COUNCIL ON REVENUES

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

January 9, 2012

Senator David Ige
Chair, Senate Committee on Ways and Means
State Capitol, Room 210
Honolulu, HI 96813

Representative Marcus Oshiro
Chair, House Committee on Finance
State Capitol, Room 306
Honolulu, HI 96813

Chairpersons and Members of the Committees:

Thank you for inviting the Council on Revenues to appear before your committees to present the current tax revenue forecasts for the State of Hawaii. My name is Richard F. Kahle, Jr. and I am the Chair of the Council on Revenues. Today, I would like to give you a review of recent trends as well as the Council's latest forecast.

Current Revenue Trends

Of the total $5.3 billion in tax revenues collected in FY 2011, $4.3 billion or 81.7% was deposited into the State's General Fund. This was a decline of 0.8% compared with FY 2010, mainly due to the delay in individual income tax refunds that were held up in the latter part of fiscal year 2010 and paid out in the first month of FY 2011. Without the refund delay, the General Fund tax revenues would have grown by 8.1% in FY 2011.

General Excise and Use Tax collections, which typically make up about half of the total General Fund tax revenues and is a good indicator of economic activities, increased by 7.7% from the previous fiscal year to $2.5 billion in FY 2011.

Construction spending, which is measured using data on the General Excise Tax resulting from contracting, declined by only 1.0% in FY 2011. In FY 2010, construction spending fell by 23.1%.

Improved economic conditions caused total personal income (as reported by the Bureau of Economic Analysis) to grow by 4.7% in FY 2011. At the same time, the State

Department of Taxation reported that income tax withheld from wages increased by 4.7%. Recorded net individual income tax collections fell by 18.4% in FY 2011, but that was due to the delay in refunds in FY 2010. Without the refund delay, individual income tax collections would have grown by 6.9% in FY 2011.

In the current FY 2012, the number of visitors arriving during the first quarter has fallen slightly compared with the same period last year, despite the economic recovery. However, the General Excise and Use Tax collections grew by 7.1%.

State General Fund tax collections for the first 4 months of fiscal year 2012 are up 21.7% compared to the same period last year, but this is due mainly to the refund delays. If the refunds are factored out, General Fund collections would have increased by only 6.4%. Here is what happened in the biggest categories of the State's taxes that are dedicated to the General Fund in the first 4 months of the fiscal year:

- The cumulative total for the General Excise and Use Taxes, the largest single tax category, grew by 8.2% from the same period last year, from $805.3 million to $871.2 million.

- The cumulative total for the Individual Income Tax, the second largest tax category, grew by 72.8%, from $294.3 million to $508.7 million, but this was due mainly to the delayed refunds I mentioned earlier. Without the refund delay, these collections would have grown by only 5.8%.

- The cumulative total for the Insurance Premiums Tax fell by 42.1%, from $55.8 million to $32.3 million.

- The cumulative total for the Public Service Company Tax grew by 41.1%, from $35.3 million to $49.8 million.

Forecasts of General Fund Tax Revenues

At its meeting on January 5, 2012, the Council on Revenues lowered its forecast for State General Fund tax revenue growth in FY 2012 from 14.5% to 11.5%. The Council kept its growth forecast for FY 2013 at 6.5%. It lowered the growth rate for FY 2016 from 5% to 3%, but the growth rates for the other fiscal years were unchanged.

The FY 2012 forecast revision reflected mainly the failure of tax collections in the first part of the fiscal year to meet expectations based on the original forecast. Based on preliminary data, the Department of Taxation has estimated that cumulative General Fund collections for the first five months of FY 2012 (July through November) were $1,930.5 million. The Department also provided a very preliminary estimate of $399 million for General Fund collections in December. Also, new procedures at the Department of Taxation that accelerated the processing of collections may have increased the base for FY 2011, against which growth for FY 2012 is measured.

The Council is still uncertain about the revenue that will be provided by the tax changes made by the Legislature in 2011. The biggest part of the uncertainty is over the revenue consequences of Act 105, Session Laws of Hawaii 2011. In deliberations during its meeting on September 6, 2011, the Council members discussed the various revenue raisers enacted by the 2011 Legislature. The Tax Department stated that they were reasonably comfortable with the revenue estimates for most of the provisions, but that there was considerable uncertainty over the revenue consequences of Act 105, which eliminated a number of exemptions in the General Excise Tax (GET). The uncertainty arises partly because data on the GET exemptions are poor, but also because it is hard to know how taxpayers will respond.

The Council members questioned whether the revenue estimates adequately accounted for the responses of taxpayers to the legislation and pointed out that tax avoidance behavior might reduce the expected revenues substantially. For example, the grandfathering clause might allow a substantial number of taxpayers to escape the immediate effects from eliminating the exemption for the subcontractor's deduction. There are also ways taxpayers can work around some of the lost GET exemptions to avoid the additional tax. The Tax Department agreed that the revenue gain from the Act in FY 2012 could be as small as $50 million. Consequently, the Council decided to accept $50 million as the revenue consequences of Act 105 for FY 2012, which was about $120 million lower than the Tax Department's original revenue estimate. The Council also adopted a more conservative estimate for the expected revenue gain in FY 2013.

It should be noted that the model is a multi-year forecasting model from FY 2012 through FY 2018. As in all multi-year forecasts some years are over-estimated and other years are under-estimated. In most years, the growth in General Fund tax collections is greater than the growth in personal income. However, the relationship between income growth and revenue growth is variable and other factors, such as income tax credits, also affect the net collections.

Finally, I would like to point out that the federal Budget Control Act of 2011 will affect Hawaii. It may impose $1.2 trillion in cuts, one-half of which will come from defense.

Revised forecasts of State General Fund tax revenues for FY 2012 through FY 2018 are shown in the table below:

Fiscal Year	General Fund Tax Revenues Amount (in Thousands of Dollars)	Growth From Previous Year
2012	4,827,182	11.5%
2013	5,140,949	6.5%
2014	5,295,177	3.0%
2015	5,559,936	5.0%

2016	5,726,734	3.0%
2017	6,013,071	5.0%
2018	6,313,724	5.0%

In producing its forecasts, the Council adopted specific adjustments recommended by the Tax Department reflecting impacts on General Fund tax revenues of recent tax law changes enacted by the 2011 Legislature, including the following:

- Act 97 (SB 570 SD2 HD1 CD1). Part II repeals state tax deduction for taxpayers with Federal AGI above $100,000 (for single taxpayers), $200,000 (for joint filers), and $150,000 (for heads of households). Part III caps itemized deductions at $25,000 for a single taxpayer with Federal AGI of $100,000 and above; $50,000 for a joint filer with Federal AGI of $200,000 and above; and $37,500 for a head of household with Federal AGI of $150,000 and above. Parts II and III sunset on January 1, 2016. Part IV delays the 10% increase in the standard deduction and the personal exemption by 2 years and makes them permanent.

- Act 103 (SB 1186 SD2 HD1 CD1) establishes a temporary $10 minimum daily tax on each transient accommodation furnished at no charge. The act also temporarily limits the TAT revenue distribution to the counties to $93 million per year, and limits the distribution to the Tourism Special Fund to $69 million per year.

- Act 104 (HB 1039 HD1 SD2 CD1) changes the Rental Motor Vehicle Surcharge Tax to $7.50 per day from July 1, 2011 to June 30, 2012, then $3.00 per day beginning July 1, 2012. The Act allocates the $4.50 per day increase to the General Fund from July 1, 2011 to June 30, 2012.

- Act 105 (SB 754 SD1 HD1 CD1) suspends certain GET exemptions and imposes tax at 4 percent on the previously exempt amounts for the period from July 1, 2011 to June 30, 2013.

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

Sincerely,

Richard F. Kahle, Jr.
Chair, Council on Revenues

Current Hawaii Economic Conditions

Eugene Tian

Department of Business, Economic Development & Tourism

to the

Committee on Ways and Means
and
Committee on Finance

January 9, 2012

DBEDT November 2011 Forecast
Key Economic Indicators for Hawaii are positive in 2011 and continue to be positive in 2012

(Annual % Change)

	Actual CY 2010	Forecasted CY 2011	Forecasted CY 2012
Total Population	1.3%	1.0%	1.0%
Visitor Arrivals	8.7%	2.5%	3.4%
Visitor Expenditures	11.7%	13.1%	5.6%
Honolulu CPI-U	2.1%	3.3%	2.8%
Personal Income	3.7%	4.6%	4.0%
Real Personal Income	1.6%	1.3%	1.2%
Total Wage and Salary Jobs	-0.8%	1.3%	1.6%

Source: Department of Business, Economic Development & Tourism

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Latest developments in Hawaii's Economy

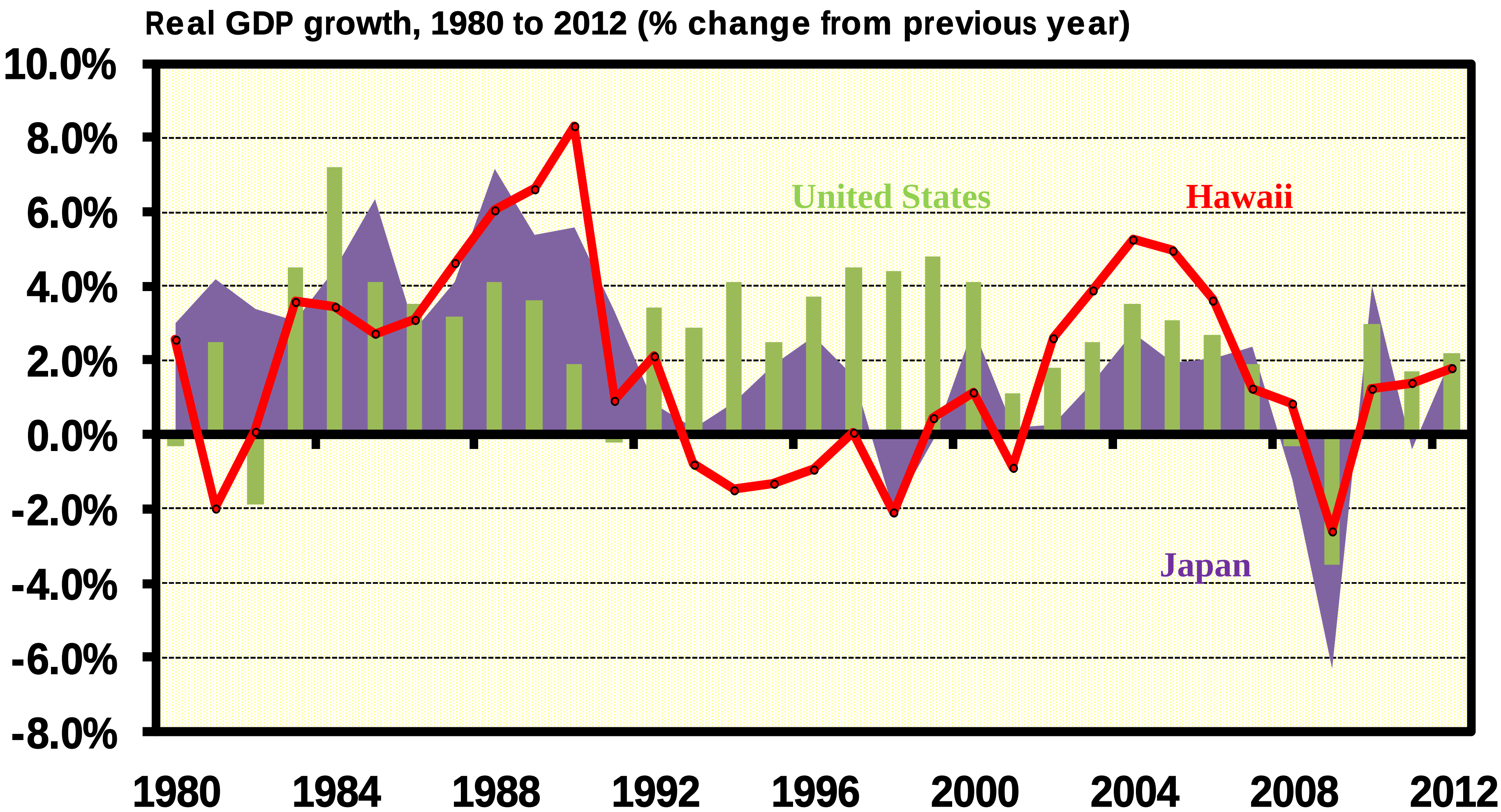
- State general fund tax revenues increased 7.8% during the 1st 11 months of 2011, but for the current fiscal year FY 2012, general fund revenues increased 17.9%. The increase in general fund revenue was due to economic growth, tax law change, and the effect of tax refund

- Visitor industry performed better than expected with 3.4% increase in visitor arrivals, and 15.1% increase in spending during first 11 months. Passenger count for December increased by 4.4%

- Labor market improving. Wage and salary job counts increased 1.3% during the 1st 11 months of 2011. Unemployment claims for the whole year of 2011 were 8% lower that those in 2010

- Construction activities measured by value of building permit during the 1st 11 months of 2011 was 7.7% behind the 2010 level, additions and alterations grew by 5.0%, many of them are solar-related projects

Hawaii's economy is influenced by the US and Japan, Hawaii's economic growth is expected to be lower than those of U.S. and Japan in 2012



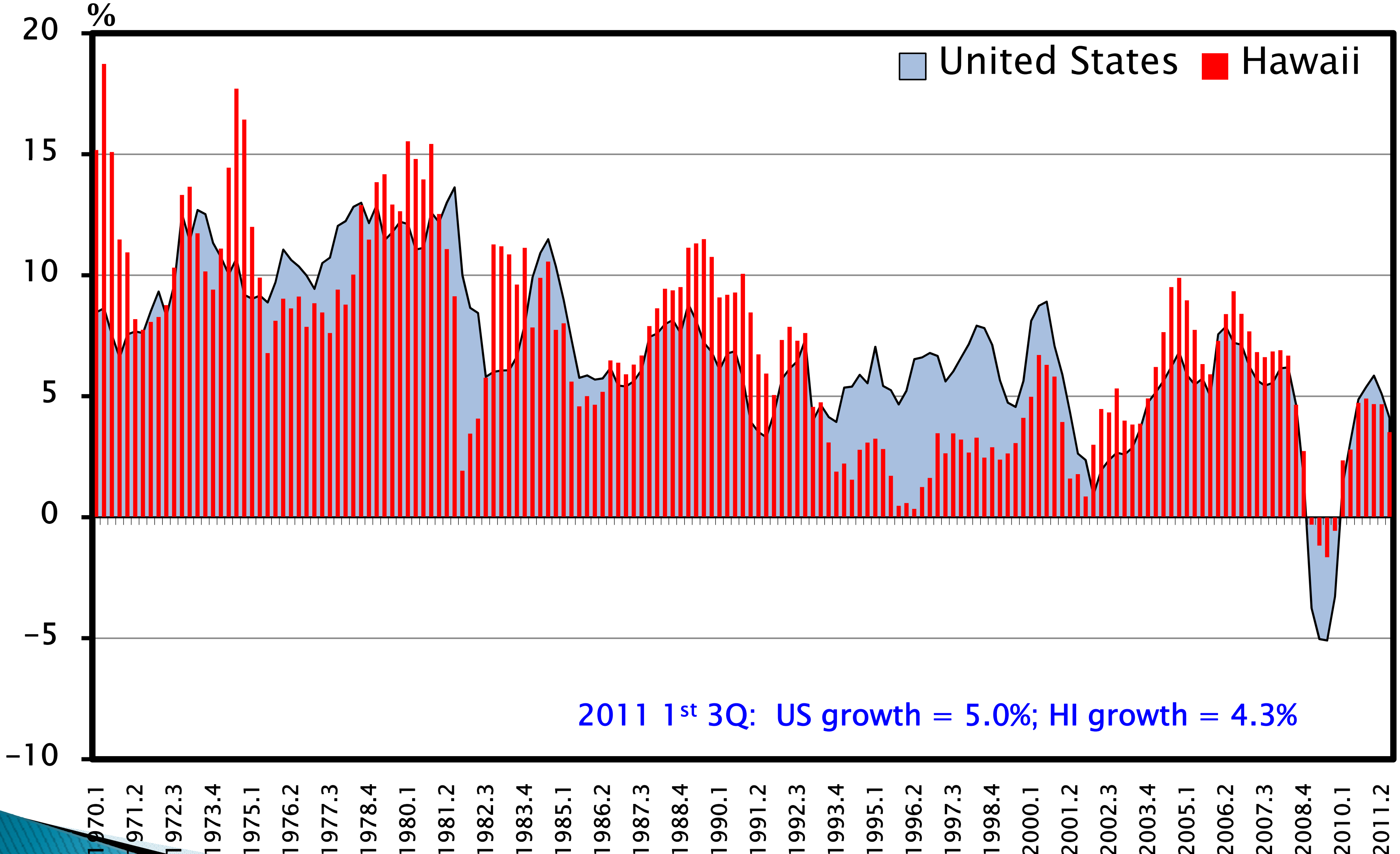
Source: US Bureau of Economic Analysis, Japan Ministry of Internal Affairs and Communications

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Personal Income

Hawaii Personal Income Growth Has Been Following the U.S. in Most of the Cycles, our growth rates are now below the U.S.

(Quarterly year-over-year growth rate)

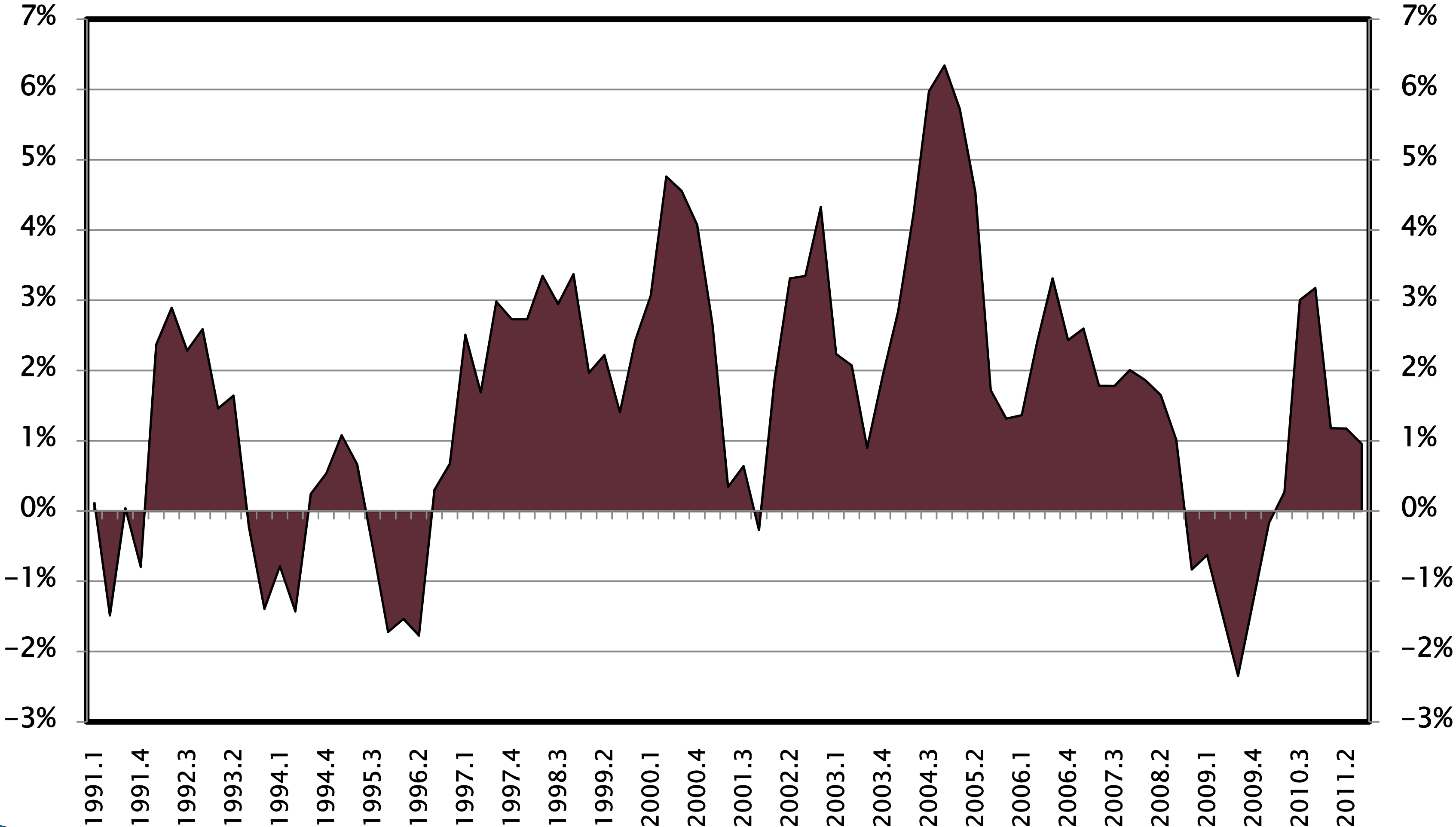


Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Real personal income growth turned positive in the 2nd quarter of 2010

