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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
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September 10, 2013

The Honorable Neil Abercrombie
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Abercrombie:

At its meeting on September 5, 2013 the Council on Revenues lowered its forecast for State General Fund tax revenues in fiscal year (FY) 2014 from $5.74 billion to $5.69 billion. The Council's previous forecast at its May 28, 2013 meeting, however, did not take into account Act 62, Session Laws of Hawaii 2011, which transfers $55.5 million directly from the General Excise Tax revenues (i.e., general funds) into the Hurricane Relief Fund in each of FY2014 and FY2015. Without these transfers, the Council's current forecasts would show higher General Fund tax revenues in both FY2014 and FY2015 than the May forecast.

Further, the September 5, 2013 forecast is based upon an estimated 9.9% growth rate for FY2013 rather than the 6.7% growth rate for FY2013 that was utilized at the meeting on May 28, 2013. Thus, the September 5, 2013 forecast is based upon a higher base period for FY2013 than the May forecast.

Because the forecast for State General Fund tax revenues for FY2014 declined slightly because of Act 62 discussed in the first paragraph, the September 5, 2013 forecast has a corresponding decline in the expected growth rate of General Fund tax revenues from 4.9% to 4.1% compared with the Council's forecast of May 28, 2013. (At the May meeting, the Council had forecast that the General Fund tax revenues would grow by 8.0% in FY2014, but the growth rate was based on the existing forecast for General Fund tax revenues in FY2013, which turned out to be substantially too low. The May forecast of $5.74 billion for General Fund tax revenues in FY2014 is only 4.9% greater than the actual General Fund tax revenues of $5.47 billion in FY2013.) The Council raised its forecast for the growth of General Fund tax revenues in FY2015 from 7.0% to 7.4%, but owing to the transfer of $55.5 million under Act 62 in FY2015, the new forecast for the level of General Fund tax revenues in FY2015 is slightly lower than the May forecast ($6.11 billion versus $6.14 billion from the May forecast).

The Council discussed the visitor and construction sectors of Hawaii's economy and expressed concerns about the slowdown in the growth of visitor expenditures, the effects of higher hotel room rates and higher airfares, and the potential effects of future unfavorable exchange rates changes. The forecasts for General Fund tax revenues are slightly lower in both FY2014 and FY2015 than those from the Council's May meeting, but the drops are mainly attributable to Act 62 and should not be attributed to a more pessimistic view of the economy. The Council is forecasting revenue growth of 7.7% in FY2016, 5.7% in FY2017, 6.1% in FY2018, 5.5% in FY2019, and 5.3% in FY2020.

Revised forecasts of State General Fund tax revenues for FY2014 through FY2020 are shown in the table below. As in all multi-year forecasts, the estimates for the later years are subject to greater uncertainty.

Fiscal Year	General Fund Tax Revenues Amount (in Thousands of Dollars)	Growth From Previous Year
2014	5,690,941	4.1%
2015	6,114,867	7.4%
2016	6,587,722	7.7%
2017	6,962,696	5.7%
2018	7,388,572	6.1%
2019	7,792,538	5.5%
2020	8,205,620	5.3%

In producing its forecasts, the Council adopted specific adjustments recommended by the Department of Taxation to reflect effects on General Fund tax revenues of tax law changes enacted by the 2013 Legislature, including the following:

- Act 89 amends the motion picture digital media and film production tax credit. The Act increases the credit rate from 15% to 20% for productions on Oahu and from 20% to 25% for productions on the neighbor islands. The Act also increases the cap on the amount of the credit per production from $8 million to $15 million and moves the expiration date for the credit 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 eliminates the General Excise Tax (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 makes permanent the Transient Accommodations Tax (TAT) rate of 9.25% and the caps on TAT allocations to the special funds. The Act raises the cap on the allocation to the Tourism Special Fund by $11 million. Act 161 is estimated to reduce General Fund revenues by $11 million in FY2014 and FY2015, but is expected to increase General Fund revenues by amounts ranging from $177 million in FY2016 to $246 million in FY2020.

- Act 163 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.

The Council also took into account provisions from earlier legislation, including the following:

- Act 105, SLH 2011, eliminated certain GET exemptions. The Act expired June 30, 2013. Its expiration is estimated to reduce GET collections by about $70 million annually relative to the level in FY2013.

- 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 FY2014 and FY2015.

The Department of Taxation has prepared a report for submission with this transmittal correspondence, detailing line-item forecasts for various components of the General Fund, reconciled to the Council's forecast growth rate for total General Fund tax revenues. The line-item forecasts include components, such as revenues from the General Excise Tax and from the Individual Income Tax, that the Council does not forecast separately. Also, the Department of Budget and Finance has prepared the attached report to update its projections for change in non-tax and special tax revenues from its report in May 2013.

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

Very truly yours,

KURT KAWAFUCHI
Chair, Council on Revenues

Attachments