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COUNCIL ON REVENUES

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

September 8, 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 September 3, 2008, the Council on Revenues voted to leave unchanged the forecasted growth rates of General Fund tax revenues for fiscal year (FY) 2009 through FY 2015 agreed upon in its previous deliberation. Details of the Council's forecasts of the State's General Fund tax revenues for FY 2009 through FY 2015 are presented in the attached table.

Hawaii's economic outlook has not significantly changed in the month since the Council's meeting on July 31, 2008. No change to the revenue forecast was felt warranted at this time.

In producing its forecasts, the Council has adopted specific adjustments recommended by the Hawaii Department of Taxation to reflect the impacts on General Fund tax revenues of recent tax law changes, including:

- Act 209, SLH 2007—exemption from general excise tax of alcohol fuel; approximately \$40 million for FY 2009.
- Act 211, SLH 2007—refundable food/excise tax credit; approximately \$24 million per year starting in FY 2009.
- Act 58, SLH 2008—one-time, refundable, constitutionally-mandated income tax credit; approximately \$1 million for FY 2009.
- Act 89, SLH 2008—application of the 0.5% general excise tax rate to certain warranty work performed on behalf of manufacturers; approximately \$1.5 million for FY 2009 and annually thereafter.

- Act 143, SLH 2008—changes relating to agricultural businesses qualifying for enterprise zone benefits; approximately \$100,000 for FY 2009, \$200,000 for FYs 2010–2011, \$300,000 for FY 2012, and 500,000 for FY 2012 and annually thereafter.
- Act 156, SLH 2008—allows state and county governments to hire retired state or county government employees; approximately \$1.5 million for FYs 2009–2013.
- Act 233, SLH 2008—provides an important agricultural land qualified agricultural cost income tax credit; approximately \$7.5 million annually for FYs 2010–2014.

The Council emphasizes the challenge of forecasting revenues as the impacts of significant tax law changes interact with unpredictable external factors.

As always, the Council's forecast assumes that the State will not be subject to potential losses caused by unusual occurrences, and it has considered existing tax laws only.

As reported to the Council by the Hawaii Department of Budget and Finance, General Fund Non-Tax Revenues increased in FY 2008 due to higher than projected actual interest earnings, increased ambulance and emergency medical services collections, increased reimbursements for the employer's share of health benefit premiums, pension accumulation and social security from non-general funded programs, reimbursements of prior years' expenditures for the employer's share of social security/Medicare payments, realization for premium bonds sold, transfers from the Department of Land and Natural Resources special funds, and a reimbursement of start-up funds from the Emergency Medical Services special fund.

Special Fund Tax Revenues adjustments reported to the Council reflect increases in collections for liquid fuel (aviation) and vehicle surcharge (rental vehicles). The increases were offset by decreases in unemployment compensation taxes and transfers of conveyance tax.

Special Fund Non-Tax Revenues adjustments reported to the Council reflect changes in FYs 2008–2015 for the Department of Transportation—revisions to interest income, increased federal funds for the Highways Division, decreases in the Airport Division's signatory terminal rental rates, landing fees and concession fees, and changes in the passenger facility charges; delay in the University of Hawaii (UH) Kapolei land sale, revisions to UH's resident and nonresident tuition fees, and increases in UH Manoa dormitory rental revenues; and decreases in worker compensation insurance premiums.

Other Than Special Fund Non-Tax Revenues adjustments in FYs 2008–2015 reported to the Council are attributed to increases in projected federal funds for the Department of Health; increases in UH federal funds recovery of indirect costs; increase in FY 2008 unclaimed property collections; and increases in projected employee contributions for health benefits due to increased health plan costs for active employees. The increases are offset by decreases in FY 2008 interest earning for the Department of Business, Economic Development and Tourism (DBEDT), Hawaii Housing Finance and Development Corporation; decreases due to lower than

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projected employer contribution health benefit retiree rates; and decreases in loan repayments for DBEDT low- and moderate- home mortgage loans, Department of Health State water pollution control program and UH student loans.