(deflated by Honolulu CPI, quarterly year-over-year growth)

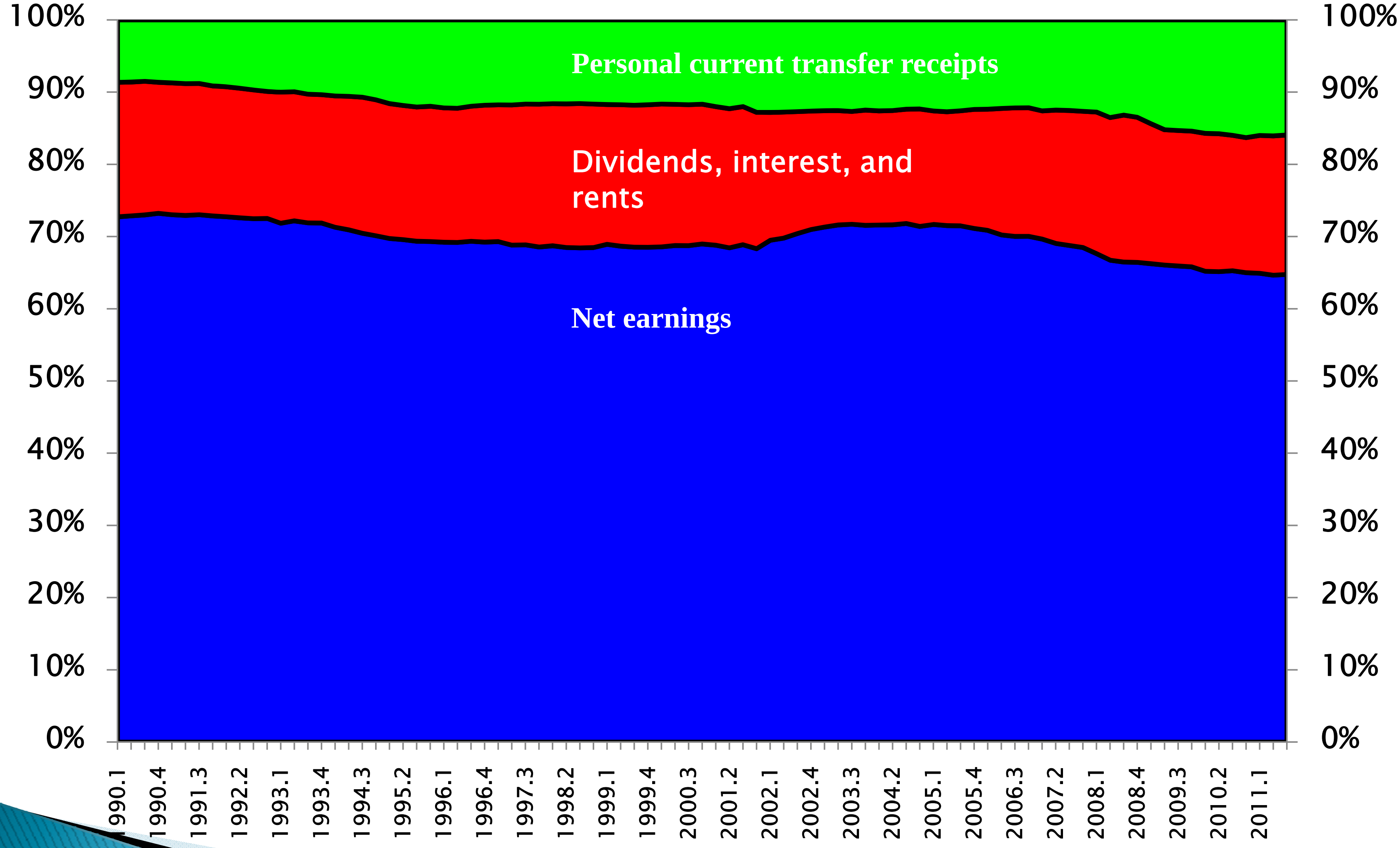


Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Hawaii Personal Income Component: Earnings declined, transfer receipts increased

(% share in personal income)

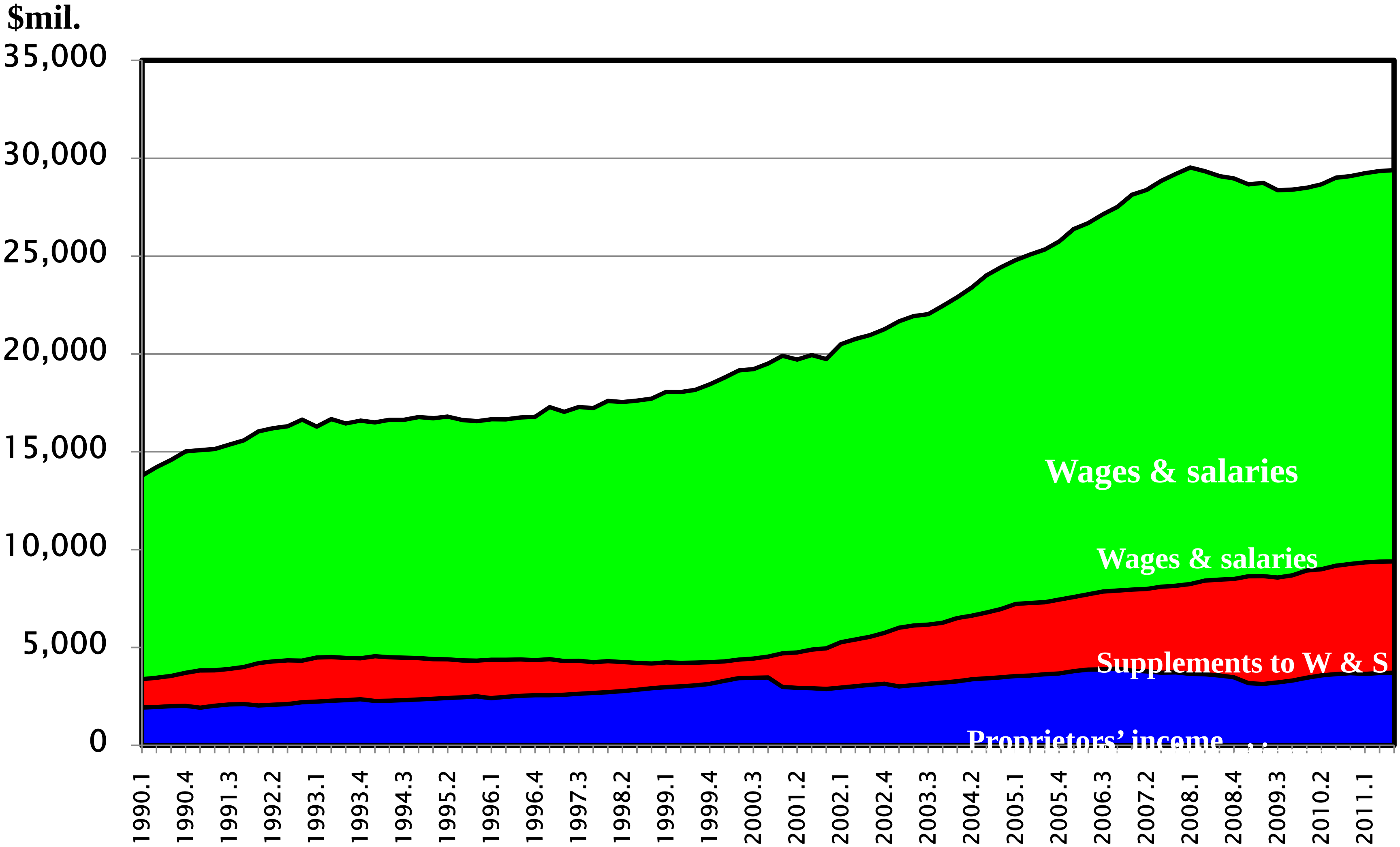


Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

DBEDT

STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Since 2007, Hawaii wage & salaries and proprietors' income were flat while worker's benefits increased



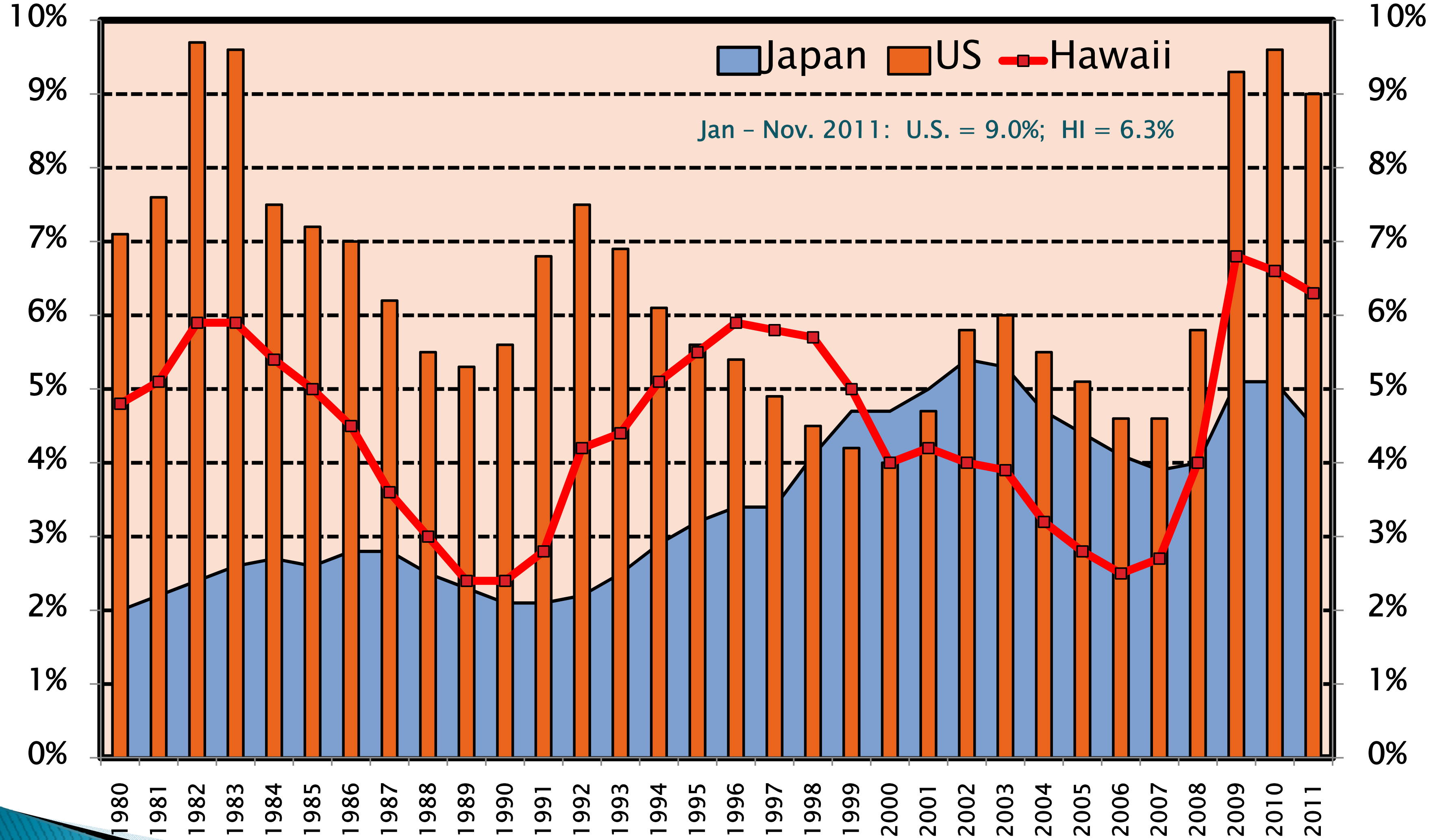
Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Labor Market Conditions

Hawaii's unemployment rate has been following the U.S. trend but lower than the U.S. for most years

Unemployment Rate, 1980 to 2011*



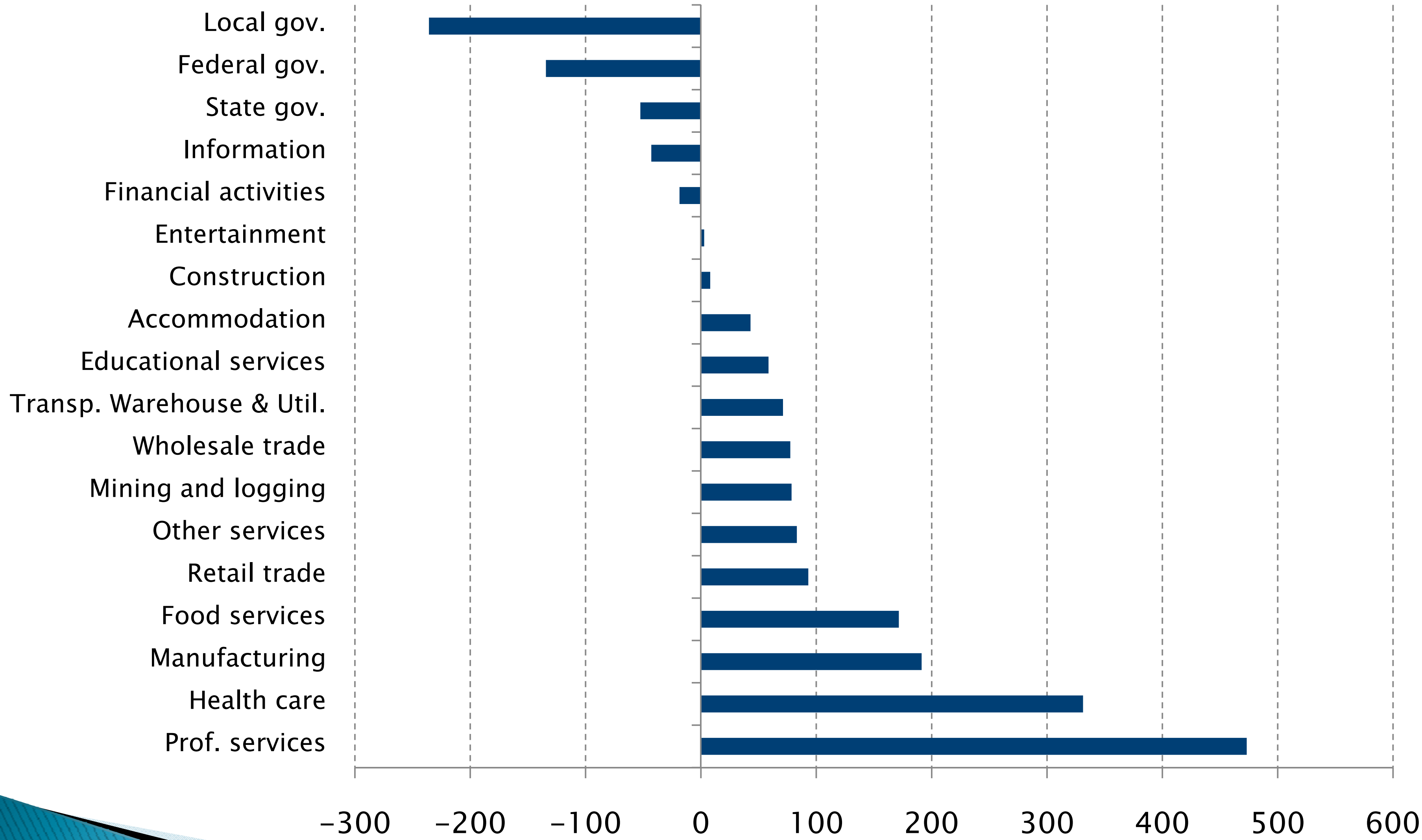
Source: US BLS, Hawaii DLIR, Japan Ministry of Internal Affairs and Communications

*** First 11 months**

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

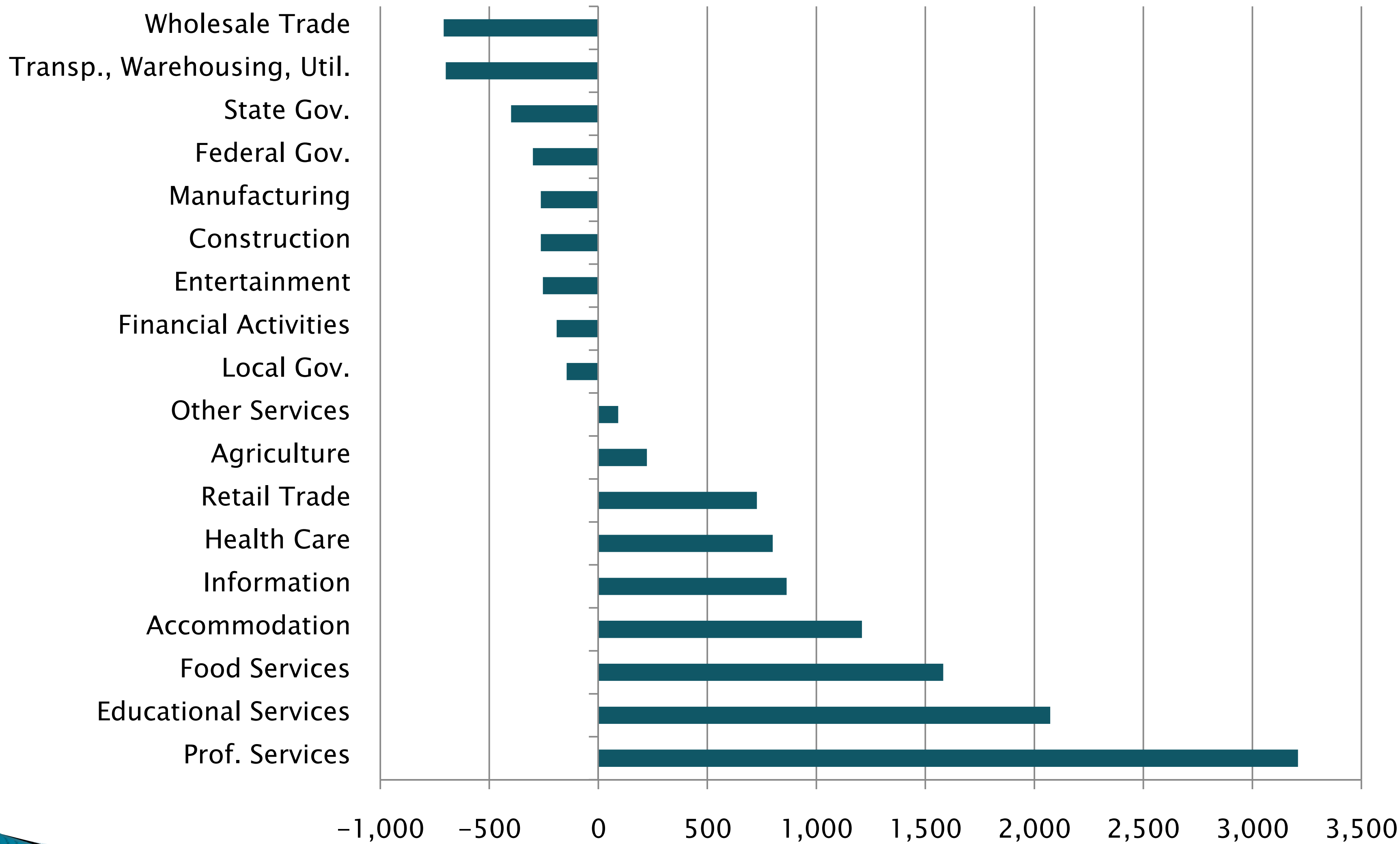
In the United States, most of the industries gained jobs during the 1st 11 months of 2011

(change in jobs from same period in prior year, in 1,000 jobs)



