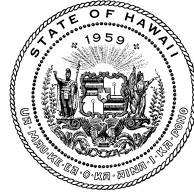


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GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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COUNCIL ON REVENUES

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

June 1, 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 May 24, 2016, the Council on Revenues lowered its forecast for growth in the State General Fund tax revenue in fiscal year (FY) 2016 from 6.7% to 6.1%. The Council retained the forecast for growth rates at 5.0% for FY 2017 through FY 2019 and at 4.5% for FY 2020 through FY 2022.

The Council believed that Hawaii's economy continues to be strong, but expressed uncertainty about the recent trends in General Fund tax revenues. They noted that although the economic data, including visitor arrivals and expenditures, job counts, and construction activities, are growing at a stronger rate than the Council's forecasts, and although general excise tax revenues have been climbing steadily, the rate of growth for overall General Fund tax collections has been declining. They also noted that in order to reach the old forecast of 6.7% growth for FY 2016, the General Fund tax revenues would need to be more than 9.0% higher in the last two months of FY 2016 than they were in the last two months of FY 2015. The growth in the last two months of FY 2016 is expected to depend importantly on refunds of the Individual Income Tax (IIT). The Department of Taxation estimated about \$100 million of IIT refunds would be paid out in May and June, which is about half the amount that was paid out in the last two months of FY 2015. The Department also reported that there are currently about \$38 million of IIT refunds to be processed. However, some of the Council members were concerned that the IIT refunds would be higher in May and June.

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	6,084,985	6.1%
2017	6,389,234	5.0%
2018	6,708,696	5.0%
2019	7,044,131	5.0%
2020	7,361,117	4.5%
2021	7,692,367	4.5%
2022	8,038,524	4.5%

As shown in my latest 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 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 FY 2018.

The Honorable David Y. Ige

June 1, 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 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 March 10, 2016. 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 MAY 24, 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	\$3,195,997	\$3,372,902	\$3,523,051	\$3,676,249	\$3,805,762	\$3,952,792	\$4,100,754
Individual Income Tax	1,745,312	\$1,987,752	2,043,185	2,130,320	2,243,591	2,392,267	2,493,879	2,640,636	2,790,440
Corporate Income Tax	87,021	\$52,319	92,196	80,713	94,944	94,404	145,768	142,622	150,355
Public Service Company Tax	166,179	\$163,481	167,139	171,952	177,219	182,874	188,777	195,044	201,519
Tax on Insurance Premiums	137,179	\$145,679	149,237	155,215	160,602	166,896	172,178	178,764	185,339
Cigarette and Tobacco Tax	77,659	\$82,829	87,105	90,704	93,673	97,080	100,461	104,016	107,663
Liquor Tax	48,305	\$50,281	50,514	50,897	51,329	51,775	52,241	52,742	53,247
Tax on Banks and Other Financial Corps.	36,983	\$17,930	10,595	20,122	25,906	22,916	21,304	23,506	24,885
Inheritance and Estate Tax	14,789	\$12,071	12,218	12,410	12,617	12,837	13,063	13,299	13,540
Conveyance Tax	26,508	\$11,534	32,490	34,197	35,754	37,592	39,153	41,118	43,102
Miscellaneous Taxes*	18,063	\$15,588	16,266	16,269	16,270	16,268	16,265	16,262	16,259
Transient Accommodations Tax	187,229	\$202,970	228,043	253,533	273,740	292,973	312,266	331,566	351,421
GENERAL FUND TOTAL	\$5,370,268	\$5,735,141	\$6,084,985	\$6,389,234	\$6,708,696	\$7,044,131	\$7,361,117	\$7,692,367	\$8,038,524
GROWTH RATE	-1.8%	6.8%	6.1%	5.0%	5.0%	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 March 2016 Report

General Fund Non-Tax Revenues

Charges for Current Services – the increases in FYs 16-22 reflect increases for reimbursements of other post-employment benefits prefunding from non-general funded programs (Department of Budget and Finance (B&F)).

Non-Revenue Receipts – the increase in FY 16 reflects the premiums on bonds sold at a recent bond sale (B&F) and transfer from the Public Utilities special fund pursuant to Chapter 269, HRS (B&F).

Special Tax Revenues

There were no significant changes.

