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Hawaii Council on Revenues lowers forecast

Pacific Business News - by Curtis Lum, Pacific Business News

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The Hawaii Council on Revenues Tuesday revised its forecast for the rest of the fiscal year, saying general fund revenue collections will decline by 1.6 percent, more than 2 percentage points lower than what the council had projected earlier this month.

The council held a special meeting at the request of Gov. **Neil Abercrombie**. The governor asked the body to come up with an updated forecast as a result of the ongoing disaster in Japan and the impact it will have on tourism, the unrest in North Africa, and the possible elimination of federal earmarks.

On March 10, the council at its regular meeting called for revenues to increase 0.5 percent this fiscal year. That was a significant decline from the 3 percent growth forecast in December and was based on lower-than-anticipated tax collections.

At that time, the state's budget deficit was estimated to be nearly \$1 billion, and the latest forecast means the deficit will top that number. Each percentage point change in the forecast represents about \$44 million in state revenue.

The forecast will mean lawmakers will have to make adjustments to the budget that is being deliberated at the Legislature.

Paul Brewbaker, Council on Revenues chairman, said the updated forecast had little to do with why the governor asked the council to reconvene. He said the panel on March 10 took into account the impact the political turmoil in North Africa will have on oil prices, and there wasn't enough information on the earmarks to factor that in the council's decision.

Brewbaker added that with less than three weeks worth of arrival information from Japan following the March 11 earthquake and tsunami there, it was too early to determine what effect the disaster will have on tourism. But, he said, the council didn't anticipate the problems in Japan to have a long-term impact on Hawaii's tourism industry.

"What happens is sharp initial impact and a fading out over the remainder of the year," Brewbaker said. "What's important to remember is the Japanese segment today is half the size in absolute terms than it was 15 years ago. So relatively speaking, it just doesn't have as big an impact for transmission of external disturbances as it once had."

Brewbaker said the council's negative projection was based more on a sharp decline in revenue in February, which he said was unexpected. He cautioned that one month's worth of information is too little to base a forecast on, but he said the council had little other solid information to base a new forecast.

"You can either take that at face value as an economic indicator, or you can take it with a grain of salt because one month does not a trend make," Brewbaker said. "And there in lies the dilemma. If we had meetings every two weeks, we would all be changing forecasts by large numbers. That's because the noise, like month-to-month revenue changes, tends to dominate over the signal."

Late in the day, Abercrombie issued a statement saying the state would enforce a 10 percent reduction in spending for all departments for the next three months. Additionally, the state also will use the Rainy Day, Hurricane Relief and "special funds."

"For future years, the plan we put forward in February still stands," Abercrombie said. "Our plan restores critical government functions to help local businesses and invests in education. The plan balances the budget by making changes to the tax code, labor savings and spending cuts."

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