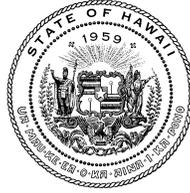


DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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COUNCIL ON REVENUES

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

March 15, 2017

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 13, 2017, the Council on Revenues (the “Council”) lowered its fiscal year (FY) 2017 revenue forecast for the General Fund from 3.0% to 2.5%. This was in part due to the fact that General Fund revenues in the first eight months of FY 2017 came in lower than forecast at 1.8% v. 3.0%. Lower General Fund revenue resulted from lower than expected collection from the General Excise (GET) and Use Tax (0.1%) and the Individual Income Tax (IIT) (3.3%), the two largest sources of tax revenue for the State. The Council expects revenue growth to rebound slightly in the last four months of FY 2017, resulting in an estimated year-on-year growth rate of 2.5%. The Council also lowered its growth forecasts from 5.0% to 4.0% in FY 2018 and from 4.4% to 4.0% in FY 2019. The Council expects revenue growth to be 4.5% from FY 2020 to FY 2023 which was slightly higher than the previous forecasted growth rate of 4.4%.

The Council discussed the possible causes of lower tax revenue collections for the first eight months of FY 2017. At the outset of its deliberations, the Council noted the higher than expected growth rate in FY 2016 at 8.0%. The Council also recognized that one off adjustments related to litigation resulted in higher collections in the prior FY 2016, in other words, a higher prior base period. Further, the Council was informed of an accounting adjustment to the current general fund tax revenue in FY 2017 that stems from a reclassification of general excise tax revenue to transient accommodations tax revenue, which had no impact on the overall general fund tax revenue but impacted the general excise tax revenue growth rate.

The Council noted and considered the expiration of higher income tax rates on the top income brackets for individual taxpayers after 2015, i.e., decreasing from 11% to 8.25%. The Council also discussed the potential impact of the reduced higher income tax rates on declared estimated taxes for certain individual taxpayers during the current FY 2017, which may adversely affect income tax revenue due to higher refunds associated with the lowering of the rates.

The lower multi-year forecasts beginning in FY 2018 reflect the Council's belief that the State of Hawaii had experienced higher than normal levels of economic growth over the last five years and that forecasted growth rate of Hawaii's economy may be lower in the current and succeeding two years than in the prior five years.

The new forecasts of State General Fund tax revenues for FY 2017 through FY 2023 are shown in the table below.

General Fund Tax Revenues

Fiscal Year	Amount (in Thousands of Dollars)	Growth From Previous Year
2017	6,349,215	2.5%
2018	6,603,184	4.0%
2019	6,867,311	4.0%
2020	7,176,340	4.5%
2021	7,499,275	4.5%
2022	7,836,742	4.5%
2023	8,189,395	4.5%

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 2016 Legislature, including the following:

- Act 129, SLH 2016 amends the low-income housing tax credit for buildings that became eligible for the tax credit after December 31, 2016 and before December 31, 2021. The amendment allows investors to take the tax credit over a period of only five years, instead of ten years under prior law. The amendment is estimated to reduce General Fund revenues by \$4 million in FY 2019, by \$8 million in FY 2020, by \$12 million in FY 2021, by \$16 million in FY 2022 and by \$20 million in FY 2023.
- Act 202, SLH 2016 creates a nonrefundable tax credit for production of renewable fuels and eliminates the ethanol facilities tax credit. The change is repealed December 31, 2021. The annual General Fund revenue loss is estimated to be \$3 million from FY 2018 to FY 2022.
- Act 223, SLH 2016 extends the Transient Accommodations Tax (TAT) allocation of \$103 million to the counties to FY 2017. The allocation will reduce General Fund revenues by \$10 million in FY 2017. (The Act amends the county allocations made in Act 121, SLH 2015, described below.)
- Act 258, SLH 2016 provides a new tax credit for organic food production. The tax credit applies to taxable years beginning after December 31, 2016 and is

repealed December 31, 2021. The tax credit will reduce General Fund revenues by \$2 million annually in FY 2018 through FY 2022.

The Council also took into account provisions from earlier legislation, 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 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 \$2 million in additional General Fund tax revenues in FY 2017 and 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 2017 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 2017 and in FY 2018.
- 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 2016 and later.
- 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 FY 2015, through FY 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 FYs 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

The Honorable David Y. Ige

March 15, 2017

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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 January 4, 2017.

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', with a stylized flourish at the end.

