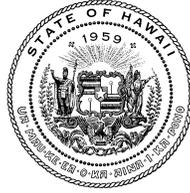


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GOVERNOR

SHAN TSUTSUI
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COUNCIL ON REVENUES

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

March 16, 2015

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 March 12, 2015, the Council on Revenues raised its forecast for growth in the State's General Fund tax revenues in fiscal year (FY) 2015 from 4.5% to 5.5%.

The Council kept its forecasts for growth in FY's 2016 to 2018 at 5.5% for each year, but lowered the forecast for growth in FY's 2019 to 2021 from 5.5% to 5.0%. Because the growth rate forecast for FY 2015 was increased, the Council's estimate of the General Fund revenue from FY 2016 to FY 2018 is increased, even though the growth rate forecast for those years was left unchanged, because the higher forecast for FY 2015 raised the amount of revenues in the base period by 1.0%.

In reaching the new forecast, the Council noted that General Fund tax revenues grew faster so far in FY 2015 than their earlier forecast and that the recent economic growth is continuing. The Council also recognized that the February Preliminary State General Fund Tax Revenues reflected a much higher growth rate due to the fact that the Tax Department has slowed processing of approximately \$89.6 million in refunds because of a spike in tax refund fraud. The members discussed the possible effects of tax fraud and tax noncompliance, and noted that the effects on growth forecasts were uncertain.

Council members felt that the significant drop in oil prices will benefit Hawaii's economic growth. For tourism, the recent increases in the value of the dollar against the Japanese yen, the Euro, the Canadian dollar and other currencies will raise the relative price of a Hawaii vacation for foreign visitors and therefore may adversely affect tourism growth, but the effect was not expected to be large and, overall, tourism was expected to continue to grow at a slow rate. U.S. tourists may more likely visit foreign countries due to the weaker foreign currencies, but it was felt by some that this would mainly affect those visitors from the East Coast.

The members also discussed the recent performance of the construction tax base and the possibility that an expected growth in construction may yet materialize.

Revised forecasts of State General Fund tax revenues for FY 2015 through FY 2021 are shown in the table below. As in all multi-year forecasts, the estimates for the later years are subject to greater uncertainty.

General Fund Tax Revenues		
Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2015	5,665,633	5.50%
2016	5,977,243	5.50%
2017	6,305,991	5.50%
2018	6,652,821	5.50%
2019	6,985,462	5.00%
2020	7,334,735	5.00%
2021	7,701,472	5.00%

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 2014 Legislature, including the following:

- Act 107, SLH 2014 reestablishes 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 a loss of \$2.6 million for fiscal year 2015 and annual revenue gains of \$15.5 million for fiscal years 2016 through 2030.
- Act 163, SLH 2014 increases allocations of the conveyance tax to the rental housing trust fund from 30% to 50% beginning July 1, 2014. The annual general fund revenue loss is estimated to be \$11.5 million per year in fiscal year 2015 and later.
- Act 174, SLH 2014 increases allocations of the TAT to the counties from \$93 million to \$103 million for fiscal years 2015 and 2016. The general fund revenue loss is \$10 million in fiscal years 2015 and 2016.

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

- 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

The Honorable David Y. Ige

March 16, 2015

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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 161, SLH 2013 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, 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 \$20 million in FY 2014 and by about \$13 million annually thereafter.
- 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 (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 January 6, 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

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF MARCH 12, 2015: FY 2015 TO FY 2021

