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COUNCIL ON REVENUES

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

May 30, 2008

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

Dear Governor Lingle:

At its meeting on May 29, 2008, the Council on Revenues adjusted the forecasted growth rate of General Fund tax revenues for fiscal year (FY) 2008 from 3.9% to 3.3%. Details of the updated forecasts of the State's General Fund tax revenues for FY 2008 through FY 2014 are presented in the attached table.

The Council notes that the growth rate of General Fund tax revenues for the first ten months of the current fiscal year is 3.3%, which is in line with other economic indicators such as the slower growth of Hawaii payroll employment and inflation-adjusted total personal income.

Other data support the contention that the economic growth trend is slowing. The Council expects that the growth rate of visitor arrivals will be negative for both FY 2008 and FY 2009. The Council estimates that total personal income, adjusted for inflation, will not grow in FY 2009, and expects construction expenditures to grow at a rate that is slower than the inflation rate for the next several fiscal years.

In producing its forecasts, the Council has considered the impact to the General Fund tax revenues of tax law changes passed in recent legislative sessions including:

- Act 110, Session Laws of Hawaii (SLH) 2006—increase in standard income tax deduction and expansion of income tax brackets, effective January 2007, approximately \$50 million a year.
- Act 209, SLH 2007—exemption from general excise tax of alcohol fuel for FY 2008 and FY 2009, approximately \$40 million a year.
- Act 210, SLH 2007—one-time refundable constitutionally-mandated income tax credit, approximately \$26 million for FY 2008.
- Act 211, SLH 2007—refundable food/excise tax credit, approximately \$24 million per year starting in FY 2009.

The Council recognizes the challenge of forecasting revenues over the next several years as the impacts of significant tax law changes, especially recent business incentive tax credits, interact with external factors. Geopolitical events and capital markets volatility, which may alter such things as the prices of real estate and oil, will continue to pose challenges for economic forecasters. Hawaii economic growth is significantly exposed to recent increases in global petroleum and commodity prices, to which the islands' economy is particularly vulnerable.

As always, the Council assumes that the State will not be subject to potential losses caused by decreases in federal allocations, any prolonged or crippling strikes, or any other unusual occurrences, and it has considered existing tax laws only.

General Fund Non-Tax Revenues increased in FYs 2008–2014 due to increases in ambulance and emergency medical services, employer health benefit contributions refunds for the Voluntary Employees' Benefit Association health plan, and reimbursements for the employer's share of health benefit premiums from non-general funded programs. Additionally, there was an increase in FY 2008 to reflect actual funds received from the Medicare Retiree Drug subsidy for calendar year 2006.

Special Fund Tax Revenues adjustments reflect projected decreases in collections for liquid fuel, vehicle surcharge (rental vehicles), and transfers of conveyance taxes. The decreases were offset by increases in FYs 2008–2014 for motor vehicle weight tax collections.

Special Fund Non-Tax Revenues adjustments reflect changes in FYs 2008–2014 for the Department of Transportation—revisions to Airports and Highway Division's interest income, increased federal funds for Highways Division, decreases in Airport's signatory terminal rental rates and landing fees, and changes in the passenger facility charges; projected increases in FYs 2008–2009 for the Hawaii Health System Corporation; decreases for the Department of Land and Natural Resources' Diamond Head revenue projections; and suspension of administrative assessment fees associated with the Department of Commerce and Consumer Affairs' Insurance Division for FYs 2008–2009.

Other Than Special Fund Non-Tax Revenues increased in FYs 2007–2014 due to increases in projected federal funds; payments made to the Dwelling Unit revolving fund (DBEDT); interest earnings for the Department of Health, DBEDT, and Department of Hawaiian Home Lands (DHHL); revenue bond proceeds for DHHL; long-term and special financing of programs including the Mortgage Credit Program, the Kahana Valley Loan Program, and the Low-Income Tax Credit Program (DBEDT); and payments to the Rental Housing Assistance revolving fund (DBEDT).

