

LINDA LINGLE
GOVERNOR
JAMES R. AIONA, JR.
LT. GOVERNOR



PAUL H. BREWBAKER
CHAIR

JACK P. SUYDERHOUD
VICE-CHAIR

MEMBERS:

Carl S. Bonham
Dean K. Hirata
Pearl Imada Iboshi
Richard F. Kahle, Jr.
Albert Yamada

COUNCIL ON REVENUES

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

September 9, 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 August 27, 2009, the Council on Revenues lowered its forecast of the State's General Fund tax revenue growth rate for fiscal year (FY) 2010 from zero to -1.5 percent.

The Council also revised its revenue forecast for FY 2011 from 5.6 percent to 6.5 percent. Forecast revenue growth rates for FY 2011 through FY 2013 also were adjusted to reflect expectation of economic recovery. Some of this projected growth is the result of modest increases in inflation anticipated during the recovery.

Revised forecasts of State General Fund tax revenues for FY 2010 through FY 2016 are listed in the table below:

Fiscal Year	Thousands of Dollars	% Growth From Previous Year
2010	\$4,137,403	-1.5%
2011	\$4,406,334	6.5%
2012	\$4,670,714	6.0%
2013	\$4,950,957	6.0%
2014	\$5,248,014	6.0%
2015	\$5,510,415	5.0%
2016	\$5,785,936	5.0%

Line-item details of State General Fund tax revenues by revenue category for FY 2010 through FY 2016 are presented in the attached table. These detailed forecasts are based on the Council's forecast for total State General Fund tax revenues using an econometric model of the Tax Research and Planning Office.

The Council considered a range of forecasts for FY 2010 and beyond under several different econometric modeling approaches before deciding on the lower forecast for this fiscal year.

The Council believes that the downturn in Hawaii's economy may be nearing a bottom, to be followed—but only gradually beginning in second half FY 2010—by recovery over several years. This transition also was anticipated at the previous revenue forecast meeting in May 2009, but for various reasons was expected to unfold more slowly by the August meeting.

The Council remains concerned about unpredictable factors that could reduce State revenues. The Council consistently forecast too high last fiscal year, and this experience factored into its current forecast. While financial and economic factors contributing to forecast errors in FY 2009 recently have diminished in severity, the Council believes that 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 enacted in 2008 and in 2009, including:

- Act 209, Session Laws of Hawaii (SLH) 2007—exempts from the general excise tax sales of alcohol fuel.
- Act 211, SLH 2007—provides a refundable food/excise tax credit.
- Act 143, SLH 2008—amends provisions relating to agricultural businesses qualifying for enterprise zone benefits.
- Act 156, SLH 2008—allows state and county governments to hire retired state or county government employees.
- Act 233, SLH 2008—provides an important agricultural land qualified agricultural cost income tax credit.
- Act 14 SS, SLH 2009—phaseout of personal exemption.
- Act 40, SLH 2009—reduces the interest rate applied to overpayments of tax.
- Act 56, SLH 2009—increases the cigarette tax by one cent on July 1, 2009, July 1, 2010, and July 1, 2011.
- Act 58, SLH 2009—increases the tobacco tax on tobacco products other than cigarettes and taxes "little cigars" as cigarettes.
- Act 59, SLH 2009—increases the conveyance tax and reduces the conveyance tax allocations to the Rental Housing Trust Fund and the Natural Area Reserve Fund.

- Act 60, SLH 2009—temporarily increases the income tax rate on high income individuals and increases the standard deduction and personal exemption amounts.
- Act 61, SLH 2009—provides an additional 1% transient accommodations tax from July 1, 2009 through June 30, 2010, and an additional 2% transient accommodations tax from July 1, 2010 through June 30, 2015.
- Act 134, SLH 2009—Tax Administration; Cash Economy Enforcement Act.
- Act 166, SLH 2009—conforming to certain Federal penalties; promotes expedited tax appeals; creates 15 year collection statute.
- Act 178, SLH 2009—establishes a temporary 80% tax credit cap (80% of tax liability) and restricts carryover credits for the high technology business investment tax credit and the technology infrastructure renovation tax credit for investments made after May 1, 2009. Limits investment credit allocation ratio to 1 to 1. Temporarily suspends the capital goods excise tax credit (May 1, 2009 – December 31, 2009).
- Act 196, SLH 2009—Electronic Filing and payment of Taxes; accelerate tax payments.

General Fund Non-Tax Revenue estimates for FYs 2009-2016 reflect adjustments for lower investment pool interest earnings, increases in actual federal reimbursements, refund of employer health benefit contributions based on actual costs, reimbursement of the Hokulia settlement from the office of Hawaiian Affairs, and increases in transfers from non-general funds and premiums on bonds sold.

