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COUNCIL ON REVENUES

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

March 13, 2009

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, 2009, the Council on Revenues reduced, from -3.0% to -5.0%, forecast growth rates of General Fund tax revenues for fiscal year (FY) 2009 and reduced, from 1.0% to 0.5%, forecast growth rates for FY 2010. Forecast growth rates for FY 2011 through FY 2013 are higher than previously forecast but, applied to a lower base, produce lower forecasts of General Fund tax revenues for the out-years.

Revised forecasts of State General Fund tax revenues for FY 2009 through FY 2015 are listed in the table below:

Fiscal Year	Thousands of Dollars	% Growth From Previous Year
2009	\$4,409,778	-5.0%
2010	\$4,431,827	0.5%
2011	\$4,653,418	5.0%
2012	\$4,909,356	5.5%
2013	\$5,213,736	6.2%
2014	\$5,536,988	6.2%
2015	\$5,808,300	4.9%

Line-item detail of State General Fund tax revenues by revenue category for FY 2009 through FY 2015 are presented in the attached table. These detailed forecasts are based on the Council's forecast for total state General Fund tax revenues and the econometric model currently used by the Tax Research and Planning Office.

The Council reviewed current trends in tax revenue collections which extended a pattern, since early-FY 2009, of decreases at rates faster than forecast, consistent with the extraordinary intensity of a contemporaneous deterioration in financial and real economic activity. The Council considered especially alternative forecasts for visitor arrivals and construction activity. Tourism volumes may be stabilizing, on a seasonally-adjusted basis, but construction's near-term performance now is expected to be worse than previously believed. Notable decreases in January and February 2009 tax collections partly may be attributed to slower processing and reduced staffing levels; the Council assumed that these effects would be transitory. The Council expected Hawaii's inflation rate, measured by changes in the Honolulu Consumer Price Index, to decline from 4.8% in FY 2008 to 1.6% in FY 2009 and 1.2% in FY 2010. The Council embraced the view that the downturn in Hawaii's economy may be nearing a bottom, to be followed—but only gradually—by a strengthening over several years. (The March 2009 revenue forecast would be consistent with the expectation of a longer cyclical trough than was implicit in the January 2009 forecast.) The Council continued to be concerned about unpredictable factors that could reduce State revenues further. Employment data revisions recently revealed a weaker Hawaii labor market than previously was reported. Global recession, including the Asian economies, remains problematic. Uncertainty regarding the timing and magnitudes of impacts of federal fiscal stimulus on the Hawaii economy will diminish only after some time has passed. Financial system stabilization is only just beginning. Thus, while prospects for economic stabilization in FY 2010 and recovery thereafter are improving, risks remain to the downside.

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

- Act 209, Session Laws of Hawaii (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.

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- Act 233, SLH 2008—provides an important agricultural land qualified agricultural cost income tax credit; approximately \$7.5 million annually for FYs 2010–2014.

As is customary, the Council did *not* contemplate revenue impacts of pending legislation.

Various revenue estimates provided to the Council by the Hawaii Department of Budget and Finance at the Council's March 12, 2009, meeting were accepted as submitted; notable changes to those estimates are highlighted in the next several paragraphs.

General Fund Non-Tax Revenue estimates for FYs 2009 through 2015 reflected corrections to Bureau of Conveyances recording fees (Department of Land and Natural Resources) and increases in year-to-date collections for Ambulance and Emergency Medical Services (Department of Health).

Special Fund Tax Revenue estimates for FYs 2009 through 2015 reflected decreased transient accommodations tax based on the Council's January 2009 report.

Special Fund Non-Tax Revenue estimates for FYs 2009 through 2015 reflected projected increases in beverage container deposit collections (Department of Health), and updated enrollment projections and tuition rates at the University of Hawaii (UH).

Other Than Special Fund Non-Tax Revenue estimates for FYs 2008 through 2015 reflected increases attributed to the refinancing of revenue bonds for the UH faculty housing project in FY 2009 (Department of Business, Economic Development and Tourism (DBEDT)); additional federal funds available to the Department of Human Services (DHS) for the Medicaid assistance program under the recently passed federal stimulus plan; increases for DHS Section 8 contract administration for administrative fees paid by the U.S. Department of Housing and Urban Development; and decreases for various UH research and training grants and for recovery of indirect costs. Non-revenue receipt estimate increases for FYs 2009 through 2015 are attributed to increases in affordable rental housing projects (DBEDT) for FY 2009, County of Hawaii contributions for other post-employment benefit plans for FY 2009, and an increase in grants and gifts for research projects (UH).