Special Fund Non-Tax Revenues

Charges for Current Services, Others – the changes in FY 15 reflect adjustments by the Hawaii Health Systems Corporation due to an increase in acute patient days, additional revenues as a result of catch-up interim settlements for Critical Access Hospitals, and additional revenues from third-party payor contract negotiations.

Other Than Special Fund Non-Tax Revenues

Federal Grants – the net decrease in FY 15 reflects the update of actual funds received for the Race to the Top Grant at the Department of Education.

Charges for Current Services – the net increase in FY 16 reflects rebates on prescription drug plans and rate credits or experience gains from insurance carriers to the Hawaii Employer-Union Health Benefits Trust Fund (B&F).

Non-Revenue Receipts – the net decrease in FY 16 reflects a delay of affordable rental housing projects from FY 16 to FY 17 and increased projects in FY 17 at the Hawaii Housing Finance and Development Corporation (HHFDC) in the Department of Business, Economic Development and Tourism (DBEDT). The net increases in FYs 17-22 reflect the revised projections in employer and employee contributions for 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 for employee health benefits plans based on actual contributions through the first nine months of the year. The net decreases in FY 17 and FY 18 also reflect a reforecast for less than projected issuances of single family mortgage bonds due to low market rates at HHFDC in DBEDT.

Repayments – the net increases in FY 16 and FYs 20-22 and net decrease in FY 18 reflect the revised timing of estimated loan repayments for various projects at HHFDC in 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	666,297	644,935	651,768	656,631	656,376	656,126	656,385
REVENUES - OTHER THAN TAX								
License & Permits / Use of Money & Prop./ Other Agencies / Fines, Forfeits & Penalties / Repayment of Loans & Adv.	411,093	384,159	417,680	453,236	495,055	545,438	592,736	644,025
Federal	2,829,521	3,098,995	3,038,450	3,027,265	3,014,218	3,011,085	3,011,597	3,006,520
Federal-American Reinvestment & Recovery Act	2,678	554	0	0	0	0	0	0
Charges for Current Services	2,278,052	2,556,433	2,384,630	2,389,412	2,442,862	2,494,180	2,541,958	2,565,962
Non-Revenue Receipts	2,043,041	1,993,148	1,941,644	1,972,349	2,049,016	2,034,591	2,029,150	2,008,011
Office of Hawaiian Affairs	25,366	25,768	18,912	18,912	18,912	18,912	18,912	18,912
Judiciary	<u>46,956</u>	<u>47,948</u>	<u>48,406</u>	<u>49,186</u>	<u>50,124</u>	<u>50,990</u>	<u>51,873</u>	<u>52,775</u>
Subtotal Revenues - Other Than Tax	<u>7,636,708</u>	<u>8,107,006</u>	<u>7,849,723</u>	<u>7,910,360</u>	<u>8,070,187</u>	<u>8,155,196</u>	<u>8,246,226</u>	<u>8,296,205</u>
TOTAL REVENUES	8,392,038	8,773,303	8,494,658	8,562,128	8,726,818	8,811,572	8,902,352	8,952,590
ADJUSTMENTS - Revenue Transfers	<u>241,442</u>	<u>258,738</u>	<u>81,124</u>	<u>122,025</u>	<u>83,007</u>	<u>83,055</u>	<u>83,054</u>	<u>83,053</u>
TOTAL ADJUSTED REVENUES	<u>8,150,596</u>	<u>8,514,565</u>	<u>8,413,534</u>	<u>8,440,103</u>	<u>8,643,811</u>	<u>8,728,517</u>	<u>8,819,298</u>	<u>8,869,537</u>

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	1,022	1,020	1,020	1,005	1,005	1,005	1,005
Revenues from Use of Money and Property	12,078	19,056	18,175	17,085	15,954	14,777	13,545	13,545
Federal	14,112	12,961	12,708	12,419	12,064	11,677	11,244	11,194
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	548,911	457,579	420,354	434,892	449,701	465,764	468,543
Fines, Forfeits & Penalties	1,644	1,043	1,051	1,031	1,041	1,031	1,041	1,041
Repayment of Loans & Advances	20,256	19,642	20,278	20,125	20,187	21,367	22,615	22,615
Non-Revenue Receipts	347,330	308,824	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>949,419</u>	<u>819,235</u>	<u>789,306</u>	<u>808,486</u>	<u>828,306</u>	<u>849,423</u>	<u>852,839</u>

