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COUNCIL ON REVENUES

STATE OF HAWAII
P.O. BOX 259
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January 11, 2016

The Honorable David Y. Ige
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Ige:

At its meeting on January 7, 2016, the Council on Revenues raised its forecast for growth in the State's general fund tax revenues in fiscal year (FY) 2016 from 6.0% to 6.7%. The Council retained the forecast growth rates for FY 2017 and later fiscal years.

The forecast change for FY 2016 was based partly on information provided by the Department of Taxation on the status of general excise tax payments by online travel companies. The Department also indicated that payment of about $29 million of the total $39 million from the Hawaii Supreme Court’s decision in the online travel companies was already released to the general fund in FY 2016 earlier this fiscal year. The remainder amount of $10 million is expected to be released to the general fund from the litigated claims fund later this fiscal year.

Council members discussed the effects of the significant drop in oil prices in 2015, of the continued strength of the U.S. dollar in foreign exchange markets, of the recent slowdown in economic growth in China. The members continued to expect steady but modest growth in visitor arrivals and visitor spending. The outlook for construction industry is better than expected, based on the data on construction permits, and tax base. Revised forecasts of State General Fund tax revenues for FY 2016 through FY 2022 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2016	6,119,395	6.7%
2017	6,455,962	5.5%
2018	6,811,040	5.5%
2019	7,151,592	5.0%
2020	7,473,414	4.5%
2021	7,809,718	4.5%
2022	8,161,155	4.5%

As shown in my September 3, 2015 letter to you, 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 2015 Legislature, including the following:

- Act 84, SLH 2015 establishes maximum dollar amounts for the allocations of the Conveyance Tax to the Land Conservation fund and the Rental Housing trust fund, and eliminates allocations to the Natural Area Reserve fund starting in FY 2016. The annual general fund revenue gain is estimated to be $19.7 million for FY 2016 and later.

- Acts 117 and 121, SLH 2015 changed allocations of the Transient Accommodations Tax (TAT). According to Act 121, TAT allocations for FY 2016 and later are as follows: Tourism special fund $82 million; Counties $93 million (except $103 million in FY 2016); Convention Center special fund $26.5 million; and Turtle Bay conservation easement $1.5 million. Act 117 allocated $3 million annually to the Special Land Development fund starting in FY 2017. The changes in allocations are expected to yield $5 million in additional general fund tax revenues in FY 2016 and $2 million annually thereafter.

- Act 120, SLH 2015 provides a tax credit for converting cesspools to a septic system or connecting to a wastewater system. The tax credit expires December 31, 2020 and is estimated to reduce general fund tax revenues by $5 million annually from FY 2016 through FY 2021.

- Act 223, SLH 2015 modifies the food/excise tax credit (an increase for certain taxpayers) for tax years 2016 and 2017. The Act is estimated to reduce general fund tax revenues by $6.5 million in FY's 2017 and 2018.

- Act 238, SLH 2015 reduces the allocation of tobacco taxes to the Trauma special fund, caps the amount allocated to the fund, and also caps the allocations to the Emergency Medical Services and Community Health Centers special funds, effective July 1, 2015. The Act is estimated to increase general fund tax revenues by $4 million in FY's 2016 and later.

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

- Act 107, SLH 2014 reestablished the energy systems development special fund. It also extends the $1.05 per barrel rate for the environmental response tax, which was set to expire at the end of fiscal year 2015, through fiscal year 2030, as well as the allocations of the tax to the general fund. The annual general fund revenue gain is estimated to be $15.5 million for fiscal years 2016 through 2030.

- Act 89, SLH 2013 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.

- 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 $13 million annually.

The Department of Taxation has prepared a report (attached) 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 on September 3, 2015.

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