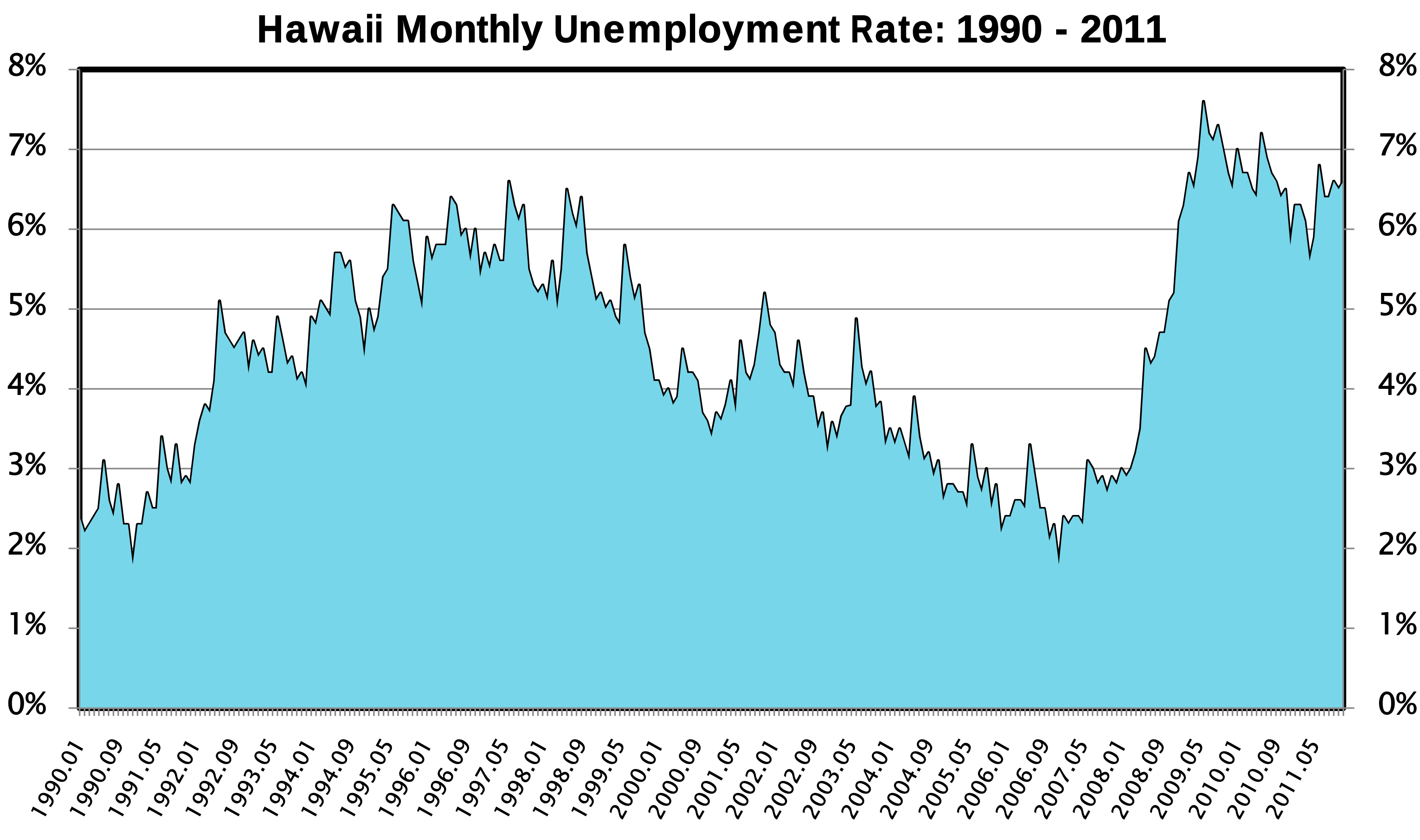
Source: BLS

In Hawaii, half of the industries are still loosing jobs during the 1st 11 Months 2011, but the gain was big enough to offset the lost



DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Unemployment rate was improving but stalled during the past few months



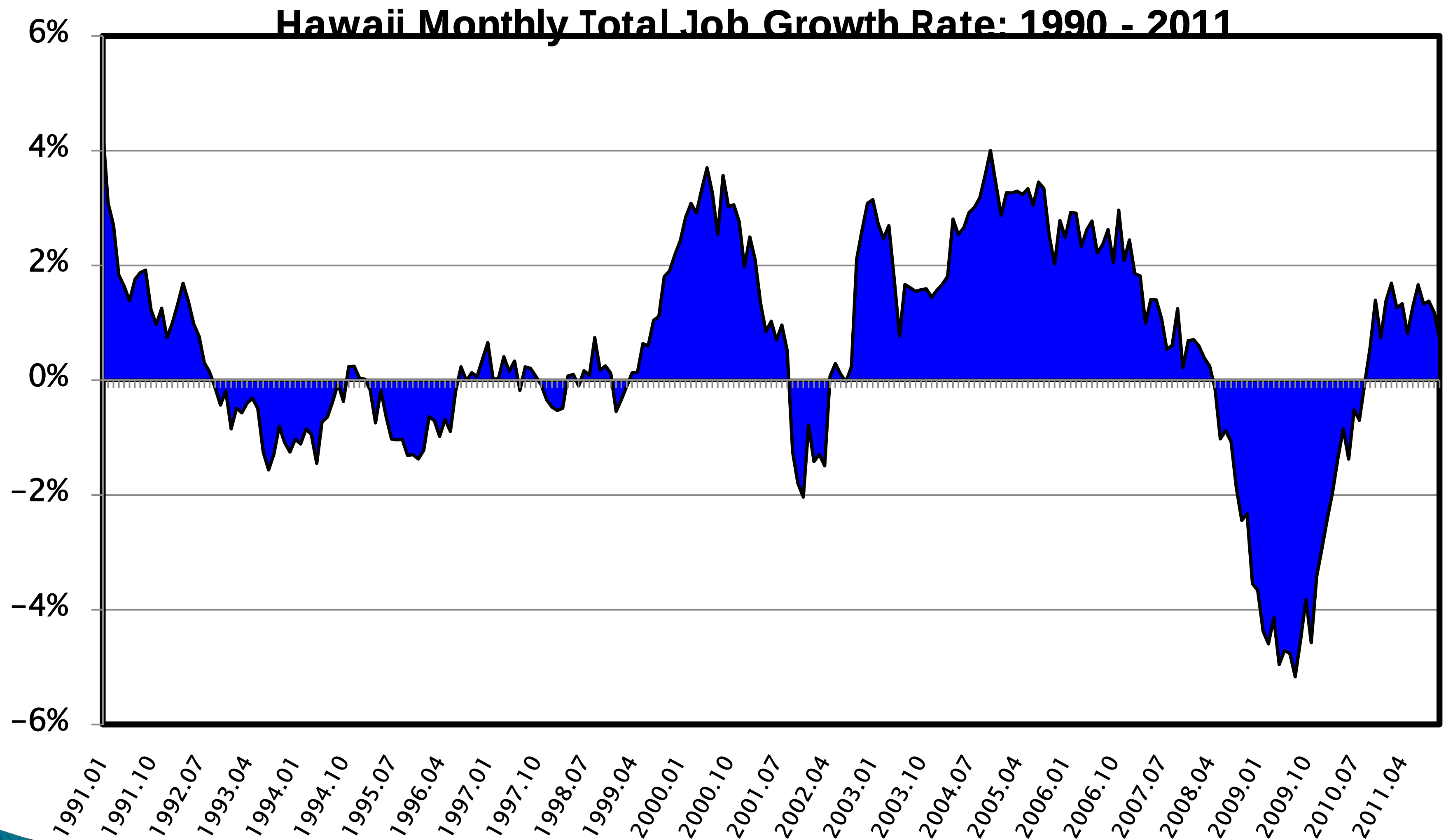
Source: Hawaii State Department of Labor and Industrial Relations

Updated thru November 2011

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Hawaii Payroll Jobs Started to Grow in July 2010

(monthly year-over-year growth rate)



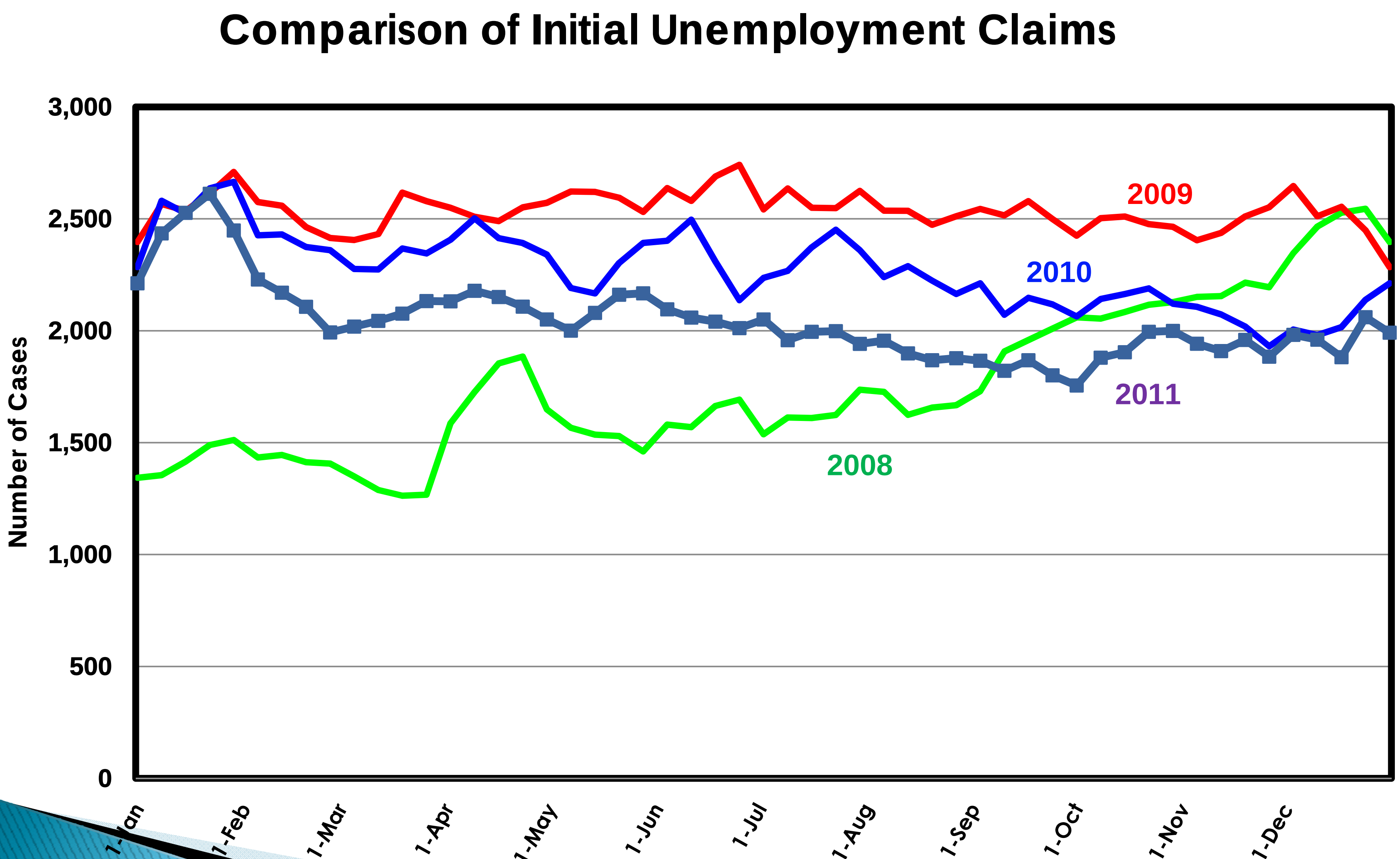
Source: Hawaii State Department of Labor and Industrial Relations

Updated thru November 2011

DBEDT

STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

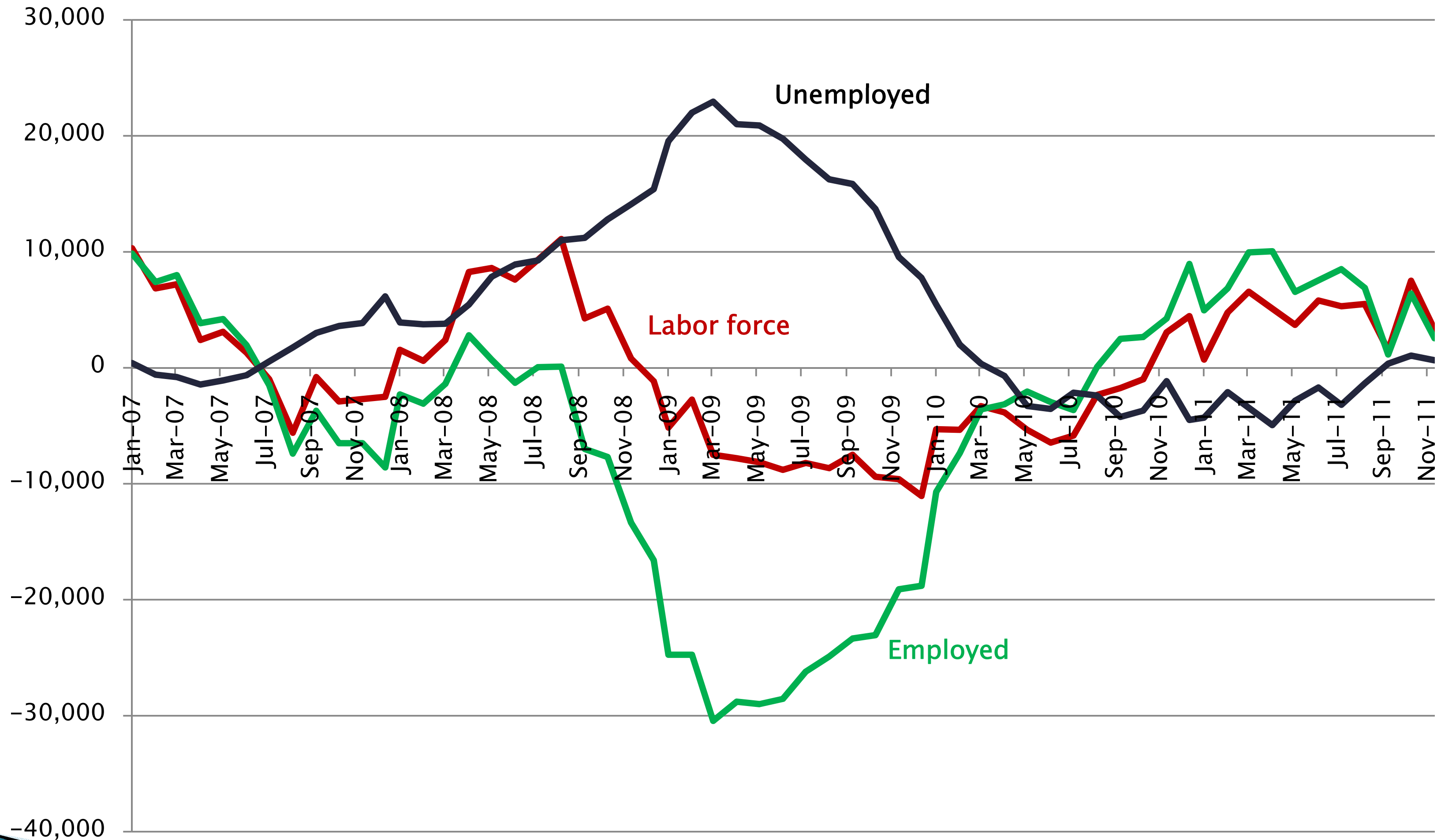
Initial unemployment claims have been declining since the beginning of 2010, but has a sign of leveling off in recent months



DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

In Hawaii, employment is rising as well as the labor force.
In recent months, the labor force is increasing faster than employment causing unemployment to rise

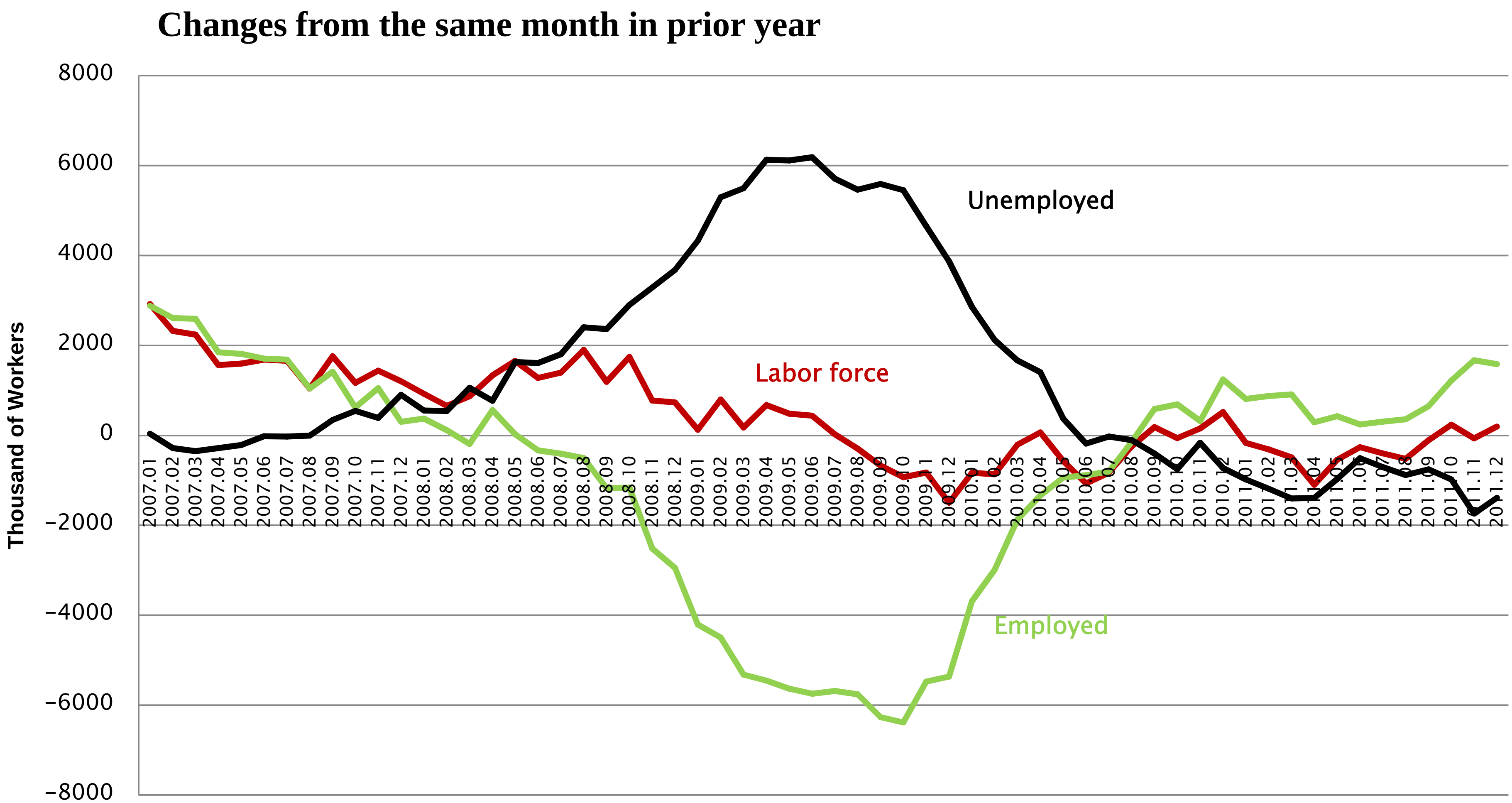
Changes from the same month in prior year



Source: Hawaii DLIR

DBEDT
STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

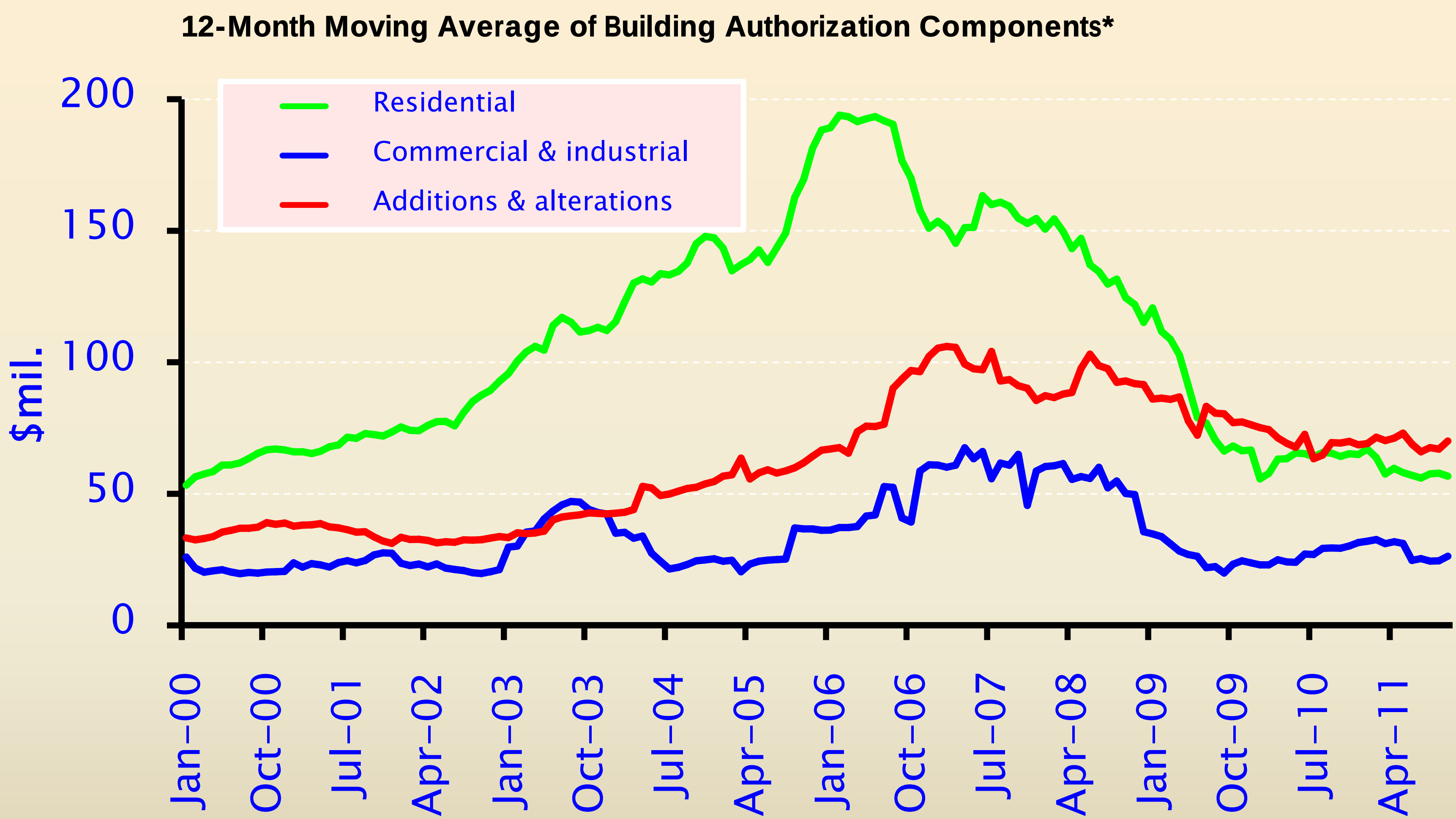
In the United States, employment increased while the labor force decreased causing an unemployment to decrease



