Statewide Overview and General Information

State of Hawaii Background Information

The State was admitted into the Union on August 21, 1959, as the 50th state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area. Hawaii is located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco.

The State is slightly larger than the combined area of Connecticut and Rhode Island and ranks 47th of the 50 states in land area. Hawaii is also larger in area than Delaware.

The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau.

According to the U.S. Census, the total population of the State was 422,770 in 1940; 499,794 in 1950; 632,772 in 1960; 769,913 in 1970; 964,691 in 1980; 1,115,274 in 1990; and 1,211,537 in 2000, making the State the 42nd most populous state in the Union as of 2000.

The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. Honolulu, the capital of the State and the principal port, is located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu.

Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 78.7 % of the total population is of one racial extraction, as follows:

Asian	41.6%
Caucasian	24.3%
Native Hawaiian, Pacific Islanders	9.4%
African American/Native American	2.1%
Other race	1.3%
	78.7%

The remaining 21.3% of the population is of two of more races.

State Government

The Constitution of the State provides for three separate branches of government: the Legislative Branch, the Executive Branch and the Judicial Branch.

Legislative power is vested in a bicameral Legislature consisting of a Senate of 25 members elected for four-year terms and a House of Representatives of 51 members elected for two-year terms. The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days.

Executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive.

The Executive and Administrative Offices are limited to not more than 20 principal departments under the supervision of the Governor. The Executive functions have in fact been grouped into 18 departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor.

Under the Constitution, judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi-county, Kalawao).

Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. *There are no independent or separate cities or other municipalities, school districts or townships.*

The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary.

The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

Controls on State Expenditures

Expenditure Controls

Probably the strictest control on State expenditures is found in the Hawaii State Constitution, Article VII, Section 5, Expenditure Controls, which states that general fund expenditures for any fiscal year shall not exceed the State's current general fund revenues and unencumbered cash balances.

By also establishing an independent body, the Council on Revenues, (Article VII, Section 7) to prepare estimates of State revenues and requiring the Governor and Legislature to use these estimates, the Constitution minimizes disagreements between the two branches of government on the amount of revenues that the State will receive, and therefore, the amount that can be spent.

General Fund Expenditure Ceiling

Another safeguard of the fiscal integrity of the State is the establishment of a maximum level of general fund appropriations allowed in any year. This maximum level is called the expenditure ceiling and is established by the Hawaii State Constitution, Article VII, Section 9.

This section limits the rate of growth of general fund appropriations to the estimated rate of growth of the State's economy as provided by law. The expenditure ceiling can be exceeded only by two-thirds vote of each house of the Legislature. The Legislature must also set forth the dollar amount and rate by which the ceiling will be exceeded and the reasons for exceeding the ceiling.

Chapter 37, State Financial Administration, Part V, General Fund Expenditure Ceiling, Hawaii Revised Statutes, provides the details of how the expenditure ceiling is calculated and how State growth is measured.

The expenditure ceiling uses the FY 1979 general fund appropriations as the expenditure ceiling and is increased for each succeeding year by the estimate of State growth as measured by the percentage change in total State personal income.

State growth is defined as the estimated rate of growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which the general fund appropriations are to be made.

Total State personal income means the total State personal income as defined by the State personal income series published by the United States Department of Commerce, Social and Economic Statistics Administration, Bureau of Economic Analysis.

Total State personal income is estimated by the Council on Revenues. A preliminary estimate is made by August 5 of each year, followed by a final estimate by November 5 of that year.

Using these total State personal income estimates, the Director of Finance determines a preliminary estimate of State growth and expenditure ceiling as of August 15 of each year, and a final estimate as of November 15 of each year.

The Council on Revenues

The Hawaii State Constitution (Article VII, Section 7) authorizes the establishment of the Council on Revenues (Council) for the purpose of preparing revenue estimates for use by the Governor and Legislature.

