General Fund Tax Revenue Forecasts of the Council on Revenues

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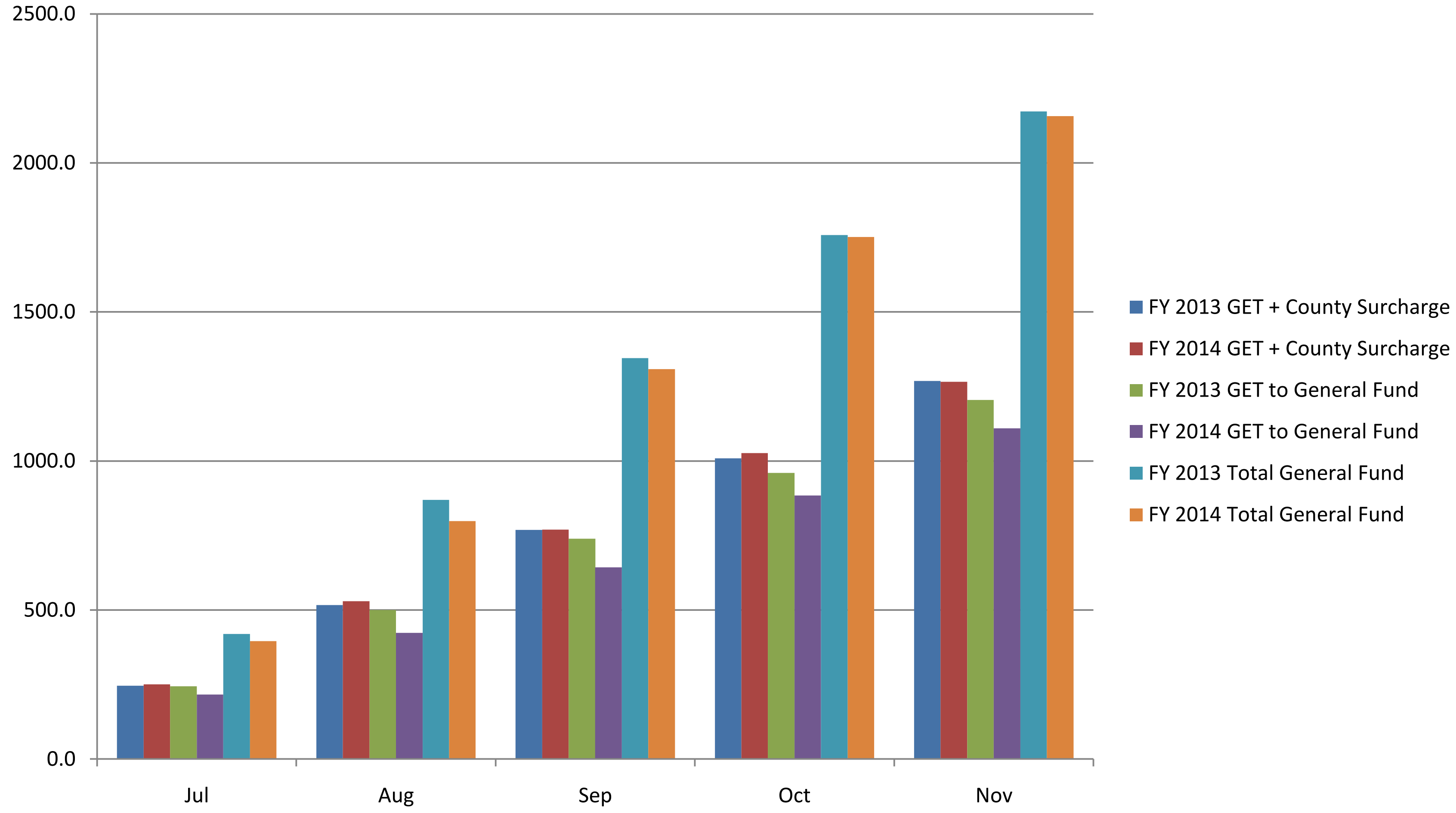
Hawaii’s economy and the State’s General Fund tax revenues showed robust growth in FY 2013

- In FY 2013, the State’s General Fund tax revenues were $5.47 billion, up by 9.9% from the previous year.
- General Excise Tax (GET) collections rose by 9.1%, to $2.94 billion.
- Taxes withheld from wages grew by 7.0%.
- Total net individual income tax collections rose by 12.7%, to $1.73 billion.
- Construction spending, as measured using data on GET collections, increased by 20.7%.

