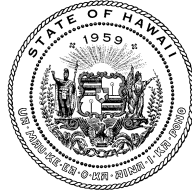


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



KURT KAWAFUCHI
CHAIR

MARILYN M. NIWAO
VICE-CHAIR

MEMBERS:

Carl S. Bonham
Christopher Grandy
Elizabeth P. Cambra
Jack P. Suyderhoud
Kristi L. Maynard

COUNCIL ON REVENUES

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

June 2, 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 May 29, 2014, the Council on Revenues lowered its forecast for growth in State General Fund tax revenues in fiscal year (FY) 2014 from 0.0% to -0.4%.

The Council was concerned that the cumulative general fund tax revenue collections so far this fiscal year were lower than expected. In particular, the general fund revenue through the end of April 2014 declined by 1.0% and Hawaii general excise tax (GET) collections through the same period declined by 2.0% (before allocating the \$55.5 million to the Hurricane Relief Fund). Part of the reason for the decline in GET revenues this year is that processing delays caused some City and County of Honolulu surcharge payments from liabilities incurred in the latter months of FY 2013 to be paid out in the first month of FY 2014.

The Council thought that the shortfall in tax revenues was due to a number of factors, including declining visitor spending and the effects of federal fiscal austerity on spending by residents. In addition, anticipated increases in federal income tax rates after 2012 may have caused taxpayers to recognize capital gain income in 2012 and to move income forward from tax year 2013 into tax year 2012. This would have caused tax collections to increase in FY 2013 and would have adversely affected collections in FY 2014. Also, replenishing the Hawaii Hurricane Relief Fund reduced general fund tax revenues by about 1% in FY 2014 and will do so again in FY 2015. The members also noted that real U.S. GDP fell at an annual rate of 1% in the first quarter of 2014.

The Council maintained its March 11, 2014 forecasts for FY 2015 through FY 2020, since it remained optimistic about the economy in coming years due to the amount of anticipated construction activity. Although the Council believed that the economy is still growing, and cited an expected increase in visitor arrivals due to

additional airline seats and a number of major construction projects, the members expressed much uncertainty about the economy.

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	5,445,055	- 0.4%
2015	5,744,533	5.5%
2016	6,031,760	5.0%
2017	6,381,602	5.8%
2018	6,777,261	6.2%
2019	7,143,233	5.4%
2020	7,528,968	5.4%

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

The Honorable Neil Abercrombie

June 2, 2014

Page 3

collections by about \$20 million in FY 2014 and by about \$13 million annually thereafter.

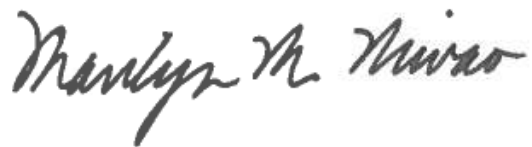
The Council also took into account provisions from earlier legislation, including the following:

- 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 on March 11, 2014.

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

Very truly yours,



MARILYN M. NIWAO, J.D., CPA
Vice-Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF MAY 29, 2014: FY 2014 TO FY 2020
Line item projections generated by Tax Research & Planning Office to be consistent with the Council's forecast for the total General Fund tax revenues
(in thousands of dollars)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2012	FY 2013	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	\$2,882,289	\$3,057,202	\$3,279,743	\$3,480,574	\$3,665,116	\$3,828,226	\$3,985,692
Individual Income Tax	1,540,604	\$1,735,499	1,819,784	1,912,378	1,960,809	2,053,511	2,219,340	2,381,209	2,546,573
Corporate Income Tax	73,027	\$100,988	64,887	69,034	68,498	85,091	89,099	90,091	112,734
Public Service Company Tax	150,528	\$163,930	168,440	174,000	180,223	186,834	193,756	200,935	208,379
Tax on Insurance Premiums	117,617	\$131,906	136,379	141,232	145,360	152,275	159,577	166,780	174,103
Cigarette and Tobacco Tax	102,853	\$94,180	81,115	83,866	86,988	90,241	93,648	97,167	100,795
Liquor Tax	48,854	\$48,962	48,939	49,368	49,972	50,615	51,271	51,934	52,603
Tax on Banks and Other Financial Corps.	5,229	\$20,673	23,243	22,379	24,177	25,261	26,391	26,916	27,182
Inheritance and Estate Tax	14,125	\$14,886	15,109	15,381	15,681	15,995	16,318	16,648	16,984
Conveyance Tax	18,917	\$19,132	19,996	20,929	21,732	23,088	24,541	25,994	27,491
Miscellaneous Taxes*	77,888	\$20,725	18,659	18,655	652	649	645	641	637
Transient Accommodations Tax	126,302	\$171,556	166,215	180,109	197,925	217,468	237,559	256,692	275,795
GENERAL FUND TOTAL	\$4,973,895	\$5,466,923	\$5,445,055	\$5,744,533	\$6,031,760	\$6,381,602	\$6,777,261	\$7,143,233	\$7,528,968
GROWTH RATE	15.0%	9.9%	-0.4%	5.5%	5.0%	5.8%	6.2%	5.4%	5.4%

* 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 March 2014 Report

General Fund Non-Tax Revenues

There were no significant changes.

