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COUNCIL ON REVENUES

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

January 10, 2008

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, 2008, the Council forecast that the General Fund tax revenues would grow at the rate of 4.9% for fiscal year (FY) 2008 and 4.1% for FY 2009. Details of the updated forecasts of the State's General Fund tax revenues for FY 2008 through FY 2014 are presented in Table 2 (attached).

For FY 2008, the mean Council forecast of key economic indicators (Table 3) is that construction will grow by 1.7%, total personal income will grow by 5.9%, and visitor arrivals will increase by 1.0%. Inflation (the Honolulu Consumer Price Index) is forecast to be 4.0%. For FY 2009, the mean Council forecast is that construction will decline by 0.7%, total personal income will grow by 5.3%, visitor arrivals will grow by 1.5%, and inflation will be 3.4%. For FY 2010 and thereafter, contracting is likely to decline after adjusting for inflation. Total personal income is forecast to grow at a modest rate of about 2% after adjusting for inflation.

Recent data supports the contention that the economy is softening. The latest data released by the Department of Business, Economic Development, and Tourism (DBEDT) indicated that the pace of visitor arrivals for the first five months of FY 2008 is down 0.6% from the same period in FY 2007. Private building authorizations for the first four months of FY 2008, which indicate future private construction, were \$1.2 billion, 13.8% lower than the same period in FY 2007. The Council also noted that the consumer inflation rate, measured by the change in the Honolulu Consumer Price Index, was about 5.4% in FY 2007, which is the highest it has been since FY 1992. As a result, despite a forecast for modest real (inflation-adjusted) growth, the Council predicts that total nominal personal income will increase by 5.9% in FY 2008.

In producing its forecasts, the Council has considered the impact to the General Fund tax revenues of the changes in the tax laws passed by recent legislative sessions such as:

- Act 110, Session Laws of Hawaii (SLH) 2006 – increase in standard income tax deduction and expansion of income tax brackets, effective January 2007, approximately \$25 million a year.
- Act 209, SLH 2007 – exemption from general excise tax of alcohol fuel for FY 2008 and FY 2009, approximately \$40 million a year.
- Act 210, SLH 2007 – one time, refundable, constitutionally-mandated income tax credit, approximately \$26 million for FY 2008.
- Act 211, SLH 2007 – refundable food/excise tax credit, approximately \$24 million per year starting in FY 2009.

The Council also reviewed the growing impact of Act 215, SLH 2004, which provides for the extension of the high technology and research credits. Although tax credits can have important effects on the growth rate of tax revenues, forecasts of them are subject to large errors because of large measurement errors and the lack of adequate historical data. The Council recognizes the challenge of forecasting revenues over the next several years as the impacts of significant changes in tax laws, especially recent business incentive tax credits, interact with external factors. In addition, geopolitical events and changes in capital markets, which may alter such things as the prices of real estate and of oil, will continue to pose challenges for economic forecasters.

As always, the Council assumes that the State will not be subject to potential losses caused by decreases in federal allocations, any prolonged or crippling strikes, or any other unusual occurrences, and it has considered existing tax laws only.

General Fund non-tax revenues increased in FYs 2008–2014 due to increases in central services assessments and projected transfers from non-general funds for pension accumulation and social security reimbursements, partially offset by decreases in the reimbursement for the costs of assessing the county surcharge on the general excise tax and transfers from the Hawaii Hurricane Relief Fund.

Special Fund tax revenues increased in FYs 2008–2014 due to revisions based on Act 209, SLH 2007, which increased the license tax paid by distributors on liquid fuel by 1 cent, and Act 258, SLH 2007, which extended the sunset date for the vehicle rental surcharge until August 31, 2008; and changes to the projections of the transient accommodations tax.

Special Fund Non-Tax Revenues increased in FY 2007 based on actual funds received; FYs 2008–2014 net decreases are due to changes in projected federal funds and charges for current services for the Department of Transportation, projections in eligible Medicaid reimbursements for the Department of Health, projections in the transfer of tobacco settlement moneys for the University of Hawaii (UH); and corrections of reporting errors for the DBEDT

housing bond funds, which should be more appropriately recorded as Other than Special Fund Non-Tax Revenues, and corrections of revenues for the Kapolei land sale for the UH, which were previously recorded as Other than Special Fund Non-Tax Revenues.

Other than Special Fund Non-Tax Revenues increased in FY 2007 based on actual funds received; FYs 2008–2014 net increases are due to changes in projected federal funds, projections for the public facilities development dedication fees for DBEDT, projections for private donations to support efforts to address homelessness on the Leeward coast of Oahu (Department of Accounting and General Services); and corrections of reporting errors for DBEDT housing bond funds which were previously recorded as Special Fund Non-Tax Revenues, and corrections of revenues for the Kapolei land sale for UH, which should be more appropriately recorded as Special Fund Non-Tax Revenues.

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 stylized flourish at the end.

