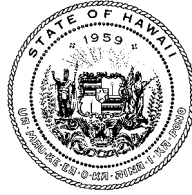


NEIL ABERCROMBIE
GOVERNOR

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COUNCIL ON REVENUES

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

March 15, 2013

The Honorable Neil Abercrombie
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Abercrombie:

At its meeting on March 13, 2013, the Council on Revenues increased its forecast for growth in General Fund tax revenues from 5.1% to 6.7% for fiscal year 2013, from 6.8% to 7.3% for fiscal year 2014, and from 6.2% to 6.8% for fiscal year 2015.

Although the state tax collections are up 12 percent through the first eight months of the fiscal year 2013, the refunds for this period are substantially lower than in the same period for fiscal year 2012. The processing of the Modernized E-Filing returns has slowed the refunds, but the Department of Taxation expects to fully catch up with processing its refunds by the end of this fiscal year.

The Council cited the expected continuation of the strong visitor industry along with expected expansion in the rest of the economy for the revisions.

Among other resources, the Council relies on an econometric model to translate the members' forecasts of economic variables into forecasts of tax collections. The model is a multi-year model for fiscal year 2013 through fiscal year 2019. The model anticipates that in most years, the growth rate for General Fund tax collections is greater than the growth rate for the economy as a whole. However, the relationship between income growth and revenue growth is variable and other factors, such as income tax credits, changes in tax laws, and changes in the allocation of certain taxes among the various funds, also play important roles in determining the General Fund collections.

The Council raised its forecast despite possible adverse effects of the federal Budget Act of 2011, as the growing strength of the economy appears to outweigh the potential adverse effects of the sequestration.

Revised forecasts of State General Fund tax revenues for fiscal year 2013 through fiscal year 2019 are shown in the table below:

Fiscal Year	General Fund Tax Revenues	
	Amount (in Thousands of Dollars)	Growth From Previous Year
2013	5,309,520	6.7%
2014	5,699,206	7.3%
2015	6,084,232	6.8%
2016	6,170,549	1.4%
2017	6,428,277	4.2%
2018	6,749,326	5.0%
2019	7,064,223	4.7%

In producing its forecasts, the Council adopted specific adjustments recommended by the Department of Taxation reflecting impacts on General Fund tax revenues of 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 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 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 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. The line-item forecasts include components, such as 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

The Honorable Neil Abercrombie

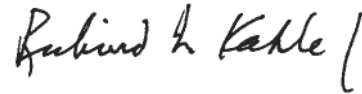
March 15, 2013

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projections for non-tax and special tax revenues Significant Changes from January 2013 Report.

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

Sincerely,

A handwritten signature in black ink that reads "Richard F. Kahle, Jr." with a stylized flourish at the end.

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

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF MARCH 13, 2013: FY 2013 TO FY 2019
Line item projections generated by Tax Research and Planning Office to be consistent with the Council's forecast for the total General Fund revenues
(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	\$2,962,446	\$3,127,378	\$3,350,858	\$3,552,348	\$3,746,565	\$3,933,974	\$4,116,212
Individual Income Tax	1,246,672	1,540,588	1,612,070	1,767,013	1,911,672	1,958,067	2,011,770	2,115,158	2,220,640
Corporate Income Tax	34,573	73,027	56,647	81,896	85,293	86,836	79,554	85,288	86,877
Public Service Company Tax	117,940	150,528	155,740	161,416	167,300	174,007	180,983	188,239	195,786
Tax on Insurance Premiums	140,456	116,777	123,954	131,367	138,688	144,421	150,868	157,497	164,343
Cigarette and Tobacco Tax	106,137	102,853	103,034	107,104	91,420	95,414	99,482	103,656	107,939
Liquor Tax	48,054	48,854	50,219	51,271	52,094	52,985	53,862	54,754	55,660
Tax on Banks and Other Financial Corps.	31,677	5,229	27,848	26,420	28,849	29,572	31,397	32,096	33,050
Inheritance and Estate Tax	6,899	14,125	14,421	14,709	15,003	15,334	15,671	16,016	16,368
Conveyance Tax	21,527	18,917	15,729	17,245	13,707	14,648	15,717	16,830	17,994
Miscellaneous Taxes*	19,812	82,697	19,449	19,474	14,442	1,199	1,156	1,113	1,113
Transient Accommodations Tax	59,757	126,302	167,963	193,913	214,906	45,718	41,252	44,705	48,241
GENERAL FUND TOTAL	\$4,329,311	\$4,977,848	\$5,309,520	\$5,699,206	\$6,084,232	\$6,170,549	\$6,428,277	\$6,749,326	\$7,064,223
GROWTH RATE	-0.8%	15.0%	6.7%	7.3%	6.8%	1.4%	4.2%	5.0%	4.7%

* 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 January 2013 Report

General Fund Non-Tax Revenues

The only significant change is due to moving the reporting of the estimates for the tobacco settlement moneys that are allocated to the general fund from the category, "Revenues from Other Agencies" to the category, "Non-Revenue Receipts" where it is being reported as a transfer from the Hawaii tobacco settlement special fund.