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 2009 to FY 2015

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
General Excise & Use 2/, 3/	\$2,555,762	\$2,618,787	\$2,625,152	\$2,738,986	\$2,834,077	\$2,904,222	\$3,062,981	\$3,247,656	\$3,359,367
Income - Individual	1,559,690	1,544,307	1,560,234	1,623,414	1,700,036	1,816,072	1,917,531	2,027,750	2,134,314
Income - Corporation	81,834	85,081	82,792	80,759	82,628	92,367	100,980	114,269	127,059
Public Service Company	124,017	127,481	136,621	145,545	154,351	163,156	172,007	180,969	190,083
Insurance Premiums	92,196	95,742	96,910	98,972	102,085	116,405	124,954	132,301	137,197
Tobacco & Licenses	84,219	83,443	93,779	95,716	98,106	100,658	103,382	106,173	109,032
Liquor & Permits	46,034	45,620	46,250	47,483	48,819	50,084	51,274	52,455	53,645
Banks & Other Fin Corps	16,599	18,212	16,532	16,097	16,710	23,380	27,458	31,156	33,780
Conveyance 4/	7,033	6,513	13,853	12,528	11,214	9,912	8,621	7,341	6,073
Miscellaneous *	1,120	751	590	589	588	587	586	585	584
Transient Accommodation Tax 1/	17,076	15,935	15,534	17,241	19,752	22,336	24,921	27,556	30,310
NET TOTAL	\$4,585,580	\$4,641,872	\$4,688,247	\$4,877,330	\$5,068,366	\$5,299,179	\$5,594,695	\$5,928,211	\$6,181,444
GROWTH RATE	3.4%	1.2%	1.0%	4.0%	3.9%	4.6%	5.6%	6.0%	4.3%

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 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 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.

4/ Due to the expiration of Act 222, SLH 2007, on June 30, 2008, the amount of conveyance tax deposited into the General Fund increased from 15% to 35%.

* Includes inheritance and estate tax.

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)**

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2015</u>
Licenses & Permits	1,510	1,006	1,006	1,006	1,006	1,006	1,006	1,006
Revenues from Use of Money and Property	89,520	70,018	69,311	68,859	65,640	65,204	65,836	65,836
Federal	4,536	5,381	5,381	5,381	5,381	5,381	5,381	5,381
Revenues from Other Agencies	2,328	2,814	2,814	2,814	2,814	2,814	2,814	2,814
Charges for Current Services	238,966	217,893	221,911	230,297	238,881	250,524	252,238	252,223
Fines, Forfeits & Penalties	494	545	545	545	545	545	545	545
Repayment of Loans & Advances	30,019	24,492	18,616	22,776	20,454	17,961	17,961	17,961
Non-Revenue Receipts	202,414	187,254	185,238	185,704	185,704	185,704	185,704	185,704
Judiciary	<u>34,209</u>	<u>32,698</u>	<u>33,215</u>	<u>33,719</u>	<u>34,232</u>	<u>34,757</u>	<u>35,292</u>	<u>35,292</u>
Total	<u>603,997</u>	<u>542,103</u>	<u>538,037</u>	<u>551,101</u>	<u>554,657</u>	<u>563,896</u>	<u>566,777</u>	<u>566,762</u>

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2008 - 2015**
(in thousands of dollars)

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2015</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	5,822	8,781	13,346	20,628	28,813	31,540	31,540	31,540
Liquid Fuel:								
Highway	88,135	89,214	90,326	91,452	92,592	93,747	94,916	96,099
Aviation	4,216	4,615	4,615	4,615	4,615	4,615	4,615	4,615
Small Boats	<u>1,640</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	93,991	95,128	96,241	97,367	98,507	99,662	100,831	102,014
Transfer of Transient Accom Tax	112,900	117,218	120,959	124,778	128,856	133,213	137,868	137,868
Motor Vehicle Weight Tax	34,010	34,435	34,865	35,301	35,743	36,189	36,642	37,100
Vehicle Registration Fee Tax	26,445	26,710	26,977	27,248	27,522	27,800	28,082	28,366
Vehicle Surcharge:								
Rental /Tour	49,688	50,180	51,183	52,207	53,251	54,316	55,403	56,511
Environmental Response Tax	1,695	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Unemployment Comp Tax	103,882	137,000	137,000	137,000	137,000	137,000	137,000	137,000
Employment & Training	1,125	420	440	800	950	950	950	950
Election Campaign Contrib T.F.	190	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	32,647	33,228	32,400	32,400	32,400	32,400	32,400	32,400
Transfer of Tax on Ins. Premiums	<u>1,745</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>466,142</u>	<u>509,100</u>	<u>519,412</u>	<u>533,730</u>	<u>549,042</u>	<u>559,070</u>	<u>566,716</u>	<u>569,749</u>

