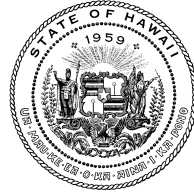


DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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COUNCIL ON REVENUES

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

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.

The Honorable David Y. Ige

January 11, 2016

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- 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

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF JANUARY 7, 2016: FY 2016 TO FY 2022
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 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
General Excise and Use Tax	\$2,825,041	\$2,992,707	\$3,197,573	\$3,373,680	\$3,536,407	\$3,690,803	\$3,823,016	\$3,969,277	\$4,115,772
Individual Income Tax	1,745,312	\$1,987,752	2,085,500	2,190,098	2,329,500	2,480,039	2,584,943	2,734,629	2,888,888
Corporate Income Tax	87,021	\$52,319	82,683	85,684	95,972	96,181	144,250	141,500	148,825
Public Service Company Tax	166,179	\$163,481	167,469	172,598	178,075	183,888	189,993	196,335	202,889
Tax on Insurance Premiums	137,179	\$145,679	150,576	157,146	163,302	169,668	175,104	181,758	188,442
Cigarette and Tobacco Tax	77,659	\$82,829	87,198	90,900	93,939	97,458	100,931	104,599	108,361
Liquor Tax	48,305	\$50,281	50,532	50,969	51,444	51,949	52,479	53,023	53,574
Tax on Banks and Other Financial Corps.	36,983	\$17,930	10,595	19,500	24,878	21,895	20,407	22,528	23,791
Inheritance and Estate Tax	14,789	\$12,071	12,232	12,436	12,651	12,876	13,109	13,348	13,591
Conveyance Tax	26,508	\$11,534	32,869	34,751	36,536	38,405	40,019	42,014	44,041
Miscellaneous Taxes*	18,063	\$15,588	16,262	16,263	16,263	16,262	16,260	16,258	16,257
Transient Accommodations Tax	187,229	\$202,970	225,906	251,937	272,073	292,168	312,903	334,449	356,724
GENERAL FUND TOTAL	\$5,370,268	\$5,735,141	\$6,119,395	\$6,455,962	\$6,811,040	\$7,151,592	\$7,473,414	\$7,809,718	\$8,161,155
GROWTH RATE	-1.8%	6.8%	6.7%	5.5%	5.5%	5.0%	4.5%	4.5%	4.5%

* 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 September 2015 Report

General Fund Non-Tax Revenues

Charges for Current Services – the increase in FY 16 reflects increases for reimbursements from the federal government (Department of Human Services (DHS)) (primarily for MedQuest).

Special Tax Revenues

Conveyance Tax – the decrease in FYs 16-22 reflect the redirection of conveyance tax revenues from the Natural Area Reserve Special Fund (Department of Land and Natural Resources (DLNR)) to the general fund, pursuant to Act 84, SLH 2015.

Special Fund Non-Tax Revenues

Charges for Current Services, Utilities – the increases in FYs 16-22 primarily reflect Department of Transportation, Airports Division, revised revenue projections due to changes in the recovery of airport operating expenses through the airport-airline residual cost recovery system and changes in projected concession revenues.

Other than Special Fund Non-Tax Revenues

Federal Grants – the net decrease in FY 15 reflects the update of actual grants received for Temporary Assistance to Needy Families, Child Protective Services programs (DHS) and the Family Health Services program at the Department of Health (DOH). The net decrease in FY 15 and net increase in FY 16 also reflect delays in receiving grants for the Alala restoration program (DLNR) and the Maternal, Infant and Early Childhood Home Visiting program (DOH).

Charges for Current Services – the net increases in FYs 15 and 16 reflect increases in the projected revenues from the green infrastructure fee and other proceeds from the green infrastructure properties at the State Energy Office (Department of Business, Economic Development and Tourism (DBEDT)). The net increase in FY 16 also reflects rate credits and gains returned by insurance carriers to the Employees' Union Trust Fund (EUTF) (Department of Budget and Finance (B&F)). The net decreases in FYs 17-22 reflect the reduction in the estimated fees to be collected from other departments to consolidate departmental procurement for enterprise shared services, software licensing and maintenance, networking, and hardware in the Office of Enterprise Technology Services (Department of Accounting and General Services).

Non-Revenue Receipts – the net increases in FYs 16-22 reflect 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 four months of the fiscal year.