KURT KAWAFUCHI
Chair, Council on Revenues

Attachments

ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF MARCH 13, 2017: FY 2017 TO FY 2023
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 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Excise and Use Tax	\$2,992,707	\$3,206,154	\$3,330,214	\$3,459,629	\$3,579,818	\$3,695,976	\$3,828,034	\$3,960,485	\$4,105,556
Individual Income Tax	1,987,752	\$2,116,392	2,106,865	2,196,838	2,305,194	2,419,028	2,571,305	2,734,950	2,905,708
Corporate Income Tax	52,319	\$93,036	95,000	83,305	91,561	140,098	142,350	148,481	150,257
Public Service Company Tax	163,481	\$152,760	157,635	162,955	168,604	174,232	180,080	186,157	192,439
Tax on Insurance Premiums	145,679	\$153,173	156,876	161,967	165,824	169,967	175,217	180,684	186,500
Cigarette and Tobacco Tax	82,829	\$83,685	85,650	87,493	90,634	93,528	96,743	100,030	103,487
Liquor Tax	50,281	\$50,590	51,044	51,505	51,968	52,377	52,797	53,219	53,644
Tax on Banks and Other Financial Corps.	17,930	\$12,691	22,217	25,550	19,955	16,946	16,662	14,980	11,984
Inheritance and Estate Tax	12,071	\$49,613	50,476	51,405	52,377	53,330	54,306	55,305	56,323
Conveyance Tax	11,534	\$26,415	27,290	28,741	30,340	32,880	36,966	41,228	45,753
Miscellaneous Taxes*	15,588	\$16,067	16,207	16,201	16,193	16,185	16,178	16,170	16,162
Transient Accommodations Tax	202,970	\$233,781	249,741	277,595	294,843	311,793	328,637	345,053	361,582
GENERAL FUND TOTAL	\$5,735,141	\$6,194,356	\$6,349,215	\$6,603,184	\$6,867,311	\$7,176,340	\$7,499,275	\$7,836,742	\$8,189,395
GROWTH RATE	6.8%	8.0%	2.5%	4.0%	4.0%	4.5%	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 January 2017 Report

General Fund Non-Tax Revenues

Charges for Current Services – the net decrease in FYs 17-23 reflects decreases in estimated reimbursements of health fund premiums from non-general fund programs (Department of Budget and Finance (B&F)).

Non-Revenue Receipts – the decreases in FYs 17-23 reflect revised estimates for reimbursements of pension accumulation and social security from non-general fund programs (B&F).

Special Tax Revenues

There were no significant changes.

Special Fund Non-Tax Revenues

Charges for Current Services, Utilities – the decrease in FY 16 primarily reflects reduced actual rental car revenues. The revised adjustments in FYs 22-23 primarily reflect Department of Transportation-Airports' revised revenue projections based on increased projected operating expenses, projected decreased car rental revenue resulting in increased landing fees.

Other Than Special Fund Non-Tax Revenues

Other Agencies – the decreases in FYs 18-23 reflect decreases in estimated unclaimed funds to be remitted to the State from financial institutions where no activity has occurred in an account for at least five years. Increases in the anticipated amount of unclaimed property returned to their rightful owners are also expected due to more awareness of the State's Unclaimed Property Program in the Financial Administration Division, B&F.

Charges for Current Services – the net increase in FY 17 reflects rebates on prescription drug plans and rate credits or experience gains from insurance carriers to the Employer-Union Health Benefits (B&F).

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 2016 - 2023
(in thousands of dollars)