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

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2008 to FY 2014

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED							
	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	\$2,555,762	\$2,707,479	\$2,802,877	\$2,952,216	\$3,094,190	\$3,210,255	\$3,411,894	\$3,623,953	
Income - Individual 3/, 5/	1,550,164	1,559,690	1,621,493	1,704,491	1,781,618	1,864,175	1,973,072	2,085,752	2,201,300	
Income - Corporation	130,010	81,834	87,550	87,259	81,806	83,099	88,726	95,528	104,217	
Public Service Company	120,679	124,017	130,372	140,684	151,169	161,658	172,116	182,740	193,531	
Insurance Premiums	88,068	92,196	83,334	84,020	88,529	91,427	116,616	133,071	146,762	
Tobacco & Licenses	86,827	85,143	87,294	89,559	92,189	94,882	97,752	100,695	103,713	
Liquor & Permits	45,955	46,034	47,137	48,241	49,332	50,425	51,524	52,629	53,742	
Banks & Other Fin Corps	16,324	16,599	18,157	19,834	21,579	23,111	24,550	26,117	27,674	
Conveyance	20,720	7,033	12,116	12,423	12,779	13,135	13,526	13,928	14,400	
Miscellaneous *	4,551	1,120	528	531	534	536	539	541	543	
Transient Accommodation Tax 1/	16,378	17,076	15,636	18,061	20,402	22,655	24,958	27,427	30,086	
NET TOTAL	\$4,434,992	\$4,586,504	\$4,811,096	\$5,007,980	\$5,252,153	\$5,499,293	\$5,773,634	\$6,130,322	\$6,499,921	
GROWTH RATE	10.9%	3.4%	4.9%	4.1%	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	1,005	1,002	1,002	1,002	1,002	1,002	1,002
Revenues from Use of Money and Property	85,420	69,751	70,018	69,311	68,859	65,640	65,204	65,836
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	205,330	210,913	216,688	223,120	229,359	238,164	239,941
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	164,101	168,672	168,363	168,976	168,977	168,977	168,977
Subtotal	520,604	476,665	483,993	482,925	493,678	494,377	500,303	502,712
Judiciary	31,214	32,025	32,698	33,215	33,719	34,232	34,757	35,292
Total	551,818	508,690	516,691	516,140	527,397	528,609	535,060	538,004

Prepared by: Department of Budget & Finance

January 9, 2008

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 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>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	1,532	1,490	1,511	1,532	1,545	1,552	1,552	1,552
Liquid Fuel:								
Highway	85,868	92,167	93,229	94,304	95,392	96,494	97,610	97,610
Aviation	2,174	2,200	2,200	2,200	2,200	2,200	2,200	2,200
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	95,667	96,729	97,804	98,892	99,994	101,110	101,110
Transfer of Transient Accom Tax	106,086	116,261	119,640	122,261	128,338	132,820	136,617	141,645
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	52,626	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	41,060	40,778	41,250	41,450	41,450	41,450	41,450
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>509,073</u>	<u>500,515</u>	<u>506,467</u>	<u>515,977</u>	<u>523,519</u>	<u>529,839</u>	<u>534,867</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	13,494	14,519	16,736	16,923	17,429	17,210	17,475	17,327
Revenues from Use of Money and Property	139,358	105,726	104,827	101,427	102,330	104,485	106,843	106,980
Federal	192,741	212,835	215,345	214,805	219,534	224,453	229,570	229,570
Other Agencies	37,341	103,858	103,858	53,878	53,878	53,878	53,858	53,858
Charges for Current Services:								
Utils & Other Enterprises	320,635	346,920	365,801	381,710	392,732	401,269	412,545	421,501
Others	391,258	754,051	811,086	837,339	873,098	910,142	930,293	930,828
Fines, Forfeits & Penalties	4,069	2,857	2,711	2,725	2,789	2,854	2,868	2,868
Non-Revenue Receipts	598,513	128,930	122,082	121,886	121,881	121,878	121,883	121,883
Judiciary	7,873	9,609	9,780	9,740	9,871	9,904	10,040	10,179
Office of Hawaiian Affairs	0	0	0	0	0	0	0	0
Total	<u>1,705,282</u>	<u>1,679,305</u>	<u>1,752,226</u>	<u>1,740,432</u>	<u>1,793,542</u>	<u>1,846,073</u>	<u>1,885,375</u>	<u>1,894,994</u>
Adjustment for Transfers within Special Fund Category	<u>337,072</u>	<u>96,446</u>	<u>89,598</u>	<u>89,402</u>	<u>89,397</u>	<u>89,394</u>	<u>89,398</u>	<u>89,398</u>
Adjusted Total	<u>1,368,210</u>	<u>1,582,859</u>	<u>1,662,628</u>	<u>1,651,030</u>	<u>1,704,145</u>	<u>1,756,679</u>	<u>1,795,977</u>	<u>1,805,596</u>

Prepared by: Department of Budget & Finance

January 9, 2008

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	95,795	92,732	90,398	89,962	89,639	88,399	88,018	87,991
Federal	1,766,114	1,818,405	1,816,594	1,853,895	1,888,757	1,931,481	1,973,829	1,973,943
Other Agencies	18,369	12,637	12,966	12,488	12,493	12,493	12,498	12,498
Charges for Current Services	124,878	124,786	121,000	129,618	121,228	123,487	121,190	121,200
Fines, Forfeits & Penalties	2,269	1,108	958	958	958	958	958	958
Non-Revenue Receipts	722,619	745,114	793,348	827,214	844,194	882,084	919,838	957,805
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>2,771,771</u>	<u>2,810,375</u>	<u>2,850,857</u>	<u>2,929,728</u>	<u>2,972,862</u>	<u>3,054,495</u>	<u>3,131,924</u>	<u>3,169,988</u>
Adjustment for Transfers within Other Than Special Fund Category	(240)	5,000	0	141	0	0	0	0
Adjusted Total	2,772,011	2,805,375	2,850,857	2,929,587	2,972,862	3,054,495	3,131,924	3,169,988

Prepared by: Dept. of Budget & Finance

January 9, 2008