The Governor must consider these estimates in preparing the budget, recommending appropriations and revenues, and controlling expenditures. The Legislature must consider the estimates in appropriating funds and enacting revenue measures. If the Legislature appropriates funds or if the Governor prepares a budget or recommends appropriations that will exceed the Council's revenue estimates, they must publicly declare this fact including the reasons for it.

The Council was established by Act 278, Session Laws of Hawaii 1980 (Chapter 37, Part VI, Council on Revenues, HRS). The Council prepares revenue estimates of State government for the fiscal year in progress and for each year of the six-year State program and financial plan each June 1, September 10, January 10, and March 15.

The Council consists of seven members. Three members are appointed by the Governor and serve four-year terms. Two members each are appointed by the President of the Senate and Speaker of the House and serve two-year terms.

Section 37-112, Use of Estimates, provides that if the Legislature or Governor uses a revenue estimate which differs from the Council's estimate when appropriating funds or preparing the budget, they must declare this fact publicly with the reasons for using the differing revenue estimates.

The Budget System

The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of this department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

With the enactment of the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act is to integrate the planning, programming and budgeting processes to improve decisions on the allocation of resources.

The act established a comprehensive system for State programs and their related costs over a time frame of six years. The operating and capital improvement requirements are evaluated together to insure compatibility and mutual support. Systematic evaluations and analyses are conducted to ascertain the attainment of program objectives and alternative means or methods of improving current State services.

The act also provides that the Director of Finance may modify or withhold planned expenditures if such expenditures are greater than those necessary to execute the programs at levels authorized by the Governor and the Legislature, or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels.

The Legislative Process

At least 30 days before the Legislature convenes, the Governor submits to the Legislature the proposed State budget of the Executive Branch for the ensuing fiscal biennium. The budgets of the Judicial Branch and the Legislative Branch are submitted by their respective leaders to the Legislature for its consideration.

In odd-numbered years, the Executive Budget bill is known as the general appropriations bill, and in even-numbered years, as the supplemental appropriations bill.

No appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature,

can be passed on final reading until the general appropriations (or supplemental appropriations) bill is transmitted to the Governor.

To become law, a bill must pass three readings in each house on separate days.

Each bill passed by the Legislature is certified by the presiding officers and clerks of both houses and then is presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the Legislature.

Except for items appropriated to be expended by the Judicial and Legislative Branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the amount. For all other types of bills, the bill can only be vetoed as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the Legislature sine die. If a bill is neither signed nor returned by the Governor within that time, it shall become law as if the Governor had signed it.

The Governor has 45 days, after the adjournment of the Legislature sine die, to consider bills presented to him/her less than ten days before such adjournment, or presented after adjournment. Such a bill becomes law on the 45th day unless the Governor by proclamation gives ten days' notice to the Legislature that the he/she plans to return such bill with his/her objections in ten days.

The Legislature may convene on or before the 45 day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. If the Legislature does not convene, the bill does not become law.

If the Legislature meets in special session, it may amend the bill to meet the Governor's objections. Only one reading is required in each house to pass the bill. It is presented again to the Governor, but becomes law only if the Governor signs it within ten days after presentation.

How State Government is Financed

General Fund

The General Fund is used to account for resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through the General Fund. The appropriations acts adopted by the Legislature provide the basic framework in which the resources and obligations of the General Fund are accounted. The operating appropriations and the related General Fund accounting process complement each other as basic control functions in the general administration of State government.

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance uses the Council on Revenues' projections of General Fund revenues.

Deposits to the General Fund

Tax Collections

Tax collections collected by and for the Department of Taxation (TAX) amounted to $5.1 billion in FY 2006. TAX collected 95% of this amount and the remainder was collected by other agencies, as follows:

1. $59.4 million in State motor vehicle weight taxes and registration fees by the counties.

2. $88.1 million in insurance premium taxes by the Department of Commerce and Consumer Affairs.

3. $59.2 million in conveyance taxes by the Department of Land and Natural Resources.

As shown in the following table, the general excise and use tax is the State's most important source of revenue, accounting for approximately 46% of all tax collections. Next in size is the individual income tax, which contributed 30% of tax collections.