Source: Bureau of Labor Statistics

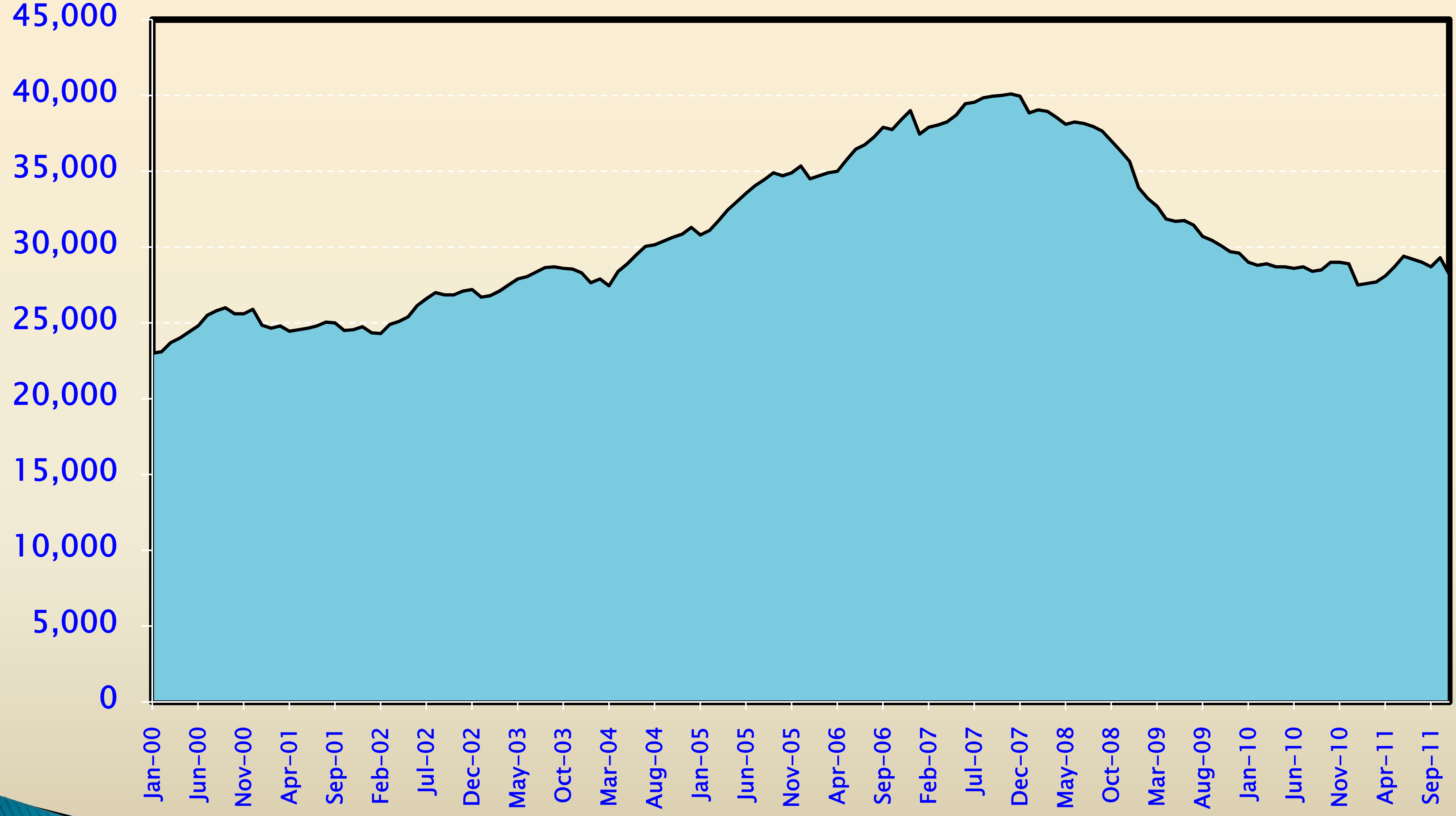
Construction

The values of private building permits are still low



** Additions and Alterations and Commercial & Industrial data do not include Kauai. All data through October 2011*
Source: County building departments.

Construction job count flat in 2011: lost jobs in the 1st quarter, added jobs in the 2nd and 3rd quarters



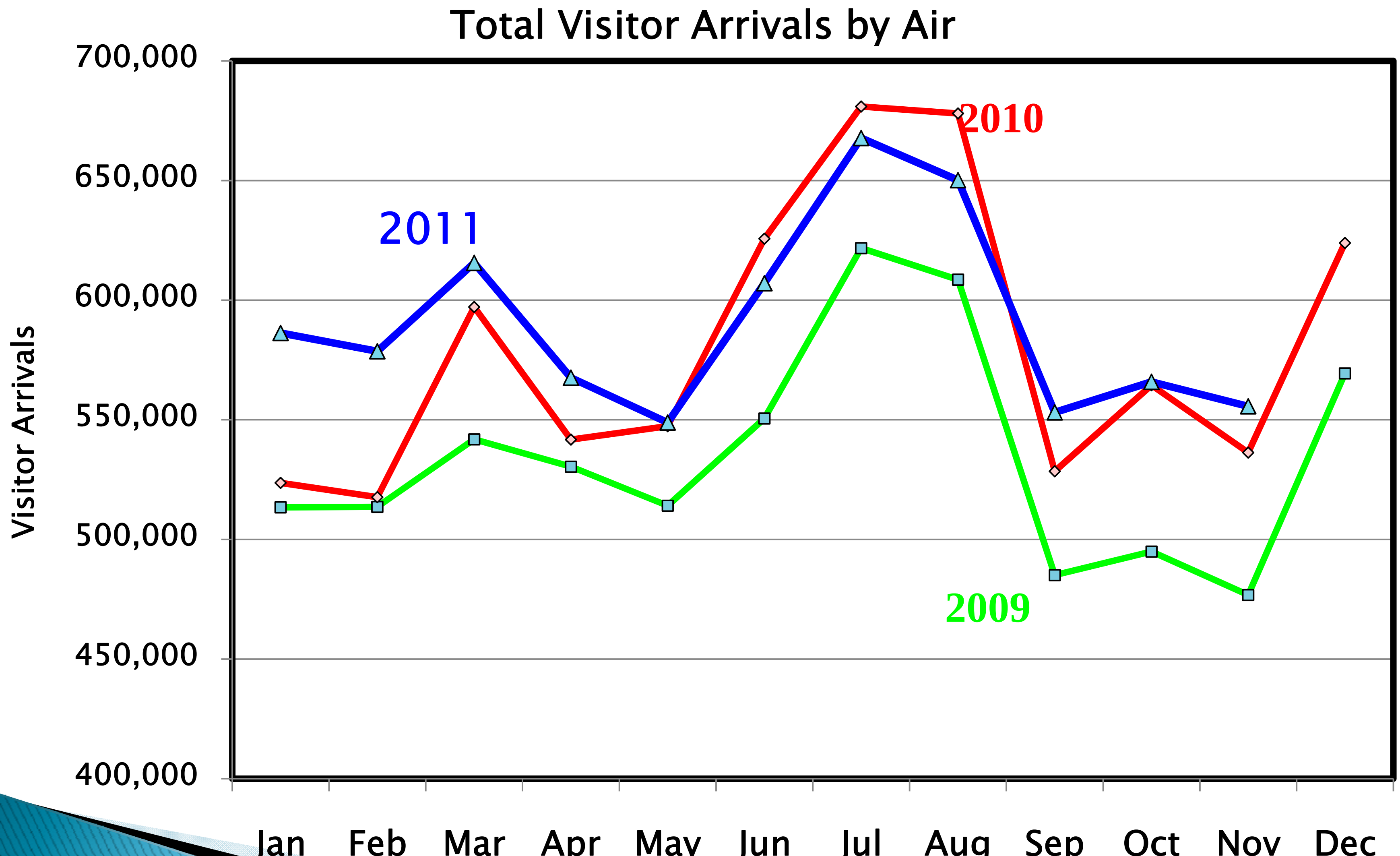
Updated thru November 2011

Source: Hawaii State Department of Labor and Industrial Relations

Tourism

STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Monthly Visitor Arrivals by Air 2009 to 2011

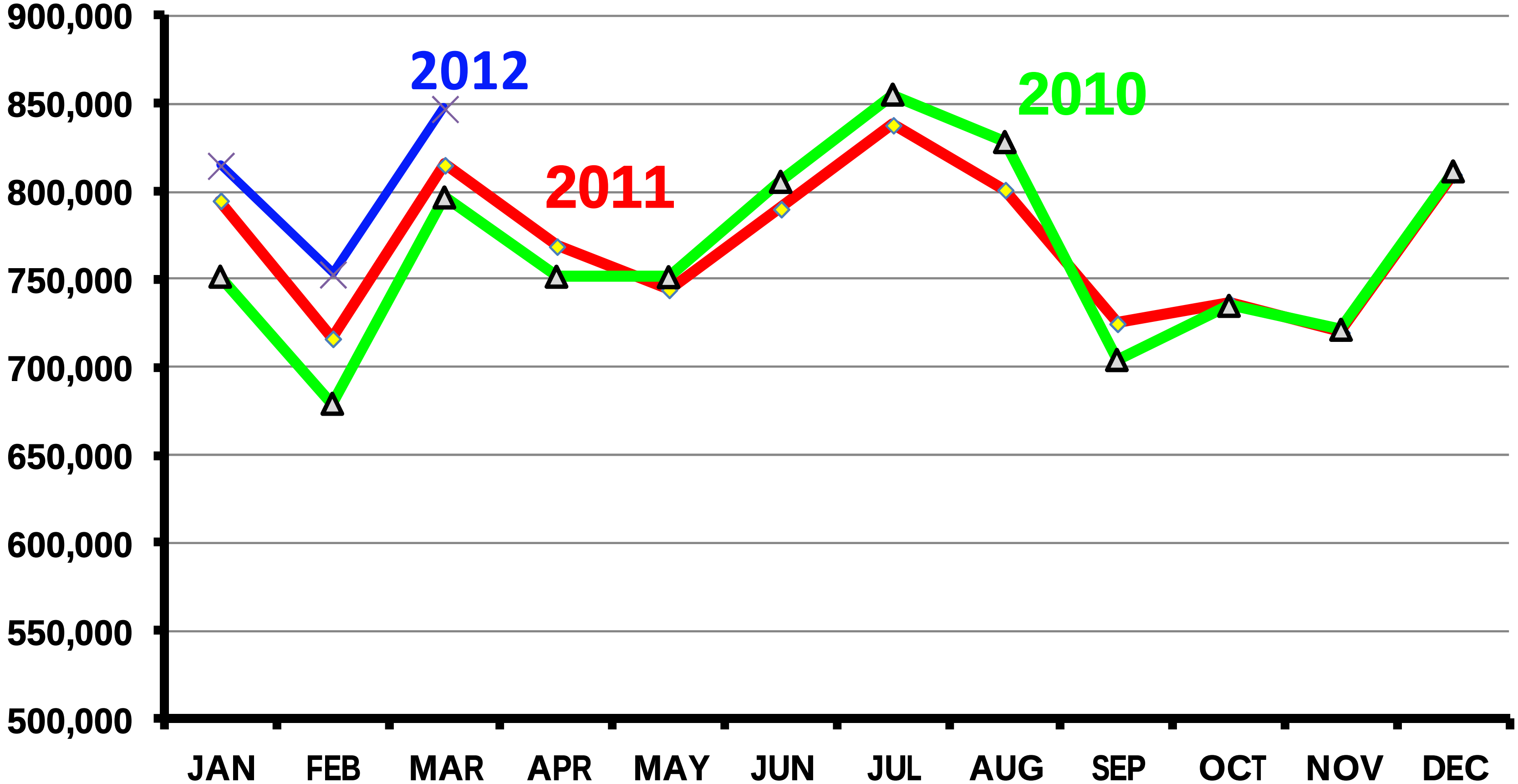


Through November 2011

Source: Hawai'i Tourism Authority, DBEDT

Scheduled airseats are expected to increase 3.8% during 1st quarter 2012

Scheduled Airseats 2010 – March 2012



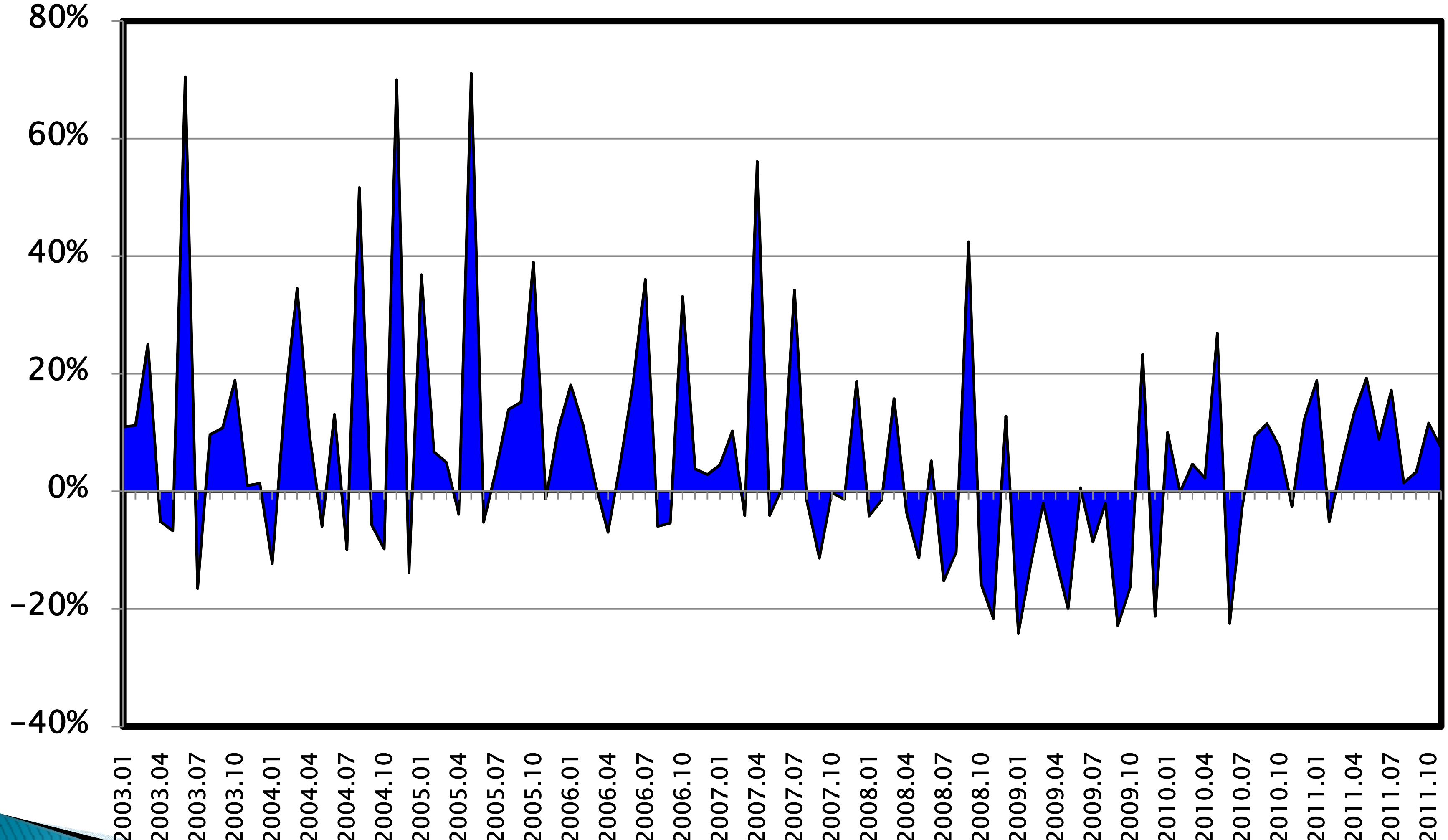
Source: HTA

Tax Revenues

STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

General excise tax revenues continue to show improvement

Monthly year-over-year growth rate

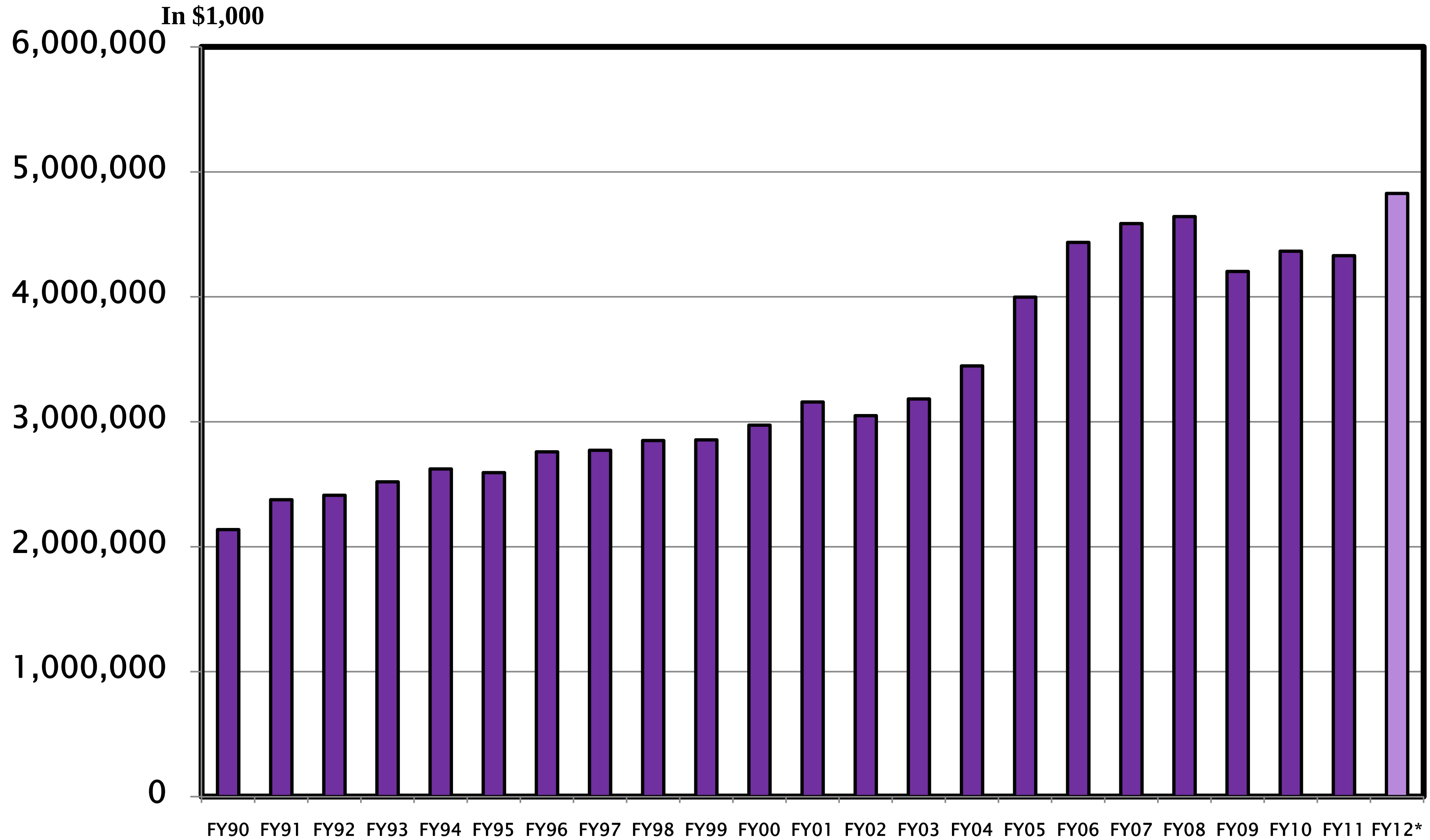


Source: Hawaii State Department of Labor Taxation *Through November 2011*

DBEDT

STATE OF HAWAII • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

General fund tax revenue: FY 1990 to FY 2012



COR Forecast of 11.5% growth on January 5, 2012

Summary

- Hawaii's economy is still on the recovery path – the recovery process is slower than expected
- Visitor industry performed strong in 2011 despite the earthquake in Japan and the economic uncertainties in the world; this sector will continue to grow in 2012
- Labor market will continue to improve in 2012
- Private construction will have another year of flat but government construction will play an important role in the sector
- Personal income will continue to grow at a rate slower than the national average
- Hawaii's economic growth will continue to be lagging the nation in 2012 and the unemployment rate will still be better than the nation