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2015</u>
Licenses & Permits	14,787	16,523	17,336	17,774	17,530	17,804	17,597	17,882
Revenues from Use of Money and Property	124,874	112,910	105,959	101,588	99,869	98,643	100,061	100,324
Federal	302,139	237,587	230,146	235,299	239,662	244,243	244,515	246,556
Revenue from Other Agencies	56,073	103,857	103,857	53,857	53,857	53,857	53,857	53,857
Charges for Current Services:								
Utils & Other Enterprises	322,288	342,172	369,484	384,901	398,789	427,127	463,539	481,420
Others	755,657	808,235	836,804	875,562	911,112	935,276	940,048	940,804
Fines, Forfeits & Penalties	4,851	3,089	3,100	3,065	3,131	3,147	3,163	3,180
Non-Revenue Receipts	136,022	126,568	126,175	126,169	126,167	126,171	126,171	126,169
Judiciary	<u>9,609</u>	<u>9,780</u>	<u>9,740</u>	<u>9,871</u>	<u>9,904</u>	<u>10,040</u>	<u>10,179</u>	<u>10,179</u>
Total	<u>1,726,301</u>	<u>1,760,723</u>	<u>1,802,603</u>	<u>1,808,085</u>	<u>1,860,021</u>	<u>1,916,308</u>	<u>1,959,130</u>	<u>1,980,371</u>
Adjustments:								
Revenue Transfers	97,863	90,024	89,631	89,626	89,623	89,627	89,627	89,625
Adjusted Total	<u>1,628,438</u>	<u>1,670,699</u>	<u>1,712,972</u>	<u>1,718,459</u>	<u>1,770,398</u>	<u>1,826,681</u>	<u>1,869,503</u>	<u>1,890,746</u>

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2008 - 2015
(in thousands of dollars)

<u>Sources</u>	<u>Actual FY2008</u>	<u>Estimated FY2009</u>	<u>Estimated FY2010</u>	<u>Estimated FY2011</u>	<u>Estimated FY2012</u>	<u>Estimated FY2013</u>	<u>Estimated FY2014</u>	<u>Estimated FY2015</u>
Licenses & Permits	486	493	492	493	493	493	493	493
Revenues from Use of Money and Property	100,997	97,647	94,573	94,402	93,808	93,488	92,611	92,602
Federal	1,842,431	1,865,281	1,870,670	1,907,395	1,942,297	1,983,572	1,983,683	1,983,753
Revenues from Other Agencies	17,007	12,860	12,642	12,647	12,647	12,652	12,652	12,652
Charges for Current Services	124,830	118,929	117,450	121,960	121,675	119,292	118,838	118,839
Fines, Forfeits & Penalties	1,285	909	908	908	908	908	908	908
Repayment of Loans & Advances	30,287	33,362	33,855	34,277	34,702	34,265	29,829	29,955
Non-Revenue Receipts	761,239	761,216	793,516	804,855	835,435	865,330	896,000	928,685
Office of Hawaiian Affairs	<u>23,801</u>	<u>25,260</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>2,902,363</u>	<u>2,915,957</u>	<u>2,939,206</u>	<u>2,992,037</u>	<u>3,057,065</u>	<u>3,125,100</u>	<u>3,150,114</u>	<u>3,182,987</u>
Adjustments:								
Revenue Transfers	7,351	2,344	2,344	2,344	2,344	2,344	2,344	2,344
Adjusted Total	<u>2,895,012</u>	<u>2,913,613</u>	<u>2,936,862</u>	<u>2,989,693</u>	<u>3,054,721</u>	<u>3,122,756</u>	<u>3,147,770</u>	<u>3,180,643</u>