Special Tax Revenues

There were no significant changes.

Special Fund Non-Tax Revenues

Charges for Current Services - the net increase in FYs 16-20 reflects an update of University of Hawaii enrollment projections.

Charges for Current Services, Utilities - the net adjustments in FYs 14-20 reflect Department of Transportation, Airports Division, decreased revenue projections due to the weakening of the Yen and projected adjustments of Minimum Annual Guarantees.

Other than Special Fund Non-Tax Revenues

Use of Money and Property - the increase in FY 14 reflects an update for actual revenues from investments held outside the State's Investment pool managed by the Employer-Union Health Benefits Trust Fund (EUTF).

Federal Grants - the net increases in FYs 14-15 reflect additional federal grants for Temporary Assistance to Needy Families and the Medical Assistance Program in the Department of Human Services, the carrying over of unexpended funds for the Federal Endangered Species Act Grant in the Department of Land and National Resources, and additional matching funds for Army National Guard Facilities capital improvements projects in the Department of Defense.

Charges for Current Services - the net increase in FY 14 is attributed to prescription rebates and insurance rate credits returned by insurance carriers to EUTF.

Non-Revenue Receipts - the net increases in FYs 14-20 reflect updates in the projections for employee and employer contributions in health plans at EUTF and additional contributions by the Honolulu Board of Water Supply, County of Kauai and Kauai Department of Water for Other Post-Employment Benefits at EUTF.

Repayments - the increases in FY 14 and FY 16 reflect higher than anticipated revenues due to larger than anticipated loan repayments for projects in the Hawaii Housing Finance and Development Corporation (Department of Business, Economic Development and Tourism).

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>	<u>Actual/Est*</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>
REVENUES - TAX								
Special Revenue Fund	800,314	826,079	712,631	676,817	687,928	697,490	708,111	717,764
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	396,963	408,581	358,239	324,729	328,515	318,616	314,885	313,482
Federal	2,737,684	2,936,383	2,802,033	2,831,786	2,985,120	2,984,808	2,983,200	2,983,200
Federal-American Reinvestment & Recovery Act	56,167	35,656	32,374	341	0	0	0	0
Charges for Current Services	2,100,602	2,032,422	2,060,523	2,120,089	2,163,796	2,227,049	2,263,206	2,284,602
Non-Revenue Receipts	1,655,097	1,603,231	1,659,856	1,575,360	1,411,891	1,413,462	1,420,795	1,419,855
Office of Hawaiian Affairs	22,115	22,874	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>7,015,718</u>	<u>7,087,209</u>	<u>6,976,947</u>	<u>6,917,159</u>	<u>6,955,039</u>	<u>7,010,671</u>	<u>7,049,718</u>	<u>7,068,997</u>
TOTAL REVENUES	7,816,032	7,913,288	7,689,578	7,593,976	7,642,967	7,708,161	7,757,829	7,786,761
ADJUSTMENTS - Revenue Transfers	<u>229,501</u>	<u>243,131</u>	<u>229,467</u>	<u>219,535</u>	<u>64,401</u>	<u>62,123</u>	<u>63,982</u>	<u>64,410</u>
TOTAL ADJUSTED REVENUES	<u>7,586,531</u>	<u>7,670,157</u>	<u>7,460,111</u>	<u>7,374,441</u>	<u>7,578,566</u>	<u>7,646,038</u>	<u>7,693,847</u>	<u>7,722,351</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

Table 1

May 29, 2014

**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>Actual FY 2013</u>	<u>Estimated FY 2014</u>	<u>Estimated FY 2015</u>	<u>Estimated FY 2016</u>	<u>Estimated FY 2017</u>	<u>Estimated FY 2018</u>	<u>Estimated FY 2019</u>	<u>Estimated FY 2020</u>
Licenses & Permits	6,465	6,019	1,014	1,014	1,014	1,014	1,014	1,014
Revenues from Use of Money and Property	22,351	20,613	19,642	19,083	18,050	16,960	15,829	14,652
Federal	13,708	12,877	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	291,189	287,888	290,043	293,153	293,856	296,655	298,102
Fines, Forfeits & Penalties	760	972	941	931	941	931	941	941
Repayment of Loans & Advances	19,665	19,724	20,422	19,846	20,483	20,329	20,391	21,571
Non-Revenue Receipts	314,870	279,567	210,240	205,012	216,363	219,293	225,135	225,566
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>669,910</u>	<u>592,516</u>	<u>588,786</u>	<u>603,241</u>	<u>606,012</u>	<u>613,917</u>	<u>615,798</u>