Mahalo

DBEDT

UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAI'I

Forecast Project

Hawaii In Pause Mode

Dr. Carl Bonham
Executive Director, UHERO

Joint Ways & Means, House Finance
Pre-Session Briefing
January 9, 2012

Overview

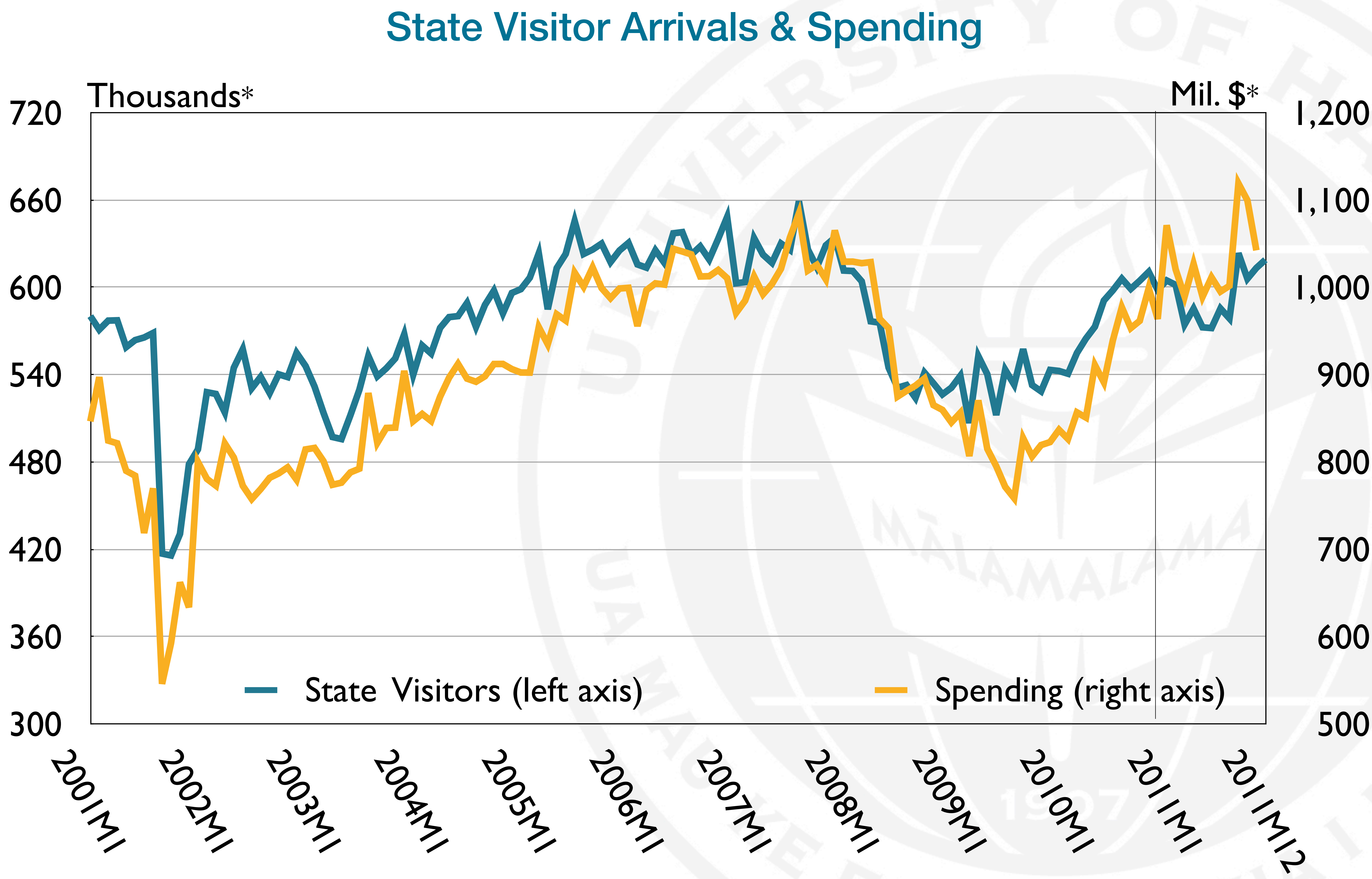
Hawaii's gradual recovery continues

- Strong visitor industry performance has slowed
- Job market remains weak
- Home prices have resumed their decline
- Construction at bottom?

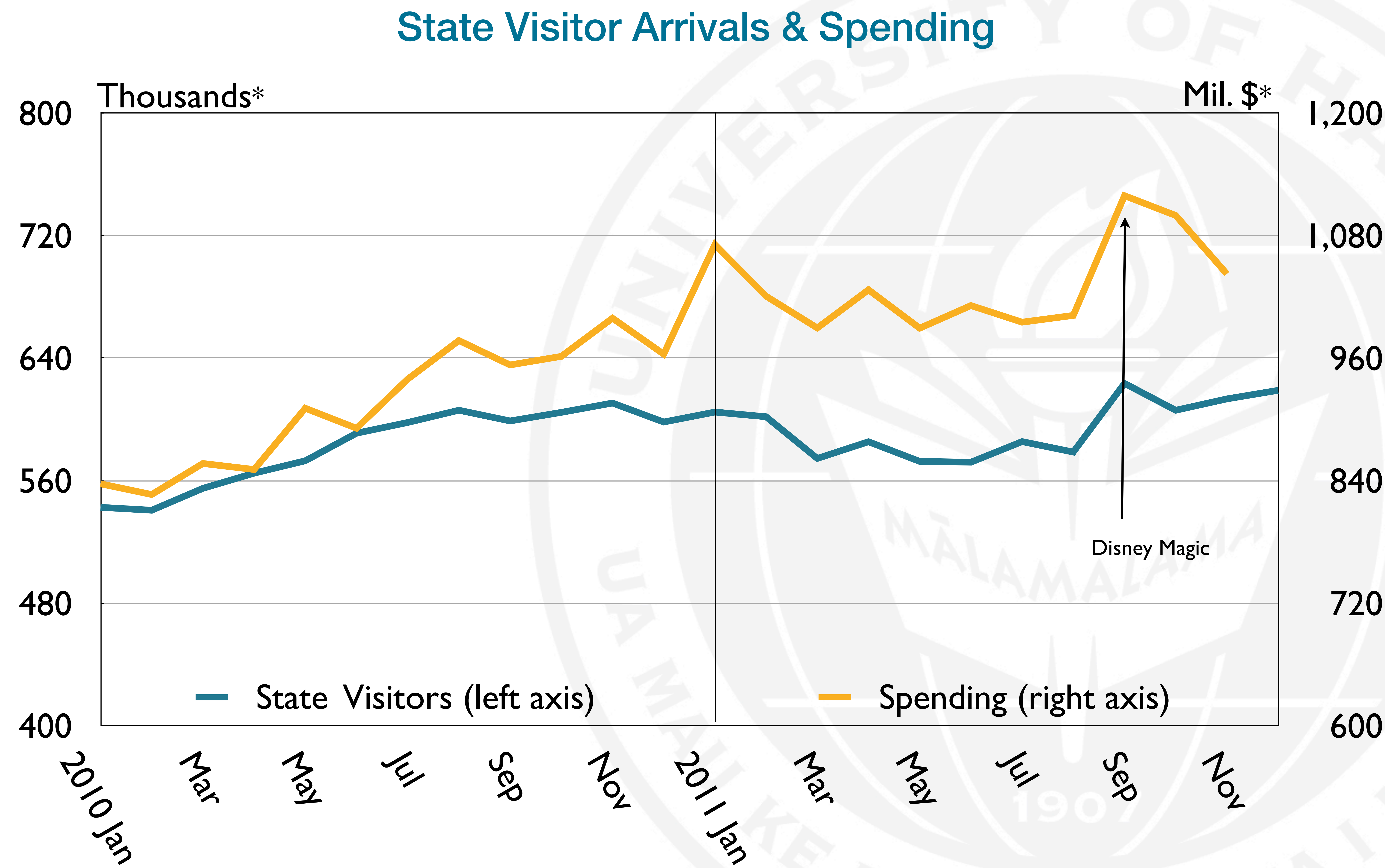
Risks to recovery are significant

- Oil price uncertainty with Iran sanctions ...
- Recent US strength at risk in election year
  - DC gridlock and austerity fever
  - Negative campaign to come
- Global growth has weakened with Euro area recession
- Disorderly Greek default looms. Who is next?

