fixtures	Collector of Revenue	16.40 mbs	23.62	Yes	28.51	0.00%	2.00%	11.50%	42.50%	0.00%
Property Tax	Personal Property Tax	Utah Tax	Tax on tangible personal property (cars, boats, RVs, etc.) based on present value	Collector of Revenue	13.23 mbs	0.00%	Yes	28.51	0.00%	1.00%	0.00%	0.00%	0.00%
Business Tax	Net Profits Tax	Utah Tax	Tax levied on the profits of businesses	Collector of Revenue	1.00%	1.12%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Business Tax	Net Profits Tax (one-time)	Utah Tax	Tax levied on the profits of non-resident-owned businesses operating in the state	Collector of Revenue	1.00%	1.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



Database of Options/Opportunities

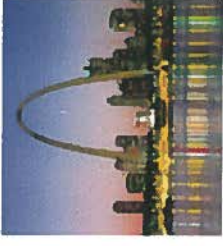
- The St. Louis revenue study included over 100 revenue options, grouped by the category of tax or fee, with explanation and comparable locations that impose the tax
- From this database, PFM analyzes the opportunities that best fit the tax and revenue parameters for that particular government client

Category	Type	Revenue Option	Description	Collecting City/Department	Municipality with Revenue Source
Goods and Services Tax	Fuel Tax	Motor Fuel Tax	Tax imposed on purchase of motor fuel	Collector of Revenue	New York, NY
Goods and Services Tax	Fuel Tax	Producers Receipts Tax	Imposed on companies engaged in selling/ distributing petroleum products, based on gross receipts	Collector of Revenue	State of New Jersey
Goods and Services Tax	Liquor Tax	Alcoholic Beverage Tax	Tax on per glass consumption of beer, wine, mixed beverages, and liquor	Excise Division	Chicago, IL
Goods and Services Tax	Liquor Tax	Soft Beverage (Soda) Tax	Tax levied on retail or brewed beverages, tax depends on size	Excise Division	Atlanta, GA
Goods and Services Tax	Occupational License Fee	Business Privilege Tax	License fee on the amount of business within by business companies doing business within the city	Collector of Revenue	Fort Worth, TX
Goods and Services Tax	Parking Tax	Employee Parking (per month)	Monthly parking fees for all part employees	Airport Authority	Denver, CO
Goods and Services Tax	Parking Tax	Airport Parking Tax	Special fee imposed on airport parking	Airport Authority	Denver, CO
Goods and Services Tax	Transfer Tax	Motor Vehicle Tax	Fee on property transfer (based on roughly business entity's market). Based on value of property, assessed to account cost of maintaining and updating property records	Collector of Revenue	Alaska, AK
Goods and Services Tax	Transfer Tax/Fee	Real Estate Transfer Tax	Tax based on purchase price on sale of real estate	Collector of Revenue	Chicago, IL
Goods and Services Tax	Utility Tax	Electricity Universal Service Charge	Tax imposed on energy customers to provide energy to low-income customers	Collector of Revenue	State of Maryland
Goods and Services Tax	Vehicle Rental Tax	Motor Vehicle License Tax	Tax levied on license of motor vehicles	Collector of Revenue	Cleveland, OH
Goods and Services Tax	Vehicle Rental Tax	Vehicle Rental Tax	Tax on vehicle rentals	Collector of Revenue	Philadelphia, PA
Goods and Services Tax	Transfer Tax/Fee	Paper/Paper Bag Tax	Fee levied on plastic and paper bags (based on weight of retail outlets)	Collector of Revenue	District of Columbia



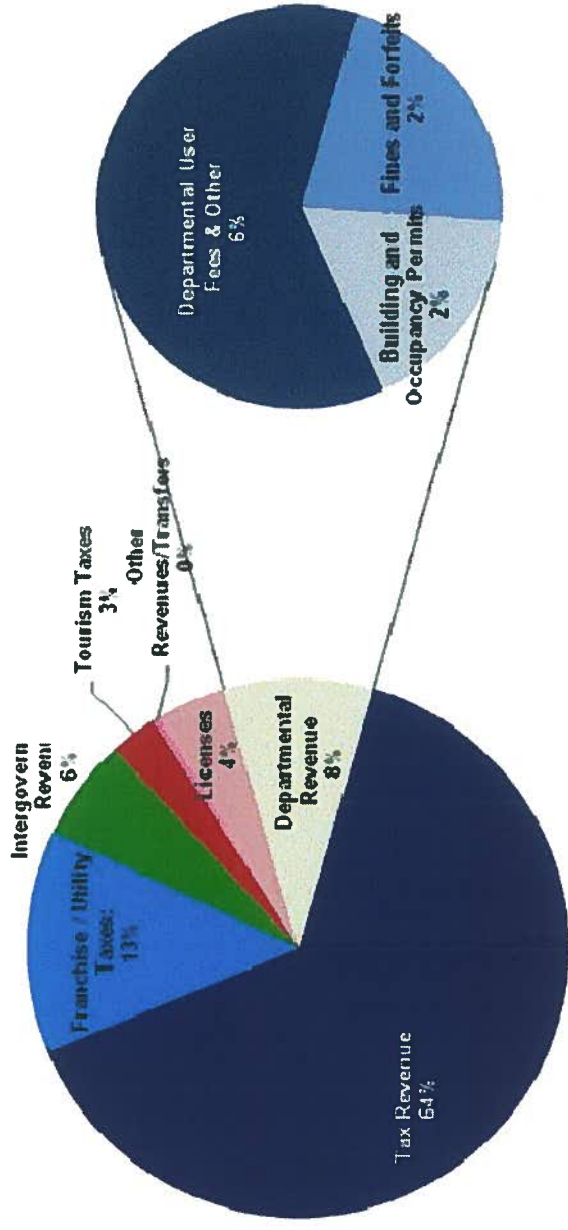
Recommendations and Analysis

- The final report will be a meticulously researched and written study with concrete recommendations and methodology
- The City of St. Louis revenue study was over 200 pages as well as an additional 150 pages as appendices



St. Louis, Missouri Comprehensive Revenue Study

July 31, 2009



“The revenue study helped us get passed fee changes that had been presented to our Board of Aldermen but not acted upon for years.”

Pamela Walker,
Director of Health
City of St. Louis



Summary

- The Project Team has been working for the past few weeks to develop the necessary foundation for the project
- The Team is now ready to hit the ground running
- We are committed to working in collaboration with you, State department leaders and staff
- We will work with you and key stakeholders to schedule around key activities and other required time commitments
- Your feedback on the approach and timeline is requested and appreciated



Questions and Discussion