Transfers – the decrease in FY 17 and increase in FY 18 is due to the delay of the general obligation bond infusion of the Rental Housing Trust Fund in the Hawaii Housing and Finance Development Corporation (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 2015 - 2022
(in thousands of dollars)

<u>Sources</u>	<u>Actual/Est*</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>	<u>Estimated</u> <u>FY 2022</u>
REVENUES - TAX								
Special Revenue Fund	755,330	701,074	707,678	714,794	722,935	730,076	730,226	730,885
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	468,247	376,925	398,481	454,445	483,725	520,187	569,493	625,612
Federal	2,822,148	3,085,453	3,026,711	3,018,749	3,007,189	3,004,196	3,004,708	2,999,631
Federal-American Reinvestment & Recovery Act	32,037	554	0	0	0	0	0	0
Charges for Current Services	2,224,409	2,421,878	2,231,819	2,283,822	2,339,546	2,390,073	2,436,952	2,460,235
Non-Revenue Receipts	2,038,047	1,913,855	1,839,635	1,982,480	2,074,118	2,060,987	2,059,112	2,040,881
Office of Hawaiian Affairs	22,624	25,238	18,912	18,912	18,912	18,912	18,912	18,912
Judiciary	<u>46,611</u>	<u>47,418</u>	<u>48,245</u>	<u>49,197</u>	<u>50,209</u>	<u>51,095</u>	<u>51,768</u>	<u>52,455</u>
Subtotal Revenues - Other Than Tax	<u>7,654,124</u>	<u>7,871,321</u>	<u>7,563,802</u>	<u>7,807,605</u>	<u>7,973,699</u>	<u>8,045,450</u>	<u>8,140,945</u>	<u>8,197,726</u>
TOTAL REVENUES	8,409,454	8,572,395	8,271,480	8,522,399	8,696,634	8,775,526	8,871,171	8,928,611
ADJUSTMENTS - Revenue Transfers	<u>241,442</u>	<u>251,560</u>	<u>81,524</u>	<u>121,925</u>	<u>82,607</u>	<u>82,655</u>	<u>82,654</u>	<u>82,653</u>
TOTAL ADJUSTED REVENUES	<u>8,168,012</u>	<u>8,320,835</u>	<u>8,189,956</u>	<u>8,400,474</u>	<u>8,614,027</u>	<u>8,692,871</u>	<u>8,788,517</u>	<u>8,845,958</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

Table 1

January 7, 2016

STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2015 - 2022
(in thousands of dollars)

<u>Sources</u>	<u>Actual 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>	<u>Estimated FY 2022</u>
Licenses & Permits	1,091	1,047	1,045	1,045	1,030	1,030	1,030	1,030
Revenues from Use of Money and Property	12,078	18,858	18,175	17,085	15,954	14,777	13,545	13,545
Federal	14,112	12,971	12,718	12,429	12,084	11,687	11,254	11,204
Revenues from Other Agencies	3,467	2,565	2,565	2,565	2,565	2,565	2,565	2,565
Charges for Current Services	407,469	503,063	346,376	359,229	373,768	388,578	404,611	407,358
Fines, Forfeits & Penalties	1,644	1,041	1,051	1,031	1,041	1,031	1,041	1,041
Repayment of Loans & Advances	20,256	19,644	20,281	20,127	20,189	21,369	22,617	22,617
Non-Revenue Receipts	347,330	255,723	269,846	278,058	283,336	288,081	292,869	292,869
Judiciary	<u>34,797</u>	<u>35,395</u>	<u>36,012</u>	<u>36,649</u>	<u>37,442</u>	<u>38,102</u>	<u>38,775</u>	<u>39,462</u>
Total	<u>842,244</u>	<u>850,306</u>	<u>708,068</u>	<u>728,218</u>	<u>747,409</u>	<u>767,220</u>	<u>788,307</u>	<u>791,691</u>

Prepared by: Department of Budget & Finance

January 7, 2016

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2015 - 2022**

(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2022</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	46,830	41,478	39,822	38,666	37,519	36,363	35,207	34,539
Liquid Fuel:								
Highway	86,822	87,266	87,701	88,139	88,578	89,020	89,463	89,910
Aviation	4,453	4,455	4,455	4,455	4,455	4,455	4,455	4,455
Small Boats	<u>1,627</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	92,902	93,321	93,756	94,194	94,633	95,075	95,518	95,965
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	76,092	76,472	76,854	77,239	77,625	78,013	78,403	78,795
Vehicle Registration Fee Tax	49,021	50,160	50,420	50,682	50,944	51,207	51,472	51,738
Vehicle Surcharge:								
Rental /Tour	51,941	52,199	52,460	52,723	52,987	53,252	53,517	53,785
Environmental Response Tax	8,652	8,674	8,616	8,560	8,507	8,456	8,409	8,363
Unemployment Comp Tax	241,855	224,000	233,000	240,000	248,000	255,000	255,000	255,000
Employment & Training	1,118	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Election Campaign Contrib T.F.	181	170	150	130	120	110	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	67,643	38,800	36,800	36,800	36,800	36,800	36,800	36,800
Transfer of Tax on Ins. Premiums	<u>2,095</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Total	<u>755,330</u>	<u>701,075</u>	<u>707,679</u>	<u>714,792</u>	<u>722,935</u>	<u>730,076</u>	<u>730,226</u>	<u>730,885</u>