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 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
General Excise and Use Tax	\$2,944,487	\$2,825,041	\$2,983,927	\$3,198,090	\$3,380,116	\$3,542,028	\$3,698,683	\$3,855,831	\$4,008,128
Individual Income Tax	1,735,499	\$1,745,312	1,887,339	1,951,402	2,054,479	2,184,107	2,320,513	2,470,995	2,619,071
Corporate Income Tax	100,988	\$87,021	76,307	89,587	86,449	98,093	97,525	100,755	125,617
Public Service Company Tax	163,930	\$166,179	170,690	175,730	181,661	187,924	194,508	201,464	208,743
Tax on Insurance Premiums	131,906	\$137,179	143,261	148,167	154,951	161,165	167,642	174,597	181,562
Cigarette and Tobacco Tax	94,180	\$77,659	77,390	79,107	81,786	84,623	87,741	90,988	94,383
Liquor Tax	48,962	\$48,305	48,600	48,975	49,537	50,132	50,751	51,401	52,078
Tax on Banks and Other Financial Corps.	20,673	\$36,983	41,553	32,218	31,881	37,593	38,987	37,328	37,422
Inheritance and Estate Tax	14,886	\$14,789	15,008	15,250	15,530	15,822	16,124	16,439	16,763
Conveyance Tax	19,132	\$26,508	12,036	12,577	13,332	14,034	14,774	15,578	16,393
Miscellaneous Taxes*	20,725	\$18,063	16,208	16,210	16,210	16,210	16,209	16,207	16,206
Transient Accommodations Tax	171,556	\$187,229	193,314	209,930	240,059	261,090	282,005	303,152	325,106
GENERAL FUND TOTAL	\$5,466,923	\$5,370,268	\$5,665,633	\$5,977,243	\$6,305,991	\$6,652,821	\$6,985,462	\$7,334,735	\$7,701,472
GROWTH RATE	9.9%	-1.8%	5.5%	5.5%	5.5%	5.5%	5.0%	5.0%	5.0%

* 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.

Significant Changes from January 2015 Report

General Fund Non-Tax Revenues

There were no significant changes.

Special Tax Revenues

Conveyance Tax - the Department of Business, Economic Development and Tourism's Rental Housing Trust Fund increased their FY 15 projected revenues based on the actual FY 15 revenues collected to date.

Special Fund Non-Tax Revenues

Federal Grants - the increase in FY 14 reflects an update to reflect audited revenues and the increased revenue estimates in FYs 15-21 reflect anticipated federal project funds for the Department of Transportation - Airport Facilities capital improvements projects.

Charges for Current Services - the net increase in FY 15 reflects a Hawaii Medical Services Association contract rate increase and a one-time catch-up payment to critical access hospital providers by the Department of Human Services due to a change in Medicaid reimbursements.

Other than Special Fund Non-Tax Revenues

Charges for Current Services - the increase in FY 15 is reflective of the update of actual collections for prescription rebates and insurance rate credits returned by insurance carriers to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) - Department of Budget and Finance (B&F).

Non-Revenue Receipts - the net increases in FYs 15-21 are reflective of the increased projections in employer and employee contributions by the State, City and County of Honolulu, City and County of Honolulu Board of Water Supply, County of Hawaii, Kauai County, Maui County, and Hawaii Department of Water to EUTF (B&F) based on actual contributions received through the first seven months of the fiscal year.

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 2014 - 2021
(in thousands of dollars)

