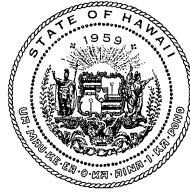


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GOVERNOR
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COUNCIL ON REVENUES

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

January 12, 2009

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

Dear Governor Lingle:

At its meeting on January 9, 2009, the Council on Revenues adjusted downward the forecast growth rates of General Fund tax revenues. The forecast was reduced from -0.5% to -3.0% for fiscal year (FY) 2009, from 3.5% to 1.0% for FY 2010, and from 4.5% to 3.5% for FY 2011. The Council also updated its forecasts of General Fund tax revenues for FYs 2012 through 2015, generally lowering the revenue gains while leaving the percentage increases the same for the out-year projections.

The revised forecasts of state general fund tax revenues for fiscal years 2009 through 2015 are listed below:

Fiscal Year	Thousands of Dollars	% Growth From Previous Year
2009	\$4,502,616	-3.0%
2010	\$4,547,642	1.0%
2011	\$4,706,809	3.5%
2012	\$4,956,270	5.3%
2013	\$5,253,646	6.0%
2014	\$5,595,133	6.5%
2015	\$5,958,817	6.5%

Line-item detail of State General Fund tax revenues by revenue category for FY 2009 through FY 2015 are presented in the attached table. These detailed forecasts are based on the Council's forecast for total state general fund tax revenues and the econometric model currently used by the Tax Research and Planning Office.

Hawaii's economic outlook has continued to deteriorate since the Council's October 2008 meeting. The national recession is reflected in Hawaii's economy by the sharp decline in general excise tax revenues, a general barometer of the economy, and in transient accommodations tax revenues, which is reflective of Hawaii tourism. Intensification of the financial crisis during the fall appears to have weighed heavily on investor and consumer confidence, prompting a sharp decline in economic forecasts for the end of last year and for calendar 2009.

The Council is concerned that tourism may not stabilize and recover until FY 2010. Inflation, measured by the Honolulu Consumer Price Index (CPI), is expected to subside from 4.2% in FY 2008 to 2.5% in FY 2009, a quicker deceleration than previously supposed because of the reversal in petroleum and other commodity price movements. Construction expenditures may decline for the next several years, exacerbated by the credit crunch. Hawaii real personal income growth almost surely became negative in the third calendar quarter of 2008, as nominal growth slowed sharply from 5 percent through mid-year to 1 percent thereafter, on an annualized basis (inflation-adjustment pending February 2009 release of CPI data).

In producing its forecasts, the Council has adopted specific adjustments recommended by the Hawaii Department of Taxation to reflect the impacts on General Fund tax revenues of recent tax law changes, including:

- Act 209, Session Laws of Hawaii (SLH) 2007—exemption from general excise tax of alcohol fuel; approximately \$40 million for FY 2009.
- Act 211, SLH 2007—refundable food/excise tax credit; approximately \$24 million per year starting in FY 2009.
- Act 58, SLH 2008—one-time, refundable, constitutionally-mandated income tax credit; approximately \$1 million for FY 2009.
- Act 89, SLH 2008—application of the 0.5% general excise tax rate to certain warranty work performed on behalf of manufacturers; approximately \$1.5 million for FY 2009 and annually thereafter.
- Act 143, SLH 2008—changes relating to agricultural businesses qualifying for enterprise zone benefits; approximately \$100,000 for FY 2009, \$200,000 for FYs 2010–2011, \$300,000 for FY 2012, and 500,000 for FY 2012 and annually thereafter.
- Act 156, SLH 2008—allows state and county governments to hire retired state or county government employees; approximately \$1.5 million for FYs 2009–2013.
- Act 233, SLH 2008—provides an important agricultural land qualified agricultural cost income tax credit; approximately \$7.5 million annually for FYs 2010–2014.

The dispersion of Council members' implied revenue forecasts, based on their individual economic forecast assumptions, has narrowed since the Council's last deliberations. As I noted

The Honorable Linda Lingle

January 12, 2009

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in the October 2008 report, higher dispersion at that time reflected extraordinary financial market volatility and economic uncertainties contemporaneous to that meeting. While uncertainty has diminished somewhat, the economic outlook has worsened in the meantime.

Various revenue estimates provided to the Council by the Hawaii Department of Budget and Finance at the Council's January 9, 2009, meeting were accepted as submitted.

General Fund Non-Tax Revenues in FYs 2009 through 2015 reflect lower numbers of recording fee transactions for the Bureau of Conveyances due to current economic conditions; and reduced transfers from various special funds.

Special Fund Tax Revenues in FYs 2009 through 2015 reflect revisions to the transient accommodations tax based on the Council's October 2008 report; decreases in the vehicle surcharge (rental/tour vehicles) for FYs 2012 through 2015 pursuant to Act 226, SLH 2008, and decreases in transfers of conveyance tax for FYs 2009 through 2015 due to lower numbers of recording transactions for the Bureau of Conveyances.