Tax Collections – FY 2006
(In Thousands of Dollars)

Source of Revenue	Amount Collected	% of Total
General Excise & Use	$2,355,316	47.17%
Income – Individuals	1,550,596	30.40%
Transient Accommodations	216,996	4.25%
Fuel	166,138	3.26%
Employment Security Cont.	149,388	2.93%
Public Service Companies	120,679	2.37%
Motor Vehicle Taxes*	107,527	2.11%
Tobacco & Licenses	88,261	1.73%
Insurance Premiums	88,068	1.73%
Income – Corporations	130,010	2.55%
Liquor & Permits	45,955	0.90%
Conveyance	59,201	1.16%
Inheritance & Estate	4,017	0.08%
Banks – Financial Corps.	18,324	0.36%
All Others	522	0.01%
Total	$5,101,011	100.0%

*Includes Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Mfr. Vehicle Inspection, Rental Vehicle Registration Fees, and Rental Vehicle Surcharge Tax.

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

Source: Department of Taxation, State Tax Collections and Distribution Report, Year Ending June 30, 2006.

The individual and corporate income tax rates for married or unmarried individuals, including Head of Household as well as estates and trusts, range from 1.4% to 8.25% of taxable income. Tax rates for corporations range from 4.4% to 6.4%.

The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales, or gross income.

The use tax is an excise tax levied on tangible personal property, contracting, or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable.

The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities.

The estate and transfer tax is a tax on the transfer of a taxable estate and a generation skipping transfer equal to the federal credit for State death taxes allowed by the Internal Revenue Code Section 2011 and a federal credit for State taxes allowed by Section 2604.

The franchise tax is a tax measured by the taxable income of banks and other financial corporations.

There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Transient accommodations, conveyance and fuel taxes are allocated among various funds and to the counties. The transient accommodations tax of 7.25% is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time-share vacation units.

Non-Tax Revenues

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, federal grants, charges for administrative services and other sources. In FY 2006, these non-tax revenues comprised approximately 10% of total deposits to the General Fund and totaled $499,350,724, as follows:

Source of Non-Tax Revenues	Amount Collected
Licenses & Permits	$ 1,283,957
Use of Money & Property	62,948,835
Federal Grants	6,462,378
Revenues from Other Agencies	4,185,332
Charges for Current Services	205,198,421
Fines, Forfeitures & Penalties	1,669,555
Repayments of Loans & Advances	26,815,436
Other Non-Revenue Receipts	162,350,601
Total Executive Branch	$470,914,515
Judiciary Branch Revenues	28,436,209
Total Non-Tax Revenues	$470,350,724

Licenses and Permits are revenues from 1) businesses and occupations which, by statute, must be licensed or granted permits before doing business in the State; and 2) non-business licenses and permits levied according to benefits presumably conferred by the license or permit. Major items in this category are marriage license fees and measuremaster licensing fees.

Revenues from Use of Money and Property are revenues derived from State property not used for departmental purposes, and from the investment and use, by others, of the State's capital. Major items are interest earnings on the investment of State funds in certificates of deposit, and reimbursements for general obligation bonds issued for highway, airport, Department of Land and Natural Resources, University of Hawaii, and economic development capital improvement projects.

Non-tax revenues from federal grants are made up of payments for indirect costs incurred by the State for carrying out federal programs.

Revenues from Other Agencies include escheats and unclaimed moneys (real and personal property which have been returned to the State which are unclaimed or without legal heirs) and donations or bequests contributed by private or public sources for general government activities.

Charges for Current Services are fees charged for certain services such as A+ registration fees, ambulance fees, and Bureau of Conveyance filing fees.

Fines, Forfeits and Penalties are made up of fines imposed for commission of statutory offenses, violation of administrative rules and regulations, and neglect of official duties. Forfeits refer to giving up the right to deposits held by the State as performance guarantees by contractors, and bail forfeitures collected by the District and Circuit Courts of the Judiciary Branch.