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

Sincerely,



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

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2008 to FY 2014

Adjustments above the Line

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED							
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
General Excise & Use 2/, 4/	\$2,355,316	\$2,555,762	\$2,666,661	\$2,697,880	\$2,819,783	\$2,926,409	\$3,011,588	\$3,173,692	\$3,355,301	
Income - Individual 3/, 5/	1,550,164	1,559,690	1,588,259	1,633,244	1,702,706	1,772,400	1,871,355	1,970,113	2,076,895	
Income - Corporation	130,010	81,834	90,228	93,363	94,374	96,779	102,920	109,739	118,366	
Public Service Company	120,679	124,017	129,726	138,803	147,774	156,643	165,474	174,404	183,561	
Insurance Premiums	88,068	92,196	83,535	84,431	88,948	91,748	116,834	133,182	146,761	
Tobacco & Licenses	86,827	85,143	86,888	88,526	90,609	92,948	95,228	97,556	99,931	
Liquor & Permits	45,955	46,034	46,965	47,914	49,029	50,111	51,198	52,291	53,391	
Banks & Other Fin Corps	16,324	16,599	17,726	18,742	20,051	21,273	22,483	23,773	25,165	
Conveyance	20,720	7,033	12,116	12,311	12,490	12,771	13,064	13,381	13,744	
Miscellaneous *	4,551	1,120	528	531	534	536	539	541	543	
Transient Accommodation Tax 1/	16,378	17,076	15,227	16,871	18,885	21,119	23,359	25,726	28,290	
NET TOTAL	\$4,434,992	\$4,586,504	\$4,737,859	\$4,832,616	\$5,045,183	\$5,242,737	\$5,474,042	\$5,774,398	\$6,101,948	
GROWTH RATE	10.9%	3.4%	3.3%	2.0%	4.4%	3.9%	4.4%	5.5%	5.7%	

Notes:

1/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to the tourism special fund and 5.3% to the TAT trust fund (Act 250, SLH 2002); 17.3% to the convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to the tourism special fund to 34.2% and repeals the TAT trust fund. Effective on July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to \$33 million. Effective on July 1, 2006.

2/ FY 2008 includes \$40 million, estimated spillover from June 30, 2007 falling on a weekend. FY 2012 excludes \$40 million, due to June 30, 2012 falling on a weekend. FY 2014 includes \$40 million, estimated spillover from June 30, 2013 falling on weekend.

3/ Act 110, SLH 2006, increases standard income tax deduction and expands income tax brackets. Effective on January 1, 2007.

4/ Act 209, SLH 2007, exempts gross income received from the sale of alcohol fuel from the general excise tax. Effective on July 1, 2007, provided that the exemption repeals on June 30, 2009.

5/ Act 210, SLH 2007, provides a one-time, refundable constitutionally mandated income tax credit. The credit is deductible from the taxpayer's 2007 individual income tax liability. Effective on June 26, 2007.

* Includes inheritance and estate tax.

STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2007 - 2014

(in thousands of dollars)

<u>Sources</u>	<u>Actual FY 2007</u>	<u>Estimated FY 2008</u>	<u>Estimated FY 2009</u>	<u>Estimated FY 2010</u>	<u>Estimated FY 2011</u>	<u>Estimated FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>
Licenses & Permits	1,245	1,007	1,002	1,002	1,002	1,002	1,002	1,002
Revenues from Use of Money and Property	85,420	69,738	70,018	69,311	68,859	65,640	65,204	65,836
Federal	6,866	5,536	5,513	5,513	5,513	5,513	5,513	5,513
Revenues from Other Agencies	1,964	2,802	2,802	2,802	2,802	2,802	2,802	2,802
Charges for Current Services	212,052	208,175	215,650	219,808	228,193	236,777	248,420	250,134
Fines, Forfeits & Penalties	351	565	535	535	535	535	535	535
Repayment of Loans & Advances	26,286	27,629	24,492	18,616	22,776	20,454	17,961	17,961
Non-Revenue Receipts	186,421	177,600	186,309	185,205	185,716	185,717	185,717	185,717
Judiciary	<u>31,214</u>	<u>32,025</u>	<u>32,698</u>	<u>33,215</u>	<u>33,719</u>	<u>34,232</u>	<u>34,757</u>	<u>35,292</u>
Total	<u>551,818</u>	<u>525,078</u>	<u>539,020</u>	<u>536,007</u>	<u>549,115</u>	<u>552,672</u>	<u>561,911</u>	<u>564,792</u>

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2007 - 2014**

(in thousands of dollars)

<u>Sources</u>	<u>Actual FY 2007</u>	<u>Estimated FY 2008</u>	<u>Estimated FY 2009</u>	<u>Estimated FY 2010</u>	<u>Estimated FY 2011</u>	<u>Estimated FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	1,532	5,629	8,781	13,346	20,628	28,813	31,540	31,540
Liquid Fuel:								
Highway	85,868	88,622	89,727	90,846	91,979	93,126	94,287	95,462
Aviation	2,174	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Small Boats	<u>1,658</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>	<u>1,300</u>
Subtotal	89,700	92,122	93,227	94,346	95,479	96,626	97,787	98,962
Transfer of Transient Accom Tax	106,086	114,704	117,804	121,485	125,147	129,959	133,125	137,573
Motor Vehicle Weight Tax	33,309	33,726	34,147	34,574	35,006	35,444	35,887	36,335
Vehicle Registration Fee Tax	26,499	26,371	26,634	26,900	27,169	27,442	27,718	27,998
Vehicle Surcharge:								
Rental /Tour	46,989	46,519	39,678	40,752	41,847	42,964	43,676	43,676
Environmental Response Tax	1,741	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Unemployment Comp Tax	139,341	137,000	137,000	137,000	137,000	137,000	137,000	137,000
Employment & Training	956	900	420	440	800	950	950	950
Election Campaign Contrib T.F.	220	200	200	200	200	200	200	200
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	41,079	39,060	33,528	32,700	33,700	33,700	33,700	33,700
Transfer of Tax on Ins. Premiums	<u>2,008</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Total	<u>491,461</u>	<u>502,031</u>	<u>497,220</u>	<u>507,543</u>	<u>522,776</u>	<u>538,898</u>	<u>547,383</u>	<u>553,734</u>