Prepared by: Department of Budget & Finance

May 24, 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	40,622	39,177	37,738	36,313	34,761	33,205	32,137
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	108,500	108,500	108,500	108,500	108,500	108,500	108,500
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	10,776	10,618	10,562	10,509	10,458	10,411	10,365
Unemployment Comp Tax	241,855	190,000	171,000	178,000	183,000	183,000	183,000	183,000
Employment & Training	1,118	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Election Campaign Contrib T.F.	181	172	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>2,075</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>666,298</u>	<u>644,936</u>	<u>651,766</u>	<u>656,631</u>	<u>656,376</u>	<u>656,126</u>	<u>656,385</u>

Prepared by: Department of Budget & Finance

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

* Unaudited

Table 3

May 24, 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	20,011	22,801	21,851	23,137	21,968	23,023	22,354	23,415
Revenues from Use of Money and Property	60,305	62,893	62,618	62,968	63,252	63,514	63,777	63,980
Federal	367,715	365,012	361,007	361,888	362,774	363,664	364,559	365,457
Revenue from Other Agencies	48,359	48,417	48,357	37,017	36,843	36,843	36,843	36,843
Charges for Current Services:								
Utils & Other Enterprises	518,230	555,446	587,080	622,847	653,738	687,460	713,649	733,890
Others	1,174,492	1,186,691	1,186,802	1,189,964	1,197,246	1,200,571	1,201,761	1,203,024
Fines, Forfeits & Penalties	9,739	9,015	9,138	7,226	7,263	7,299	7,336	7,373
Non-Revenue Receipts	215,116	226,764	70,544	69,513	69,682	69,680	69,679	69,678
Judiciary	<u>12,159</u>	<u>12,553</u>	<u>12,394</u>	<u>12,537</u>	<u>12,682</u>	<u>12,888</u>	<u>13,098</u>	<u>13,313</u>
Total	<u>2,426,126</u>	<u>2,489,592</u>	<u>2,359,791</u>	<u>2,387,097</u>	<u>2,425,448</u>	<u>2,464,942</u>	<u>2,493,056</u>	<u>2,516,973</u>
Adjustments:								
Revenue Transfers	180,649	190,296	33,304	31,491	31,498	31,496	31,495	31,494
Adjusted Total	<u>2,245,477</u>	<u>2,299,296</u>	<u>2,326,487</u>	<u>2,355,606</u>	<u>2,393,950</u>	<u>2,433,446</u>	<u>2,461,561</u>	<u>2,485,479</u>

Prepared by: Department of Budget & Finance

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

* Unaudited, preliminary

May 24, 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>	<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>	<u>Estimated</u> <u>FY2022</u>
Licenses & Permits	653	857	1,047	1,047	1,047	1,047	1,047	1,047
Revenues from Use of Money and Property	84,734	125,975	149,856	185,761	230,627	275,974	321,811	371,775
Federal	2,447,694	2,721,022	2,664,735	2,652,958	2,639,380	2,635,744	2,635,794	2,629,869
Federal-American Recovery & Reinvestment Act	2,678	554	0	0	0	0	0	0
Revenues from Other Agencies	19,343	19,354	21,520	19,095	19,095	19,095	19,095	19,095
Charges for Current Services	177,861	265,385	153,169	156,247	156,986	156,448	160,784	160,505
Fines, Forfeits & Penalties	1,372	745	755	745	745	745	745	745
Repayment of Loans & Advances	128,042	50,775	59,449	74,414	73,463	77,153	78,957	78,981
Non-Revenue Receipts	1,480,595	1,457,560	1,601,254	1,624,778	1,695,998	1,676,830	1,666,602	1,645,464
Office of Hawaiian Affairs	<u>25,366</u>	<u>25,768</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>4,368,338</u>	<u>4,667,995</u>	<u>4,670,697</u>	<u>4,733,957</u>	<u>4,836,253</u>	<u>4,861,948</u>	<u>4,903,747</u>	<u>4,926,393</u>
Adjustments:								
Revenue Transfers	2,048	21,230	2,230	42,730	3,030	3,030	3,030	3,030
Adjusted Total	<u>4,366,290</u>	<u>4,646,765</u>	<u>4,668,467</u>	<u>4,691,227</u>	<u>4,833,223</u>	<u>4,858,918</u>	<u>4,900,717</u>	<u>4,923,363</u>

Prepared by: Dept. of Budget & Finance

May 24, 2016

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

* Unaudited, preliminary