Special Fund Tax Revenue estimates for FYs 2009-2016 reflect adjustments attributed to increases in cigarette tax for the Department of Health's Trauma System special fund and Emergency Medical Services special fund, decreases in liquid fuel and vehicle surcharges revenues under the Department of Transportation (DOT), and projected decreases in conveyance tax revenue because of economic conditions and the temporary reduction of distributions for the Rental Housing Trust Fund.

Special Fund Non Tax Revenue estimates for FYs 2009-2016 reflect adjustments for lower interest earnings in the Unemployment Compensation Fund and DOT Harbors Division, increases in federal additional unemployment compensation and federal extended unemployment compensation funds previously not being reported, decreases in airport concessions (offset by increases in other airport revenues), increases in reimbursements for Medicaid eligible services, and increases in resident and non-resident undergraduate tuition fees of the University of Hawaii.

Other than Special Fund Non Tax Revenue estimates for FYs 2009-2016 reflect increases in federal fund grants for various departments, increases of \$255 million in federal American Recovery and Reinvestment Act (ARRA) funds (totaling approximately \$1.0 billion), and

The Honorable Linda Lingle
September 9, 2009
Page 4

increases in State and County employer and employee contributions for health benefit premiums, partially offset by decreases in endowment income and research grants and gifts (UH).

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 2010 to FY 2016

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED						
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
General Excise & Use 2/	\$2,618,787	\$2,417,580	\$2,356,229	\$2,507,146	\$2,647,744	\$2,807,935	\$2,974,318	\$3,124,737	\$3,325,827
Income - Individual 4/	1,544,307	1,338,052	1,299,253	1,399,217	1,493,529	1,596,724	1,702,838	1,791,985	1,912,665
Income - Corporation	85,081	53,522	51,350	41,011	43,685	53,605	65,795	79,206	93,155
Public Service Company	127,481	126,069	124,381	124,063	124,645	126,078	128,270	130,929	134,522
Insurance Premiums	95,742	93,720	90,533	91,050	96,670	97,955	99,192	98,362	97,945
Tobacco & Licenses 5/	83,443	76,955	94,138	93,578	89,882	83,864	80,713	77,775	75,079
Liquor & Permits	45,620	47,242	49,358	51,922	54,471	56,967	59,332	61,579	63,726
Banks & Other Fin Corps	18,212	26,075	24,112	24,959	31,170	34,979	38,428	40,359	43,594
Conveyance 3/	6,513	6,817	9,551	8,866	8,632	6,280	6,224	6,188	6,162
Miscellaneous *	751	811	535	537	540	542	544	545	547
Transient Accommodation Tax 1/	15,935	13,566	37,963	63,985	79,746	86,028	92,360	98,750	32,714
NET TOTAL	\$4,641,872	\$4,200,409	\$4,137,403	\$4,406,334	\$4,670,714	\$4,950,957	\$5,248,014	\$5,510,415	\$5,785,936
GROWTH RATE	1.2%	-9.5%	-1.5%	6.5%	6.0%	6.0%	6.0%	5.0%	5.0%

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. Act 61, SLH 2009, temporarily imposes an additional 1.0% TAT for the period 7/1/2009 through 6/30/2010, and an additional 2.0% TAT for the period 7/1/2010 through 6/30/15. These additional amounts will be deposited into the general fund. Act 5, Special Session Laws of Hawaii 2009, allocates 12.5% of the revenues derived from Act 61 to the tourism special fund for one fiscal year (FY 2011).

2/ 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. Act 40, SLH 2009, reduces the interest rate on overpayments due to taxpayers from 2/3 of 1% to 1/3 of 1% per month or fraction thereof.

3/ 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%. Act 59, SLH 2009, increased the conveyance tax rates for properties valued \$1 million or more.

4/ Act 60, SLH 2009, temporarily increases the standard deduction and personal exemption amounts for taxable years beginning after 12/31/10, and also temporarily creates new 9%, 10%, and 11% tax brackets for certain individuals with high taxable income beginning with taxable years beginning after 12/31/08. Act 60, SLH 2009, will be automatically repealed on December 31, 2015.

5/ Act 58, SLH 2009, taxes "little cigars" in the same manner as cigarettes beginning 9/30/09; increases the tax on tobacco products other than cigarettes, little cigars, and cigars from 40¢ to 70¢ beginning 9/30/09; imposes a 50% tax on cigars. Act 56, SLH 2009, increases the cigarette tax from 11¢ to 13¢ on 7/1/09, from 12¢ to 14¢ on 7/1/10, and from 13¢ to 15¢ on 7/1/11; and also amends the dates on which changes in the allocation of cigarette tax revenues changes.

