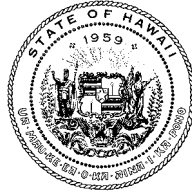


**NEIL ABERCROMBIE**  
GOVERNOR

**BRIAN SCHATZ**  
LT. GOVERNOR



**RICHARD F. KAHLE, JR.**  
CHAIR

**JACK P. SUYDERHOUD**  
VICE-CHAIR

**MEMBERS:**

Avery K. Aoki  
Carl S. Bonham  
Christopher Grandy  
Kristi L. Maynard  
Marilyn M. Niwao

## **COUNCIL ON REVENUES**

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

September 10, 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 September 6, 2012 the Council on Revenues lowered its forecast for State General Fund tax revenue growth in fiscal year (FY) 2013 from 5.3 percent to 4.9 percent. The Council also lowered its revenue growth forecast for FY 2014 from 4.0 percent to 3.9 percent. The growth rates for FY 2015 through FY 2019 were revised slightly downward. The Council is now forecasting revenue growth of 5.0% in 2015, 1.2% in 2016, 4.2% in 2017, 5.1% in 2018, and 4.6% in 2019.

The declines in the forecasts for tax revenue growth in FY's 2013 and 2014 were mostly due to a reassessment of the cost of the renewable energy tax credits. According to a new estimate by the Department of Business, Economic Development & Tourism (DBEDT), the tax credit is predicted to grow from \$34.4 million in tax year 2010 to \$82.9 million in tax year 2011 and to \$173.8 million in tax year 2012. DBEDT also provided a range of forecasts for tax year 2013. Accordingly, the Council assumed the cost of the credit will be \$90 million higher in FY2013 than it was in FY2012, that it will be \$150 million higher in FY 2014 than it was in FY2012, and that it will be higher than FY2012 in each of FY's 2015 through 2019 by \$170 million.

The Council also believes that there is much uncertainty about the economies in Europe and is concerned that events there could have important effects on the economies of the United States and Hawaii. The Council also expressed uncertainty about the future of the Honolulu rail project and its effect on the construction industry.

The Council accepted other revenue estimates provided by the Hawaii Department of Budget & Finance.

The revised forecasts of State General Fund tax revenues for FY 2013 through FY 2019 are listed in the table below:

Fiscal Year	General Fund Tax Revenues Amount (in Thousands of Dollars)	Growth From Previous Year
2013	\$5,223,061	4.9%
2014	\$5,427,175	3.9%
2015	\$5,698,229	5.0%
2016	\$5,767,221	1.2%
2017	\$6,010,377	4.2%
2018	\$6,315,874	5.1%
2019	\$6,608,519	4.6%

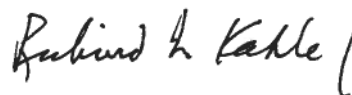
In producing its forecasts, the Council adopted specific adjustments recommended by the Hawaii Department of Taxation reflecting the effects on General Fund tax revenues of recent tax law changes.

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. 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.

Also, the Department of Budget and Finance has prepared the attached report to update its projections for non-tax and special tax revenues Significant Changes from May 2012 Report.

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

Sincerely,



RICHARD F. KAHLE, JR.  
Chair, Council on Revenues

Attachments

**ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF SEPTEMBER 6, 2012: FY 2013 TO FY 2019**  
**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 2011	FY 2012*	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Excise and Use Tax	\$2,495,807	\$2,697,951	\$2,916,219	\$3,044,151	\$3,223,223	\$3,396,983	\$3,578,678	\$3,764,740	\$3,940,021
Individual Income Tax	1,246,672	1,540,730	1,571,441	1,607,785	1,692,270	1,741,871	1,787,768	1,879,624	1,971,631
Corporate Income Tax	34,573	73,027	55,898	58,182	55,442	58,605	58,541	62,828	63,792
Public Service Company Tax	117,940	150,528	155,740	161,133	167,299	173,702	180,349	187,251	194,417
Tax on Insurance Premiums	140,456	116,777	122,777	128,671	134,813	140,634	146,885	153,215	159,707
Cigarette and Tobacco Tax	106,137	102,853	102,810	106,501	90,482	93,931	97,456	101,053	104,776
Liquor Tax	48,054	48,852	50,057	50,867	51,690	52,525	53,359	54,207	55,069
Tax on Banks and Other Financial Corps.	31,677	5,229	27,848	25,963	28,595	28,718	30,004	30,670	31,716
Inheritance and Estate Tax 1/	6,899	14,152	19,972	20,352	20,779	21,216	21,661	22,116	22,580
Conveyance Tax	21,527	18,394	15,492	16,695	13,083	14,031	15,061	16,116	17,211
Miscellaneous Taxes 2/	19,812	83,249	19,147	19,135	14,124	906	889	871	871
Transient Accommodations Tax	59,757	126,303	165,660	187,740	206,429	44,099	39,726	43,183	46,728
<b>GENERAL FUND TOTAL</b>	<b>\$4,329,311</b>	<b>\$4,978,045</b>	<b>\$5,223,061</b>	<b>\$5,427,175</b>	<b>\$5,698,229</b>	<b>\$5,767,221</b>	<b>\$6,010,377</b>	<b>\$6,315,874</b>	<b>\$6,608,519</b>
<b>GROWTH RATE</b>	<b>-0.8%</b>	<b>15.0%</b>	<b>4.9%</b>	<b>3.9%</b>	<b>5.0%</b>	<b>1.2%</b>	<b>4.2%</b>	<b>5.1%</b>	<b>4.6%</b>