<u>Sources</u>	Actual/Est* <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>	Estimated <u>FY 2022</u>	Estimated <u>FY 2023</u>
REVENUES - TAX								
Special Revenue Fund	679,330	650,701	658,643	664,785	665,834	667,008	668,191	668,993
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	354,776	450,490	493,214	522,303	576,172	625,195	678,894	729,688
Federal	3,099,523	3,241,830	3,158,371	3,145,714	3,137,711	3,134,029	3,129,954	3,130,505
Federal-American Reinvestment & Recovery Act	143	102	0	0	0	0	0	0
Charges for Current Services	2,532,908	2,419,319	2,378,966	2,455,108	2,504,560	2,536,182	2,565,859	2,602,405
Non-Revenue Receipts	2,032,278	2,322,822	2,106,157	2,070,287	2,052,932	2,047,560	2,030,287	2,026,075
Office of Hawaiian Affairs	39,407	37,731	25,731	25,731	25,731	25,731	25,731	25,731
Judiciary	<u>46,911</u>	<u>47,937</u>	<u>48,622</u>	<u>49,446</u>	<u>50,247</u>	<u>51,006</u>	<u>51,781</u>	<u>52,569</u>
Subtotal Revenues - Other Than Tax	<u>8,105,946</u>	<u>8,520,232</u>	<u>8,211,061</u>	<u>8,268,589</u>	<u>8,347,353</u>	<u>8,419,703</u>	<u>8,482,506</u>	<u>8,566,973</u>
TOTAL REVENUES	8,785,276	9,170,933	8,869,704	8,933,374	9,013,187	9,086,711	9,150,697	9,235,966
ADJUSTMENTS - Revenue Transfers	<u>239,909</u>	<u>230,165</u>	<u>177,190</u>	<u>75,790</u>	<u>75,090</u>	<u>75,091</u>	<u>75,091</u>	<u>75,091</u>
TOTAL ADJUSTED REVENUES	<u>8,545,367</u>	<u>8,940,768</u>	<u>8,692,514</u>	<u>8,857,584</u>	<u>8,938,097</u>	<u>9,011,620</u>	<u>9,075,606</u>	<u>9,160,875</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary revenues.

Table 1

March 13, 2017

**STATE OF HAWAII
GENERAL FUND
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2016 - 2023
(in thousands of dollars)**

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2023</u>
Licenses & Permits	989	1,025	1,025	1,010	1,010	1,010	1,010	1,010
Revenues from Use of Money and Property	22,429	24,603	23,084	21,938	20,721	19,450	18,087	16,645
Federal	16,655	12,708	12,410	12,055	11,668	11,235	11,185	11,185
Revenues from Other Agencies	4,861	3,051	3,051	3,051	3,051	3,051	3,051	3,051
Charges for Current Services	504,036	431,044	388,714	395,024	400,141	405,787	411,393	417,021
Fines, Forfeits & Penalties	1,416	1,556	1,536	1,556	1,536	1,556	1,536	1,556
Repayment of Loans & Advances	4,687	20,278	20,125	21,723	22,937	24,225	25,585	27,029
Non-Revenue Receipts	298,182	324,337	253,626	257,888	262,117	266,432	270,832	275,319
Judiciary	<u>35,083</u>	<u>36,012</u>	<u>36,532</u>	<u>37,181</u>	<u>37,753</u>	<u>38,337</u>	<u>38,934</u>	<u>39,541</u>
Total	<u>888,338</u>	<u>854,615</u>	<u>740,104</u>	<u>751,426</u>	<u>760,934</u>	<u>771,083</u>	<u>781,613</u>	<u>792,357</u>

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

March 13, 2017

**STATE OF HAWAII
SPECIAL REVENUE FUND
MULTI-YEAR TAX REVENUES
FISCAL YEARS 2016 - 2023**
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2023</u>
Transfer of Gen. Excise Tax	-	-	-	-	-	-	-	-
Transfer of Tobacco Tax	41,206	40,752	40,612	40,472	40,334	40,197	40,062	39,927
Liquid Fuel:								
Highway	88,018	88,456	88,897	89,341	89,786	90,233	90,683	90,700
Aviation	2,807	2,227	2,227	2,227	2,227	2,227	2,227	2,227
Small Boats	<u>1,684</u>	<u>1,600</u>						
Subtotal	92,509	92,283	92,724	93,168	93,613	94,060	94,510	94,527
Transfer of Transient Accom Tax	108,500	108,500	108,500	108,500	108,500	108,500	108,500	108,500
Motor Vehicle Weight Tax	79,440	79,837	80,237	80,638	81,040	81,446	81,853	82,263
Vehicle Registration Fee Tax	50,610	49,916	50,137	50,360	50,583	50,808	51,034	51,261
Vehicle Surcharge:								
Rental /Tour	54,872	55,147	55,423	55,700	55,978	56,258	56,539	56,822
Environmental Response Tax	11,800	10,916	10,860	10,807	10,656	10,609	10,563	10,563
Unemployment Comp Tax	195,101	171,000	178,000	183,000	183,000	183,000	183,000	183,000
Employment & Training	1,237	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Election Campaign Contrib T.F.	319	180	150	140	130	130	130	130
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	39,668	36,800	36,800	36,800	36,800	36,800	36,800	36,800
Transfer of Tax on Ins. Premiums	<u>2,068</u>	<u>2,170</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>679,331</u>	<u>650,701</u>	<u>658,643</u>	<u>664,784</u>	<u>665,834</u>	<u>667,008</u>	<u>668,191</u>	<u>668,993</u>

