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COUNCIL ON REVENUES

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

August 31, 2007

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

Dear Governor Lingle:

At its meeting on August 28, 2007, the Council on Revenues decided to update its current forecasts of General Fund tax revenues for FY 2008 to FY 2014. Details of the current forecasts of the State's General Fund tax are presented in the attached table.

There is no significant change of economic outlook since the Council's last meeting in May 2007. Total personal income, adjusted for inflation, is expected to grow at an annual rate of about 2% for the next several years. The inflation rate, as measured by changes in the Honolulu Consumer Price Index, is expected to decline from 5.4% in FY 2007 to 3.5% in FY 2009. The Council expects that the number of visitor arrivals as well as construction output will be stable for the next few years. The forecasts include the impact of changes in the tax laws enacted in 2007.

As always, the Council assumes that the State will not experience any unusual events and that there will be no reductions in federal allocations or any prolonged or crippling strikes.

General Fund non-tax revenues increased in FY 2007 due to increased investment interest earnings, refunds and reimbursements, assessments of special funds for central services expenses, and various transfers from non-general funds. Net decreases for FYs 2009–2014 reflect changes due to decreases in the estimates of interest earnings, and increases in the estimates for ambulance service fees, reimbursements, and transfers.

Special Fund tax revenues have been increased for FYs 2007–2014 primarily due to projected increases to the transient accommodations tax and increases in the unemployment compensation taxes. Special Fund non-tax revenues were decreased in FYs 2007–2014, primarily to account for decreases in unemployment insurance benefits to federal employees, inadvertent reporting errors, and changes in the Department of Transportation's (DOT) Airports and Harbors fees and charges. This was partially offset by increases in interest earnings for the DOT, and increases in

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general hospital revenues and third-party payments due to the phasing in of a new cardiovascular program at Maui Memorial Medical Center.

Other than Special Fund non-tax revenues have been increased in FYs 2008–2014 to reflect increases in federal grants, projected proceeds from a Kapolei land sale for the University of Hawaii (UH), increases in risk management revenues, and increases in non-revenue receipts such as endowment income for the UH and employer contribution for health benefit cost plans.

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, appearing to read "Paul H. Brewbaker", with a long horizontal flourish extending to the right.

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

TYPE OF TAX	ACTUAL		ESTIMATED								(in thousands of dollars)	
	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	\$2,565,762	\$2,748,523	\$2,839,205	\$2,974,509	\$3,115,882	\$3,234,675	\$3,440,458	\$3,655,499			
Income - Individual 3/, 5/	1,550,164	1,549,690	1,619,796	1,694,841	1,776,433	1,859,672	1,970,909	2,086,362	2,203,293			
Income - Corporation	130,010	81,834	86,779	86,644	87,149	88,960	93,755	98,257	102,501			
Public Service Company	120,679	124,017	130,242	140,362	150,387	160,449	170,606	181,113	192,017			
Insurance Premiums	88,068	92,196	86,323	84,612	88,497	91,324	116,507	132,960	146,648			
Tobacco & Licenses	86,827	85,143	87,473	89,948	92,481	95,074	97,728	100,444	103,224			
Liquor & Permits	45,955	46,034	47,185	48,316	49,463	50,616	51,760	52,913	54,076			
Banks & Other Fin Corps	16,324	16,599	18,315	19,843	21,271	22,734	24,204	25,876	27,609			
Conveyance	20,720	7,033	12,116	12,508	12,852	13,196	13,585	13,995	14,479			
Miscellaneous *	4,551	1,120	528	531	534	536	539	541	543			
Transient Accommodation Tax 1/	16,378	17,076	10,837	13,504	21,152	23,823	26,546	29,412	32,440			
NET TOTAL	\$4,434,992	\$4,586,504	\$4,848,117	\$5,030,314	\$5,274,728	\$5,522,266	\$5,800,814	\$6,162,331	\$6,532,329			
GROWTH RATE	10.9%	3.4%	5.7%	3.8%	4.9%	4.7%	5.0%	6.2%	6.0%			

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 \$30 million, estimated spillover from June 30, 2007 falling on a weekend. FY 2012 excludes \$30 million, due to June 30, 2012 falling on a weekend. FY 2014 includes \$30 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 TAXES
FISCAL YEARS 2007 - 2014
(in thousands of dollars)