Notes:

\* Data for fiscal year 2012 are preliminary.

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.

## Significant Changes from May 2012 Report

### General Fund Non-Tax Revenues

For FY 12, the significant differences between actual and estimated revenues reflect:

**Use of Money and Property** - lower interest earnings (Department of Budget and Finance (B&F)).

**Federal Grants** - federal interest subsidy on Build America Bonds (B&F).

**Charges for Current Services** - higher than expected reimbursements from the federal government for Department of Human Services (DHS) programs.

**Non-Revenue Receipts** - premiums on bonds sold (B&F), higher pension accumulation reimbursements from non-general fund programs (B&F) and lower transfers of excess unclaimed property trust funds (B&F).

For FYs 13-19, there are no significant changes to the general fund non-tax revenue estimates.

### Special Tax Revenues

**Liquid Fuel, Highways** - decreases in FYs 12-19 reflect lower liquid fuel tax collection estimates due to persistently high fuel prices and lower anticipated growth (Department of Transportation (DOT)-Highways Division).

**Transfer of Transient Accommodations Tax** - increases in FYs 13-15 reflect a \$2 million increase in revenues to be deposited to the Tourism Special Fund pursuant to Act 171, SLH 2012. The increases in FYs 16-19 reflect current economic conditions and visitor trends, as well as, expanded air service to Hawaii.

### Special Fund Non-Tax Revenues

**Federal Grants** - the increases in FYs 12-19 reflect an increase in unemployment compensation benefits to federal employees and ex-servicemen in FY 12 (Department of Labor and Industrial Relations) and increases in highway research, planning and construction funds in FYs 12-19 (DOT-Highways Division).

**Charges for Current Services, Other** - the increases in FYs 12-19 are attributed to tuition rate increases and an enrollment increase at the University of Hawaii (UH) Hilo, and the change of certain revolving funds to special funds pursuant to Act 124, SLH 2011, for UH.

**Charges for Current Services, Utilities** - the increases in FYs 13-19 reflect projected increases in duty free and parking revenues for DOT-Airports Division and projected increases in cargo activity which will increase revenues generated by wharf tariffs (DOT-Harbors Division).

**Non-Revenue Receipts** - the increase in FY 12 reflects the actual transfers that were made to the Department of Education's State Educational Facilities Improvement Special Fund.

**Other than Special Fund Non-Tax Revenues**

**Federal Grants** - the net decreases in FYs 12-19 reflect decreases in federal funds for the lower income housing assistance program (DHS), the Defense Center for Research in Ocean Science (Department of Business, Economic Development and Tourism) and revision of estimated Pell Grant expenditures (UH).

**American Reinvestment and Recovery Funds** - the decrease in FY 12 reflects the lower than projected actual expenditures for funds for Hawaii State Highway projects (DOT-Highways Division); and the Drinking Water Treatment Program (Department of Health).

**Charges for Current Services** - the net increases in FY 12 and FY 13 reflect increases in projected revenue collections in drug rebates for Medicaid managed care organization clients in the Medical Assistance Program (DHS). The net decreases in FY 14 and FY 15 reflect the change of certain revolving funds to special funds in accordance with Act 124, SLH 2011, for UH.

**Repayments of Loans and Advances** - the net decreases in FY 12, FY 15 and FY 17 and net increases in FY 13, FY 16 and FY 18 are attributed to anticipated delays in loan repayments for several projects under development for affordable housing (Hawaii Housing Finance and Development Corporation (HHFDC)).

**Transfers** - the decrease in FY 12 and increase in FY 13 is attributed to a delay in the project bond issuances for projects under development for affordable housing (HHFDC).