Prepared by: Department of Budget & Finance

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

* Unaudited

Table 3

March 13, 2017

STATE OF HAWAII
SPECIAL REVENUE FUND - SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2016 - 2023
(in thousands of dollars)

<u>Sources</u>	<u>Actual*</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>	<u>Estimated</u> <u>FY 2023</u>
Licenses & Permits	23,006	26,180	24,832	24,023	25,443	24,567	25,995	25,195
Revenues from Use of Money and Property	71,668	68,657	70,023	72,529	69,328	69,477	69,981	69,707
Federal	392,459	381,945	382,978	384,017	385,061	386,109	387,163	388,223
Revenue from Other Agencies	48,051	49,676	36,646	36,472	36,472	36,472	36,472	36,472
Charges for Current Services:								
Utils & Other Enterprises	551,353	569,701	616,727	668,742	711,037	732,248	755,441	785,914
Others	1,188,581	1,182,072	1,190,290	1,208,645	1,210,247	1,211,425	1,212,572	1,213,274
Fines, Forfeits & Penalties	10,213	10,178	9,797	9,825	9,853	9,881	9,910	9,939
Non-Revenue Receipts	219,172	216,224	62,846	64,325	63,005	63,006	63,006	63,006
Judiciary	<u>11,828</u>	<u>11,925</u>	<u>12,090</u>	<u>12,265</u>	<u>12,494</u>	<u>12,669</u>	<u>12,847</u>	<u>13,028</u>
Total	<u>2,516,331</u>	<u>2,516,558</u>	<u>2,406,229</u>	<u>2,480,843</u>	<u>2,522,940</u>	<u>2,545,854</u>	<u>2,573,387</u>	<u>2,604,758</u>
Adjustments:								
Revenue Transfers	187,231	181,228	26,590	26,591	26,591	26,592	26,592	26,592
Adjusted Total	<u>2,329,100</u>	<u>2,335,330</u>	<u>2,379,639</u>	<u>2,454,252</u>	<u>2,496,349</u>	<u>2,519,262</u>	<u>2,546,795</u>	<u>2,578,166</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

March 13, 2017

STATE OF HAWAII
SPECIAL REVENUE FUND - OTHER THAN SPECIAL FUNDS
MULTI-YEAR REVENUES FROM SOURCES OTHER THAN TAX
FISCAL YEARS 2016 - 2023
(in thousands of dollars)

<u>Sources</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>	Estimated <u>FY2023</u>
Licenses & Permits	957	771	961	961	961	961	961	961
Revenues from Use of Money and Property	95,200	157,730	200,685	240,763	288,236	337,556	388,616	442,220
Federal	2,690,409	2,847,177	2,762,983	2,749,642	2,740,982	2,736,685	2,731,606	2,731,097
Federal-American Recovery & Reinvestment Act	143	102	0	0	0	0	0	0
Revenues from Other Agencies	19,227	19,020	14,302	14,302	14,302	14,302	14,302	14,302
Charges for Current Services	288,938	236,502	183,235	182,697	183,135	186,722	186,453	186,196
Fines, Forfeits & Penalties	1,366	3,326	1,779	1,779	1,779	1,779	1,779	1,779
Repayment of Loans & Advances	50,706	64,439	85,367	72,371	80,543	80,908	81,609	79,822
Non-Revenue Receipts	1,514,924	1,782,261	1,789,685	1,748,074	1,727,810	1,718,122	1,696,449	1,687,750
Office of Hawaiian Affairs	<u>39,407</u>	<u>37,731</u>	<u>25,731</u>	<u>25,731</u>	<u>25,731</u>	<u>25,731</u>	<u>25,731</u>	<u>25,731</u>
TOTAL	<u>4,701,277</u>	<u>5,149,059</u>	<u>5,064,728</u>	<u>5,036,320</u>	<u>5,063,479</u>	<u>5,102,766</u>	<u>5,127,506</u>	<u>5,169,858</u>
Adjustments:								
Revenue Transfers	20,980	2,230	104,330	2,930	2,230	2,230	2,230	2,230
Adjusted Total	<u>4,680,297</u>	<u>5,146,829</u>	<u>4,960,398</u>	<u>5,033,390</u>	<u>5,061,249</u>	<u>5,100,536</u>	<u>5,125,276</u>	<u>5,167,628</u>

Prepared by: Dept. of Budget & Finance

March 13, 2017

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

* Unaudited, preliminary