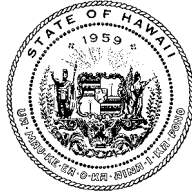


NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
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COUNCIL ON REVENUES

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

January 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 January 5, 2012, the Council on Revenues lowered its forecast for State General Fund tax revenue growth in FY 2012 from 14.5% to 11.5%. The Council kept its growth forecast for FY 2013 at 6.5%. It lowered the growth rate for FY 2016 from 5% to 3%, but the growth rates for the other fiscal years were unchanged.

The FY 2012 forecast revisions reflected mainly the failure of tax collections in the first part of the fiscal year to meet expectations based on the original forecast. Based on preliminary data, the Department of Taxation has estimated that cumulative General Fund collections for the first five months of FY 2012 (July through November) were \$1,930.5 million. The Department also provided a very preliminary estimate of \$399 million for General Fund collections in December. Also, new procedures at the Department of Taxation that accelerated the processing of collections may have increased the base for FY 2011, against which growth for FY 2012 is measured.

The Council is still uncertain about the revenue that will be provided by the tax changes made by the Legislature in 2011. The biggest part of the uncertainty is over the revenue consequences of Act 105, Session Laws of Hawaii 2011. In deliberations during its meeting on September 6, 2011, the Council members discussed the various revenue raisers enacted by the 2011 Legislature. The Tax Department stated that they were reasonably comfortable with the revenue estimates for most of the provisions, but that there was considerable uncertainty over the revenue consequences of Act 105, which eliminated a number of exemptions in the General Excise Tax (GET). The uncertainty arises partly because data on the GET exemptions are poor, but also because it is hard to know how taxpayers will respond. The Council members questioned whether the revenue estimates adequately accounted for the responses of taxpayers to the legislation and pointed out that tax avoidance behavior might reduce the expected revenues

substantially. For example, the grandfathering clause might allow a substantial number of taxpayers to escape the immediate effects from eliminating the exemption for the subcontractor's deduction. There are also ways taxpayers can work around some of the lost GET exemptions to avoid the additional tax. The Tax Department agreed that the revenue gain from the Act in FY 2012 could be as small as \$50 million. Consequently, the Council decided to accept \$50 million as the revenue consequences of Act 105 for FY 2012, which was about \$120 million lower than the Tax Department's original revenue estimate. The Council also adopted a more conservative estimate for the expected revenue gain in FY 2013.

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 FY2012 through FY2018 are shown in the table below:

Fiscal Year	General Fund Tax Revenues	
	Amount (in Thousands of Dollars)	Growth From Previous Year
2012	4,827,182	11.5%
2013	5,140,949	6.5%
2014	5,295,177	3.0%
2015	5,559,936	5.0%
2016	5,726,734	3.0%
2017	6,013,071	5.0%
2018	6,313,724	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

The Honorable Neil Abercrombie

January 9, 2012

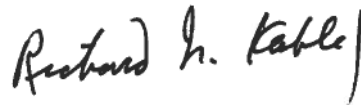
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- sunset on January 1, 2016. Part IV delays the 10% increase in the standard deduction and the personal exemption by 2 years and makes them permanent.
- Act 103 (SB 1186 SD2 HD1 CD1) establishes a temporary \$10 minimum daily tax on each transient 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 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,



Richard F. Kahle, Jr
Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF JANUARY 5, 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	\$2,609,466	\$2,878,453	\$2,900,267	\$3,047,727	\$3,236,307	\$3,398,317	\$3,575,806
Individual Income Tax	1,527,619	1,246,672	1,445,935	1,540,136	1,634,372	1,722,836	1,818,492	1,914,561	2,017,981
Corporate Income Tax	59,186	34,573	77,670	56,362	86,266	82,857	85,079	96,003	90,430
Public Service Company Tax	157,661	117,940	122,336	126,244	131,845	137,462	143,073	148,913	154,728
Tax on Insurance Premiums	104,721	140,456	142,066	149,984	156,766	163,690	172,727	180,175	188,227
Cigarette and Tobacco Tax	85,503	106,137	119,153	124,591	106,407	111,201	116,175	121,423	126,974
Liquor Tax	44,074	48,054	48,867	49,558	50,704	51,773	52,761	53,767	54,698
Tax on Banks and Other Financial Corps.	18,666	31,677	27,955	29,788	30,111	31,137	32,041	32,949	33,740
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	18,532	15,745	12,173	13,012	14,116	15,034	16,033
Miscellaneous Taxes 2/	781	19,812	79,626	19,089	19,078	14,062	840	819	798
Transient Accommodations Tax	31,698	59,757	115,976	131,399	147,588	164,579	35,523	31,510	34,709
GENERAL FUND TOTAL	\$4,364,559	\$4,329,311	\$4,827,182	\$5,140,949	\$5,295,177	\$5,559,936	\$5,726,734	\$6,013,071	\$6,313,724
GROWTH RATE	3.9%	-0.8%	11.5%	6.5%	3.0%	5.0%	3.0%	5.0%	5.0%