The major items in Repayments of Loans and Advances are funds collected as repayments of principal on general obligation bonds and other loans and advances, and reimbursements for the State's (as an employer) advance for employee contributions for health benefits.

Non-Revenue Receipts refer to refunds and reimbursements. Major items in this category are interest adjustments on the sale of general obligation bonds, transfers of excess balances from certain non-general funds, and reimbursements for pension accumulation and Social Security employer contributions from non-general funded programs.

Distribution of Taxes

Of the $5.1 billion in FY 2006 tax collections, $4.43 billion, or 86.9%, was deposited into the State General Fund. The counties received $174.2 million, or 3.4%, from county fuel taxes and transient accommodations taxes. The remaining $491.8 million was distributed to State special funds.

Largest in size was the distribution of $190.6 million to the State highway fund. Next in size was the transfer of $149.4 million in unemployment security contributions to the unemployment trust fund, followed by the $70.7 million distribution of transient accommodations taxes to the tourism special fund.

Tax Distributions - FY 2006
(In Thousands of Dollars)

Source of Revenue	Amount Collected	% of Total
State General Fund	$4,434,993	86.94%
Highway Special Fund	190,629	3.74%
Unemployment Trust Fund	149,388	2.93%
Tourism Special Fund	70,741	1.39%
Convention Ctr. Ent. Fund	32,663	0.64%
Rental Housing Fund	17,760	0.35%
Natural Area Reserve Fund	14,800	0.29%
Land Conservation Fund	5,920	0.12%
Airports Special Fund	2,640	0.05%
Compliance Res. Spec. Fund	2,000	0.04%
Environmental Fund	1,808	0.04%
Boating Special Fund	1,617	0.03%
Cigarette Stm. Ad/Enf. Fund	1,434	0.03%
Election Campaign Fund	186	0.00%
Domes. Violence\Child Abuse Fund	111	0.00%
School R&M Fund	74	0.00%
Public Libraries Fund	60	0.00%
Subtotal - State	$4,926,826	96.59%
Revenues Transferred to Counties:		
Fuel	76,970	1.51%
Trans. Accommodations Tax	97,214	1.91%
Subtotal - Counties	174,185	3.41%
Total	$5,101,011	100.00%

Source: Department of Taxation, State Tax Collections and Distribution Report, Year Ending June 30, 2006.

Special Funds

Special funds are funds which are dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.

Special funds are used primarily and extensively with regard to highway construction and maintenance, harbor and airport operations, hospital operations, housing and homestead programs, and certain programs in the area of education. Federal funds are accounted for in special funds.

The major special funds in terms of revenues received are as follows:

Fund	FY 2004 Revenues
Airport Revenue Fund (DOT)	$255,523,383
HHSC Special Fund (DOH)	190,038,500
State Highway Fund (DOT)	182,581,266
Harbors Special Fund (DOT)	81,583,838
Tuition & Fees Special Fund (UH)	79,236,134
Tourism Special Fund (DBED)	62,682,893
St. Ed. Fac. Imp. Spec Fd (DOE)	53,000,000
HI Tobacco Settle. Spec. Fd. (DOH)	39,092,291
Hou. Ln. Pro. Rev. Bnd. Spe. Fd. (DHS)	38,558,691
Comp. Res. Spec. Fund (DCCA)	33,174,630

Source: UH Report on Non General Fund Information to the 2004 Legislature, Department of Accounting & General Services Financial Accounting & Management Information System Reports.

The types of revenues credited to the various accounts in special funds are user tax receipts (fuel taxes), revenues from public undertakings, improvements or systems (airports, harbors and university revenue-producing undertakings, among others), and various business, occupation and non-business licenses, fees and permits.

There is a tax on authorized insurance companies (underwriters) based on premiums received in Hawaii and a conveyance tax on all documents transferring ownership or interest in real property, both of which support the Hawaii Hurricane Relief Fund.

The proceeds of fuel taxes, rental motor vehicle and tour vehicle surcharge taxes, motor vehicle taxes and employment security contributions, described below, are deposited in special funds.

Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways.

There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the 25-passenger seat and over category and for each tour vehicle in the 8- to 25-passenger seat category. The tax is levied on the tour vehicle operator. The State has a vehicle tax for vehicles up to and including 4,000 pounds net weight.

The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. These amounts account for about 15% of the total State budget for each year.

- Approximately 50% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services.

- Approximately 28% of such federal funds are used to support programs in the public schools, community colleges, and the university system.

- Transportation and highway safety activities received about 8% of all federal funds, primarily for interstate highway construction.

- Employment programs, including unemployment compensation benefit payments, account for about 5% of such federal receipts.

- Other programs account for the balance of such receipts.

The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	Grant Amount ($ in millions)
1999	1,181.2
2000	1,142.3
2001	1,213.4
2002	1,382.2
2003	1,590.8
2004	1,724.9
2005	1,830.6
2006	1,877.4

Revolving Funds

Revolving funds are funds from which is paid the cost of goods and services rendered or furnished to or by a State agency and which is replenished through charges made for the goods or services, or through transfers from other accounts or funds.

The major revolving funds in terms of revenues received are as follows:

Fund	FY 04 Revenues
UH Bookstore*	$26,175,197
Low Inc. Housing Rev. Fund (DHS)	25,620,352
UH Research & Training Rev. Fund*	24,099,630
Water Pollution Control Rev. Fd. (DOH)	21,286,203
UH Manoa Intercollegiate Athletics	16,847,865
St. Risk Management Rev. Fund (DAGS)	11,492,632
UH Manoa Student Housing	11,135,626
Dwelling Unit Revolving Fund (DHS)	9,773,250
Rental Assistance Rev. Fund (DHS)	9,414,808
Drink. Wtr. Cont. Rev. Loan Fd. (DOH)	5,151,409

*FY 2003 revenues

Source: UH Report on Non General Fund Information to the 2004 Legislature, Department of Accounting & General Services Financial Accounting & Management Information System Reports.

Emergency and Budget Reserve Fund

Chapter 328L, HRS, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve ("EBR") Fund, a special fund for emergency and "rainy day" purposes. 24½% (a reduction from 40%, effective on July 1, 2002) of the moneys received from the tobacco settlement would go to the EBR Fund. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two-thirds majority vote of each house of the Legislature. The EBR fund balance was $53.1 million as of June 30, 2003. Projected fund balances are $54.3 million at the end of FY 2004 and $78.7 million at the end of FY 2007.

The annual proceeds from the tobacco settlement were $36.1 million for FY 2001, $45.4 million for FY 2002, and $43.7 million for FY 2003. PricewaterhouseCoopers LLP, independent auditors for the Tobacco Master Settlement Agreement, has estimated that the State will receive annual proceeds from the tobacco settlement as follows: $38.9 million for FY 2004 and $42 to $63 million a year for FY 2005 to 2027. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.5 billion. The amount of future annual proceeds is not guaranteed and is subject to adjustment.

Of the tobacco settlement moneys received by the State each fiscal year, $350,000 is deposited in the Tobacco Enforcement Special Fund to enforce the provisions of the Tobacco Master Settlement Agreement.

In addition to allocating 24½% of the tobacco settlement moneys to the EBR Fund, Chapter 328L allocates 35% of the tobacco settlement funds to the Department of Health for health promotion and disease prevention programs (including up to 10% for the Department of Human Services to provide health insurance for needy children); and allocates 28% to the university revenue-undertakings fund to be applied to finance the University of Hawaii health and wellness center. The remaining 12½% is allocated to the Hawaii Tobacco Prevention and Control Trust Fund to reduce cigarette smoking and tobacco use. The allocations contained in Chapter 328L are subject to change by the Legislature at any time.

Act 178, Session Laws of Hawaii 2003, changed the distribution of funds in excess of the amount required by the University of Hawaii. Eighty percent of the excess will be transferred to the EBR Fund and 20% of the excess will be transferred to the Hawaii Tobacco Prevention and Control Trust Fund.