Special Fund Non-Tax Revenues in FYs 2009 through 2015 reflect increases for the Department of Transportation Airport Division's signatory terminal rental rates, landing fees, airport system support charges, and concession fees; decreases in reimbursements for mental health and substance abuse treatment services; revisions in Medicaid, HMSA, and other third party payments for the Hawaii Health Systems Corporation; and transfers to the Department of Education's State Educational Facilities Improvements Special Fund.

Other Than Special Fund Non-Tax Revenues in FYs 2009 through 2015 reflect increases in federal funds for low-income housing projects; and increases in various federal research, training, and indirect cost recovery for the University of Hawaii. Increases in FY 2009 reflect a reimbursement from HMSA for collection of rate credits to the Employer-Union Trust Fund; and changes in non-revenue receipts reflects revenue bonds sold for construction or rehabilitation of affordable housing projects in the Department of Business and Economic Development and Tourism, and decreases in projected revenues for Correctional Industries (Department of Public Safety).

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

Sincerely,



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

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2009 to FY 2015

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
General Excise & Use 2/, 3/	\$2,555,762	\$2,618,787	\$2,525,826	\$2,559,372	\$2,636,845	\$2,718,256	\$2,878,109	\$3,067,403	\$3,243,429
Income - Individual	1,559,690	1,544,307	1,483,626	1,496,161	1,566,489	1,692,581	1,795,870	1,912,437	2,064,995
Income - Corporation	81,834	85,081	78,399	70,469	66,126	73,515	81,829	92,364	103,748
Public Service Company	124,017	127,481	136,038	143,775	151,595	159,775	168,086	176,744	186,436
Insurance Premiums	92,196	95,742	96,607	97,843	100,823	115,111	123,521	130,724	135,471
Tobacco & Licenses	84,219	83,443	93,867	94,278	96,637	99,573	102,487	105,478	108,549
Liquor & Permits	46,034	45,620	45,065	45,973	47,309	48,572	49,757	50,936	52,092
Banks & Other Fin Corps	16,599	18,212	15,771	14,401	15,106	22,122	26,222	30,164	33,973
Conveyance 4/	7,033	6,513	13,853	12,528	11,214	9,912	8,621	7,341	6,073
Miscellaneous *	1,120	751	590	589	588	587	586	585	584
Transient Accommodation Tax 1/	17,076	15,935	12,974	12,253	14,077	16,266	18,558	20,957	23,467
NET TOTAL	\$4,585,580	\$4,641,872	\$4,502,616	\$4,547,642	\$4,706,809	\$4,956,270	\$5,253,646	\$5,595,133	\$5,958,817
GROWTH RATE	3.4%	1.2%	-3.0%	1.0%	3.5%	5.3%	6.0%	6.5%	6.5%

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 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 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.

4/ Due to the expiration of Act 222, SLH 2007, on June 30, 2008, the amount of conveyance tax deposited into the General Fund increased from 15% to 35%.

* Includes inheritance and estate tax.

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)**

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2015</u>
Licenses & Permits	1,510	1,006	1,006	1,006	1,006	1,006	1,006	1,006
Revenues from Use of Money and Property	89,520	70,018	69,311	68,859	65,640	65,204	65,836	65,836
Federal	4,536	5,281	4,706	4,571	4,571	4,571	4,571	4,571
Revenues from Other Agencies	2,328	2,814	2,814	2,814	2,814	2,814	2,814	2,814
Charges for Current Services	238,966	214,313	218,855	227,310	235,444	247,089	249,323	251,912
Fines, Forfeits & Penalties	494	545	545	545	545	545	545	545
Repayment of Loans & Advances	30,019	24,494	18,616	22,776	20,454	17,961	17,961	17,961
Non-Revenue Receipts	202,414	188,883	183,344	180,037	182,957	182,957	182,957	182,957
Judiciary	<u>34,209</u>	<u>32,698</u>	<u>35,176</u>	<u>35,915</u>	<u>36,666</u>	<u>37,441</u>	<u>38,237</u>	<u>39,054</u>
Total	<u>603,997</u>	<u>540,052</u>	<u>534,373</u>	<u>543,833</u>	<u>550,097</u>	<u>559,588</u>	<u>563,250</u>	<u>566,656</u>

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2008 - 2015**
(in thousands of dollars)