Hawaii Tourism Recovery a 2010 story

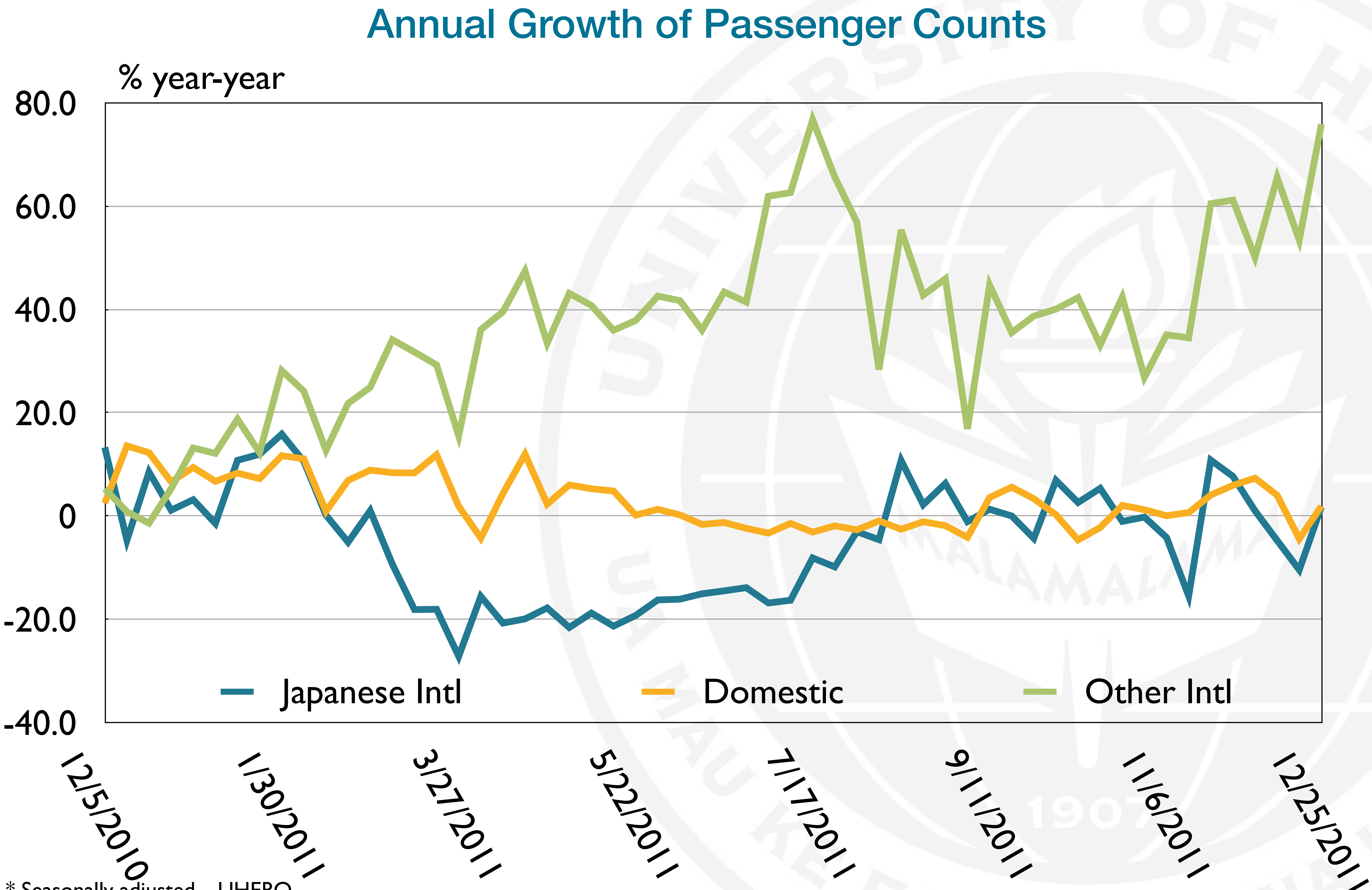


SPENDING AND ARRIVALS BARELY GROWING IN 2011



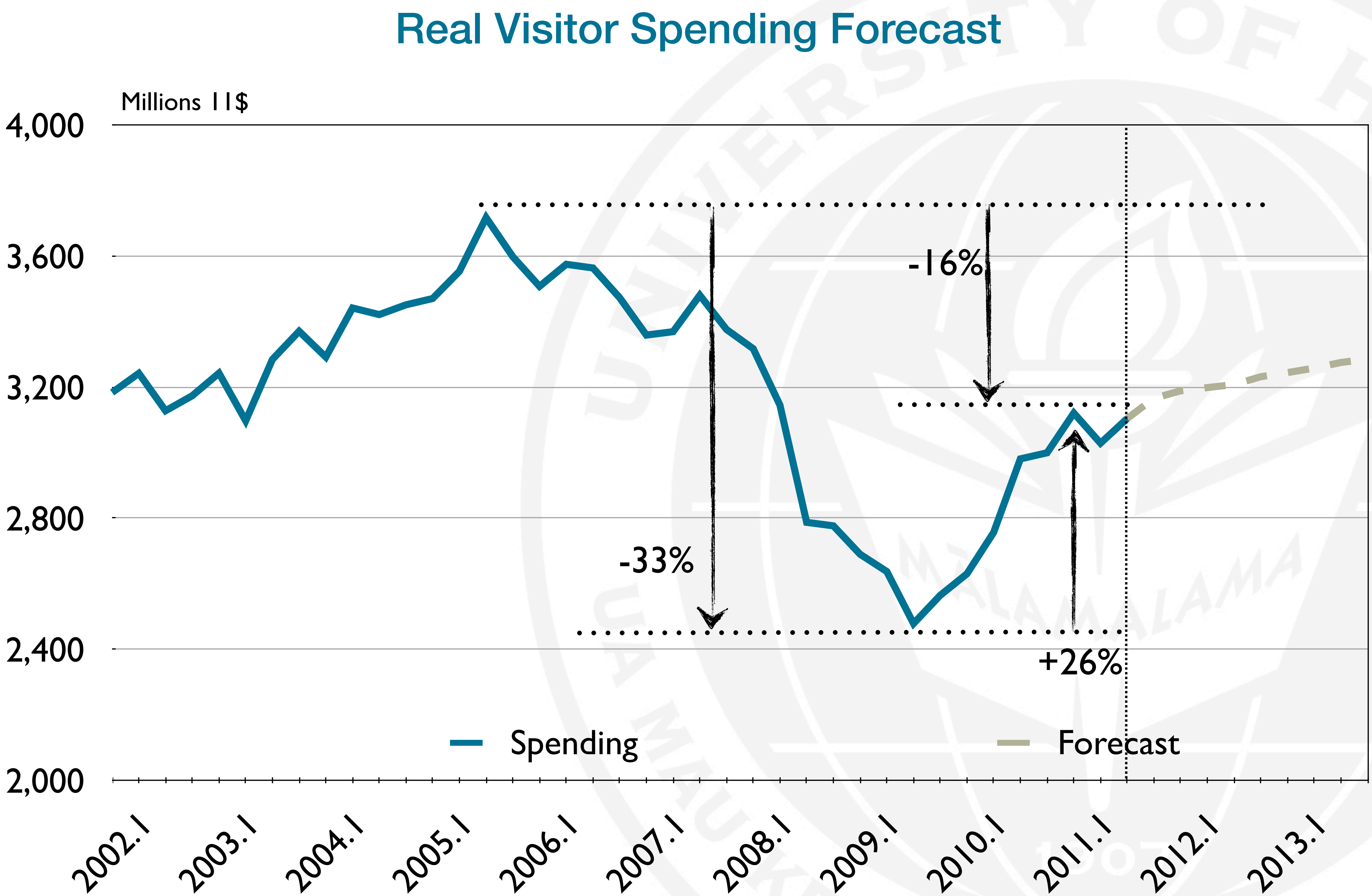
* Seasonally adjusted—UHERO
Source: HTA

International arrivals Drive Recovery

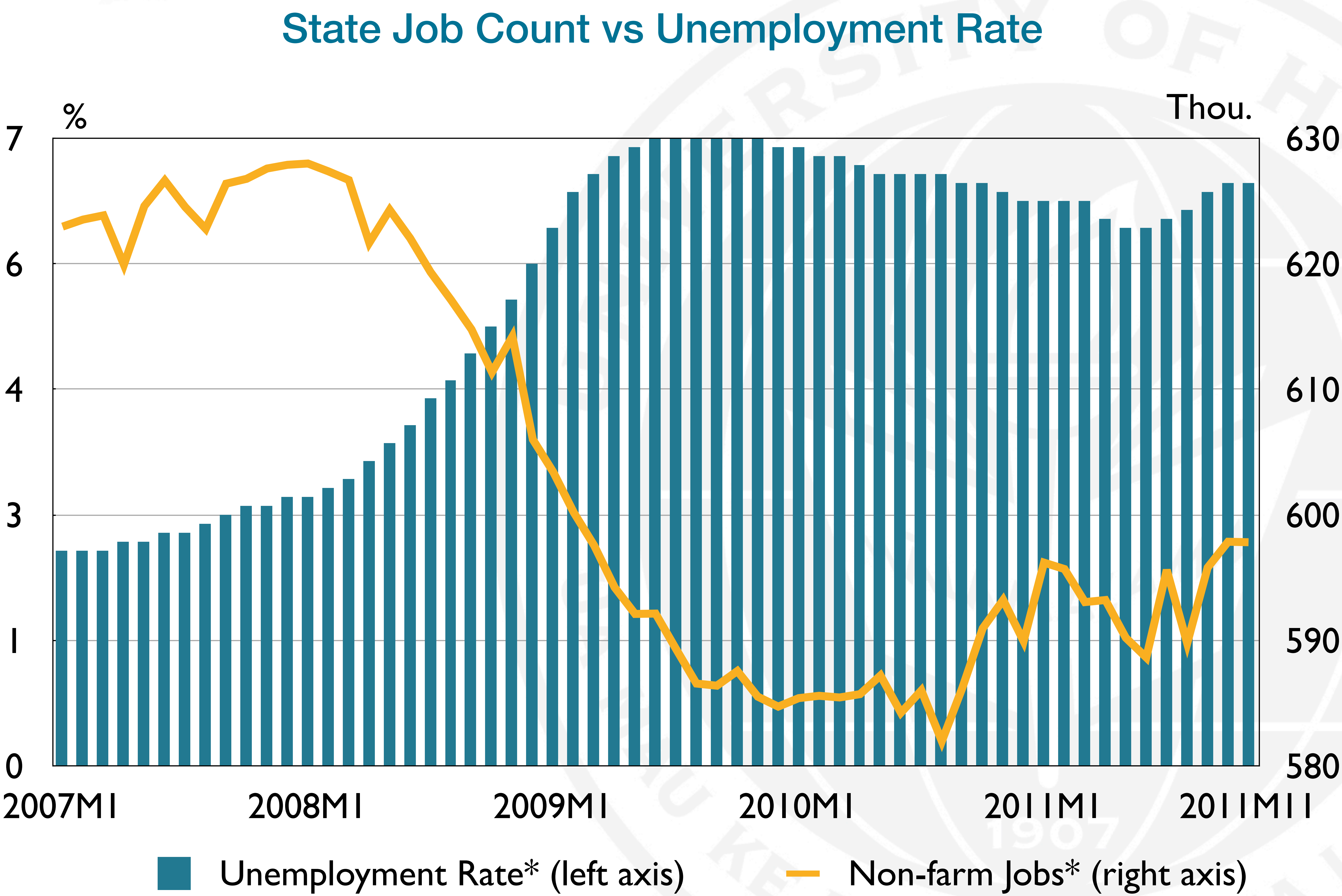


* Seasonally adjusted—UHERO
Source: HTA

NOMINAL SPENDING SETTING RECORDS, BUT

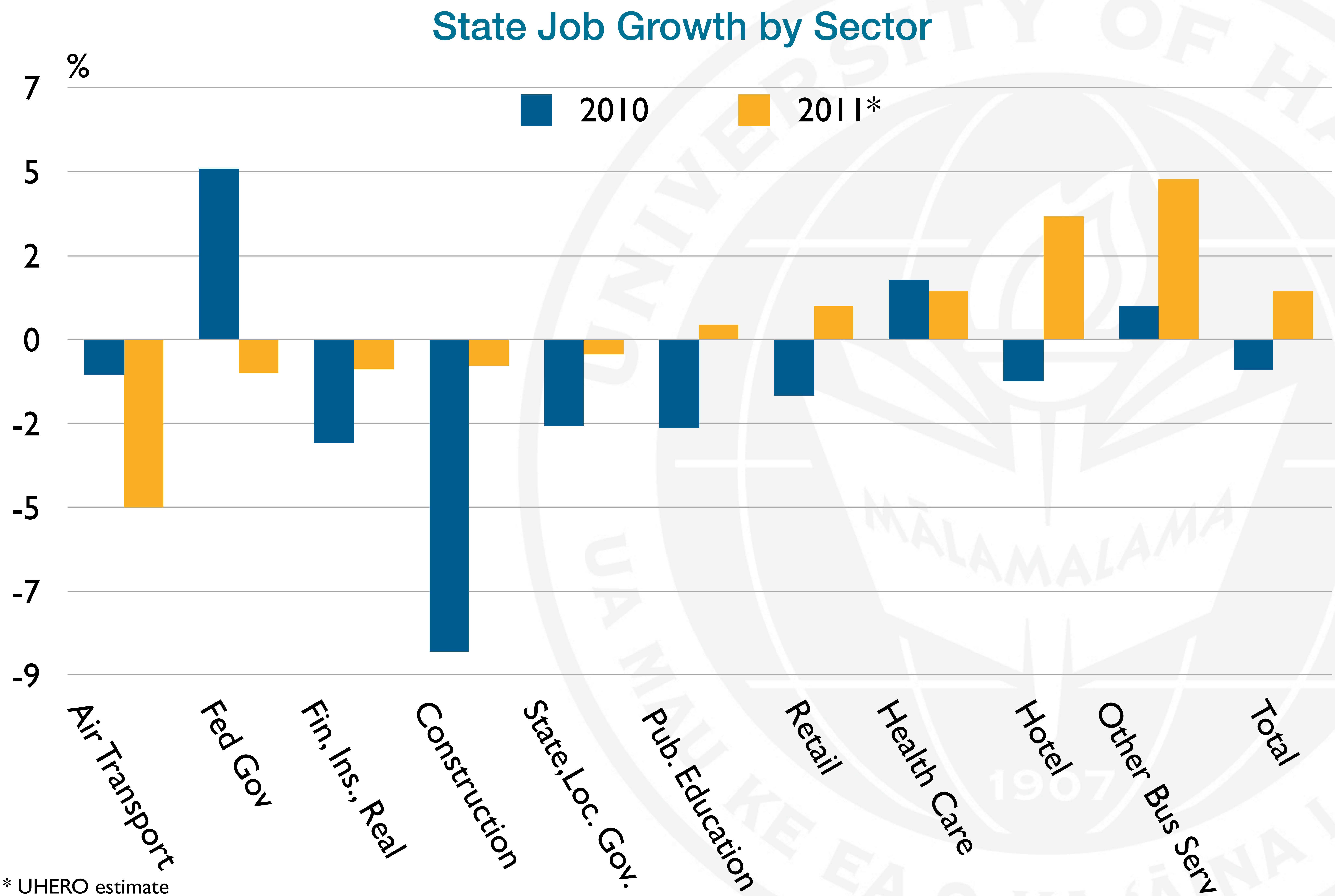


2011 Job Market Still very weak



* Seasonally adjusted—UHERO
Source: BLS

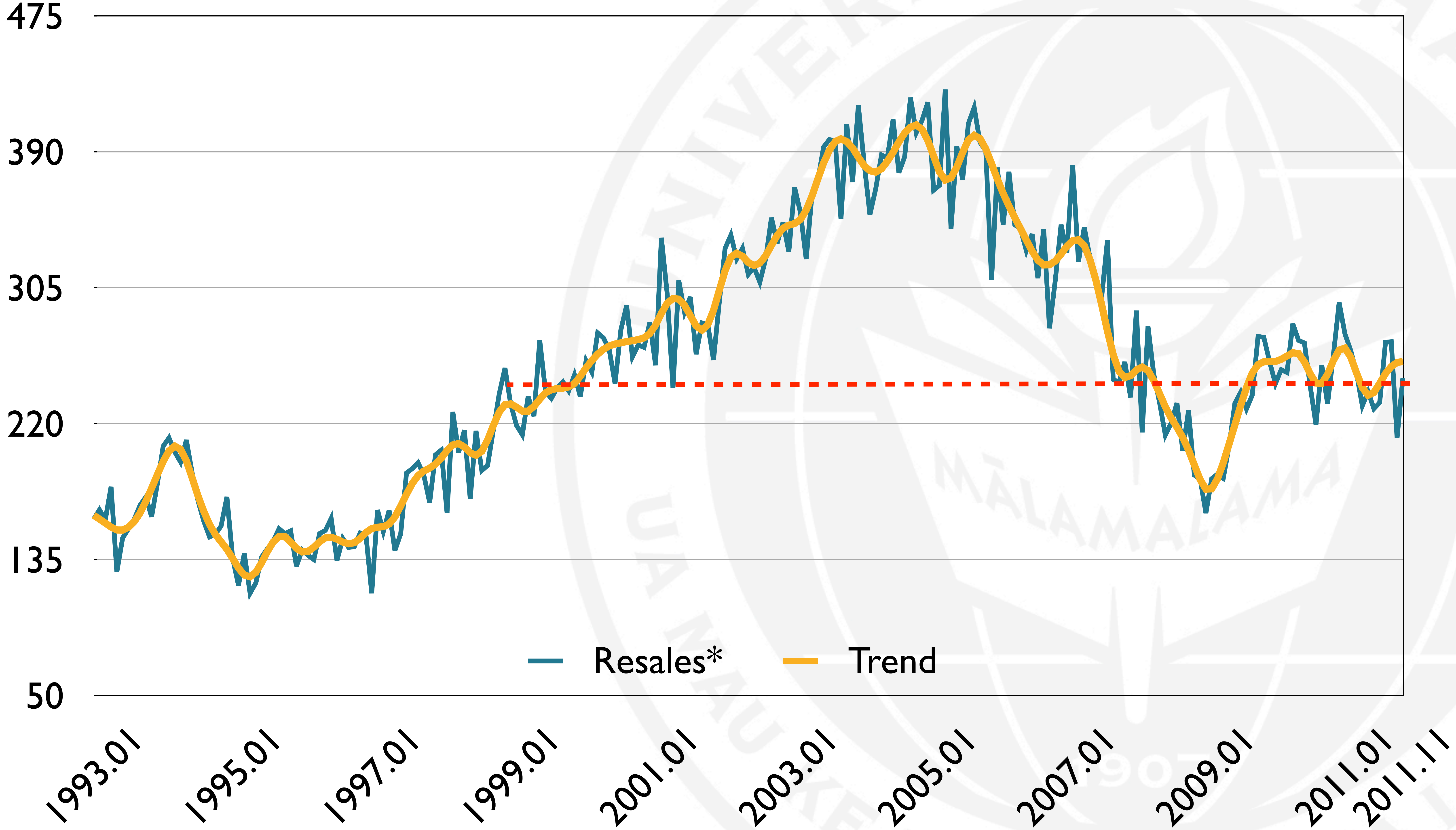
And Job Growth Still highly uneven



* UHERO estimate

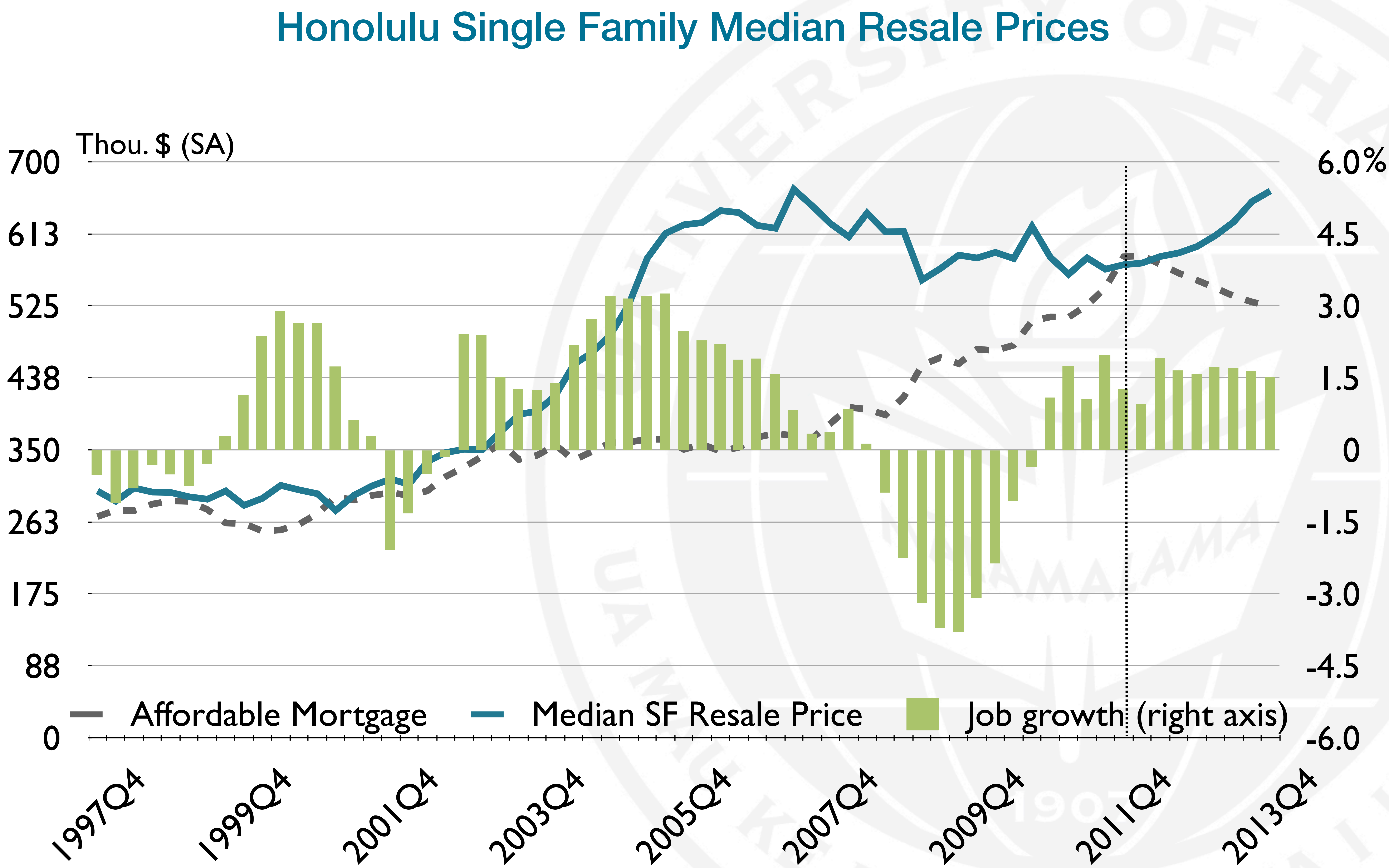
Home sales decline

Oahu Single Family Resales

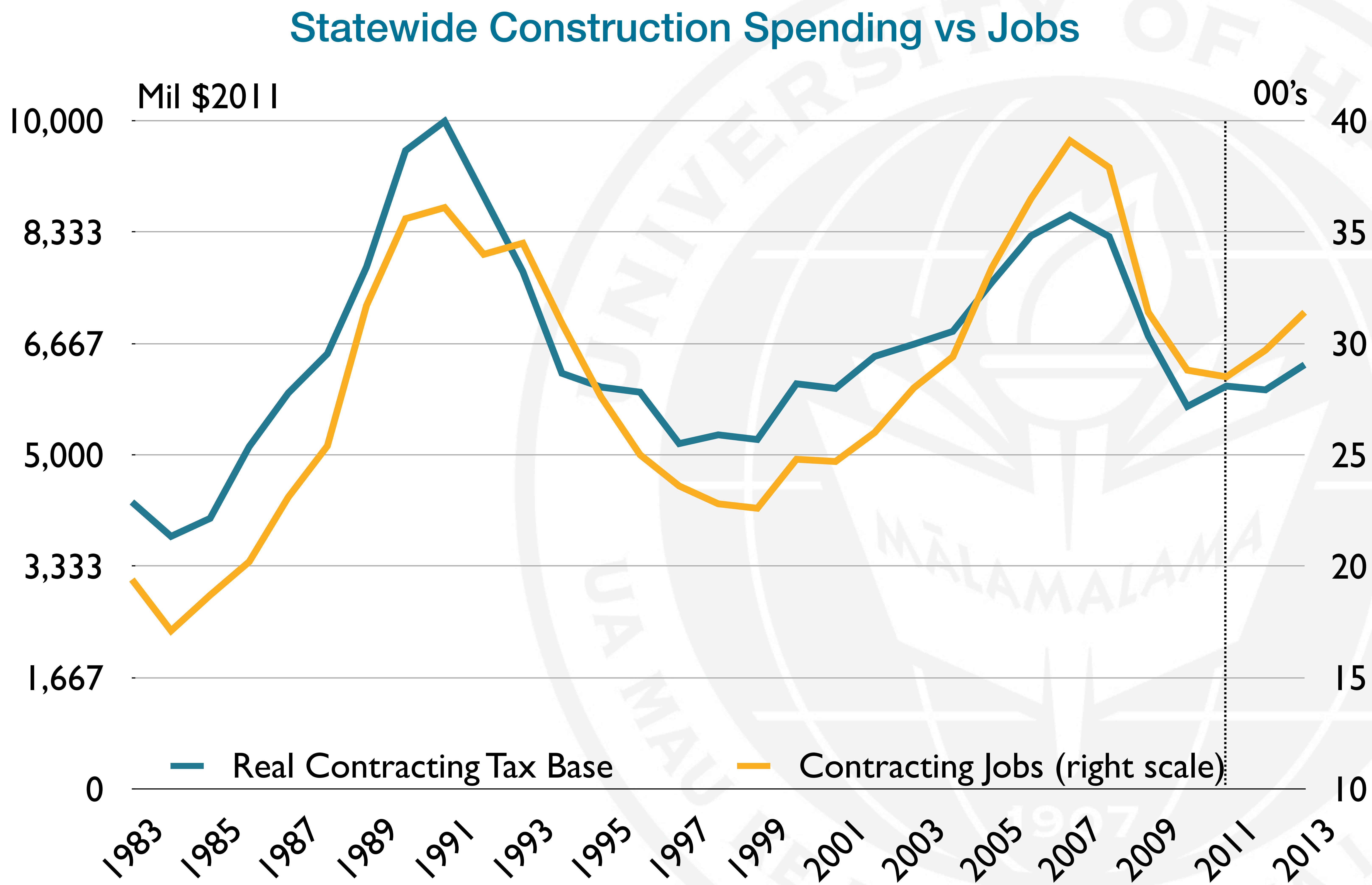


* Seasonally adjusted—UHERO
Source: Honolulu Board of Realtors

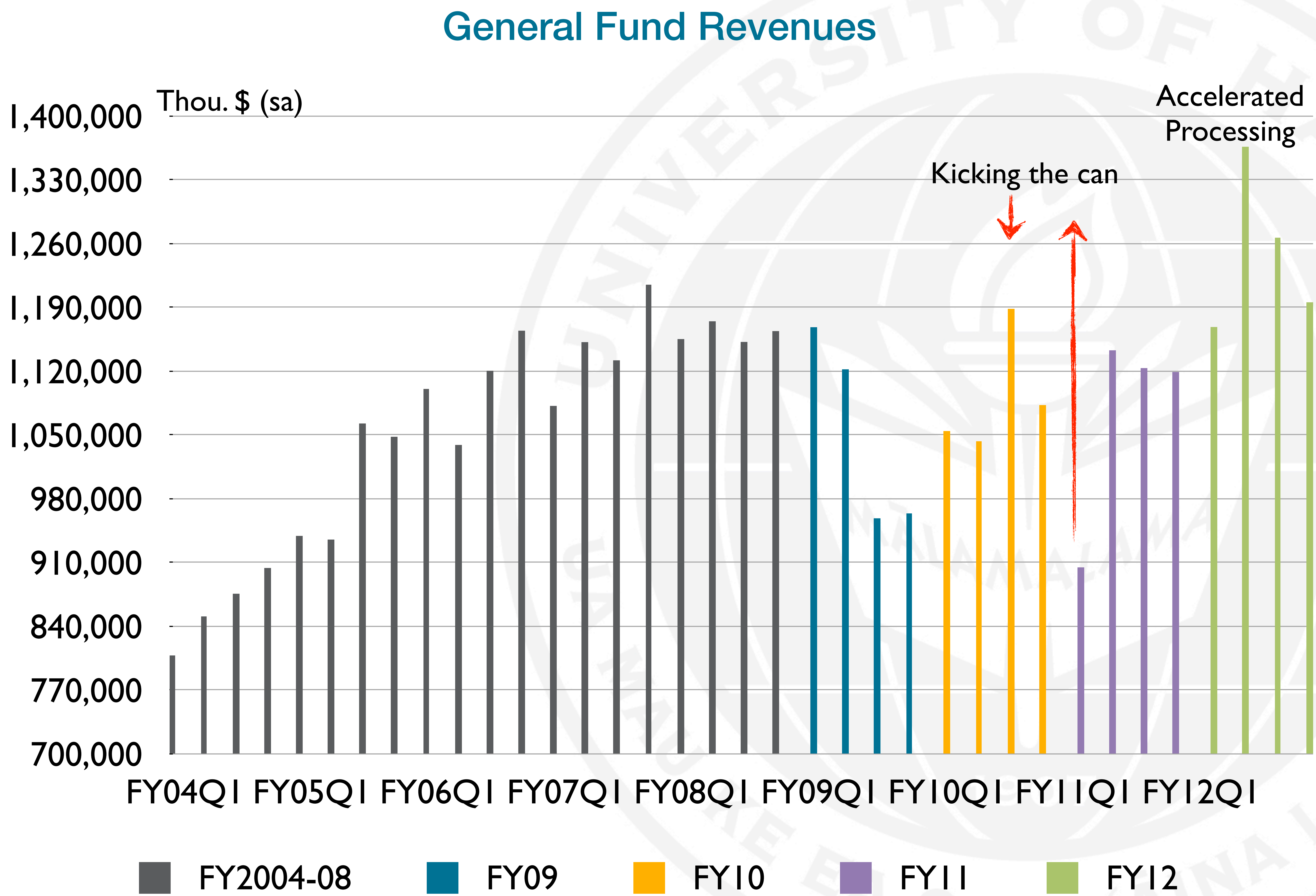
Best Affordability in a Decade—for Now



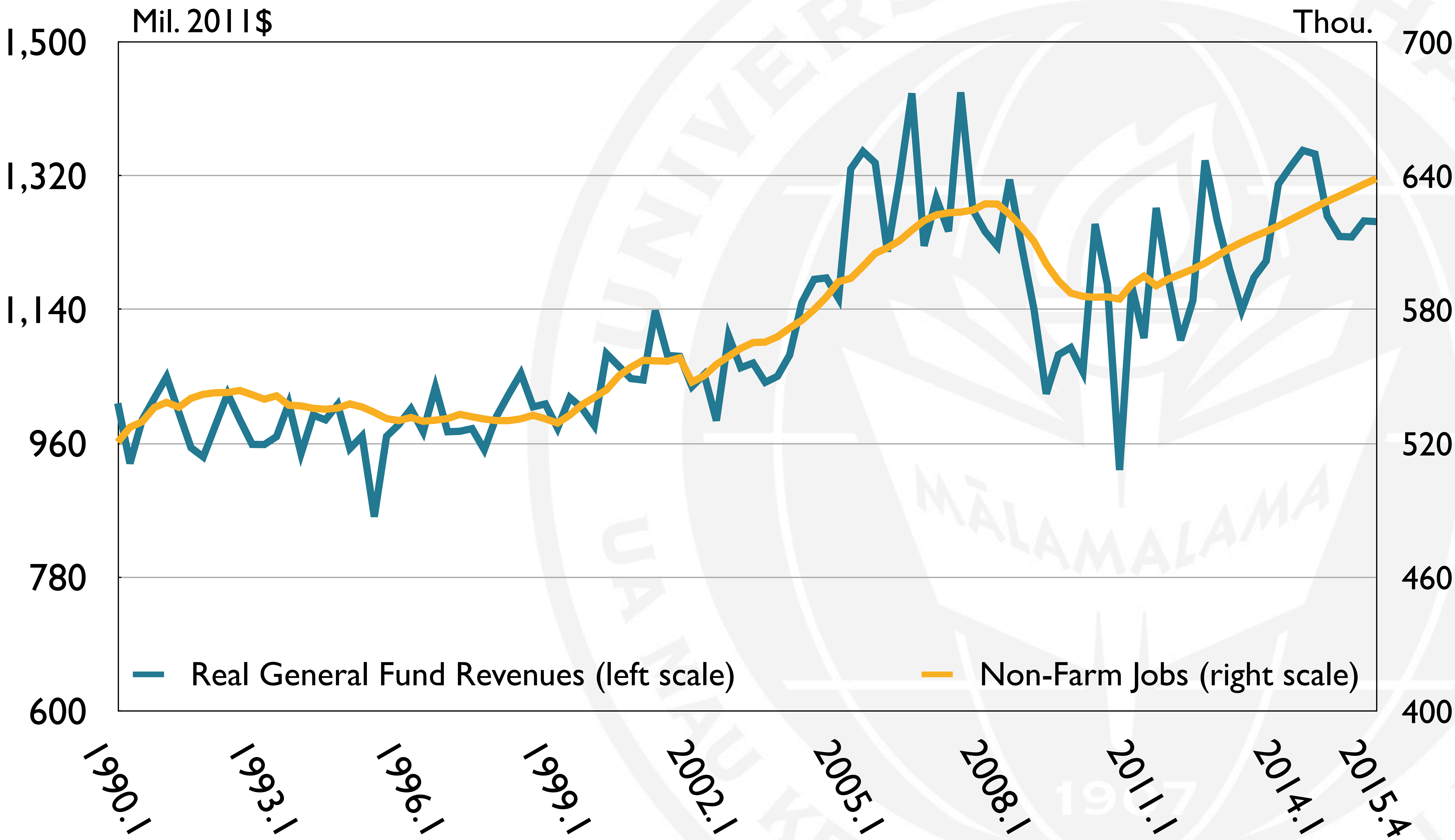
AND DRIVE CONSTRUCTION JOBS



State fiscal crisis Ends in FY2012?