Notes:

* Results for the single-equation model are preliminary and experimental. The single-equation model uses the results of the multi-equation model for the Transient Accommodations Tax and for the Inheritance and Estate Tax. It also uses the same adjustments for legislative changes (as shown in Table 6AA).

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.

**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 September 2011 Report**

General Fund Non-Tax Revenues

Licenses and Permits – the increase reflects the deposit of insurance license and service taxes (Department of Commerce and Consumer Affairs) into the general fund for FY 12-14, pursuant to Act 59, SLH 2010.

Special Tax Revenues

Environmental Response Tax – increases in FYs 12-17 reflect the reporting of environmental response tax revenues into the Agricultural Development and Food Security Special Fund (Department of Agriculture) and the Energy Security Fund (Department of Business, Economic Development and Tourism).

Special Fund Non-Tax Revenues

Federal Grants – the decreases in FYs 11-18 reflect a decrease in Airport Improvement Program discretionary funds for the Department of Transportation's Airports Division (DOT - Airports).

Charges for Current Services, Others – the increases in FYs 11-18 are attributed to increases in assessments from insurance carriers and self-insured employers (Department of Labor and Industrial Relations).

Charges for Current Services, Utilities – the decreases in FYs 13-18 reflect lower rental payments due to lowered expense growth rates that are the result of bond refinancing and restructuring (DOT - Airports).

Other than Special Fund Non-Tax Revenues

Federal Grants – net increases in FYs 12-14 reflect increases in federal grants available to: maintain National Guard Facilities (Department of Defense); fund public assistance for the Lower Income Housing Program (Hawaii Housing Authority); and fund the Maternal, Infant, Early Childhood Home Visiting Program (Department of Health).

ARRA Funds – net decreases in FYs 11-14 reflect less ARRA funds available for the DOT - Airports projects based on an audit.

Charges for Current Services – the net increase in FY 12 is attributed to an increase in rebates from InformedRx (Department of Budget and Finance (B&F)).

Non-Revenue Receipts – net increase in FY 12 reflects additional contributions by the County of Hawaii, Kauai Department of Water, Hawaii Department of Water to the Employees-Union Trust Fund (B&F) for Other Post Employment Benefits Plans.

Repayments – the changes in FYs 14 and 15 are due to forecasted loan repayments being revised from FY 14 to FY 15 in the Hawaii Housing Finance and Development Corporation (Department of Business, Economic Development and Tourism).

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	752,286	856,908	763,095	717,457	755,420	769,879	782,381
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	324,311	353,041	355,958	340,446	434,479	347,848	357,672	334,128
Federal	2,879,130	2,753,761	2,557,049	2,613,887	2,712,732	2,742,392	2,899,082	2,899,082
Federal-American Reinvestment & Recovery Act	467,972	146,706	37,498	24,498	0	0	0	0
Charges for Current Services	1,789,152	1,782,683	1,864,422	1,903,662	1,945,692	1,981,986	1,995,100	2,010,749
Non-Revenue Receipts	1,497,377	1,518,031	1,323,761	1,332,284	1,335,236	1,340,451	1,343,539	1,342,606
Office of Hawaiian Affairs	20,588	18,174	18,007	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>7,030,760</u>	<u>6,621,816</u>	<u>6,207,474</u>	<u>6,281,765</u>	<u>6,496,255</u>	<u>6,481,702</u>	<u>6,665,343</u>	<u>6,656,716</u>
TOTAL REVENUES	7,662,046	7,374,102	7,064,382	7,044,860	7,213,712	7,237,122	7,435,222	7,439,097
ADJUSTMENTS - Revenue Transfers	<u>335,823</u>	<u>133,055</u>	<u>93,674</u>	<u>96,084</u>	<u>96,081</u>	<u>100,687</u>	<u>100,838</u>	<u>100,837</u>
TOTAL ADJUSTED REVENUES	<u>7,326,223</u>	<u>7,241,047</u>	<u>6,970,708</u>	<u>6,948,776</u>	<u>7,117,631</u>	<u>7,136,435</u>	<u>7,334,384</u>	<u>7,338,260</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