Special Tax Revenues

There are no significant changes to the special fund tax revenue estimates.

Special Fund Non-Tax Revenues

Federal Grants - the increase in FY 12 actuals reflect higher than anticipated amount in federal grants for Medicare payments (Hawaii Health Systems Corporation).

Revenues from Other Agencies - the changes in FYs 13-19 reflect revisions to the method in which Department of Health records the receipt of the Tobacco Settlement revenues from the Master Settlement Agreement, as well as revised projections of the anticipated distribution.

Charges for Current Services - the net decreases in FYs 12-19 are attributed to a correction in the revenue projections for the University of Hawaii tuition fees for resident and non-resident students. Adjustments included correction of a computational error and utilizing updated student enrollment projections.

Revenue Transfers - the increases in FYs 13-15 are attributed to increased transfers to the Department of Education (DOE) State Educational Facilities Improvement Special Fund to meet construction project funding needs.

Other than Special Fund Non-Tax Revenues

Federal Grants - the net decreases in FYs 14 and 15 reflect decreases in federal funds for the Temporary Assistance to Needy Families program (Department of Human Services) and lower than projected reimbursements for the School Lunch Program (DOE).

Charges for Current Services - the decrease in FY 15 is attributed to a correction in the revenue projections for the Medicaid Investigations Fund (Department of the Attorney General).

Non-Revenue Receipts - the net increase in FY 13 is reflective of increases in contributions for Other Post Employment Benefit Plans from the City and County of Honolulu, County of Kauai, Honolulu Board of Water Supply, and Kauai Department of Water. The net increases in FYs 14-19 are reflective of recalculated projections for employer/employee contributions into the Employer-Union Health Benefits Trust Fund health benefits plan based on actual contributions made in FY 13 (Department of Budget and Finance).

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	757,481	765,214	719,523	771,123	784,810	801,266	806,553
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	322,003	354,736	328,424	360,435	339,297	331,842	333,950	328,588
Federal	2,753,192	2,614,569	2,688,608	2,755,941	2,798,264	2,953,975	2,953,663	2,953,309
Federal-American Reinvestment & Recovery Act	117,352	48,576	24,712	22,700	0	0	0	0
Charges for Current Services	1,816,999	1,943,337	1,936,519	1,986,580	2,037,657	2,079,830	2,101,954	2,123,276
Non-Revenue Receipts	1,703,192	1,666,612	1,420,487	1,397,250	1,362,038	1,369,824	1,371,678	1,376,394
Office of Hawaiian Affairs	21,751	21,207	21,207	15,207	15,207	15,207	15,207	15,207
Judiciary	<u>47,870</u>	<u>48,941</u>	<u>49,769</u>	<u>50,620</u>	<u>51,485</u>	<u>52,375</u>	<u>53,277</u>	<u>54,195</u>
Subtotal Revenues - Other Than Tax	<u>6,782,360</u>	<u>6,697,978</u>	<u>6,469,725</u>	<u>6,588,733</u>	<u>6,603,948</u>	<u>6,803,053</u>	<u>6,829,729</u>	<u>6,850,969</u>
TOTAL REVENUES	7,500,637	7,455,459	7,234,939	7,308,256	7,375,071	7,587,863	7,630,995	7,657,522
ADJUSTMENTS - Revenue Transfers	<u>234,698</u>	<u>177,192</u>	<u>155,206</u>	<u>125,203</u>	<u>99,809</u>	<u>99,960</u>	<u>99,959</u>	<u>99,965</u>
TOTAL ADJUSTED REVENUES	<u>7,265,939</u>	<u>7,278,267</u>	<u>7,079,733</u>	<u>7,183,053</u>	<u>7,275,262</u>	<u>7,487,903</u>	<u>7,531,036</u>	<u>7,557,557</u>

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

March 13, 2013

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	5,812	5,812	1,012	1,013	1,013	1,013	1,013
Revenues from Use of Money and Property	22,638	27,138	26,125	25,162	24,221	24,221	24,221	24,221
Federal	13,457	12,880	12,880	12,880	12,645	12,372	12,060	11,706
Revenues from Other Agencies	25,354	2,538	2,538	2,538	2,538	2,538	2,538	2,538
Charges for Current Services	272,039	265,850	267,533	270,656	273,515	276,233	278,273	280,150
Fines, Forfeits & Penalties	650	460	435	445	435	445	435	445
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	287,377	188,353	193,175	183,487	189,860	193,248	196,704
Judiciary	<u>37,175</u>	<u>38,024</u>	<u>38,661</u>	<u>39,316</u>	<u>39,985</u>	<u>40,668</u>	<u>41,364</u>	<u>42,073</u>
Total	<u>688,153</u>	<u>659,717</u>	<u>561,998</u>	<u>565,503</u>	<u>557,577</u>	<u>567,088</u>	<u>572,890</u>	<u>578,588</u>

