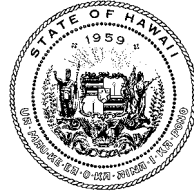


NEIL ABERCROMBIE
GOVERNOR

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COUNCIL ON REVENUES

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

January 10, 2014

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 7, 2014 the Council on Revenues lowered its forecast for State General Fund tax revenues in fiscal year (FY) 2014 from 4.1% to 3.3%.

The Council discussed the visitor and construction sectors of Hawaii's economy and expressed concerns about the continued slowdown in the growth of visitors and their expenditures, the effects of higher hotel room rates and higher airfares, and the potential effects of future unfavorable exchange rates changes. The Council believes that the economy is still growing, but not at the same rate as expected before. The Council's main concern and the reason for lowering the forecast for FY 2014 was the apparent slowdown in tourism.

The Council maintained its September growth forecasts of 7.4% in FY 2015, 7.7% in FY 2016, 5.7% in FY 2017, 6.1% in FY 2018, 5.5% in FY 2019, and 5.3% in FY 2020.

Revised forecasts of State General Fund tax revenues for FY 2014 through FY 2020 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	5,647,329	3.3%
2015	6,065,230	7.4%
2016	6,532,254	7.7%
2017	6,904,593	5.7%
2018	7,325,774	6.1%
2019	7,728,689	5.5%
2020	8,138,310	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 FY 2013.
- 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 FY 2014 and FY 2015, but is expected to increase General Fund revenues by amounts ranging from \$177 million in FY 2016 to \$246 million in FY 2020.
- 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 FY 2014 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 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.

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 September 2013.

The Honorable Neil Abercrombie
January 10, 2014
Page 3

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

Very truly yours,

A handwritten signature in black ink, appearing to read "Kurt Kawafuchi". The signature is fluid and cursive, with a large initial "K" and a long, sweeping tail.

KURT KAWAFUCHI
Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF JANUARY 7, 2014: FY 2014 TO FY 2020

Line item projections generated by Tax Research and Planning Office to be consistent with the Council's forecast for the General Fund tax revenues
(in thousands of dollars)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2012	FY2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
General Excise and Use Tax	\$2,697,951	\$2,944,487	\$2,987,324	\$3,234,785	\$3,528,784	\$3,744,929	\$3,940,241	\$4,117,891	\$4,286,130
Individual Income Tax	1,540,604	1,735,499	1,889,302	2,021,939	2,163,605	2,272,165	2,450,045	2,629,979	2,806,146
Corporate Income Tax	73,027	100,988	77,748	78,514	86,373	91,682	95,759	97,699	119,506
Public Service Company Tax	150,528	163,930	169,041	174,932	181,669	188,666	196,279	204,199	212,438
Tax on Insurance Premiums	117,617	131,906	138,628	144,702	151,587	158,939	166,690	174,530	182,330
Cigarette and Tobacco Tax	102,853	94,180	81,152	83,897	86,991	90,322	93,805	97,347	100,969
Liquor Tax	48,854	48,962	49,422	50,075	50,834	51,564	52,368	53,185	54,000
Tax on Banks and Other Financial Corps.	5,229	20,673	23,147	23,456	25,714	27,193	28,351	28,889	29,140
Inheritance and Estate Tax	14,125	14,886	15,139	15,427	15,751	16,081	16,435	16,797	17,166
Conveyance Tax	18,917	19,132	20,424	21,598	22,946	24,406	25,968	27,570	29,187
Miscellaneous Taxes*	77,888	20,725	18,674	18,675	673	669	663	658	652
Transient Accommodations Tax	126,302	171,556	177,328	197,230	217,327	237,977	259,170	279,945	300,646
GENERAL FUND TOTAL	\$4,973,895	\$5,466,923	\$5,647,329	\$6,065,230	\$6,532,254	\$6,904,593	\$7,325,774	\$7,728,689	\$8,138,310
GROWTH RATE	15.0%	9.9%	3.3%	7.4%	7.7%	5.7%	6.1%	5.5%	5.3%

* 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.