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

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	\$2,474,483	\$2,498,336	\$2,614,382	\$2,699,191	\$2,861,788	\$3,038,581	\$3,158,859
Income - Individual	1,559,690	1,544,307	1,448,442	1,457,167	1,551,297	1,679,014	1,783,468	1,890,685	2,004,580
Income - Corporation	81,834	85,081	77,544	61,940	58,707	68,185	79,586	93,920	108,883
Public Service Company	124,017	127,481	135,522	143,147	151,301	159,651	167,911	176,086	184,381
Insurance Premiums	92,196	95,742	95,910	96,528	98,969	113,008	121,482	128,753	133,571
Tobacco & Licenses	84,219	83,443	91,203	91,505	93,311	95,754	98,252	101,129	104,191
Liquor & Permits	46,034	45,620	44,715	45,165	46,246	47,565	48,962	50,393	51,833
Banks & Other Fin Corps	16,599	18,212	15,002	14,115	15,421	22,259	26,075	29,403	31,859
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	12,514	10,807	11,982	14,230	17,005	20,112	23,486
NET TOTAL	\$4,585,580	\$4,641,872	\$4,409,778	\$4,431,827	\$4,653,418	\$4,909,356	\$5,213,736	\$5,536,988	\$5,808,300
GROWTH RATE	3.4%	1.2%	-5.0%	0.5%	5.0%	5.5%	6.2%	6.2%	4.9%

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
CONSOLIDATED MULTI-YEAR GENERAL FUND REVENUES FROM SOURCES OTHER THAN TAX,
AND SPECIAL REVENUES FROM TAX & 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>
REVENUES - TAX								
Special Revenue Fund	466,142	491,941	499,370	513,959	519,387	525,122	531,234	537,716
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	504,624	468,045	435,776	417,167	410,135	404,839	399,817	399,317
Federal	2,137,725	2,253,729	2,286,533	2,220,700	2,207,245	2,206,210	2,207,219	2,210,190
Charges for Current Services	1,511,623	1,560,290	1,578,203	1,666,323	1,716,524	1,762,338	1,796,306	1,840,495
Non-Revenue Receipts	1,261,865	1,230,805	1,179,381	1,094,076	1,125,266	1,165,165	1,195,335	1,228,018
Office of Hawaiian Affairs	23,801	21,250	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>44,779</u>	<u>42,914</u>	<u>45,356</u>	<u>46,263</u>	<u>47,087</u>	<u>48,039</u>	<u>49,016</u>	<u>50,018</u>
Subtotal Revenues - Other Than Tax	<u>5,484,416</u>	<u>5,577,033</u>	<u>5,540,348</u>	<u>5,459,628</u>	<u>5,521,357</u>	<u>5,601,691</u>	<u>5,662,793</u>	<u>5,743,138</u>
TOTAL REVENUES	5,950,558	6,068,974	6,039,718	5,973,587	6,040,744	6,126,813	6,194,027	6,280,854
ADJUSTMENTS - Revenue Transfers	<u>296,504</u>	<u>120,686</u>	<u>103,248</u>	<u>99,896</u>	<u>102,813</u>	<u>102,817</u>	<u>102,817</u>	<u>102,815</u>
TOTAL ADJUSTED REVENUES	<u>5,654,054</u>	<u>5,948,288</u>	<u>5,936,470</u>	<u>5,873,691</u>	<u>5,937,931</u>	<u>6,023,996</u>	<u>6,091,210</u>	<u>6,178,039</u>

