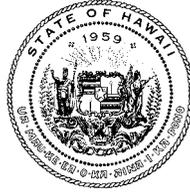


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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COUNCIL ON REVENUES

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

January 7, 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 January 3, 2013, the Council on Revenues increased its forecast for growth in General Fund tax revenues in fiscal year 2013 slightly, from 4.9% to 5.1%. The Council cited a strong visitor industry along with expected expansion in the rest of the economy for the fiscal year 2013 revision. The growth forecast for fiscal year 2014 was increased from 3.9% to 6.8%. The 2014 revision reflected the reduction in the cost of the renewable energy income tax credit that is expected to result from the new Administrative Rules recently issued by the Department of Taxation, and stronger economic growth compared with expectations in the Council's earlier forecast. Revisions for later years also came partly as a result of a reduction in the estimated future revenue costs of the renewable energy credit. The following are important sources of uncertainty over the future growth path of tax collections.

Firstly, the Council is uncertain about the size of future claims for the renewable energy credit. The credit has grown rapidly in recent years. Preliminary data from Department of Taxation indicate that the credit grew from \$3.1 million in tax year 2004 to \$30.9 million in tax year 2010, and there are indications that the growth in claims for the credit have accelerated in recent years. The Department of Business, Economic Development and Tourism estimated that claims for the credit in tax year 2012 may reach \$173.8 million, which would show up mostly in reduced net income tax collections in fiscal year 2013. The Department of Taxation has issued new Administrative Rules that may curb the revenue cost of the credit, but the new rules are not expected to have much influence on tax collections before fiscal year 2014.

Secondly, the Council is also still uncertain about the revenue that will be provided by the tax changes made by the Legislature in 2011, particularly the revenue gains that will come from Act 105, Session Laws of Hawaii 2011. An important question is the extent to which the revenue gains from the Act may be changing over time. The Act eliminated certain exemptions from the General Excise Tax (GET), but allowed the

exemptions to continue for some transactions that were “grandfathered.” The uncertainty arises partly because data on the GET exemptions are poor, but also because it is hard to know how taxpayers are responding. There are ways taxpayers can work around some of the lost GET exemptions to avoid the additional tax. The Tax Department agreed that the revenue gain from the Act in fiscal year 2012 could be as small as \$50 million. The Council decided to accept \$50 million as the revenue consequences of Act 105 for fiscal year 2012, which was about \$120 million lower than the Tax Department's original revenue estimate. The Council also adopted an estimate of \$70 million for the expected revenue gain in fiscal year 2013, which is considerably below the Department's original estimate of \$216 million.

Among other resources, the Council relies on an econometric model to translate the members' forecasts of economic variables into forecasts of tax collections. The model is a multi-year model for fiscal year 2013 through fiscal year 2019. The model anticipates that in most years, the growth rate for General Fund tax collections is greater than the growth rate for the economy as a whole. However, the relationship between income growth and revenue growth is variable and other factors, such as income tax credits and changes in tax laws, including changes in the allocation of certain taxes among the various funds, also play important roles in determining the General Fund collections.

Finally, I would like to point out that the federal Budget Control Act of 2011 may have important effects on Hawaii's economy. If Congress does not act in time, the so-called “fiscal cliff” may impose \$1.2 trillion in cuts, one-half of which will come from defense.

Revised forecasts of State General Fund tax revenues for fiscal year 2013 through fiscal year 2019 are shown in the table below:

Fiscal Year	General Fund Tax Revenues	
	Amount (in Thousands of Dollars)	Growth From Previous Year
2013	5,233,350	5.1%
2014	5,589,486	6.8%
2015	5,937,865	6.2%
2016	6,021,496	1.4%
2017	6,272,062	4.2%
2018	6,585,608	5.0%
2019	6,893,137	4.7%

In producing its forecasts, the Council adopted specific adjustments recommended by the Department of Taxation reflecting impacts on General Fund tax revenues of tax law changes enacted by the 2011 Legislature, including the following:

The Honorable Neil Abercrombie

January 7, 2013

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- Act 97 (SB 570 SD2 HD1 CD1). Part II repeals state tax deduction for taxpayers with Federal AGI above \$100,000 (for single taxpayers), \$200,000 (for joint filers), and \$150,000 (for heads of households). Part III caps itemized deductions at \$25,000 for a single taxpayer with Federal AGI of \$100,000 and above; \$50,000 for a joint filer with Federal AGI of \$200,000 and above; and \$37,500 for a head of household with Federal AGI of \$150,000 and above. Parts II and III sunset on January 1, 2016. Part IV delays the 10% increase in the standard deduction and the personal exemption by 2 years and makes them permanent.
- Act 103 (SB 1186 SD2 HD1 CD1) establishes a temporary \$10 minimum daily tax on each transient accommodation furnished at no charge. The act also temporarily limits the TAT revenue distribution to the counties to \$93 million per year, and limits the distribution to the Tourism Special Fund to \$69 million per year.
- Act 105 (SB 754 SD1 HD1 CD1) suspends certain GET exemptions and imposes tax at 4 percent on the previously exempt amounts for the period from July 1, 2011 to June 30, 2013.

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. These line-item component estimates typically include, for example, General Excise Tax and Income Tax revenues that the Council on Revenues does not forecast individually. Also, the Department of Budget and Finance has prepared the attached report to update its projections for non-tax and special tax revenues Significant Changes from September 2012 Report.

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

Sincerely,



RICHARD F. KAHLE, JR.
Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF JANUARY 3, 2013: FY 2013 TO FY 2019
Line item projections generated by Tax Research and Planning Office to be consistent with the Council's total growth forecast
(in thousands of dollars)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Excise and Use Tax	\$2,495,807	\$2,697,951	\$2,929,449	\$3,086,956	\$3,292,214	\$3,481,438	\$3,667,364	\$3,858,029	\$4,041,306
Individual Income Tax	1,246,672	1,540,588	1,571,178	1,708,604	1,832,085	1,885,674	1,936,715	2,031,066	2,129,123
Corporate Income Tax	34,573	73,027	56,295	74,809	82,177	83,043	79,982	84,403	85,098
Public Service Company Tax	117,940	150,528	156,289	162,270	168,480	174,927	181,622	188,573	195,789
Tax on Insurance Premiums	140,456	116,777	122,777	129,723	136,494	142,420	148,804	155,197	161,849
Cigarette and Tobacco Tax	106,137	102,853	103,258	107,478	91,852	95,930	100,241	104,696	109,344
Liquor Tax	48,054	48,854	50,257	51,303	52,174	53,003	53,816	54,642	55,480
Tax on Banks and Other Financial Corps.	31,677	5,229	27,848	26,237	28,903	29,299	30,828	31,525	32,708
Inheritance and Estate Tax 1/	6,899	14,125	14,449	14,753	15,062	15,379	15,702	16,031	16,368
Conveyance Tax	21,527	18,917	15,492	16,909	13,353	14,321	15,377	16,446	17,572
Miscellaneous Taxes 2/	19,812	82,697	19,390	19,396	14,378	1,148	1,118	1,088	1,088
Transient Accommodations Tax	59,757	126,302	166,668	191,048	210,693	44,914	40,493	43,912	47,412
GENERAL FUND TOTAL	\$4,329,311	\$4,977,848	\$5,233,350	\$5,589,486	\$5,937,865	\$6,021,496	\$6,272,062	\$6,585,608	\$6,893,137
GROWTH RATE	-0.8%	15.0%	5.1%	6.8%	6.2%	1.4%	4.2%	5.0%	4.7%

Notes:

1/ Act 74, SLH 2010, reinstates Hawaii's estate tax for persons who die after April 30, 2010.

2/ The figures on this line include penalty and interest charges, fees and license charges from various taxes, and allocations to the General Fund from the environmental response, energy and food security tax and from the rental motor vehicle surcharge.

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January 3, 2013

Significant Changes from September 2012 Report

General Fund Non-Tax Revenues

Federal Grants - increases in FYs 13-19 reflect estimates for the federal interest subsidy on Build America Bonds (Department of Budget and Finance (B&F)) that were not previously reported.

Non-Revenue Receipts - increase in FY 13 reflects the premiums on bonds that were sold in November 2012 (B&F). The increases in FYs 16-19 reflect increases in the estimates for the reimbursement of pension accumulation payments from non-general funds (B&F).

Special Tax Revenues

Liquid Fuel, Aviation - increase in FY 12 reflects unaudited actual revenues collected. FYs 13-19 have been adjusted according to FY 12 actual collections (Department of Transportation (DOT) - Airports Division).