Growth in General Fund tax revenue has been less robust in FY 2014

- In the first five months of FY 2014 General Fund tax revenues are down by 0.6% from FY 2013 and GET tax revenues are down by 3.4%.
- The decline in GET tax revenues is partly due to unusual allocations of the County Surcharge (CS) in the first month of FY 2013 and of FY 2014.
  - The CS was allocated $34.8 million of the total GET plus County Surcharge collections in July of FY 2014, but was allocated only $1.7 million of the total in July of FY 2013.
  - The CS averaged about $16 million a month in FY 2013.
- The contribution of the GET to the General Fund was also reduced in FY 2014 by an allocation of $55.5 million to the Hawaii Hurricane Relief Fund in August.
- Total net collections of the Individual Income Tax have grown by 2.0% in the first five months of FY 2014.
- Collections of GET + CS (a good indicator of economic activity) have largely kept pace with last year (they are down by only 0.2%), but GET allocations to the General Fund are down.

Cumulative collections of the GET and CS combined, allocations of the GET to the General Fund, and total General Fund tax revenues in the first five months of FY 2014 and FY 2013



The Council’s Forecast for FY 2014 and FY 2015

- The Council’s current forecast is that General Fund tax revenues will grow by 4.1% in FY 2014, to $5.69 billion.
- The revenues for the remainder of the fiscal year (December through June) will have to surpass those for the same period last year by 7.2% if we are to meet this forecast.
- The revenue growth for the first five months of the fiscal year has been considerably below this rate, but the growth has been slowed by the unusual GET allocations in the first two months of the fiscal year.
- The growth forecast for FY 2015 is 7.4%.

What to expect, based on Collections so far this Fiscal Year

- Here is what we get if we try to extrapolate for the rest of the year based on the first five months.
- First, we need to adjust the cumulative November collections for the unusual GET allocations (CS and Hurricane Relief Fund) in the first months of FY 2014. (The adjustments I used give collections of $2.23 billion for FY 2014 through November.)
- Secondly, we need to select a figure for the share of collections as of the end of November in the fiscal year total. I used the high, low, and average of this share over the past decade.
- Finally, we need to extrapolate to the fiscal year total and then subtract the adjustments that were added in the second step.
- This yields low, high and average estimates for General Fund tax revenue growth in FY 2014 of -6.8%, positive 6.5%, and positive 0.6%.
- The exercise shows that forecasting is not easy. The following table shows the Council's General Fund tax revenue forecast for FY 2014 through FY 2020.

Here are the Council's forecasts for FY 2014 and beyond

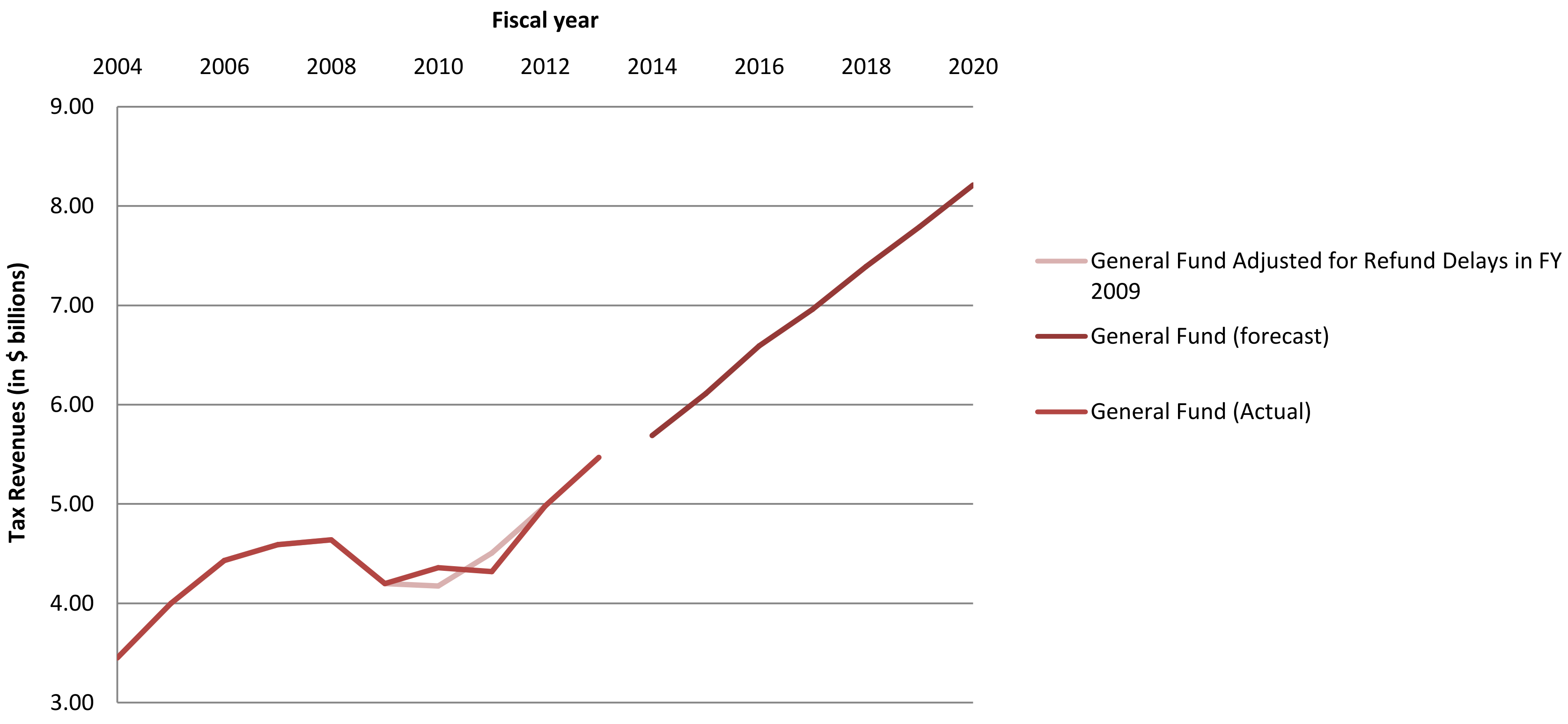
Fiscal Year	General Fund tax revenues ($ billions)	Growth from previous year
2014	$5.69	4.1%
2015	$6.11	7.4%
2016	$6.59	7.7%
2017	$6.96	5.7%
2018	$7.39	6.1%
2019	$7.79	5.5%
2020	$8.21	5.4%