<u>Sources</u>	Actual/Est* <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>	Estimated <u>FY 2021</u>
REVENUES - TAX								
Special Revenue Fund	837,793	738,050	698,247	711,662	720,903	731,181	740,484	742,814
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	419,417	381,104	375,915	405,531	444,188	471,869	501,964	552,303
Federal	2,752,486	2,887,494	2,885,292	3,034,409	3,078,618	3,019,002	3,018,502	3,017,940
Federal-American Reinvestment & Recovery Act	35,603	31,817	341	0	0	0	0	0
Charges for Current Services	2,061,781	2,082,082	2,090,575	2,113,459	2,148,855	2,204,509	2,230,820	2,255,343
Non-Revenue Receipts	1,881,814	1,994,419	1,870,316	1,791,952	1,898,057	2,029,098	2,012,293	2,004,749
Office of Hawaiian Affairs	22,810	22,285	15,100	15,100	15,100	15,100	15,100	15,100
Judiciary	<u>46,327</u>	<u>47,567</u>	<u>48,405</u>	<u>49,318</u>	<u>50,311</u>	<u>51,204</u>	<u>52,110</u>	<u>52,788</u>
Subtotal Revenues - Other Than Tax	<u>7,220,240</u>	<u>7,446,767</u>	<u>7,285,945</u>	<u>7,409,769</u>	<u>7,635,129</u>	<u>7,790,782</u>	<u>7,830,789</u>	<u>7,898,223</u>
TOTAL REVENUES	8,058,033	8,184,817	7,984,192	8,121,431	8,356,032	8,521,963	8,571,273	8,641,037
ADJUSTMENTS - Revenue Transfers	<u>240,124</u>	<u>245,345</u>	<u>224,997</u>	<u>63,250</u>	<u>66,642</u>	<u>67,324</u>	<u>67,371</u>	<u>67,370</u>
TOTAL ADJUSTED REVENUES	<u>7,817,909</u>	<u>7,939,472</u>	<u>7,759,195</u>	<u>8,058,181</u>	<u>8,289,390</u>	<u>8,454,639</u>	<u>8,503,902</u>	<u>8,573,667</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

Table 1

March 12, 2015

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2014 - 2021
(in thousands of dollars)**

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2021</u>
Licenses & Permits	6,443	1,020	1,020	1,020	1,020	1,020	1,020	1,020
Revenues from Use of Money and Property	20,295	19,607	19,047	18,015	16,924	15,793	14,616	13,384
Federal	12,814	12,115	11,870	11,619	11,331	11,006	11,006	11,006
Revenues from Other Agencies	3,362	2,543	2,543	2,543	2,543	2,543	2,543	2,543
Charges for Current Services	319,375	290,020	293,439	294,183	295,779	298,935	300,933	303,432
Fines, Forfeits & Penalties	1,263	1,066	1,041	1,051	1,031	1,041	1,031	1,041
Repayment of Loans & Advances	19,562	20,220	19,644	20,281	20,127	20,189	21,369	22,617
Non-Revenue Receipts	307,735	347,166	250,798	257,104	266,830	272,357	272,407	272,407
Judiciary	<u>34,699</u>	<u>35,753</u>	<u>36,382</u>	<u>37,085</u>	<u>37,763</u>	<u>38,437</u>	<u>39,117</u>	<u>39,795</u>
Total	<u>725,551</u>	<u>729,509</u>	<u>635,785</u>	<u>642,900</u>	<u>653,348</u>	<u>661,321</u>	<u>664,042</u>	<u>667,245</u>

Prepared by: Department of Budget & Finance

March 12, 2015

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2014 - 2021
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2021</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	30,026	32,372	32,372	32,372	32,372	32,372	32,372	32,372
Liquid Fuel:								
Highway	87,080	87,503	87,939	88,377	88,818	89,261	89,706	90,153
Aviation	4,809	4,847	4,847	4,847	4,847	4,847	4,847	4,847
Small Boats	<u>1,627</u>	<u>1,600</u>						
Subtotal	93,516	93,950	94,386	94,824	95,265	95,708	96,153	96,600
Transfer of Transient Accom Tax	115,000	110,600	110,600	110,600	110,600	110,600	110,600	110,600
Motor Vehicle Weight Tax	76,160	77,112	78,076	79,052	80,040	81,041	82,054	83,080
Vehicle Registration Fee Tax	48,525	48,976	49,412	49,852	50,296	50,745	51,198	51,656
Vehicle Surcharge:								
Rental /Tour	42,853	43,281	43,713	44,150	44,591	45,036	45,486	45,941
Environmental Response Tax	8,678	8,877	8,818	8,762	8,709	8,659	8,611	8,565
Unemployment Comp Tax	368,700	256,000	224,000	233,000	240,000	248,000	255,000	255,000
Employment & Training	1,413	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Election Campaign Contrib T.F.	178	181	170	150	130	120	110	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	48,849	61,600	51,600	53,800	53,800	53,800	53,800	53,800
Transfer of Tax on Ins. Premiums	<u>1,895</u>	<u>1,900</u>						
Total	<u>837,793</u>	<u>738,050</u>	<u>698,247</u>	<u>711,662</u>	<u>720,903</u>	<u>731,181</u>	<u>740,484</u>	<u>742,814</u>