**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 2012 - 2019**  
(in thousands of dollars)

<u>Sources</u>	Actual/Est* <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>	Estimated <u>FY 2019</u>
REVENUES - TAX								
Special Revenue Fund	718,277	754,970	756,031	710,277	757,965	771,645	788,094	793,373
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	323,543	361,441	328,043	382,031	355,310	321,842	345,155	338,974
Federal	2,782,251	2,627,849	2,656,769	2,729,374	2,781,246	2,937,495	2,937,495	2,937,495
Federal-American Reinvestment & Recovery Act	119,239	46,615	23,140	22,063	0	0	0	0
Charges for Current Services	1,791,597	1,901,412	1,906,432	1,946,271	1,991,483	2,009,932	2,031,411	2,049,116
Non-Revenue Receipts	1,680,605	1,407,738	1,333,215	1,336,839	1,343,576	1,346,714	1,345,831	1,346,824
Office of Hawaiian Affairs	20,214	19,207	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>48,285</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>	<u>55,051</u>
Subtotal Revenues - Other Than Tax	<u>6,765,734</u>	<u>6,415,040</u>	<u>6,314,587</u>	<u>6,484,693</u>	<u>6,540,639</u>	<u>6,685,933</u>	<u>6,730,043</u>	<u>6,742,560</u>
TOTAL REVENUES	7,484,011	7,170,010	7,070,618	7,194,970	7,298,604	7,457,578	7,518,137	7,535,933
ADJUSTMENTS - Revenue Transfers	<u>234,702</u>	<u>117,193</u>	<u>95,206</u>	<u>95,203</u>	<u>99,809</u>	<u>99,960</u>	<u>99,959</u>	<u>99,965</u>
TOTAL ADJUSTED REVENUES	<u>7,249,309</u>	<u>7,052,817</u>	<u>6,975,412</u>	<u>7,099,767</u>	<u>7,198,795</u>	<u>7,357,618</u>	<u>7,418,178</u>	<u>7,435,968</u>

Prepared by: Department of Budget & Finance

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

\* Unaudited, preliminary revenues.

September 6, 2012

Table 1

**STATE OF HAWAII  
GENERAL FUND  
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX  
FISCAL YEARS 2012 - 2019  
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2019</u>
Licenses & Permits	6,003	5,813	5,813	1,013	1,013	1,013	1,013	1,013
Revenues from Use of Money and Property	22,638	26,999	26,131	25,168	24,227	24,227	24,227	24,227
Federal	13,457	4,488	4,488	4,488	4,488	4,488	4,488	4,488
Revenues from Other Agencies	25,354	27,682	16,180	16,180	2,538	2,538	2,538	2,538
Charges for Current Services	272,039	261,841	265,401	268,458	271,498	273,853	275,735	275,731
Fines, Forfeits & Penalties	650	445	435	445	435	435	435	435
Repayment of Loans & Advances	23,045	19,638	19,662	20,319	19,738	19,738	19,738	19,738
Non-Revenue Receipts	287,791	167,620	174,233	176,196	178,177	180,182	180,182	180,182
Judiciary	<u>37,175</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>	<u>41,793</u>
Total	<u>688,153</u>	<u>553,490</u>	<u>551,994</u>	<u>552,618</u>	<u>543,179</u>	<u>548,267</u>	<u>550,149</u>	<u>550,145</u>

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

September 6, 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 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>	<u>Estimated</u> <u>FY 2019</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	19,117	19,317	35,684	35,684	35,674	35,674	35,674	35,674
Liquid Fuel:								
Highway	87,230	87,230	87,665	88,102	88,542	88,983	89,427	89,873
Aviation	4,353	3,549	3,549	3,549	3,549	3,549	3,549	3,549
Small Boats	<u>1,611</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>	<u>1,600</u>
Subtotal	93,194	92,379	92,814	93,251	93,691	94,132	94,576	95,022
Transfer of Transient Accom Tax	104,637	105,000	105,000	105,000	146,373	148,732	153,705	158,538
Motor Vehicle Weight Tax	58,679	66,846	67,681	68,527	69,384	70,251	71,129	71,129
Vehicle Registration Fee Tax	39,508	46,880	47,297	47,718	48,143	48,572	49,006	49,006
Vehicle Surcharge:								
Rental /Tour	44,987	45,632	46,315	47,007	47,710	48,419	49,139	49,139
Environmental Response Tax	9,203	8,940	8,940	8,940	1,340	1,340	1,340	1,340
Unemployment Comp Tax	320,669	342,000	326,000	277,000	288,000	296,000	305,000	305,000
Employment & Training	1,223	150	800	800	800	800	800	800
Election Campaign Contrib T.F.	16	200	150	100	100	100	100	100
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	23,189	23,775	21,500	22,400	22,900	23,775	23,775	23,775
Transfer of Tax on Ins. Premiums	<u>1,855</u>	<u>1,850</u>	<u>1,850</u>	<u>1,850</u>	<u>1,850</u>	<u>1,850</u>	<u>1,850</u>	<u>1,850</u>
<b>Total</b>	<b><u>718,278</u></b>	<b><u>754,970</u></b>	<b><u>756,031</u></b>	<b><u>710,277</u></b>	<b><u>757,965</u></b>	<b><u>771,645</u></b>	<b><u>788,094</u></b>	<b><u>793,373</u></b>