Here’s how the Council’s forecasts performed in the Past Decade

Council's Last Forecast vs Actual General Fund Collections					
Fiscal Year	**Period**	**Forecast**	**Fiscal Year**	**Period**	**Forecast**
2004	May ’04	5.20%	2009	May ’09	-9.00%
	Actual	**8.30%**		**Actual**	**-9.50%**
2005	May ’05	14.60%	2010	May ’10	4.00%
	Actual	**16.00%**		**Actual**	**3.90%**
2006	May ’06	9.50%	2011	May ’11	-1.60%
	Actual	**10.90%**		**Actual**	**-0.90%**
2007	May ’07	4.00%	2012	May ’12	12.00%
	Actual	**3.40%**		**Actual**	**15.00%**
2008	May ‘08	3.30%	2013	May ‘13	6.70%
	Actual	**1.20%**		**Actual**	**9.90%**

The chart below shows General Fund tax revenues over the past decade (with and without the refund delays in FY 2009) and the forecasts for FY 2014 through FY 2020.

Actual and Forecast General Fund Tax Revenues FY 2004 through FY 2020



Effects of Legislation

- The Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on General Fund tax revenues of tax law changes, including the following:
- Act 89, SLH 2013, increases the tax credit rates for the motion picture digital media and film production tax credit, increases the cap on the amount of the credit per production, and moves the expiration date from January 1, 2016 to January 1, 2019. The Act is estimated to raise the annual cost of the tax credit by about $21 million over the level in FY2013.
- Act 160, SLH 2013, eliminates the GET exemption for liquor, tobacco and food sold to common carriers. The Act is estimated to raise GET collections by about $6 million per year.
- Act 161, SLH 2013, makes permanent the Transient Accommodations Tax rate of 9.25% and caps the TAT allocations to the special funds. The Act is estimated to reduce General Fund revenues by $11 million in FY2014 and FY2015, but to increase them by amounts ranging from $177 million in FY 2016 to $246 million in FY2020.

Effects of Legislation (Cont.)

- Act 163, SLH 2013, makes permanent the GET exemption for certain expenses paid by hotel operators and timeshare projects and removes the cap on the aggregate amount of the exemptions that can be claimed. The Act is estimated to reduce GET collections by about $20 million in FY2014 and by about $13 million annually thereafter.
- Act 105, SLH 2011, eliminated certain GET exemptions and expired June 30, 2013. Its expiration is estimated to reduce GET collections by about $70 million annually relative to the level in FY 2013.
- Act 62, SLH 2011, allocates GET revenues directly to the Hurricane Relief Fund to replace amounts that were taken from the Fund in prior years. The Act will reduce GET allocations to the General Fund by $55.5 million in each of FY 2014 and FY 2015.