Environmental Response Tax - increases in FYs 14-19 reflect an increase in a proposed increase to the barrel tax. The increases reported are for the Energy Security Fund (Department of Business, Economic Development and Tourism (DBEDT)).

Conveyance Tax - increases in FYs 13-19 reflect revised revenue projections that were previously not updated. The revised projections are more consistent with actual FY 12 revenue collections that are deposited to the Land Conservation Fund (Department of Land and Natural Resources).

Special Fund Non-Tax Revenues

Federal Grants - the increase in FY 12 reflects an increase in federal grants for airport construction (DOT-Airports Division).

Revenues from Other Agencies - the changes in FYs 13 and 14 reflect revisions to the University of Hawaii's (UH) Kapolei land sale strategy.

Charges for Current Services - the net increases in FYs 12-19 are reflective of increases in HMSA (Hawaii Medical Service Association) reimbursement rates and Medicaid payment rates for the Hawaii Health Systems Corporation.

Charges for Current Services, Utilities - the decreases in FYs 12-16 reflect projected decreases in airline terminal rental and landing fees for DOT-Airports Division.

Fines - the increase in FY 13 is attributed to the multi-state pharmaceutical settlement (Department of Commerce and Consumer Affairs).

Other than Special Fund Non-Tax Revenues

Federal Grants - the net decrease in FY 12 reflects decreases in federal funds for the Temporary Assistance to Needy Families program (Department of Human Services (DHS)) and lower than projected reimbursements for the Childcare and Development Fund (DHS) and the First to Work Program (DHS). The net increases in FYs 14-16 are due to increases in federal funds for the Hawaii Electric Vehicle Demonstration Project (DBEDT).

Charges for Current Services - the net increase in FY 12 is attributed to an increase in rebates received from InformedRx. The net increase in FY 13 is reflective of the return of deposits made on self-funded plans with HMSA, HMA, and InformedRx (B&F).

Non-Revenue Receipts - net increases in FYs 12 and 13 are reflective of increases in employer/employee contributions for Other Post Employment Benefit Plans from the County of Kauai, Honolulu Board of Water Supply, Hawaii Department of Water, Kauai Department of Water, and City and County of Honolulu. The net decreases in FYs 14-19 are reflective of recalculated projections in employer/employee contributions into the Employer-Union Health Benefits Trust Fund health benefits plan based on actual contributions made in FY 13.

Repayments of Loans and Advances - the net decreases in FY 15 and FY 16 and net increase in FY 17 are attributed to anticipated delays in loan repayments for several projects under development for affordable housing (Hawaii Housing Finance and Development Corporation).

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 2012 - 2019
(in thousands of dollars)

<u>Sources</u>	Actual/Est* <u>FY 2012</u>	Estimated <u>FY 2013</u>	Estimated <u>FY 2014</u>	Estimated <u>FY 2015</u>	Estimated <u>FY 2016</u>	Estimated <u>FY 2017</u>	Estimated <u>FY 2018</u>	Estimated <u>FY 2019</u>
REVENUES - TAX								
Special Revenue Fund	718,277	757,629	765,297	719,543	771,140	784,820	801,269	806,548
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	321,981	355,588	333,355	364,429	344,357	337,831	340,994	334,726
Federal	2,748,499	2,634,980	2,694,056	2,759,760	2,801,834	2,957,365	2,957,053	2,956,699
Federal-American Reinvestment & Recovery Act	118,542	49,911	24,702	22,700	0	0	0	0
Charges for Current Services	1,825,965	1,950,645	1,944,850	1,977,413	2,024,012	2,051,245	2,073,061	2,094,871
Non-Revenue Receipts	1,703,192	1,547,706	1,328,316	1,338,369	1,348,677	1,353,140	1,355,266	1,359,715
Office of Hawaiian Affairs	21,751	21,207	21,207	15,207	15,207	15,207	15,207	15,207
Judiciary	<u>47,870</u>	<u>48,941</u>	<u>49,769</u>	<u>50,620</u>	<u>51,485</u>	<u>52,375</u>	<u>53,277</u>	<u>54,195</u>
Subtotal Revenues - Other Than Tax	<u>6,787,801</u>	<u>6,608,979</u>	<u>6,396,255</u>	<u>6,528,498</u>	<u>6,585,572</u>	<u>6,767,163</u>	<u>6,794,858</u>	<u>6,815,413</u>
TOTAL REVENUES	7,506,078	7,366,608	7,161,552	7,248,041	7,356,712	7,551,983	7,596,127	7,621,961
ADJUSTMENTS - Revenue Transfers	<u>234,698</u>	<u>117,192</u>	<u>95,206</u>	<u>95,203</u>	<u>99,809</u>	<u>99,960</u>	<u>99,959</u>	<u>99,965</u>
TOTAL ADJUSTED REVENUES	<u>7,271,380</u>	<u>7,249,416</u>	<u>7,066,346</u>	<u>7,152,838</u>	<u>7,256,903</u>	<u>7,452,023</u>	<u>7,496,168</u>	<u>7,521,996</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