January 5, 2012

Table 1

**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	27,761	26,999	26,131	25,168	24,227	24,227	24,227
Federal	13,087	4,548	4,548	4,548	4,548	4,549	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	253,258	263,406	266,804	269,771	272,919	275,201	277,110
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	178,228	167,817	174,860	176,823	178,354	180,359	180,359
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>558,049</u>	<u>555,330</u>	<u>554,082</u>	<u>554,635</u>	<u>544,835</u>	<u>549,849</u>	<u>551,758</u>

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

January 5, 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	19,525	19,525	36,594	36,593	36,593	36,593	36,593
Liquid Fuel:								
Highway	89,599	91,813	93,187	94,581	95,996	97,433	98,891	100,371
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	96,862	98,336	99,730	101,145	102,582	104,040	105,520
Transfer of Transient Accom Tax	121,776	103,000	103,000	103,000	103,000	130,076	133,082	133,082
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	21,100	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>752,285</u>	<u>856,906</u>	<u>763,095</u>	<u>717,457</u>	<u>755,420</u>	<u>769,879</u>	<u>782,381</u>

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

January 5, 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	16,829	19,074	22,347	22,276	21,614	20,131	20,728	20,254
Revenues from Use of Money and Property	53,750	51,564	54,769	62,700	65,084	66,578	67,816	67,976
Federal	509,314	478,877	283,472	283,817	285,859	285,859	285,859	285,859
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	436,048	420,521	487,393	513,702	544,102	575,962	583,328	596,526
Others	904,448	973,393	993,914	999,997	1,004,894	1,009,526	1,013,927	1,015,487
Fines, Forfeits & Penalties	5,788	4,572	4,034	4,135	4,229	4,274	4,321	4,369
Non-Revenue Receipts	116,512	107,315	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>2,089,538</u>	<u>2,120,334</u>	<u>1,994,844</u>	<u>2,054,977</u>	<u>2,094,557</u>	<u>2,149,547</u>	<u>2,163,545</u>	<u>2,178,237</u>
Adjustments:								
Revenue Transfers	77,391	69,132	68,972	76,482	76,480	81,086	81,237	81,236
Adjusted Total	<u>2,012,147</u>	<u>2,051,202</u>	<u>1,925,872</u>	<u>1,978,495</u>	<u>2,018,077</u>	<u>2,068,461</u>	<u>2,082,308</u>	<u>2,097,001</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

January 5, 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	575	600	600	599	599	599	599
Revenues from Use of Money and Property	71,938	75,645	77,303	77,729	77,893	77,975	78,056	77,715
Federal	2,356,729	2,270,336	2,269,029	2,325,522	2,422,325	2,451,985	2,608,675	2,608,675
Federal-American Recovery & Reinvestment Act	467,972	146,706	37,498	24,498	0	0	0	0
Revenues from Other Agencies	18,949	21,280	21,012	18,396	18,396	18,396	18,396	18,396
Charges for Current Services	152,211	135,511	119,709	123,159	126,925	123,579	122,644	121,626
Fines, Forfeits & Penalties	1,947	868	868	868	868	868	868	868
Repayment of Loans & Advances	49,528	41,850	65,507	45,097	142,229	57,012	64,873	41,936
Non-Revenue Receipts	1,007,596	1,232,488	1,047,767	1,041,737	1,042,728	1,041,806	1,042,738	1,041,806
Office of Hawaiian Affairs	<u>20,588</u>	<u>18,174</u>	<u>18,007</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>	<u>15,100</u>
TOTAL	<u>4,148,079</u>	<u>3,943,433</u>	<u>3,657,300</u>	<u>3,672,706</u>	<u>3,847,063</u>	<u>3,787,320</u>	<u>3,951,949</u>	<u>3,926,721</u>
Adjustments:								
Revenue Transfers	34,225	38,313	7,313	2,313	2,313	2,313	2,313	2,313
Adjusted Total	<u>4,113,854</u>	<u>3,905,120</u>	<u>3,649,987</u>	<u>3,670,393</u>	<u>3,844,750</u>	<u>3,785,007</u>	<u>3,949,636</u>	<u>3,924,408</u>

Prepared by: Dept. of Budget & Finance

January 5, 2012

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

* Unaudited, preliminary