Prepared by: Department of Budget & Finance

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

* Unaudited

Table 3

January 7, 2016

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2015 - 2022
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2022</u>
Licenses & Permits	20,182	22,281	21,359	22,244	21,011	21,865	21,097	21,857
Revenues from Use of Money and Property	60,643	60,608	60,338	60,589	60,871	61,105	61,325	61,497
Federal	363,311	360,602	357,487	358,368	359,254	360,144	361,039	361,937
Revenue from Other Agencies	48,362	48,191	48,158	36,844	36,844	36,844	36,844	36,844
Charges for Current Services:								
Utils & Other Enterprises	518,596	553,549	585,688	620,467	653,232	686,256	711,684	731,096
Others	1,124,460	1,133,132	1,151,399	1,153,183	1,160,384	1,163,573	1,164,625	1,165,749
Fines, Forfeits & Penalties	9,686	9,026	7,194	7,226	7,263	7,299	7,336	7,373
Non-Revenue Receipts	211,469	222,197	67,240	66,209	66,378	66,376	66,375	66,374
Judiciary	<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>	<u>12,993</u>
Total	<u>2,368,523</u>	<u>2,421,609</u>	<u>2,311,096</u>	<u>2,337,678</u>	<u>2,378,004</u>	<u>2,416,455</u>	<u>2,443,318</u>	<u>2,465,720</u>
Adjustments:								
Revenue Transfers	180,649	189,420	33,704	31,891	31,898	31,896	31,895	31,894
Adjusted Total	<u>2,187,874</u>	<u>2,232,189</u>	<u>2,277,392</u>	<u>2,305,787</u>	<u>2,346,106</u>	<u>2,384,559</u>	<u>2,411,423</u>	<u>2,433,826</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

January 7, 2016

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2015 - 2022
(in thousands of dollars)

<u>Sources</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>	Estimated <u>FY2021</u>	Estimated <u>FY2022</u>
Licenses & Permits	616	857	1,047	1,047	1,047	1,047	1,047	1,047
Revenues from Use of Money and Property	141,550	125,423	148,214	186,218	230,539	280,209	330,188	384,978
Federal	2,444,725	2,711,880	2,656,506	2,647,952	2,635,851	2,632,365	2,632,415	2,626,490
Federal-American Recovery & Reinvestment Act	32,037	554	0	0	0	0	0	0
Revenues from Other Agencies	19,256	19,314	21,690	19,065	19,065	19,065	19,065	19,065
Charges for Current Services	173,884	232,134	148,356	150,943	152,162	151,666	156,032	156,032
Fines, Forfeits & Penalties	1,372	732	733	734	734	734	734	734
Repayment of Loans & Advances	128,045	47,339	46,631	78,625	65,572	51,247	51,059	51,419
Non-Revenue Receipts	1,479,248	1,435,935	1,502,549	1,638,213	1,724,404	1,706,530	1,699,868	1,681,638
Office of Hawaiian Affairs	<u>22,624</u>	<u>25,238</u>	<u>18,912</u>	<u>18,912</u>	<u>18,912</u>	<u>18,912</u>	<u>18,912</u>	<u>18,912</u>
TOTAL	<u>4,443,357</u>	<u>4,599,406</u>	<u>4,544,638</u>	<u>4,741,709</u>	<u>4,848,286</u>	<u>4,861,775</u>	<u>4,909,320</u>	<u>4,940,315</u>
Adjustments:								
Revenue Transfers	2,048	21,230	2,230	42,230	2,230	2,230	2,230	2,230
Adjusted Total	<u>4,441,309</u>	<u>4,578,176</u>	<u>4,542,408</u>	<u>4,699,479</u>	<u>4,846,056</u>	<u>4,859,545</u>	<u>4,907,090</u>	<u>4,938,085</u>

Prepared by: Dept. of Budget & Finance

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

* Unaudited, preliminary

January 7, 2016