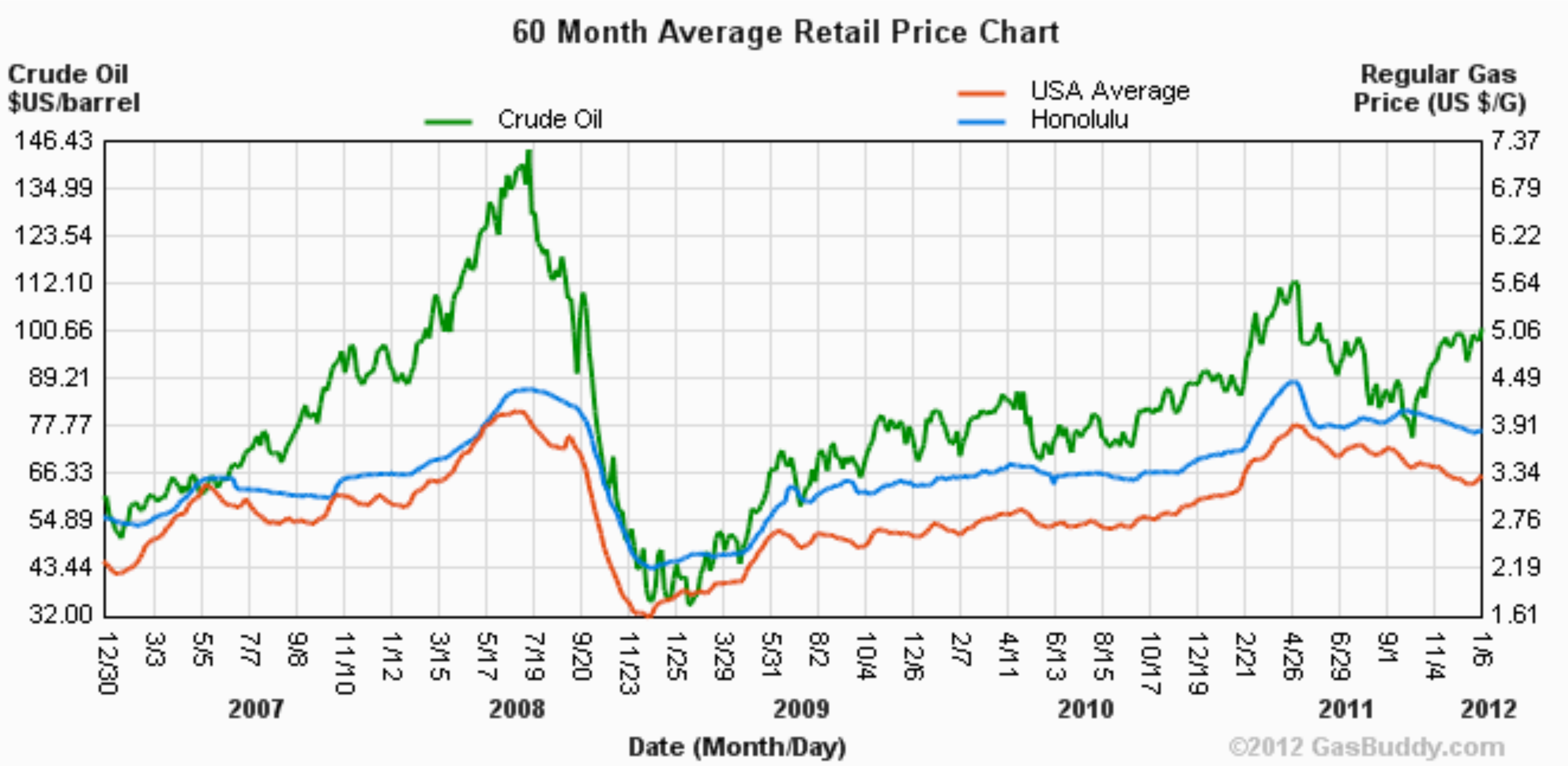


Real Revenues vs Jobs



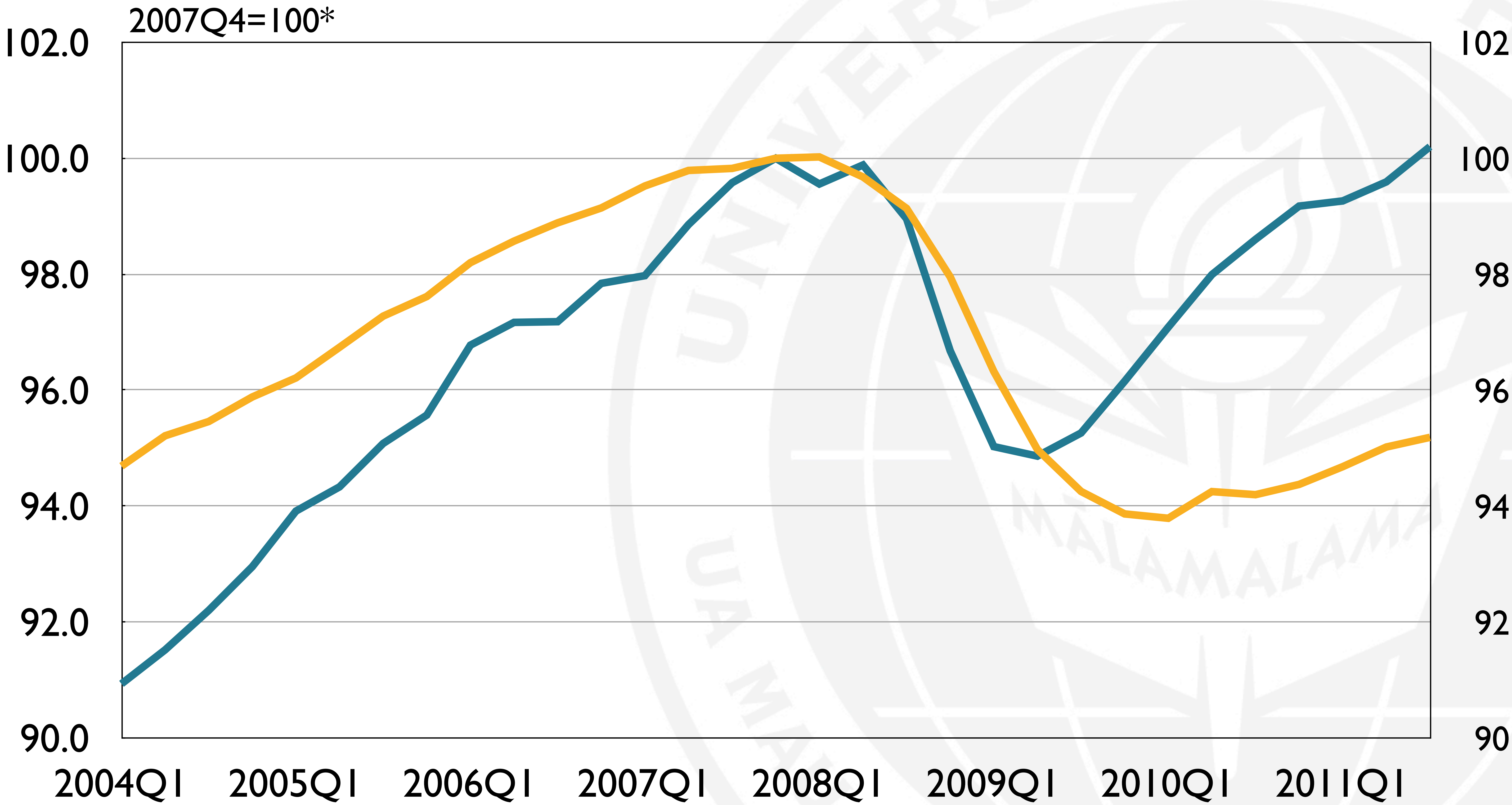
* Seasonally adjusted

Risks have not gone away



Sluggish US Economy likely to continue

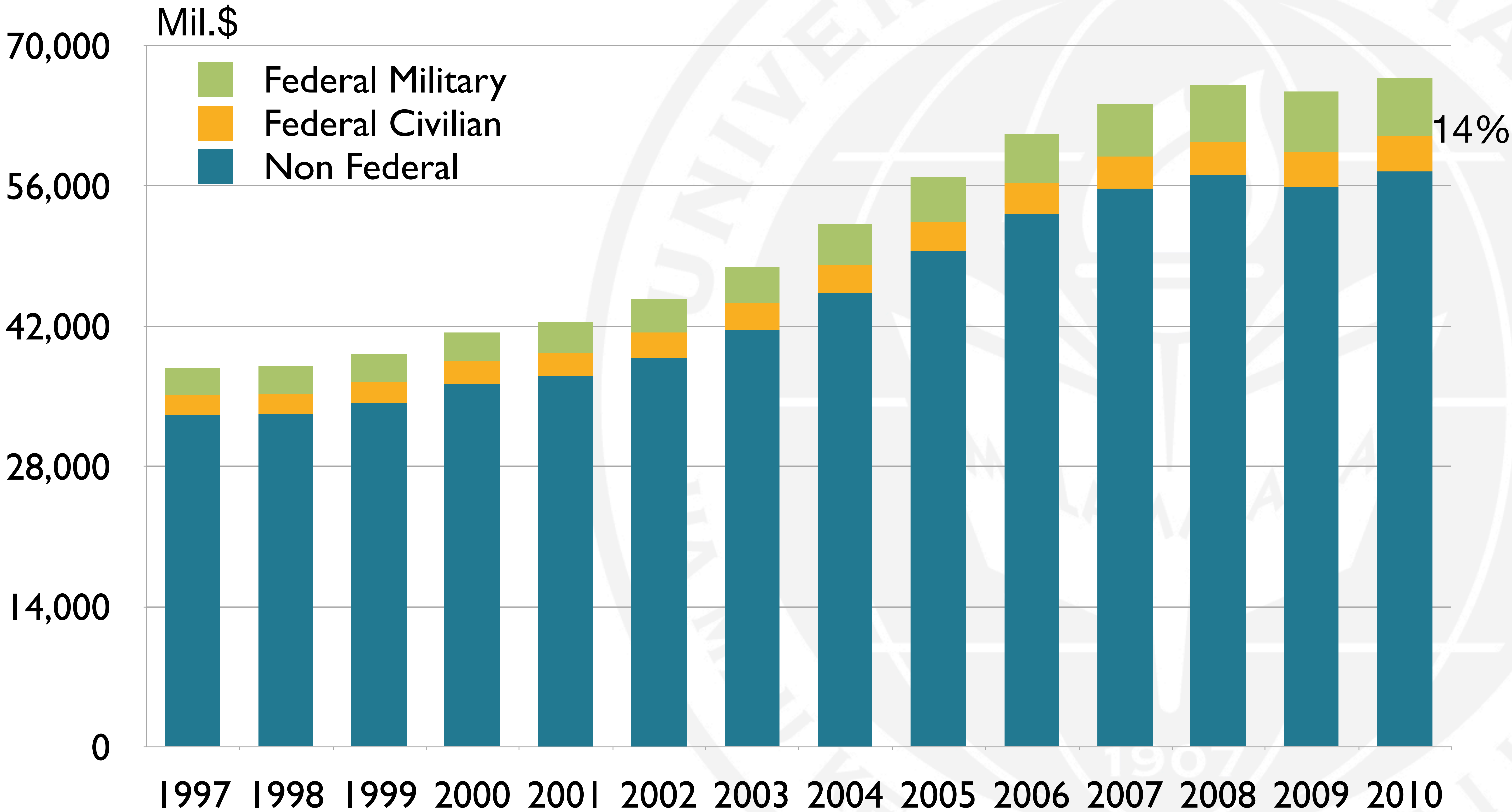
US Real GDP and Non-Farm Payroll Employment



* Seasonally adjusted

Federal Downsizing Can't Help

Federal Contribution to Hawaii GDP



European Debt Crisis Spreads

Ten year sovereign debt yields

Greece

Portugal

Italy

Germany

Source: Bloomberg

Hawaii Economic Indicators

YEAR-OVER-YEAR PERCENT CHANGE

	2009	2010	2011	2012	2013	2014
Visitor Arrivals	-4.4	8.8	2.1	2.7	1.9	2.0
U.S. Visitor Arrivals	-3.9	7.3	0.8	1.3	1.3	1.4
Japan Visitor Arrivals	-0.6	6.1	-6.6	5.4	0.5	0.8
Other Visitor Arrivals	-10.5	18.3	17.0	5.1	4.8	4.6
Payroll Jobs	-4.5	-0.8	1.2	1.7	2.1	1.9
Employment	-4.1	-0.2	1.6	1.5	1.8	1.9
Unemployment Rate (%)	6.8	6.6	6.0	5.5	5.0	4.6
Inflation Rate, Honolulu MSA (%)	0.5	2.1	3.2	1.6	2.1	1.7
Real Personal Income	-1.4	1.6	1.3	0.9	2.1	2.3
Real GDP	-1.6	-0.1	1.7	2.1	3.0	3.4

Note: Source is UHERO. Figures for 2011-2014 are forecasts from 2011Q4 State Forecast Update.

http://www.uhero.hawaii.edu/ — Home | UHERO

UHERO THE ECONOMIC RESEARCH ORGANIZATION AT THE UNIVERSITY OF HAWAI'I

Search

EXPLORE

UHERO's Award Winning Website

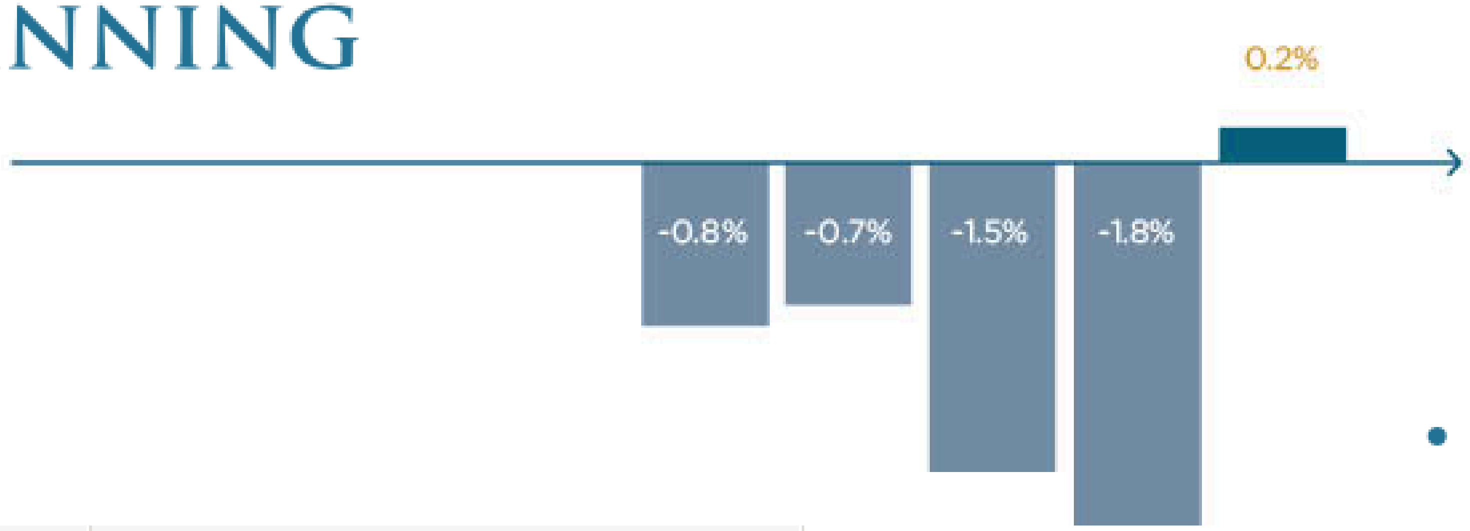


CHART GALLERY

UPDATES

NOVEMBER 18, 2011

KITV Project Economy: Super Committee With Super Deadline

Q & A: Super Committee Decisions Due Next Week

NOVEMBER 11, 2011

KITV Project Economy: APEC's Impact On Local Economy

MORE NEWS MORE PRODUCTS

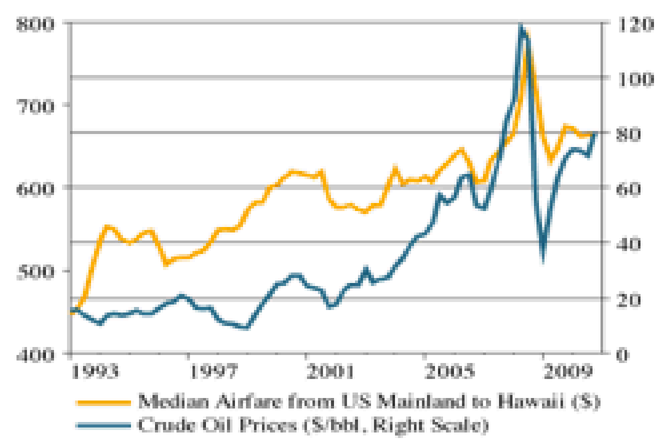
BLOG

Almost four years after the start of the great recession total output of goods and services in the US has surpassed its pre-recession peak. Read more...

MORE UHERO ANALYSIS

VISUALIZE

Median Airfare from US Mainland to Hawaii



BLOG POST

UHERO 2424 Maile Way, Saunders Hall 540 • Honolulu, Hawaii 96822
(808) 956-2325 • uhero@hawaii.edu

UHERO THE ECONOMIC RESEARCH ORGANIZATION AT THE UNIVERSITY OF HAWAI'I

Search

2011 Q4: STATE FORECAST UPDATE

HAWAII IN PAUSE MODE

PUBLIC SUMMARY

UPDATES

NOVEMBER 18, 2011

KITV Project Economy: Super Committee With Super Deadline

Q & A: Super Committee Decisions Due Next Week

NOVEMBER 11, 2011

KITV Project Economy: APEC's Impact On Local Economy

MORE NEWS MORE PRODUCTS

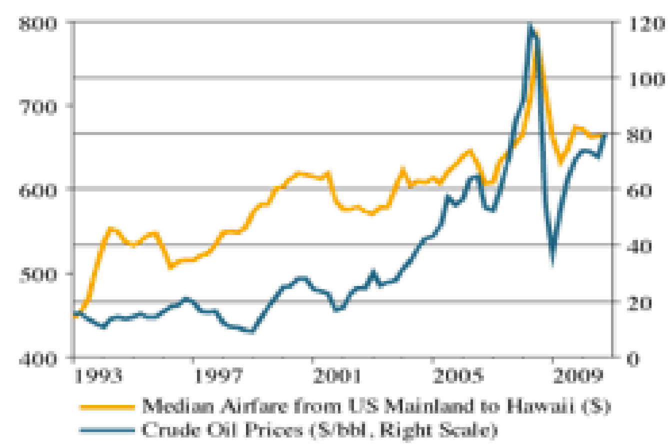
BLOG

Almost four years after the start of the great recession total output of goods and services in the US has surpassed its pre-recession peak. Read more...