January 3, 2013

Table 1

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2012 - 2019
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2017</u>	<u>Estimated</u> <u>FY 2018</u>	<u>Estimated</u> <u>FY 2019</u>
Licenses & Permits	6,003	5,812	5,812	1,012	1,013	1,013	1,013	1,013
Revenues from Use of Money and Property	22,638	26,993	26,125	25,162	24,221	24,221	24,221	24,221
Federal	13,457	12,880	12,880	12,880	12,645	12,372	12,060	11,706
Revenues from Other Agencies	25,354	27,682	16,180	16,180	2,538	2,538	2,538	2,538
Charges for Current Services	272,039	264,039	265,550	268,454	271,239	273,951	275,978	277,803
Fines, Forfeits & Penalties	650	450	435	445	435	435	435	435
Repayment of Loans & Advances	23,045	19,638	19,662	20,319	19,738	19,738	19,738	19,738
Non-Revenue Receipts	287,791	262,072	171,056	178,883	184,629	187,951	191,339	194,795
Judiciary	<u>37,175</u>	<u>38,024</u>	<u>38,661</u>	<u>39,316</u>	<u>39,985</u>	<u>40,668</u>	<u>41,364</u>	<u>42,073</u>
Total	<u>688,153</u>	<u>657,589</u>	<u>556,361</u>	<u>562,652</u>	<u>556,443</u>	<u>562,887</u>	<u>568,686</u>	<u>574,322</u>

Prepared by: Department of Budget & Finance
Note: Due to rounding, details may not add to totals.
* Unaudited

January 3, 2013

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2012 - 2019**
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2017</u>	<u>Estimated</u> <u>FY 2018</u>	<u>Estimated</u> <u>FY 2019</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	19,117	19,114	35,237	35,237	35,237	35,237	35,237	35,237
Liquid Fuel:								
Highway	87,230	87,230	87,665	88,102	88,542	88,983	89,427	89,873
Aviation	4,353	4,338	4,338	4,338	4,338	4,338	4,338	4,338
Small Boats	<u>1,611</u>	<u>1,600</u>						
Subtotal	93,194	93,168	93,603	94,040	94,480	94,921	95,365	95,811
Transfer of Transient Accom Tax	104,637	105,000	105,000	105,000	146,373	148,732	153,705	158,538
Motor Vehicle Weight Tax	58,679	66,846	67,681	68,527	69,384	70,251	71,129	71,129
Vehicle Registration Fee Tax	39,508	47,303	47,720	48,142	48,566	48,995	49,429	49,429
Vehicle Surcharge:								
Rental /Tour	44,987	45,632	46,315	47,007	47,710	48,419	49,139	49,139
Environmental Response Tax	9,203	8,940	16,090	16,090	12,390	12,390	12,390	12,390
Unemployment Comp Tax	320,669	342,000	326,000	277,000	288,000	296,000	305,000	305,000
Employment & Training	1,223	100	450	450	450	450	450	450
Election Campaign Contrib T.F.	16	180	150	100	100	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	23,189	25,475	23,200	24,100	24,600	25,475	25,475	25,475
Transfer of Tax on Ins. Premiums	<u>1,855</u>	<u>1,850</u>						
Total	<u>718,278</u>	<u>757,609</u>	<u>765,297</u>	<u>719,543</u>	<u>771,140</u>	<u>784,820</u>	<u>801,269</u>	<u>806,548</u>

Prepared by: Department of Budget & Finance
Note: Due to rounding, details may not add to totals.
* Unaudited

Table 3

January 3, 2013

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2012 - 2019
(in thousands of dollars)

