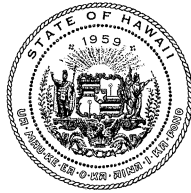


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COUNCIL ON REVENUES

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

October 31, 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 October 29, 2008, the Council on Revenues adjusted the forecasted growth rates of General Fund tax revenues. The forecast was reduced from 1.0% to negative 0.5% for fiscal year (FY) 2009, and from 4.0% to 3.5% for FY 2010. The Council also updated its forecasts of General Fund tax revenues for FYs 2011 through 2015, generally raising the out-year projections. 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 deteriorated since the Council's September 2008 meeting. A recent intensification of the global financial crisis raises the probability of economic recession in the U.S. and abroad. This would have an adverse impact on Hawaii's economy for what may be an extended period. The Council's most recent assessment is that prospects for improved Hawaii tourism performance may be dim until the first half of FY 2010. Inflation, as measured by changes in the Honolulu Consumer Price Index, is expected to decline from 4.8% in FY 2008 to an estimated 3.7% in FY 2009, faster than previously supposed because of a reversal in petroleum and other commodity price movements. Meanwhile, in inflation-adjusted terms, construction expenditure will subside, modestly, for the next several fiscal years.

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. The latter have been particularly notable this fiscal year. In arriving at the most recent forecast, the dispersion of Council members' implied revenue forecasts, based on their individual economic assumptions, was far greater than it has been in a long time. This is but one reflection of the extraordinary extent of current economic uncertainties.

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

Sincerely,



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

Attachment

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	\$2,589,484	\$2,688,684	\$2,797,171	\$2,886,280	\$3,056,055	\$3,257,053	\$3,445,529
Income - Individual	1,559,690	1,544,307	1,529,338	1,584,678	1,674,169	1,805,764	1,916,194	2,038,870	2,198,273
Income - Corporation	81,834	85,081	82,803	78,804	77,982	86,210	94,125	106,701	120,068
Public Service Company	124,017	127,481	136,449	145,134	153,979	163,091	172,368	181,932	192,484
Insurance Premiums	92,196	95,742	96,806	98,657	101,551	115,748	124,280	131,609	136,487
Tobacco & Licenses	84,219	83,443	93,358	94,172	96,735	99,256	101,944	104,588	107,294
Liquor & Permits	46,034	45,620	45,549	46,722	48,086	49,390	50,614	51,817	53,013
Banks & Other Fin Corps	16,599	18,212	16,331	15,781	16,746	23,798	28,094	32,107	35,996
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	14,102	14,567	17,209	20,152	22,918	25,623	28,410
NET TOTAL	\$4,585,580	\$4,641,872	\$4,618,663	\$4,780,316	\$4,995,430	\$5,260,188	\$5,575,799	\$5,938,226	\$6,324,211
GROWTH RATE	3.4%	1.2%	-0.5%	3.5%	4.5%	5.3%	6.0%	6.5%	6.5%

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.