**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	70,017	69,308	68,857	65,638	65,202	65,834	65,834
Federal	4,536	5,281	4,706	4,571	4,571	4,571	4,571	4,571
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	217,597	220,925	228,760	237,473	248,418	250,562	253,057
Fines, Forfeits & Penalties	494	545	545	545	545	545	545	545
Repayment of Loans & Advances	30,019	24,494	18,616	22,776	20,454	17,961	17,961	17,961
Non-Revenue Receipts	202,414	191,043	182,134	178,837	181,757	181,757	181,757	181,757
Judiciary	<u>34,209</u>	<u>32,698</u>	<u>35,176</u>	<u>35,915</u>	<u>36,666</u>	<u>37,441</u>	<u>38,237</u>	<u>39,054</u>
Total	<u>603,997</u>	<u>545,496</u>	<u>535,230</u>	<u>544,081</u>	<u>550,924</u>	<u>559,715</u>	<u>563,287</u>	<u>566,599</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	9,019	13,721	22,181	31,277	33,767	33,767	33,767
Liquid Fuel:								
Highway	88,135	88,774	89,438	90,107	91,006	91,914	92,831	93,757
Aviation	4,216	4,452	4,452	4,452	4,452	4,452	4,452	4,615
Small Boats	<u>1,640</u>	<u>1,300</u>						
Subtotal	93,991	94,526	95,191	95,860	96,758	97,666	98,583	99,672
Transfer of Transient Accom Tax	112,900	106,368	108,628	112,096	115,730	119,533	123,512	127,677
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	26,665	26,932	27,204	27,478	27,756	28,038	28,322
Vehicle Surcharge:								
Rental /Tour	49,688	50,180	51,183	52,207	41,141	38,451	38,932	39,418
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	500	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	27,578	25,660	25,860	27,560	28,060	28,060	28,060
Transfer of Tax on Ins. Premiums	<u>1,745</u>	<u>1,750</u>						
Total	<u>466,142</u>	<u>491,941</u>	<u>499,370</u>	<u>513,959</u>	<u>519,387</u>	<u>525,122</u>	<u>531,234</u>	<u>537,716</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	14,412	15,777	17,229	17,320	17,448	17,414	17,456	17,533
Revenues from Use of Money and Property	151,723	104,934	101,526	104,140	102,751	101,142	100,751	100,087
Federal	308,390	234,574	233,336	242,395	242,396	244,292	244,564	246,605
Revenue from Other Agencies	59,228	78,857	82,465	57,465	57,465	57,465	57,465	57,465
Charges for Current Services:								
Utils & Other Enterprises	329,810	381,431	385,138	412,154	436,478	468,234	495,550	537,101
Others	812,025	775,720	853,590	902,227	919,661	925,088	930,059	930,720
Fines, Forfeits & Penalties	5,062	5,591	3,216	3,193	3,259	3,275	3,291	3,308
Non-Revenue Receipts	286,296	124,439	115,994	115,989	115,986	115,990	115,990	115,988
Judiciary	<u>10,570</u>	<u>10,216</u>	<u>10,180</u>	<u>10,348</u>	<u>10,421</u>	<u>10,598</u>	<u>10,779</u>	<u>10,964</u>
Total	<u>1,977,515</u>	<u>1,731,539</u>	<u>1,802,673</u>	<u>1,865,230</u>	<u>1,905,865</u>	<u>1,943,498</u>	<u>1,975,905</u>	<u>2,019,771</u>
Adjustments:								
Revenue Transfers	245,764	87,895	79,450	79,445	79,442	79,446	79,446	79,444
Adjusted Total	<u>1,731,751</u>	<u>1,643,644</u>	<u>1,723,223</u>	<u>1,785,785</u>	<u>1,826,423</u>	<u>1,864,052</u>	<u>1,896,459</u>	<u>1,940,327</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	543	578	698	584	583	583	583	583
Revenues from Use of Money and Property	100,533	115,943	90,490	90,185	89,460	89,151	88,266	88,193
Federal	1,824,799	2,013,874	2,048,491	1,973,734	1,960,278	1,957,347	1,958,084	1,959,014
Revenues from Other Agencies	17,053	13,088	12,923	12,928	12,928	12,933	12,933	12,933
Charges for Current Services	130,822	185,542	118,550	123,182	122,912	120,598	120,135	119,617
Fines, Forfeits & Penalties	1,905	909	908	908	908	908	908	908
Repayment of Loans & Advances	30,294	33,491	34,032	34,446	34,876	34,440	30,004	30,147
Non-Revenue Receipts	773,155	915,323	881,253	799,250	827,523	867,418	897,588	930,273
Office of Hawaiian Affairs	<u>23,801</u>	<u>21,250</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>
TOTAL	<u>2,902,905</u>	<u>3,299,998</u>	<u>3,202,445</u>	<u>3,050,317</u>	<u>3,064,568</u>	<u>3,098,478</u>	<u>3,123,601</u>	<u>3,156,768</u>
Adjustments:								
Revenue Transfers	7,080	2,344	2,260	2,210	2,210	2,210	2,210	2,210
Adjusted Total	<u>2,895,825</u>	<u>3,297,654</u>	<u>3,200,185</u>	<u>3,048,107</u>	<u>3,062,358</u>	<u>3,096,268</u>	<u>3,121,391</u>	<u>3,154,558</u>