* 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 2009 - 2016
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>
REVENUES - TAX								
Special Revenue Fund	384,995	471,568	834,972	856,375	762,525	702,981	719,987	722,012
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	409,955	397,113	404,373	373,796	366,293	359,531	360,575	362,878
Federal	2,379,799	2,317,809	2,217,005	2,243,789	2,258,283	2,278,746	2,301,722	2,301,222
Federal-American Reinvestment & Recovery Act	169,478	616,119	223,048	12,558	0	0	0	0
Charges for Current Services	1,609,637	1,599,391	1,668,051	1,742,343	1,827,421	1,849,948	1,873,139	1,889,386
Non-Revenue Receipts	1,383,872	1,126,331	1,149,948	1,186,326	1,229,967	1,264,065	1,300,771	1,337,952
Office of Hawaiian Affairs	20,800	15,100	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>45,945</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>	<u>50,018</u>
Subtotal Revenues - Other Than Tax	<u>6,019,486</u>	<u>6,117,219</u>	<u>5,723,788</u>	<u>5,620,999</u>	<u>5,745,103</u>	<u>5,816,406</u>	<u>5,901,325</u>	<u>5,956,556</u>
TOTAL REVENUES	6,404,481	6,588,787	6,558,760	6,477,374	6,507,628	6,519,387	6,621,312	6,678,568
ADJUSTMENTS - Revenue Transfers	<u>326,107</u>	<u>84,614</u>	<u>98,234</u>	<u>102,858</u>	<u>102,862</u>	<u>102,862</u>	<u>102,860</u>	<u>102,710</u>
TOTAL ADJUSTED REVENUES	<u>6,078,374</u>	<u>6,504,173</u>	<u>6,460,526</u>	<u>6,374,516</u>	<u>6,404,766</u>	<u>6,416,525</u>	<u>6,518,452</u>	<u>6,575,858</u>

Prepared by: Department of Budget & Finance

Note: Due to rounding, details may not add to totals.

* Unaudited, preliminary revenues.

August 27, 2009

Table 1

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2009 - 2016
(in thousands of dollars)**

<u>Sources</u>	<u>Actual* 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>	<u>Estimated FY 2016</u>
Licenses & Permits	738	1,044	1,044	1,044	1,044	1,044	1,044	1,044
Revenues from Use of Money and Property	50,604	43,294	43,182	42,745	43,238	43,691	43,921	44,390
Federal	3,796	4,708	4,573	4,573	4,573	4,573	4,573	4,573
Revenues from Other Agencies	1,690	1,686	1,686	1,686	1,681	1,681	1,681	1,681
Charges for Current Services	266,221	218,781	226,552	235,192	245,855	247,585	249,401	249,402
Fines, Forfeits & Penalties	334	290	290	290	290	290	290	290
Repayment of Loans & Advances	24,541	19,474	23,808	21,938	19,564	19,563	20,220	19,639
Non-Revenue Receipts	422,028	168,792	182,473	182,838	182,837	182,837	182,837	182,837
Judiciary	<u>35,729</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>	<u>39,054</u>
Total	<u>805,681</u>	<u>493,245</u>	<u>519,523</u>	<u>526,972</u>	<u>536,523</u>	<u>539,501</u>	<u>543,021</u>	<u>542,910</u>

Prepared by: Department of Budget & Finance

August 27, 2009

Note: Due to rounding, details may not add to totals.

* Unaudited

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2009 - 2016**
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	11,190	15,328	23,498	31,665	31,665	31,665	31,665	31,665
Liquid Fuel:								
Highway	86,401	87,028	87,679	88,334	88,995	89,661	90,555	91,232
Aviation	3,706	4,452	4,452	4,452	4,452	4,452	4,452	4,452
Small Boats	<u>1,604</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>
Subtotal	91,711	92,880	93,531	94,186	94,847	95,513	96,407	97,084
Transfer of Transient Accom Tax	102,693	114,944	130,498	135,283	140,513	146,014	151,800	151,800
Motor Vehicle Weight Tax	33,407	33,825	34,248	34,676	35,109	35,548	35,992	36,442
Vehicle Registration Fee Tax	25,985	26,245	26,508	26,774	27,044	27,317	27,593	27,873
Vehicle Surcharge:								
Rental /Tour	39,751	40,148	40,549	30,853	29,920	30,514	31,120	31,738
Environmental Response Tax	1,590	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Unemployment Comp Tax	59,133	123,000	461,000	475,000	375,000	308,000	317,000	317,000
Employment & Training	406	440	500	950	950	950	950	950
Election Campaign Contrib T.F.	205	158	140	129	117	100	100	100
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	15,462	19,300	19,200	21,560	22,060	22,060	22,060	22,060
Transfer of Tax on Ins. Premiums	<u>1,461</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>
Total	<u>384,995</u>	<u>471,568</u>	<u>834,972</u>	<u>856,375</u>	<u>762,525</u>	<u>702,981</u>	<u>719,987</u>	<u>722,012</u>

Prepared by: Department of Budget & Finance

Note: Due to rounding, details may not add to totals.