Prepared by: Department of Budget & Finance

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

\* Unaudited

Table 3

September 6, 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>	<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>	<u>Estimated</u> <u>FY 2019</u>
Licenses & Permits	20,410	21,229	20,093	20,895	20,050	20,560	20,181	19,994
Revenues from Use of Money and Property	51,114	51,694	59,614	62,546	64,677	66,231	66,542	66,718
Federal	508,719	304,743	300,604	300,603	300,603	300,603	300,603	300,603
Revenue from Other Agencies	31,433	41,610	40,362	40,361	54,003	54,003	54,003	54,003
Charges for Current Services:								
Utils & Other Enterprises	425,956	493,146	513,974	542,466	576,168	592,516	612,921	625,817
Others	981,212	1,026,969	1,034,368	1,041,585	1,047,657	1,052,447	1,053,037	1,058,113
Fines, Forfeits & Penalties	6,590	4,021	4,168	4,316	4,472	4,583	4,699	4,821
Non-Revenue Receipts	235,845	102,021	113,165	113,163	118,775	118,926	118,925	118,931
Judiciary	<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>	<u>13,258</u>
Total	<u>2,272,391</u>	<u>2,057,247</u>	<u>2,098,585</u>	<u>2,138,600</u>	<u>2,199,264</u>	<u>2,222,926</u>	<u>2,244,169</u>	<u>2,262,258</u>
Adjustments:								
Revenue Transfers	200,102	66,857	76,001	75,999	80,605	80,756	80,755	80,761
Adjusted Total	<u>2,072,289</u>	<u>1,990,390</u>	<u>2,022,584</u>	<u>2,062,601</u>	<u>2,118,659</u>	<u>2,142,170</u>	<u>2,163,414</u>	<u>2,181,497</u>

Prepared by: Department of Budget & Finance

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

\* Unaudited, preliminary

September 6, 2012

**STATE OF HAWAII**  
**SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS**  
**MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX**  
**FISCAL YEARS 2012 - 2019**  
(in thousands of dollars)

<u>Sources</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>	<u>Estimated</u> <u>FY2019</u>
Licenses & Permits	488	600	600	599	599	599	599	599
Revenues from Use of Money and Property	74,316	68,724	68,327	68,220	68,854	68,888	68,459	68,227
Federal	2,260,075	2,318,618	2,351,677	2,424,283	2,476,155	2,632,404	2,632,404	2,632,404
Federal-American Recovery & Reinvestment Act	119,239	46,615	23,140	22,063	0	0	0	0
Revenues from Other Agencies	19,311	19,832	19,283	19,283	19,283	19,083	19,083	19,083
Charges for Current Services	112,389	119,456	92,689	93,762	96,160	91,116	89,718	89,455
Fines, Forfeits & Penalties	1,038	868	868	868	868	868	868	868
Repayment of Loans & Advances	41,153	72,286	46,507	101,817	74,553	39,076	62,770	56,710
Non-Revenue Receipts	1,156,968	1,138,097	1,045,817	1,047,480	1,046,624	1,047,606	1,046,724	1,047,711
Office of Hawaiian Affairs	<u>20,214</u>	<u>19,207</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>
<b>TOTAL</b>	<b><u>3,805,191</u></b>	<b><u>3,804,303</u></b>	<b><u>3,664,008</u></b>	<b><u>3,793,475</u></b>	<b><u>3,798,196</u></b>	<b><u>3,914,740</u></b>	<b><u>3,935,725</u></b>	<b><u>3,930,157</u></b>
Adjustments:								
Revenue Transfers	15,025	33,232	2,181	2,181	2,181	2,181	2,181	2,181
Adjusted Total	<b><u>3,790,166</u></b>	<b><u>3,771,071</u></b>	<b><u>3,661,827</u></b>	<b><u>3,791,294</u></b>	<b><u>3,796,015</u></b>	<b><u>3,912,559</u></b>	<b><u>3,933,544</u></b>	<b><u>3,927,976</u></b>

Prepared by: Dept. of Budget & Finance

September 6, 2012

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

\* Unaudited, preliminary