<u>Source</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	1,001	1,001	1,001	1,001	1,001	1,001	1,001
Revenues from Use of Money and Property	85,420	69,716	69,984	69,286	68,795	65,586	65,150	65,782
Federal Grants	6,866	5,513	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	203,286	210,309	216,663	223,175	230,641	236,899	236,900
Fines, Forfeits & Penalties	351	534	530	530	530	530	530	530
Repayment of Loans & Advances	26,286	27,629	24,542	18,716	22,876	20,554	18,111	18,111
Other Non-Revenue Receipts	186,421	162,395	159,130	158,821	159,434	159,435	159,435	159,435
Subtotal	520,604	472,876	473,812	473,332	484,126	486,062	489,441	490,074
Judiciary	31,214	29,120	29,624	30,094	30,546	31,005	31,476	31,476
Total	551,818	501,997	503,436	503,426	514,672	517,067	520,917	521,550

Prepared by: Department of Budget & Finance

August 28, 2007

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

Sources	<u>FY 2007</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>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	1,532	1,290	1,311	1,332	1,345	1,352	1,352	1,352
Liquid Fuel:								
Highway	85,868	85,167	86,229	87,304	88,392	89,494	90,610	90,610
Aviation	2,174	2,642	2,669	2,695	2,722	2,749	2,777	2,777
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	89,109	90,198	91,299	92,414	93,543	94,687	94,687
Transfer of Transient Accom Tax	106,086	118,215	121,783	126,404	131,079	135,990	141,254	141,254
Motor Vehicle Weight Tax	33,309	31,513	31,907	32,306	32,710	33,118	33,533	33,533
Vehicle Registration Fee Tax	26,499	26,526	26,792	27,062	27,335	27,611	27,891	27,891
Vehicle Surcharge:								
Rental /Tour	46,989	38,626	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	870	420	440	800	950	950	950
Election Campaign Contrib T.F.	220	260	260	260	260	260	260	260
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	39,400	39,400	39,400	39,400	39,400	39,400	39,400
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>488,610</u>	<u>494,550</u>	<u>502,055</u>	<u>509,990</u>	<u>517,988</u>	<u>525,803</u>	<u>525,803</u>

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

Sources	<u>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	13,644	15,604	17,117	16,864	17,366	17,152	17,412	17,269
Revenues from Use of Money and Property	146,445	148,001	148,880	147,528	146,990	150,225	146,675	146,812
Federal	214,760	215,800	216,660	211,120	215,849	220,768	225,885	225,885
Other Agencies	36,868	53,858	53,858	53,858	53,858	53,858	53,858	53,858
Charges for Current Services:								
Utils & Other Enterprises	329,421	369,761	369,829	379,663	396,966	393,376	436,737	436,747
Others	707,193	752,748	804,654	828,768	863,429	899,873	919,724	919,859
Fines, Forfeits & Penalties	3,360	2,632	2,636	2,650	2,664	2,679	2,693	2,693
Non-Revenue Receipts	176,802	171,990	171,985	171,987	172,093	172,090	172,095	172,095
Judiciary	7,784	7,936	8,067	8,202	8,321	8,442	8,566	8,566
Office of Hawaiian Affairs	0	0	0	0	0	0	0	0
Total	<u>1,636,276</u>	<u>1,738,331</u>	<u>1,793,686</u>	<u>1,820,641</u>	<u>1,877,536</u>	<u>1,918,463</u>	<u>1,983,645</u>	<u>1,983,784</u>
Adjustment for Transfers within Special Fund Category	28,867	34,513	34,507	34,510	34,509	34,506	34,510	34,510
Adjusted Total	1,607,409	1,703,818	1,759,179	1,786,131	1,843,027	1,883,957	1,949,135	1,949,274

Prepared by: Department of Budget & Finance

August 28, 2007

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
Multi-Year Revenues from Sources Other than Taxes
Fiscal Years 2007 - 2014
(in thousands of dollars)

Sources	<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	477	493	493	493	493	493	493	493
Revenues from Use of Money and Property	59,512	57,985	56,079	55,328	55,034	53,930	53,555	53,533
Federal	1,746,509	1,804,343	1,816,752	1,872,926	1,922,041	1,978,871	2,021,216	2,021,231
Other Agencies	19,112	62,237	62,566	12,108	12,113	12,113	12,098	12,098
Charges for Current Services	125,077	123,271	120,706	119,513	119,886	119,835	119,864	119,874
Fines, Forfeits & Penalties	2,072	1,108	958	958	958	958	958	958
Non-Revenue Receipts	679,142	695,227	749,361	783,086	800,063	837,953	875,707	913,674
Office of Hawaiian Affairs	<u>41,250</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>	<u>15,100</u>
TOTAL	<u>2,673,151</u>	<u>2,759,764</u>	<u>2,822,015</u>	<u>2,859,512</u>	<u>2,925,688</u>	<u>3,019,253</u>	<u>3,098,991</u>	<u>3,136,961</u>

Prepared by: Dept. of Budget & Finance

August 28, 2007