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2015</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	5,822	9,276	14,148	22,908	32,281	34,772	34,772	34,772
Liquid Fuel:								
Highway	88,135	88,115	88,774	89,438	90,107	90,781	92,145	92,145
Aviation	4,216	4,452	4,452	4,452	4,452	4,452	4,452	4,615
Small Boats	<u>1,640</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	93,991	93,867	94,526	95,191	95,859	96,533	97,897	98,060
Transfer of Transient Accom Tax	112,900	109,493	112,849	117,813	122,486	126,875	131,290	135,915
Motor Vehicle Weight Tax	34,010	34,435	34,865	35,301	35,743	36,189	36,642	37,100
Vehicle Registration Fee Tax	26,445	26,735	27,003	27,274	27,548	27,826	28,108	28,392
Vehicle Surcharge:								
Rental /Tour	49,196	50,180	51,183	52,207	41,141	38,451	38,932	39,418
Environmental Response Tax	1,695	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Unemployment Comp Tax	103,882	137,000	137,000	137,000	137,000	137,000	137,000	137,000
Employment & Training	1,125	420	440	500	950	950	950	950
Election Campaign Contrib T.F.	190	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	32,647	27,578	25,660	25,860	27,560	28,060	28,060	28,060
Transfer of Tax on Ins. Premiums	<u>1,745</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>465,650</u>	<u>494,984</u>	<u>503,676</u>	<u>520,054</u>	<u>526,568</u>	<u>532,656</u>	<u>539,651</u>	<u>545,667</u>

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2015</u>
Licenses & Permits	14,412	16,341	17,333	17,772	17,528	17,802	17,595	17,880
Revenues from Use of Money and Property	151,723	104,761	104,326	104,227	102,840	101,231	100,840	100,176
Federal	308,390	234,574	233,336	242,395	242,396	244,292	244,564	246,605
Revenue from Other Agencies	59,228	78,857	82,465	57,465	57,465	57,465	57,465	57,465
Charges for Current Services:								
Utils & Other Enterprises	329,810	383,779	387,884	414,879	439,198	470,954	498,270	539,821
Others	812,025	773,907	846,403	888,325	905,561	910,847	915,559	916,179
Fines, Forfeits & Penalties	5,062	5,403	3,088	3,053	3,119	3,135	3,151	3,168
Non-Revenue Receipts	286,296	124,439	115,994	115,989	115,986	115,990	115,990	115,988
Judiciary	<u>10,570</u>	<u>10,216</u>	<u>10,180</u>	<u>10,348</u>	<u>10,421</u>	<u>10,598</u>	<u>10,779</u>	<u>10,964</u>
Total	<u>1,977,515</u>	<u>1,732,277</u>	<u>1,801,009</u>	<u>1,854,451</u>	<u>1,894,514</u>	<u>1,932,314</u>	<u>1,964,213</u>	<u>2,008,246</u>
Adjustments:								
Revenue Transfers	245,764	87,895	79,450	79,445	79,442	79,446	79,446	79,444
Adjusted Total	<u>1,731,751</u>	<u>1,644,382</u>	<u>1,721,559</u>	<u>1,775,006</u>	<u>1,815,072</u>	<u>1,852,868</u>	<u>1,884,767</u>	<u>1,928,802</u>

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual FY2008</u>	<u>Estimated FY2009</u>	<u>Estimated FY2010</u>	<u>Estimated FY2011</u>	<u>Estimated FY2012</u>	<u>Estimated FY2013</u>	<u>Estimated FY2014</u>	<u>Estimated FY2015</u>
Licenses & Permits	543	558	678	564	563	563	563	563
Revenues from Use of Money and Property	100,361	96,644	90,820	90,097	89,371	89,060	88,177	88,099
Federal	1,832,950	1,904,817	1,894,514	1,923,151	1,955,407	1,996,082	1,996,019	1,996,149
Revenues from Other Agencies	17,053	13,057	12,942	12,947	12,947	12,952	12,952	12,952
Charges for Current Services	125,237	181,772	118,500	122,830	122,552	120,237	119,775	119,407
Fines, Forfeits & Penalties	1,905	909	908	908	908	908	908	908
Repayment of Loans & Advances	30,294	33,537	34,032	34,446	34,876	34,440	30,004	30,147
Non-Revenue Receipts	764,222	866,514	867,394	787,619	818,206	858,101	888,271	920,956
Office of Hawaiian Affairs	<u>23,801</u>	<u>21,250</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>2,896,366</u>	<u>3,119,058</u>	<u>3,034,888</u>	<u>2,987,662</u>	<u>3,049,930</u>	<u>3,127,443</u>	<u>3,151,769</u>	<u>3,184,281</u>
Adjustments:								
Revenue Transfers	7,080	2,344	2,344	2,344	2,344	2,344	2,344	2,344
Adjusted Total	<u>2,889,286</u>	<u>3,116,714</u>	<u>3,032,544</u>	<u>2,985,318</u>	<u>3,047,586</u>	<u>3,125,099</u>	<u>3,149,425</u>	<u>3,181,937</u>