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

Table 3

March 12, 2015

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2014 - 2021
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2021</u>
Licenses & Permits	19,086	19,937	21,978	21,188	22,251	20,749	21,681	20,892
Revenues from Use of Money and Property	62,593	58,523	60,629	58,800	59,076	59,269	59,767	59,825
Federal	405,683	363,741	362,251	358,260	358,260	358,260	358,260	358,260
Revenue from Other Agencies	53,673	52,907	52,836	52,841	40,231	40,237	40,243	40,249
Charges for Current Services:								
Utils & Other Enterprises	487,885	515,574	558,712	578,235	611,669	656,682	677,940	699,461
Others	1,062,404	1,104,922	1,081,624	1,089,756	1,090,315	1,097,245	1,100,335	1,101,461
Fines, Forfeits & Penalties	5,005	5,794	5,705	3,874	3,888	3,907	3,926	3,945
Non-Revenue Receipts	220,753	218,294	223,439	73,173	73,172	73,178	73,175	73,174
Judiciary	<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>	<u>12,993</u>
Total	<u>2,328,710</u>	<u>2,351,506</u>	<u>2,379,197</u>	<u>2,248,360</u>	<u>2,271,410</u>	<u>2,322,294</u>	<u>2,348,320</u>	<u>2,370,260</u>
Adjustments:								
Revenue Transfers	186,279	184,743	189,477	37,710	37,709	37,715	37,712	37,711
Adjusted Total	<u>2,142,431</u>	<u>2,166,763</u>	<u>2,189,720</u>	<u>2,210,650</u>	<u>2,233,701</u>	<u>2,284,579</u>	<u>2,310,608</u>	<u>2,332,549</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

March 12, 2015

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2014 - 2021
(in thousands of dollars)

<u>Sources</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>	<u>Estimated</u> <u>FY2021</u>
Licenses & Permits	649	672	727	727	727	727	727	727
Revenues from Use of Money and Property	74,215	103,377	116,734	143,933	174,651	216,170	265,032	316,180
Federal	2,333,989	2,511,638	2,511,171	2,664,530	2,709,027	2,649,736	2,649,236	2,648,674
Federal-American Recovery & Reinvestment Act	35,603	31,817	341	0	0	0	0	0
Revenues from Other Agencies	30,747	19,346	18,967	18,967	18,967	18,967	18,967	18,967
Charges for Current Services	192,117	171,566	156,800	151,285	151,092	151,647	151,612	150,989
Fines, Forfeits & Penalties	1,879	879	880	880	881	881	881	881
Repayment of Loans & Advances	120,644	75,213	54,164	61,412	81,871	70,376	50,161	50,032
Non-Revenue Receipts	1,353,326	1,428,959	1,396,079	1,461,675	1,558,055	1,683,563	1,666,711	1,659,168
Office of Hawaiian Affairs	<u>22,810</u>	<u>22,285</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>4,165,979</u>	<u>4,365,752</u>	<u>4,270,963</u>	<u>4,518,509</u>	<u>4,710,371</u>	<u>4,807,167</u>	<u>4,818,427</u>	<u>4,860,718</u>
Adjustments:								
Revenue Transfers	8,229	14,230	9,230	2,230	2,230	2,230	2,230	2,230
Adjusted Total	<u>4,157,750</u>	<u>4,351,522</u>	<u>4,261,733</u>	<u>4,516,279</u>	<u>4,708,141</u>	<u>4,804,937</u>	<u>4,816,197</u>	<u>4,858,488</u>

Prepared by: Dept. of Budget & Finance

March 12, 2015

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

* Unaudited, preliminary