* Unaudited

Table 3

August 27, 2009

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2009 - 2016
(in thousands of dollars)

<u>Sources</u>	<u>Actual *</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>	<u>Estimated</u> <u>FY 2015</u>	<u>Estimated</u> <u>FY 2016</u>
Licenses & Permits	16,016	16,298	16,891	17,020	17,022	17,016	17,131	17,028
Revenues from Use of Money and Property	90,962	79,154	94,110	90,653	85,443	82,958	83,383	83,810
Federal	325,892	334,868	261,235	257,936	256,332	256,904	259,445	258,945
Revenue from Other Agencies	60,472	82,465	82,465	57,465	57,465	57,465	57,465	57,465
Charges for Current Services:								
Utils & Other Enterprises	349,661	360,355	384,667	463,889	532,009	548,095	568,579	583,716
Others	799,226	874,976	920,735	923,292	929,045	931,715	935,180	936,089
Fines, Forfeits & Penalties	6,545	6,218	3,542	3,558	3,575	3,593	3,611	3,629
Non-Revenue Receipts	124,739	112,576	113,167	117,927	117,930	117,930	117,928	117,778
Judiciary	<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>	<u>10,964</u>
Total	<u>1,783,729</u>	<u>1,877,090</u>	<u>1,887,160</u>	<u>1,942,161</u>	<u>2,009,419</u>	<u>2,026,455</u>	<u>2,053,686</u>	<u>2,069,424</u>
Adjustments:								
Revenue Transfers	86,638	74,651	74,641	78,900	78,904	78,904	78,902	78,752
Adjusted Total	<u>1,697,091</u>	<u>1,802,439</u>	<u>1,812,519</u>	<u>1,863,261</u>	<u>1,930,515</u>	<u>1,947,551</u>	<u>1,974,784</u>	<u>1,990,672</u>

Prepared by: Department of Budget & Finance

August 27, 2009

Note: Due to rounding, details may not add to totals.

* Unaudited, preliminary

Table 4

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2009 - 2016
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</u> <u>FY2009</u>	<u>Estimated</u> <u>FY2010</u>	<u>Estimated</u> <u>FY2011</u>	<u>Estimated</u> <u>FY2012</u>	<u>Estimated</u> <u>FY2013</u>	<u>Estimated</u> <u>FY2014</u>	<u>Estimated</u> <u>FY2015</u>	<u>Estimated</u> <u>FY2016</u>
Licenses & Permits	621	698	584	583	583	583	583	583
Revenues from Use of Money and Property	100,568	87,501	83,175	82,593	82,429	82,098	81,525	83,598
Federal	2,050,111	1,978,233	1,951,197	1,981,280	1,997,378	2,017,269	2,037,704	2,037,704
Federal-American Recovery & Reinvestment Act	169,478	616,119	223,048	12,558	0	0	0	0
Revenues from Other Agencies	19,559	18,271	18,214	18,214	18,219	18,219	18,219	18,219
Charges for Current Services	194,529	145,279	136,097	119,970	120,512	122,553	119,979	120,179
Fines, Forfeits & Penalties	698	923	923	923	923	923	923	923
Repayment of Loans & Advances	36,607	39,797	34,459	35,084	34,817	30,407	30,579	30,579
Non-Revenue Receipts	837,105	844,963	854,308	885,561	929,200	963,298	1,000,006	1,037,337
Office of Hawaiian Affairs	<u>20,800</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>3,430,076</u>	<u>3,746,884</u>	<u>3,317,105</u>	<u>3,151,866</u>	<u>3,199,161</u>	<u>3,250,450</u>	<u>3,304,618</u>	<u>3,344,222</u>
Adjustments:								
Revenue Transfers	2,079	2,260	2,210	2,210	2,210	2,210	2,210	2,210
Adjusted Total	<u>3,427,997</u>	<u>3,744,624</u>	<u>3,314,895</u>	<u>3,149,656</u>	<u>3,196,951</u>	<u>3,248,240</u>	<u>3,302,408</u>	<u>3,342,012</u>

Prepared by: Dept. of Budget & Finance

August 27, 2009

Note: Due to rounding, details may not add to totals.

* Unaudited, preliminary