<u>Sources</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>	<u>Estimated</u> <u>FY 2017</u>	<u>Estimated</u> <u>FY 2018</u>	<u>Estimated</u> <u>FY 2019</u>
Licenses & Permits	20,249	20,365	20,170	20,922	20,129	20,585	20,260	20,021
Revenues from Use of Money and Property	48,051	49,242	57,154	59,685	61,878	63,322	63,662	63,788
Federal	526,904	302,361	302,557	302,557	302,557	302,557	302,557	302,557
Revenue from Other Agencies	31,433	32,710	49,362	40,361	54,003	54,003	54,003	54,003
Charges for Current Services:								
Utils & Other Enterprises	419,981	486,849	513,270	539,227	571,044	594,018	614,484	629,421
Others	1,014,144	1,054,448	1,067,194	1,077,137	1,084,701	1,091,342	1,092,063	1,097,074
Fines, Forfeits & Penalties	6,632	8,706	4,198	4,346	4,502	4,613	4,729	4,851
Non-Revenue Receipts	235,841	102,020	113,165	113,163	118,775	118,926	118,925	118,931
Judiciary	<u>10,695</u>	<u>10,917</u>	<u>11,108</u>	<u>11,304</u>	<u>11,500</u>	<u>11,707</u>	<u>11,913</u>	<u>12,122</u>
Total	<u>2,313,930</u>	<u>2,067,618</u>	<u>2,138,178</u>	<u>2,168,702</u>	<u>2,229,089</u>	<u>2,261,073</u>	<u>2,282,596</u>	<u>2,302,768</u>
Adjustments:								
Revenue Transfers	200,098	66,856	76,001	75,999	80,605	80,756	80,755	80,761
Adjusted Total	<u>2,113,832</u>	<u>2,000,762</u>	<u>2,062,177</u>	<u>2,092,703</u>	<u>2,148,484</u>	<u>2,180,317</u>	<u>2,201,841</u>	<u>2,222,007</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

January 3, 2013

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2012 - 2019
(in thousands of dollars)

<u>Sources</u>	Estimated* <u>FY2012</u>	Estimated <u>FY2013</u>	Estimated <u>FY2014</u>	Estimated <u>FY2015</u>	Estimated <u>FY2016</u>	Estimated <u>FY2017</u>	Estimated <u>FY2018</u>	Estimated <u>FY2019</u>
Licenses & Permits	488	570	600	599	599	599	599	599
Revenues from Use of Money and Property	75,936	69,711	66,721	66,613	67,233	67,267	66,838	66,606
Federal	2,208,138	2,319,739	2,378,619	2,444,323	2,486,632	2,642,436	2,642,436	2,642,436
Federal-American Recovery & Reinvestment Act	118,542	49,911	24,702	22,700	0	0	0	0
Revenues from Other Agencies	19,311	20,010	19,496	19,319	19,283	19,083	19,083	19,083
Charges for Current Services	119,801	145,310	98,836	92,595	97,028	91,934	90,536	90,573
Fines, Forfeits & Penalties	1,038	859	859	860	862	862	862	862
Repayment of Loans & Advances	41,153	72,840	46,581	88,605	67,923	59,552	63,013	56,968
Non-Revenue Receipts	1,179,560	1,183,615	1,044,095	1,046,323	1,045,273	1,046,263	1,045,002	1,045,989
Office of Hawaiian Affairs	<u>21,751</u>	<u>21,207</u>	<u>21,207</u>	<u>15,207</u>	<u>15,207</u>	<u>15,207</u>	<u>15,207</u>	<u>15,207</u>
TOTAL	<u>3,785,718</u>	<u>3,883,772</u>	<u>3,701,716</u>	<u>3,797,144</u>	<u>3,800,040</u>	<u>3,943,203</u>	<u>3,943,576</u>	<u>3,938,323</u>
Adjustments:								
Revenue Transfers	15,025	33,232	2,181	2,181	2,181	2,181	2,181	2,181
Adjusted Total	<u>3,770,693</u>	<u>3,850,540</u>	<u>3,699,535</u>	<u>3,794,963</u>	<u>3,797,859</u>	<u>3,941,022</u>	<u>3,941,395</u>	<u>3,936,142</u>

Prepared by: Dept. of Budget & Finance

January 3, 2013

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

* Unaudited, preliminary