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2007 - 2014
(in thousands of dollars)

<u>Sources</u>	<u>Actual FY 2007</u>	<u>Estimated FY 2008</u>	<u>Estimated FY 2009</u>	<u>Estimated FY 2010</u>	<u>Estimated FY 2011</u>	<u>Estimated FY 2012</u>	<u>Estimated FY 2013</u>	<u>Estimated FY 2014</u>
Licenses & Permits	13,494	14,376	16,897	17,156	17,568	17,373	17,650	17,454
Revenues from Use of Money and Property	139,358	114,888	111,777	108,870	108,457	109,110	110,165	111,407
Federal	260,481	236,266	237,813	230,382	235,545	239,918	244,509	244,754
Revenue from Other Agencies	37,341	103,858	103,858	53,878	53,878	53,878	53,858	53,858
Charges for Current Services:								
Utils & Other Enterprises	320,635	337,937	372,913	388,397	402,461	411,468	433,766	436,380
Others	706,625	758,932	826,741	853,825	890,404	927,883	947,968	948,017
Fines, Forfeits & Penalties	4,069	3,293	2,849	2,866	2,932	2,999	3,016	3,034
Non-Revenue Receipts	395,513	129,492	122,138	121,942	121,937	121,935	121,939	121,939
Judiciary	<u>7,873</u>	<u>9,609</u>	<u>9,780</u>	<u>9,740</u>	<u>9,871</u>	<u>9,904</u>	<u>10,040</u>	<u>10,179</u>
Total	<u>1,885,389</u>	<u>1,708,650</u>	<u>1,804,766</u>	<u>1,787,057</u>	<u>1,843,053</u>	<u>1,894,468</u>	<u>1,942,911</u>	<u>1,947,022</u>
Adjustments:								
Revenue Transfers	337,072	96,946	89,598	89,402	89,397	89,394	89,398	89,398
Adjusted Total	<u>1,548,317</u>	<u>1,611,704</u>	<u>1,715,168</u>	<u>1,697,655</u>	<u>1,753,656</u>	<u>1,805,074</u>	<u>1,853,513</u>	<u>1,857,624</u>

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2007 - 2014
(in thousands of dollars)

<u>Sources</u>	<u>Actual</u> <u>FY2007</u>	<u>Estimated</u> <u>FY 2008</u>	<u>Estimated</u> <u>FY 2009</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>
Licenses & Permits	476	493	492	492	493	493	493	493
Revenues from Use of Money and Property	106,273	107,954	95,842	92,812	92,680	92,140	91,751	91,401
Federal	1,782,901	1,836,060	1,830,644	1,858,947	1,892,353	1,934,749	1,976,354	1,976,465
Revenues from Other Agencies	19,330	12,767	13,096	12,618	12,623	12,623	12,628	12,628
Charges for Current Services	123,521	125,468	118,886	120,113	125,437	122,128	119,847	119,295
Fines, Forfeits & Penalties	2,269	1,108	918	908	908	908	908	908
Repayment of Loans & Advances	32,216	33,740	34,545	34,660	35,022	35,433	36,496	34,379
Non-Revenue Receipts	691,590	713,711	760,152	798,044	815,477	852,705	889,996	928,874
Office of Hawaiian Affairs	<u>41,250</u>	<u>30,260</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>2,799,826</u>	<u>2,861,561</u>	<u>2,869,675</u>	<u>2,933,694</u>	<u>2,990,093</u>	<u>3,066,279</u>	<u>3,143,573</u>	<u>3,179,543</u>
Adjustments:								
Revenue Transfers	3,394	7,351	2,351	2,351	2,351	2,351	2,351	2,351
Adjusted Total	<u>2,796,432</u>	<u>2,854,210</u>	<u>2,867,324</u>	<u>2,931,343</u>	<u>2,987,742</u>	<u>3,063,928</u>	<u>3,141,222</u>	<u>3,177,192</u>