Significant Changes from September 2013 Report

General Fund Non-Tax Revenues

Charges for Current Services - increases in FYs 14-20 reflect an increase in the estimate of refunds and reimbursements from federal programs that were updated to reflect actual revenues (Department of Human Services (DHS)).

Non-Revenue Receipts - increases in FYs 14-20 reflect actual premium proceeds from the November 2013 general obligation bond sale and higher estimates for transfers from non-general funds for the reimbursement of pension accumulation and social security payments and for transfers of excess balances from the Public Utilities Special Fund and the Unclaimed Property Trust Fund (Department of Budget and Finance (B&F)).

Special Tax Revenues

There were no significant changes.

Special Fund Non-Tax Revenues

Federal Grants - the net decreases in FYs 15-20 reflect lower anticipated federal fund reimbursement of Medicare costs (Hawaii Health Systems Corporation).

Charges for Current Services - the net decrease in FY 13 reflects an update for actual revenues received for the University of Hawaii tuition fees. The decrease is attributed to a reduction in enrollment.

Charges for Current Services, Utilities - the increase in FY 13 reflects a one-time \$19 million adjustment for September 11 business insurance recovery award. The net adjustments in FYs 15-20 reflect projected increases in operating expense recovery through the airport-airline cost system for the Department of Transportation, Airports Division, and decreased revenue projections of Duty Free Shoppers revenues due to the strengthening of the U.S. Dollar (weakening of the Yen).

Other than Special Fund Non-Tax Revenues

Federal Grants - the net decreases in FYs 14-20 reflect decreases in federal funding for Operating Aid in Federally Impacted Areas and No Child Left Behind Grants in (Department of Education), and adjustments to reflect actual revenue projections for federal reimbursements for the Childcare and Development Fund, Foster Care of Needy and Dependent Children, the First-to-Work Program in (DHS) and an increase in FY 14 due to the carrying over of unexpended funds for the Federal Endangered Species Act Grant in (Department of Land and Natural Resources).

Other Agencies - the increase in FY 13 reflects an update for actual revenues received for the disposition of unclaimed property in (B&F) Financial Administration Division.

Current Services - the increases in FYs 14-20 reflect the preliminary estimated revenues for fees for technical and project management efforts that the Office of Information Management and Technology (Department of Accounting and General Services) will provide to other departments.

Non-Revenue Receipts - the net decrease in FY 14 and net increases in FYs 15-16 reflect a reforecast of the anticipated bond proceeds for construction or rehabilitation of affordable rental housing projects at the Hawaii Housing and Financing Development Corporation (HHFDC) (Department of Business, Economic Development and Tourism (DBEDT)).

Repayments - The net decreases in FY 16 and FYs 19-20 reflect changes in the estimated revenue from selling of land parcels in Kapolei (HHFDC). Instead the intention is to rent the parcels to create a lease-rent stream in the HHFDC Dwelling Unit Revolving Fund (DBEDT).

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 2013 - 2020
(in thousands of dollars)

<u>Sources</u>	Actual/Est* <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>	Estimated <u>FY 2020</u>
REVENUES - TAX								
Special Revenue Fund	800,314	820,382	711,547	677,233	688,343	697,905	708,526	718,179
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	412,878	326,104	364,037	315,147	326,613	317,681	314,165	312,900
Federal	2,735,743	2,815,440	2,739,501	2,791,977	2,945,753	2,945,441	2,944,384	2,944,387
Federal-American Reinvestment & Recovery Act	56,241	36,044	30,682	440	0	0	0	0
Charges for Current Services	2,110,525	2,019,812	2,072,161	2,112,841	2,167,239	2,229,298	2,258,831	2,277,509
Non-Revenue Receipts	1,748,517	1,654,374	1,610,277	1,521,746	1,513,823	1,517,692	1,522,954	1,521,830
Office of Hawaiian Affairs	22,115	21,707	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>47,090</u>	<u>48,061</u>	<u>48,823</u>	<u>49,754</u>	<u>50,617</u>	<u>51,636</u>	<u>52,532</u>	<u>52,758</u>
Subtotal Revenues - Other Than Tax	<u>7,133,109</u>	<u>6,921,542</u>	<u>6,880,581</u>	<u>6,807,005</u>	<u>7,019,145</u>	<u>7,076,848</u>	<u>7,107,966</u>	<u>7,124,484</u>
TOTAL REVENUES	7,933,423	7,741,924	7,592,128	7,484,238	7,707,488	7,774,753	7,816,492	7,842,663
ADJUSTMENTS - Revenue Transfers	<u>254,326</u>	<u>245,821</u>	<u>225,950</u>	<u>212,005</u>	<u>212,155</u>	<u>211,958</u>	<u>211,964</u>	<u>211,961</u>
TOTAL ADJUSTED REVENUES	<u>7,679,097</u>	<u>7,496,103</u>	<u>7,366,178</u>	<u>7,272,233</u>	<u>7,495,333</u>	<u>7,562,795</u>	<u>7,604,528</u>	<u>7,630,702</u>

