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COUNCIL ON REVENUES

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

March 14, 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 March 12, 2008, the Council on Revenues adjusted the forecasted growth rate of General Fund tax revenues for fiscal year (FY) 2008 from 4.9% to 3.9%. Details of the updated forecasts of the State's General Fund tax revenues for FY 2008 through FY 2014 are presented in the attached table.

The Council notes that the growth rate of general fund tax revenues for the first eight months of the current fiscal year is 3.1%, which is in line with other economic indicators such as the slower growth of Hawaii payroll employment and inflation-adjusted total personal income.

Other data support 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 seven months of FY 2008 was down 0.3% from the same period in FY 2007. Private building authorizations for the first six months of FY 2008, which indicate future private construction, totaled $1.8 billion, 15.9% lower than the total for the same period in FY 2007.

Some of the decline in this revenue forecast revision can be attributed to a 1 percentage point reduction in calendar year 2007 Hawaii payroll employment estimates reported after the annual, February "re-benchmarking" of the official statistics. Personal income, a large portion of which comprises wages and salaries, also should be expected to be revised downward retrospectively in a forthcoming release. In this instance, instead of roughly 2 percent job growth or real income growth, it turns out that in 2007 the figures for Hawaii were closer to 1 percent, as many other indicators—including tax revenues—also seemed to imply. Indeed, real growth by either measure may well be close to zero in calendar year 2008, and thus the trend in revenue growth towards approximately 4 percent rates of *nominal* increase broadly would be consistent with no real increase and about 4 percent inflation. A correction to the economic assumptions used to forecast revenues, based on the rather substantial downward revision to recent data, naturally reduces the revenue growth forecast to these newer magnitudes.

In producing its forecasts, the Council has considered the impact to the General Fund tax revenues of tax law changes passed in recent legislative sessions including:

- Act 110, Session Laws of Hawaii (SLH) 2006—increase in standard income tax deduction and expansion of income tax brackets, effective January 2007, approximately $50 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 recognizes the challenge of forecasting revenues over the next several years as the impacts of significant tax law changes, especially recent business incentive tax credits, interact with external factors. Geopolitical events and capital markets volatility, which may alter such things as the prices of real estate and oil, will continue to pose challenges for economic forecasters. Hawaii economic growth is significantly exposed to recent increases in global petroleum and commodity prices, to which the islands' economy is particularly vulnerable. Adding significant uncertainty to the economic and revenue forecasts are consequences of recent financial markets' turmoil associated with the unwinding of credit risk exposures by financial institutions holding home mortgages as well as the financial structures that are derivative to those mortgages. This uncertainty has generated a systemic liquidity and credit crunch that monetary and fiscal policy authorities are intervening to ameliorate. However, economic outcomes remain uncertain and downside risks to the near-term General Fund tax revenue forecast should not be underestimated, which in turn could affect the path of revenues in subsequent years.

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 transfers from non-General Funds for pension accumulation, social security reimbursements; workers compensation and unemployment compensation; and transfers from the Antitrust Trust Fund and the Public Utilities Special Fund.

Special Fund Tax Revenues increased in FY 2008–2014 due to Act 102, SLH 2007, which provides funding from the cigarette tax (0.25 cents per cigarette in FY 2008) for the Department of Health's (DOH) Trauma System Special Fund and the Emergency Medical Services Special Fund; partially offset by decreases to the Transient Accommodation Tax (based on the Council's January 2008 projections).

Special Fund Non-Tax Revenues increases in FY 2007 reflect the Hawaii Health Systems Corporation's (HHSC) preliminary financial statements. Significant changes in FYs 2008–2014 are due to increased projections by the Department of Transportation based on amended signatory airline lease extension agreements; increases by the University of Hawaii undergraduate tuition fees caused by the growth of the new West Oahu campus; increases by Hawaiian Home Lands due to a corrections in general lease projections; increases by the DOH due to a correction in the reporting of revenues for Medicaid eligible reimbursements previously recorded as Other Than Special Fund revenues; and net decreases made by HHSC based on FY 2007 revenues and delays in the phasing of the new cardiovascular program at Maui Memorial Medical Center.

Other Than Special Fund Non-Tax Revenues decreased in FYs 2007–2014 due to changes in projected federal funds, projections for cost allocation assessments for risk management (Department of Accounting and General Services), projections for employee health plan contributions paid by the employer and the employee, projections for sales activities for the correctional industries program for the Department of Public Safety, and corrections of reporting errors for the DBEDT's public facilities development dedication fees, and corrections of revenues from reimbursement for Medicaid eligible services for the DOH, 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,