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

May 29, 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	32,112	33,028	33,028	33,028	33,028	33,028	33,028
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	48,134	48,561	48,993	49,429	49,869	50,313	50,762
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	180	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	33,600	27,600	25,600	25,600	25,600	25,600	25,600
Transfer of Tax on Ins. Premiums	<u>1,679</u>	<u>1,894</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>826,079</u>	<u>712,631</u>	<u>676,817</u>	<u>687,928</u>	<u>697,490</u>	<u>708,111</u>	<u>717,764</u>

Prepared by: Department of Budget & Finance

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

* Unaudited

Table 3

May 29, 2014

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>	<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>
Licenses & Permits	19,936	18,482	19,593	20,966	20,541	20,684	20,718	20,915
Revenues from Use of Money and Property	50,604	57,639	62,712	64,541	65,392	65,842	66,244	66,597
Federal	420,074	373,160	314,794	314,793	314,794	314,794	314,794	314,794
Revenue from Other Agencies	48,790	53,674	50,527	50,482	50,488	40,194	40,200	40,206
Charges for Current Services:								
Utils & Other Enterprises	531,389	504,071	538,366	563,593	582,579	643,627	667,237	684,574
Others	1,033,268	1,067,877	1,094,687	1,120,930	1,149,502	1,152,251	1,161,126	1,163,740
Fines, Forfeits & Penalties	9,807	6,649	4,016	4,150	4,237	4,301	4,366	4,433
Non-Revenue Receipts	208,476	223,532	221,325	226,991	76,142	76,141	76,148	76,145
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>2,333,775</u>	<u>2,316,712</u>	<u>2,317,834</u>	<u>2,378,469</u>	<u>2,275,908</u>	<u>2,330,382</u>	<u>2,363,600</u>	<u>2,384,397</u>
Adjustments:								
Revenue Transfers	173,433	187,081	183,863	188,519	36,669	36,668	36,674	36,671
Adjusted Total	<u>2,160,342</u>	<u>2,129,631</u>	<u>2,133,971</u>	<u>2,189,950</u>	<u>2,239,239</u>	<u>2,293,714</u>	<u>2,326,926</u>	<u>2,347,726</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

May 29, 2014

Table 4

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>	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>	Estimated <u>FY2020</u>
Licenses & Permits	675	596	640	670	670	670	670	670
Revenues from Use of Money and Property	76,053	73,730	64,232	65,586	66,569	65,737	65,247	65,429
Federal	2,303,902	2,550,346	2,474,394	2,504,383	2,657,989	2,657,989	2,656,735	2,656,735
Federal-American Recovery & Reinvestment Act	56,167	35,656	32,374	341	0	0	0	0
Revenues from Other Agencies	31,117	24,292	24,271	24,248	23,910	23,910	23,910	23,910
Charges for Current Services	185,699	169,285	139,582	145,523	138,562	137,315	138,188	138,186
Fines, Forfeits & Penalties	2,307	1,354	1,355	1,357	1,357	1,357	1,357	1,357
Repayment of Loans & Advances	106,011	122,322	86,358	49,339	52,347	54,171	51,482	49,451
Non-Revenue Receipts	1,131,751	1,100,132	1,228,291	1,143,357	1,119,386	1,118,028	1,119,512	1,118,144
Office of Hawaiian Affairs	<u>22,115</u>	<u>22,874</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>3,915,797</u>	<u>4,100,587</u>	<u>4,066,597</u>	<u>3,949,904</u>	<u>4,075,890</u>	<u>4,074,277</u>	<u>4,072,201</u>	<u>4,068,982</u>
Adjustments:								
Revenue Transfers	8,945	8,230	9,230	9,230	2,230	2,230	2,230	2,230
Adjusted Total	<u>3,906,852</u>	<u>4,092,357</u>	<u>4,057,367</u>	<u>3,940,674</u>	<u>4,073,660</u>	<u>4,072,047</u>	<u>4,069,971</u>	<u>4,066,752</u>

Prepared by: Dept. of Budget & Finance

May 29, 2014

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

* Unaudited, preliminary