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

January 7, 2014

Table 1

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2013 - 2020
(in thousands of dollars)**

<u>Sources</u>	<u>Prelim Act*</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>	<u>Estimated</u> <u>FY 2020</u>
Licenses & Permits	6,465	6,012	1,012	1,012	1,012	1,012	1,012	1,012
Revenues from Use of Money and Property	22,351	25,788	25,174	24,233	24,233	24,233	24,233	24,233
Federal	13,708	12,845	12,845	12,610	12,337	12,025	11,671	11,671
Revenues from Other Agencies	2,422	2,516	2,516	2,516	2,516	2,516	2,516	2,516
Charges for Current Services	350,246	292,654	290,918	293,386	296,477	297,108	299,908	301,344
Fines, Forfeits & Penalties	760	542	541	531	541	531	541	541
Repayment of Loans & Advances	19,665	19,662	20,319	19,738	19,738	19,738	19,738	19,738
Non-Revenue Receipts	314,870	279,260	206,717	204,478	212,112	217,123	221,112	221,112
Judiciary	<u>35,659</u>	<u>36,433</u>	<u>37,009</u>	<u>37,731</u>	<u>38,384</u>	<u>39,088</u>	<u>39,765</u>	<u>39,765</u>
Total	<u>766,146</u>	<u>675,712</u>	<u>597,051</u>	<u>596,235</u>	<u>607,350</u>	<u>613,374</u>	<u>620,496</u>	<u>621,932</u>

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

January 7, 2014

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2013 - 2020
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2020</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	17,925	33,521	34,539	34,539	34,538	34,538	34,538	34,538
Liquid Fuel:								
Highway	86,025	85,362	84,956	84,956	84,956	85,379	85,805	86,233
Aviation	4,707	4,674	4,674	4,674	4,674	4,674	4,674	4,674
Small Boats	<u>1,621</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>
Subtotal	92,353	91,636	91,230	91,230	91,230	91,653	92,079	92,507
Transfer of Transient Accom Tax	104,000	117,100	117,100	117,100	117,100	117,100	117,100	117,100
Motor Vehicle Weight Tax	73,902	74,826	75,762	76,709	77,667	78,638	79,621	80,616
Vehicle Registration Fee Tax	47,703	48,039	48,466	48,898	49,334	49,774	50,218	50,667
Vehicle Surcharge:								
Rental /Tour	47,593	48,307	49,031	49,768	50,514	51,272	52,040	52,821
Environmental Response Tax	9,063	9,090	9,090	5,190	5,190	5,190	5,190	5,190
Unemployment Comp Tax	367,921	366,000	256,000	224,000	233,000	240,000	248,000	255,000
Employment & Training	424	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Election Campaign Contrib T.F.	198	163	130	100	70	40	40	40
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	35,554	26,600	25,100	24,600	24,600	24,600	24,600	24,600
Transfer of Tax on Ins. Premiums	<u>1,679</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>	<u>1,900</u>
Total	<u>800,314</u>	<u>820,382</u>	<u>711,547</u>	<u>677,233</u>	<u>688,343</u>	<u>697,905</u>	<u>708,526</u>	<u>718,179</u>