Paul H Brewbaker

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	$2,679,774	$2,772,578	$2,911,679	$3,047,242	$3,157,777	$3,353,822	$3,560,838
Income - Individual 3/, 5/	1,550,164	1,559,690	1,602,316	1,685,375	1,763,217	1,847,299	1,958,060	2,072,901	2,190,355
Income - Corporation	130,010	81,834	89,620	92,423	95,375	99,777	107,172	114,821	123,842
Public Service Company	120,679	124,017	129,975	139,866	149,606	159,333	169,085	179,104	189,411
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	87,093	89,045	91,453	94,021	96,650	99,453	102,325
Liquor & Permits	45,955	46,034	47,094	48,141	49,231	50,338	51,450	52,569	53,681
Banks & Other Fin Corps	16,324	16,599	17,804	19,409	20,813	22,237	23,630	25,199	26,790
Conveyance	20,720	7,033	12,116	12,347	12,696	13,023	13,396	13,783	14,240
Miscellaneous *	4,551	1,120	528	531	534	536	539	541	543
Transient Accommodation Tax 1/	16,378	17,076	15,577	17,808	20,064	22,390	24,828	27,433	30,215
NET TOTAL	$4,434,992	$4,586,504	$4,765,231	$4,961,543	$5,203,197	$5,447,623	$5,719,203	$6,072,697	$6,439,002
GROWTH RATE	10.9%	3.4%	3.9%	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 $40 million, estimated spillover from June 30, 2007 falling on a weekend. FY 2012 excludes $40 million, due to June 30, 2012 falling on a weekend. FY 2014 includes $40 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 deductiable 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 TAX
FISCAL YEARS 2007 - 2014
(in thousands of dollars)

Sources	Actual FY 2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Estimated FY 2014
Licenses & Permits	1,245	1,007	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	6,866	5,536	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	205,611	210,755	216,401	222,715	228,916	237,603	239,321
Fines, Forfeits & Penalties	351	539	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
Non-Revenue Receipts	186,421	167,085	185,480	185,206	185,716	185,717	185,717	185,717
Judiciary	31,214	32,025	32,698	33,215	33,719	34,232	34,757	35,292
Total	551,818	511,986	533,341	532,696	543,732	544,906	551,239	554,124

Prepared by: Department of Budget & Finance

March 12, 2008

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

Sources	Actual FY 2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Estimated FY 2014
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	1,532	5,633	8,876	12,579	20,877	29,170	31,932	31,932
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	1,658	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Subtotal	89,700	95,667	96,729	97,804	98,892	99,994	101,110	101,110
Transfer of Transient Accom Tax	106,086	114,704	117,804	121,485	125,147	129,959	133,125	137,573
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	26,558	26,824	27,094	27,367	27,643	27,923	27,923
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	200	200	200	200	200	200	200
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	40,528	40,700	40,700	40,700	40,700	40,700
Transfer of Tax on Ins. Premiums	2,008	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total	491,461	511,631	505,767	516,161	531,340	547,498	555,949	560,397

Prepared by: Department of Budget & Finance

March 12, 2008

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

Sources	Actual FY 2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Estimated FY 2014
Licenses & Permits	13,494	14,320	16,706	16,906	17,379	17,184	17,461	17,265
Revenues from Use of Money and Property	139,358	112,703	112,970	109,320	109,246	110,304	111,523	112,658
Federal	260,481	229,614	229,933	223,935	229,030	233,335	237,857	237,777
Revenue from 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	337,299	378,631	396,361	412,055	420,001	441,967	488,549
Others	706,625	754,716	817,074	853,866	889,777	926,344	945,322	944,903
Fines, Forfeits & Penalties	4,069	3,099	2,711	2,725	2,789	2,854	2,868	2,868
Non-Revenue Receipts	395,513	128,936	122,088	121,892	121,887	121,885	121,889	121,889
Judiciary	7,873	9,609	9,780	9,740	9,871	9,904	10,040	10,179
Total	1,885,389	1,694,155	1,793,751	1,788,624	1,845,912	1,895,689	1,942,785	1,989,946
Adjustments:								
Revenue Transfers	337,072	96,446	89,598	89,402	89,397	89,394	89,398	89,398
Adjusted Total	1,548,317	1,597,709	1,704,153	1,699,222	1,756,515	1,806,295	1,853,387	1,900,548

Prepared by: Department of Budget & Finance

March 12, 2008

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

Sources	Actual FY2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Estimated FY 2014
Licenses & Permits	477	493	493	493	493	493	493	493
Revenues from Use of Money and Property	96,187	94,219	90,463	89,864	89,693	88,883	88,502	88,475
Federal	1,774,875	1,819,663	1,817,085	1,852,835	1,887,101	1,929,822	1,972,073	1,972,184
Revenues from Other Agencies	19,330	12,767	13,096	12,618	12,623	12,623	12,628	12,628
Charges for Current Services	113,940	113,738	112,088	113,139	112,655	114,951	112,622	112,635
Fines, Forfeits & Penalties	2,269	1,108	958	958	958	958	958	958
Non-Revenue Receipts	723,903	746,914	794,291	832,298	850,087	887,660	925,085	963,210
Office of Hawaiian Affairs	41,250	15,100	15,100	15,100	15,100	15,100	15,100	15,100
TOTAL	2,772,231	2,804,002	2,843,574	2,917,305	2,968,710	3,050,490	3,127,461	3,165,683
Adjustments:								
Revenue Transfers	3,394	7,351	2,351	2,351	2,351	2,351	2,351	2,351
Adjusted Total	2,768,837	2,796,651	2,841,223	2,914,954	2,966,359	3,048,139	3,125,110	3,163,332

Prepared by: Dept. of Budget & Finance

March 12, 2008