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

March 13, 2013

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
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>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	19,117	19,125	35,261	35,261	35,260	35,260	35,260	35,260
Liquid Fuel:								
Highway	87,230	87,230	87,665	88,122	88,562	89,003	89,447	89,893
Aviation	4,353	4,338	4,338	4,338	4,338	4,338	4,338	4,338
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	93,168	93,603	94,060	94,500	94,941	95,385	95,831
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	47,061	47,478	47,899	48,324	48,753	49,187	49,187
Vehicle Surcharge:								
Rental /Tour	44,987	45,675	46,361	47,056	47,762	48,478	49,205	49,213
Environmental Response Tax	9,203	8,940	16,090	16,090	12,390	12,390	12,390	12,390
Unemployment Comp Tax	320,669	342,000	326,000	277,000	288,000	296,000	305,000	305,000
Employment & Training	1,223	100	450	450	450	450	450	450
Election Campaign Contrib T.F.	16	190	190	180	180	180	180	180
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	25,475	23,200	24,100	24,600	25,475	25,475	25,475
Transfer of Tax on Ins. Premiums	<u>1,855</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>
Total	<u>718,278</u>	<u>757,481</u>	<u>765,214</u>	<u>719,523</u>	<u>771,123</u>	<u>784,810</u>	<u>801,266</u>	<u>806,553</u>

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

Table 3

March 13, 2013

STATE OF HAWAII
SPECIAL REVENUE FUND - 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>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	20,249	19,165	18,568	20,178	19,417	19,795	19,575	19,231
Revenues from Use of Money and Property	48,049	48,043	56,520	59,049	61,222	62,666	63,005	63,132
Federal	531,821	302,079	302,610	302,563	302,563	302,563	302,563	302,563
Revenue from Other Agencies	31,433	54,656	59,806	50,806	50,806	50,806	50,806	50,806
Charges for Current Services:								
Utils & Other Enterprises	419,981	486,849	513,270	539,227	571,044	594,018	614,484	629,421
Others	1,005,417	1,041,696	1,062,348	1,084,171	1,096,064	1,117,639	1,118,655	1,123,126
Fines, Forfeits & Penalties	6,632	9,748	4,206	4,357	4,513	4,624	4,740	4,862
Non-Revenue Receipts	235,841	162,020	173,165	143,163	118,775	118,926	118,925	118,931
Judiciary	<u>10,695</u>	<u>10,917</u>	<u>11,108</u>	<u>11,304</u>	<u>11,500</u>	<u>11,707</u>	<u>11,913</u>	<u>12,122</u>
Total	<u>2,310,118</u>	<u>2,135,173</u>	<u>2,201,601</u>	<u>2,214,818</u>	<u>2,235,904</u>	<u>2,282,744</u>	<u>2,304,666</u>	<u>2,324,194</u>
Adjustments:								
Revenue Transfers	200,098	126,856	136,001	105,999	80,605	80,756	80,755	80,761
Adjusted Total	<u>2,110,020</u>	<u>2,008,317</u>	<u>2,065,600</u>	<u>2,108,819</u>	<u>2,155,299</u>	<u>2,201,988</u>	<u>2,223,911</u>	<u>2,243,433</u>

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

March 13, 2013

Table 4

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	560	590	619	619	619	619	619
Revenues from Use of Money and Property	75,948	73,257	67,214	67,154	67,595	67,668	67,090	66,858
Federal	2,207,914	2,299,610	2,373,118	2,440,498	2,483,056	2,639,040	2,639,040	2,639,040
Federal-American Recovery & Reinvestment Act	117,352	48,576	24,712	22,700	0	0	0	0
Revenues from Other Agencies	19,323	20,022	19,508	19,331	19,295	19,095	19,095	19,095
Charges for Current Services	119,562	148,942	93,368	92,526	97,034	91,940	90,542	90,579
Fines, Forfeits & Penalties	1,038	859	859	860	862	862	862	862
Repayment of Loans & Advances	41,153	72,840	46,581	88,605	67,023	57,752	60,213	55,168
Non-Revenue Receipts	1,179,560	1,217,215	1,058,969	1,060,912	1,059,776	1,061,038	1,059,505	1,060,759
Office of Hawaiian Affairs	<u>21,751</u>	<u>21,207</u>	<u>21,207</u>	<u>15,207</u>	<u>15,207</u>	<u>15,207</u>	<u>15,207</u>	<u>15,207</u>
TOTAL	<u>3,784,089</u>	<u>3,903,088</u>	<u>3,706,126</u>	<u>3,808,412</u>	<u>3,810,467</u>	<u>3,953,221</u>	<u>3,952,173</u>	<u>3,948,187</u>
Adjustments:								
Revenue Transfers	15,025	33,232	2,181	2,181	2,181	2,181	2,181	2,181
Adjusted Total	<u>3,769,064</u>	<u>3,869,856</u>	<u>3,703,945</u>	<u>3,806,231</u>	<u>3,808,286</u>	<u>3,951,040</u>	<u>3,949,992</u>	<u>3,946,006</u>

Prepared by: Dept. of Budget & Finance

March 13, 2013

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

* Unaudited, preliminary