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

Table 3

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2013 - 2020
(in thousands of dollars)

<u>Sources</u>	Actual* <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>	Estimated <u>FY 2020</u>
Licenses & Permits	19,936	17,128	19,651	19,989	20,375	20,452	20,640	20,553
Revenues from Use of Money and Property	50,582	54,352	60,121	61,865	63,619	64,040	64,342	64,706
Federal	420,074	373,160	314,836	314,836	314,836	314,836	314,836	314,836
Revenue from Other Agencies	48,790	51,270	58,477	50,482	50,488	40,194	40,200	40,206
Charges for Current Services:								
Utils & Other Enterprises	531,855	520,265	548,681	555,822	588,802	649,464	668,780	685,291
Others	1,034,466	1,066,429	1,091,233	1,115,669	1,141,202	1,142,451	1,149,733	1,150,549
Fines, Forfeits & Penalties	9,802	5,624	4,111	4,245	4,332	4,396	4,461	4,528
Non-Revenue Receipts	208,476	219,524	221,326	226,992	228,144	228,143	228,149	228,146
Judiciary	<u>11,431</u>	<u>11,628</u>	<u>11,814</u>	<u>12,023</u>	<u>12,233</u>	<u>12,548</u>	<u>12,767</u>	<u>12,993</u>
Total	<u>2,335,412</u>	<u>2,319,380</u>	<u>2,330,250</u>	<u>2,361,923</u>	<u>2,424,031</u>	<u>2,476,524</u>	<u>2,503,908</u>	<u>2,521,808</u>
Adjustments:								
Revenue Transfers	173,433	183,073	183,863	188,519	188,669	188,668	188,674	188,671
Adjusted Total	<u>2,161,979</u>	<u>2,136,307</u>	<u>2,146,387</u>	<u>2,173,404</u>	<u>2,235,362</u>	<u>2,287,856</u>	<u>2,315,234</u>	<u>2,333,137</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

January 7, 2014

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2013 - 2020
(in thousands of dollars)

<u>Sources</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>	<u>Estimated</u> <u>FY2017</u>	<u>Estimated</u> <u>FY2018</u>	<u>Estimated</u> <u>FY2019</u>	<u>Estimated</u> <u>FY2020</u>
Licenses & Permits	630	596	625	625	625	625	625	625
Revenues from Use of Money and Property	78,986	65,390	65,365	66,755	67,564	66,755	65,392	65,573
Federal	2,301,961	2,429,435	2,411,820	2,464,531	2,618,580	2,618,580	2,617,877	2,617,880
Federal-American Recovery & Reinvestment Act	56,241	36,044	30,682	440	0	0	0	0
Revenues from Other Agencies	31,250	19,487	19,381	19,358	19,020	19,020	19,020	19,020
Charges for Current Services	193,958	140,464	141,329	147,964	140,758	140,275	140,410	140,325
Fines, Forfeits & Penalties	2,312	1,359	1,360	1,362	1,362	1,362	1,362	1,362
Repayment of Loans & Advances	100,524	56,378	85,384	42,436	51,188	52,807	50,083	48,287
Non-Revenue Receipts	1,225,171	1,155,590	1,182,234	1,090,276	1,073,567	1,072,426	1,073,693	1,072,572
Office of Hawaiian Affairs	<u>22,115</u>	<u>21,707</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>4,013,148</u>	<u>3,926,450</u>	<u>3,953,280</u>	<u>3,848,847</u>	<u>3,987,764</u>	<u>3,986,950</u>	<u>3,983,562</u>	<u>3,980,744</u>
Adjustments:								
Revenue Transfers	34,945	15,230	9,230	2,230	2,230	2,230	2,230	2,230
Adjusted Total	<u>3,978,203</u>	<u>3,911,220</u>	<u>3,944,050</u>	<u>3,846,617</u>	<u>3,985,534</u>	<u>3,984,720</u>	<u>3,981,332</u>	<u>3,978,514</u>

Prepared by: Dept. of Budget & Finance

January 7, 2014

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

* Unaudited, preliminary