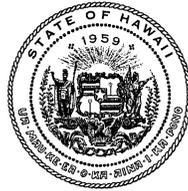


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COUNCIL ON REVENUES

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

August 5, 2008

The Honorable Linda Lingle
Governor, State of Hawaii
Executive Chambers
State Capitol, Fifth Floor
Honolulu, HI 96813

Dear Governor Lingle:

The Council on Revenues, at its May 29, 2008, meeting, forecast total General Fund tax revenues of \$4,738 million for fiscal year (FY) 2008, which represented a 3.3% increase over FY 2007. As reported by the Department of Taxation, actual General Fund tax revenues for FY 2008 were \$4,642 million, which showed a 1.2% increase over FY 2007.

In view of the actual tax collections for FY 2008, the Council has, at its meeting on July 31, 2008, revised its General Fund tax revenue forecasts for FYs 2009 through 2015 as requested in your letter of July 14, 2008, pursuant to section 37-111(a), Hawaii Revised Statutes. Details of the updated forecasts of the State's General Fund tax revenues for FY 2009 through FY 2015 are presented in the attached table.

Hawaii's economic outlook has further declined since the Council's May 2008 meeting, with additional workforce reductions announced on all islands. The ripple effect of these and earlier business closures and workforce reductions as well as an expected decline in tourist arrivals through the second quarter of the fiscal year will preclude a strengthening of Hawaii's economy until the beginning of FY 2010. As separately reported to you, the Council expects total personal income growth, adjusted for inflation, to be flat through both calendar year (CY) 2008 and CY 2009. Inflation, as measured by changes in the Honolulu Consumer Price Index, is expected to decline from an estimated 5.0% in FY 2008 to 4.0% in FY 2009. Construction expenditure growth is expected to be slower than the inflation rate for the next several fiscal years.

In producing its forecasts, the Council has considered the impact to the General Fund tax revenues of tax law changes passed in recent legislative sessions including:

- Act 209, SLH 2007—exemption from general excise tax of alcohol fuel for FY 2008 and FY 2009; approximately \$40 million a year.
- Act 211, SLH 2007—refundable food/excise tax credit; approximately \$24 million per year starting in FY 2009.

- Act 58, SLH 2008—one-time, refundable, constitutionally-mandated income tax credit; approximately \$1 million for FY 2009.
- Act 89, SLH 2008—application of the 0.5% general excise tax rate to certain warranty work performed on behalf of manufacturers; approximately \$1.5 million for FY 2009 and annually thereafter.
- Act 143, SLH 2008—changes relating to agricultural businesses qualifying for enterprise zone benefits; approximately \$100,000 for FY 2009, \$200,000 for FYs 2010–2011, \$300,000 for FY 2012, and 500,000 for FY 2012 and annually thereafter.
- Act 156, SLH 2008—allows state and county governments to hire retired state or county government employees; approximately \$1.5 million for FYs 2009–2013.
- Act 233, SLH 2008—provides an important agricultural land qualified agricultural cost income tax credit; approximately \$7.5 million annually for FYs 2010–2014.

The Council recognizes the challenge of forecasting revenues over the next several years as the impacts of significant tax law changes, especially recent business incentive tax credits, interact with external factors. Geopolitical events and capital markets volatility, which may alter such things as the prices of real estate and oil, will continue to pose challenges for economic forecasters. Hawaii economic growth is significantly exposed to continuing increases in global petroleum and commodity prices, to which the islands' economy is particularly vulnerable.

As always, the Council assumes that the State will not be subject to potential losses caused by decreases in federal allocations, any prolonged or crippling strikes, or any other unusual occurrences, and it has considered existing tax laws only.

Non-tax general fund revenue estimates are unchanged from the Council's report dated May 30, 2008.

Please advise us if we can be of further assistance or if we can answer any questions you may have.

Sincerely,



JACK P. SUYDERHOUD, Ph. D.
Vice-Chair, Council on Revenues

Attachment

ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2009 to FY 2015

(in thousands of dollars)

TYPE OF TAX	ACTUAL		ESTIMATED						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
General Excise & Use 2/, 3/	\$2,555,762	\$2,618,787	\$2,625,152	\$2,738,986	\$2,834,077	\$2,904,222	\$3,062,981	\$3,247,656	\$3,359,367
Income - Individual	1,559,690	1,544,307	1,560,234	1,623,414	1,700,036	1,816,072	1,917,531	2,027,750	2,134,314
Income - Corporation	81,834	85,081	82,792	80,759	82,628	92,367	100,980	114,269	127,059
Public Service Company	124,017	127,481	136,621	145,545	154,351	163,156	172,007	180,969	190,083
Insurance Premiums	92,196	95,742	96,910	98,972	102,085	116,405	124,954	132,301	137,197
Tobacco & Licenses	84,219	83,443	93,779	95,716	98,106	100,658	103,382	106,173	109,032
Liquor & Permits	46,034	45,620	46,250	47,483	48,819	50,084	51,274	52,455	53,645
Banks & Other Fin Corps	16,599	18,212	16,532	16,097	16,710	23,380	27,458	31,156	33,780
Conveyance	7,033	6,513	13,853	12,528	11,214	9,912	8,621	7,341	6,073
Miscellaneous *	1,120	751	590	589	588	587	586	585	584
Transient Accommodation Tax 1/	17,076	15,935	15,534	17,241	19,752	22,336	24,921	27,556	30,310
NET TOTAL	\$4,585,580	\$4,641,872	\$4,688,247	\$4,877,330	\$5,068,366	\$5,299,179	\$5,594,695	\$5,928,211	\$6,181,444
GROWTH RATE	3.4%	1.2%	1.0%	4.0%	3.9%	4.6%	5.6%	6.0%	4.3%

Notes:

1/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to the tourism special fund and 5.3% to the TAT trust fund (Act 250, SLH 2002); 17.3% to the convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to the tourism special fund to 34.2% and repeals the TAT trust fund. Effective on July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to \$33 million. Effective on July 1, 2006.

2/ FY 2012 excludes \$40 million, due to June 30, 2012 falling on a weekend. FY 2014 includes \$40 million, estimated spillover from June 30, 2013 falling on weekend.

3/ Act 209, SLH 2007, exempts gross income received from the sale of alcohol fuel from the general excise tax. Effective on July 1, 2007, provided that the exemption repeals on June 30, 2009.

* Includes inheritance and estate tax.