MORE UHERO ANALYSIS

VISUALIZE

Median Airfare from US Mainland to Hawaii



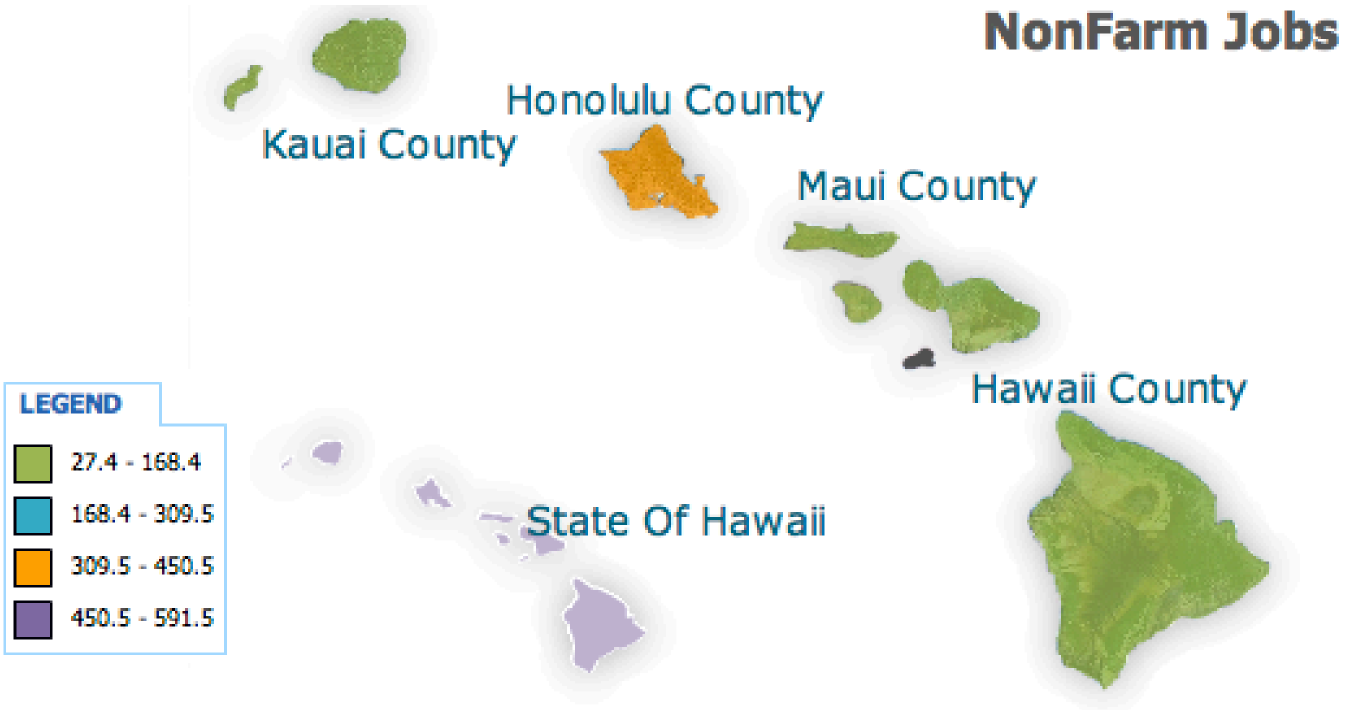
BLOG POST

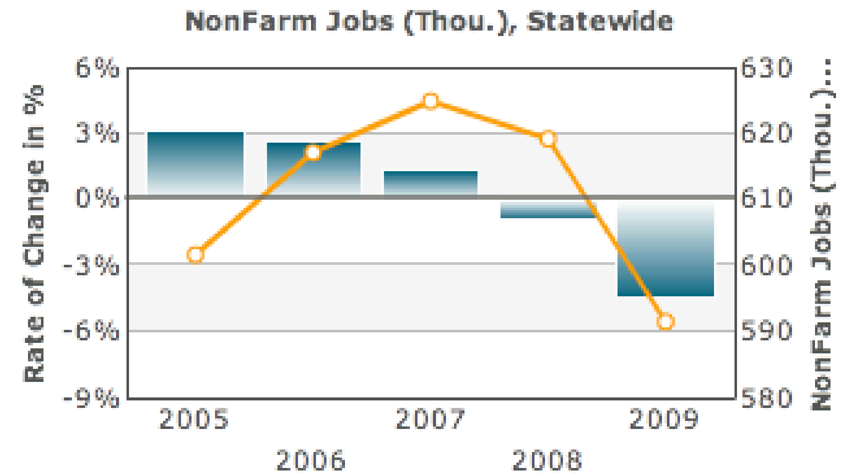
UHERO 2424 Maile Way, Saunders Hall 540 • Honolulu, Hawaii 96822
(808) 956-2325 • uhero@hawaii.edu

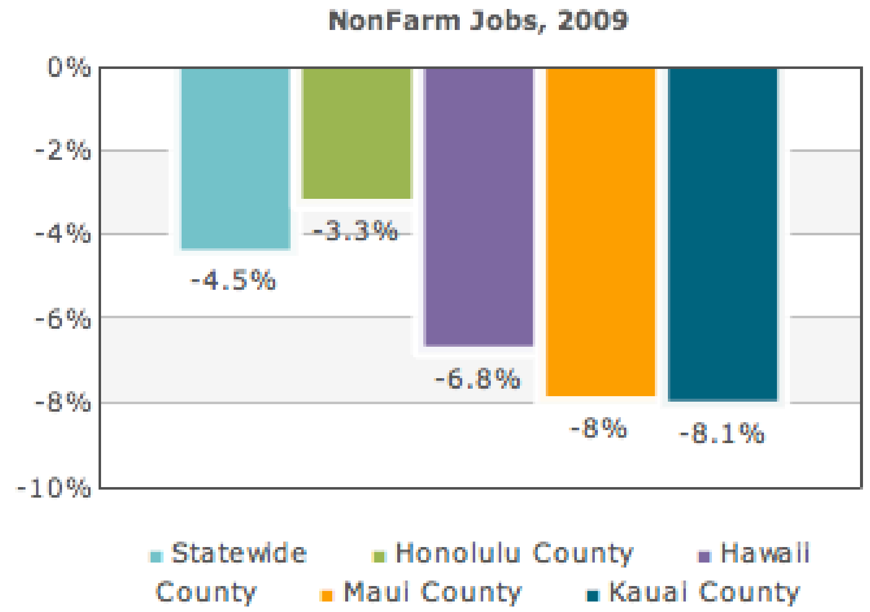
UHERO DATA PORTAL
powered by Prognoz
supported by Bank of Hawaii

AT A GLANCE | TABLES | GRAPHS | ANALYZER | FORECASTS | UHERO HOME | HELP | EXPORT | PRINT

NonFarm Jobs (Thou.), 2009







Annual | Statewide

Statewide At a Glance

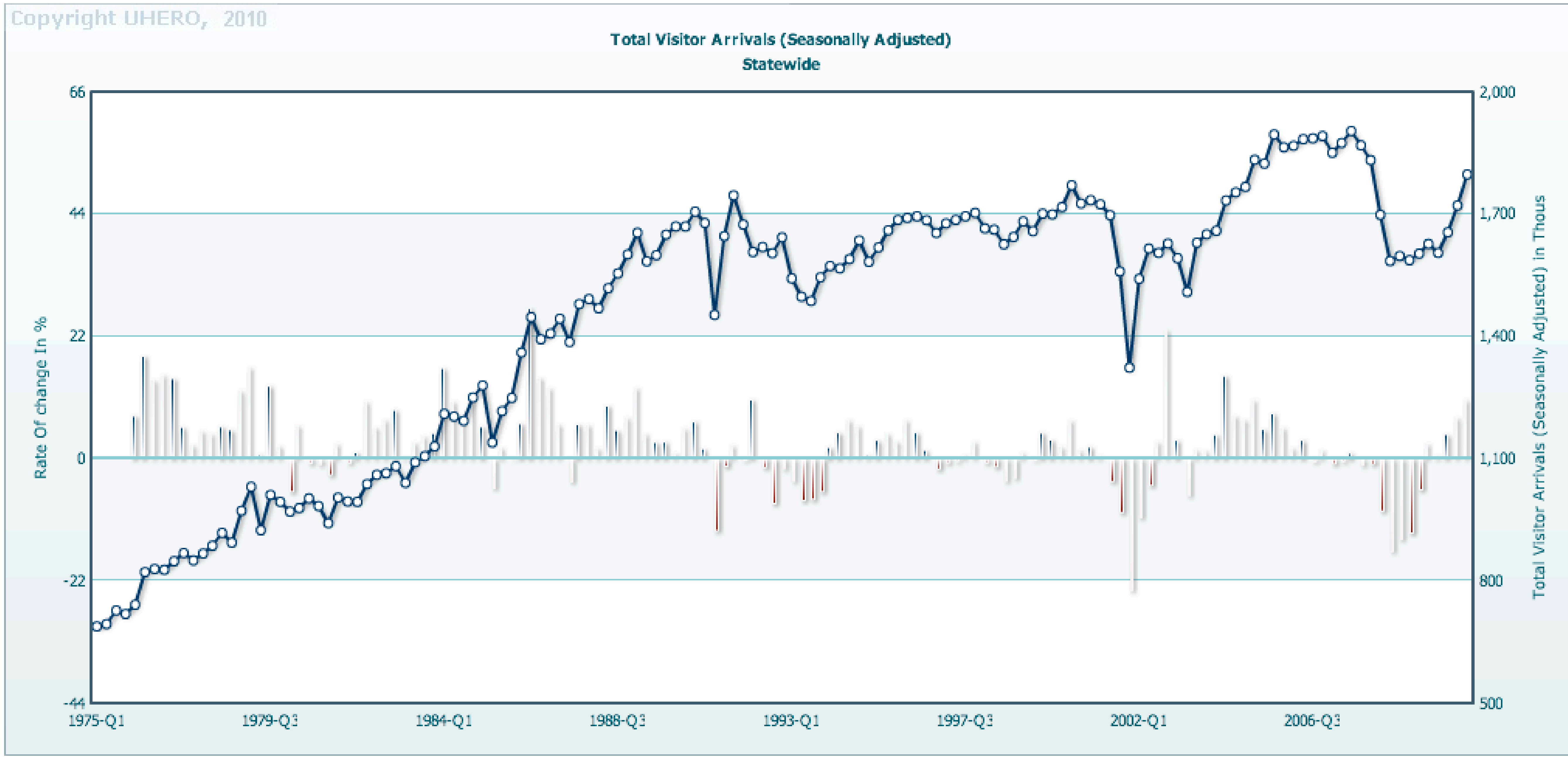
Indicators	Source	2005	2006	2007	2008	2009
NonFarm Jobs (Thou.)		**601.6**	**617.1**	**624.9**	**619.2**	**591.5**
Population (Thou.)		1,264.5	1,275.3	1,277.4	1,288.2	1,295.2
Real Per Capita Income (1982-84$Thou.)		18.1	18.4	18.6	18.4	
Visitors (Thou.)		7,416.6	7,528.1	7,496.8	6,713.4	6,419.1
Unemployment Rate (%)		2.7	2.5	2.6	4.0	6.8

Click here for more detailed information

- Visitor Industry
  - Visitor Arrival
    - Total Visitor Arrivals
    - Domestic Visitor Arrivals
    - US Visitor Arrivals
    - US East Visitor Arrivals
    - US West Visitor Arrivals
    - International Visitor Arrivals
    - Japanese Visitor Arrivals
    - Canadian Visitor Arrivals
  - Visitor Census
  - Visitor Accommodation
  - Visitor Expenditures
  - Total Air Seats Outlook
- Income
- Employment and Jobs
- External Indicators
- Gross Domestic Product
- Population
- Construction
- State Revenue & Expenditure
- County Revenue & Expenditure
- Real Estate
- Agriculture
- Prices
- Discontinued series

Max. 2 series. Hold 'CTRL' key to select second series.

Source | Go to Table | Number of scale: Two scale



Frequency: Quarterl | From Year: 1975 | Quarter: 1 | To Year: 2010 | Quarter: 3 | Chart Type: Both | Select Area: Statewide | Compare To: [None] | Seasonally Adjusted | Update


MAHALO

Assessing aspects of Hawaii's economy in 2011 for the 2012 outlook

presented to an Informational Briefing
of the Senate Committee on Ways and Means
and the House Committee on Finance
Hawaii State Legislature

by Paul H. Brewbaker, Ph.D.
TZ Economics
January 9, 2012

Overview

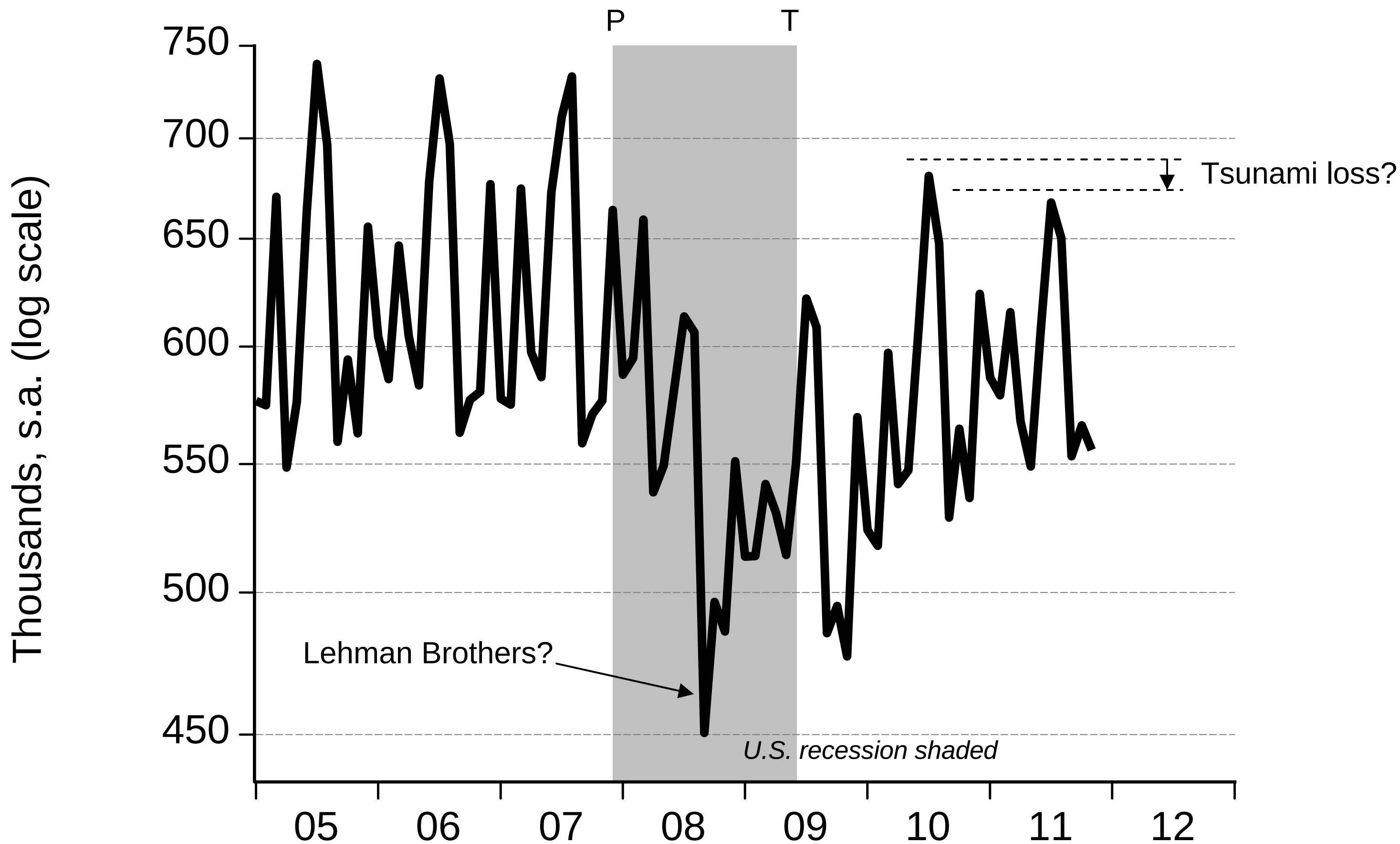
- Colleagues from DBEDT and UHERO will present numerical economic forecasts
- Also available: November 2011 estimates from HPU Professor Leroy Laney
- This presentation: three observations about 2011 framing the 2012 outlook
  1. Noise obscures the signal
  2. Double-dip is for dorks
  3. Are our economic forecasts too high or too low?

See: UHERO's November state forecast at http://uhero.hawaii.edu/products/view/312, DBEDT's November 2011 quarterly forecast update at http://hawaii.gov/dbedt/info/economic/data_reports/qser, and Dr. Laney's economic forecasts, with additional commentary from UH Shidler College Professor Jack Suyderhoud, at https://www.fhb.com/pdf/FHB_OahuEconForecast2011.pdf.

Noise obscures the signal: a tourism example

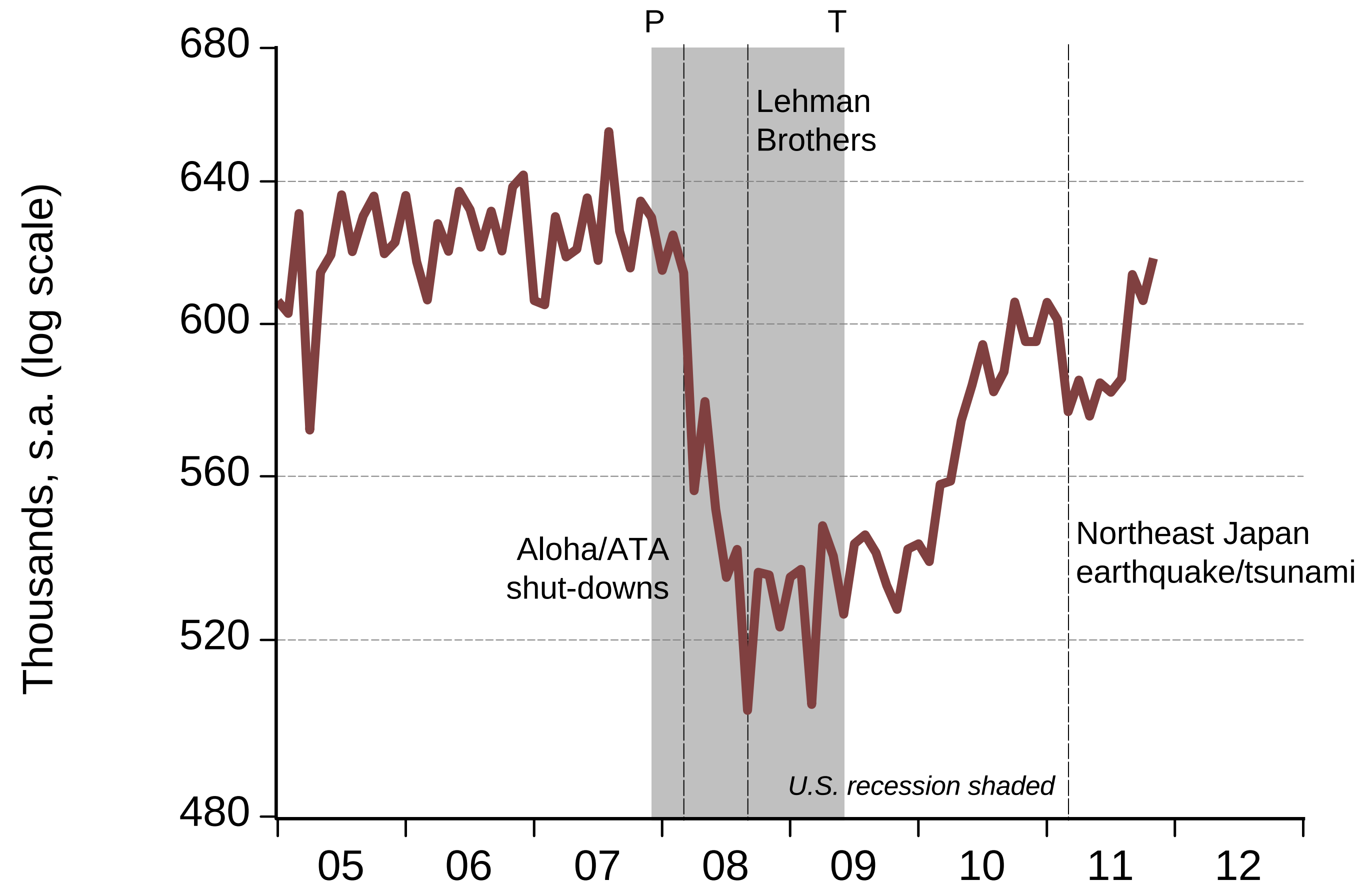
- A tourism year 2011 punctuated by 3 shocks:
   1. *North African political upheaval* raised global petroleum prices and aviation fuel costs—*reducing* the supply of travel (higher cost), decreasing the number of scheduled seats (also appearing as higher air fares)
   2. *Northeast Japan earthquake and tsunami* temporarily depressed Japanese travel demand over a period of about 6 months (most sharply at first, gradually recovering) [partial offset: yen appreciation]
   3. Prospective *Hawaii APEC meetings* raised uncertainty about positive (more diplomats) vs. negative (fewer weddings) impacts of a meeting scheduled for “11-11-11”
- As all three shocks came and went, underlying economic recovery and its manifestation in visitor arrivals shined through (for December 2011, passenger arrivals up 4.5%; estimated 3.5% arrivals growth in the September-December trimester)
- Is tourism on the 3-4% growth trend implied by recent data, or on the 2-3% forecast path?
- Much media/press release noise about “record” nominal tourism receipts obscures the reality of low real tourism receipts, after inflation adjustment, on par with the late-1980s

First of all, this is how visitor arrivals are reported, full of seasonal "noise" obscuring the "signal"



Source: Monthly data through November 2011 from Hawaii Tourism Authority, Hawaii DBEDT, including revisions; seasonal adjustment using Census X-12 ARIMA filter by TZE

Hawaii visitor arrivals, seasonally-adjusted, through November 2011—"revealing" the shocks



Source: Monthly data through November 2011 from Hawaii Tourism Authority, Hawaii DBEDT; seasonal adjustment using Census X-12 ARIMA filter by TZE

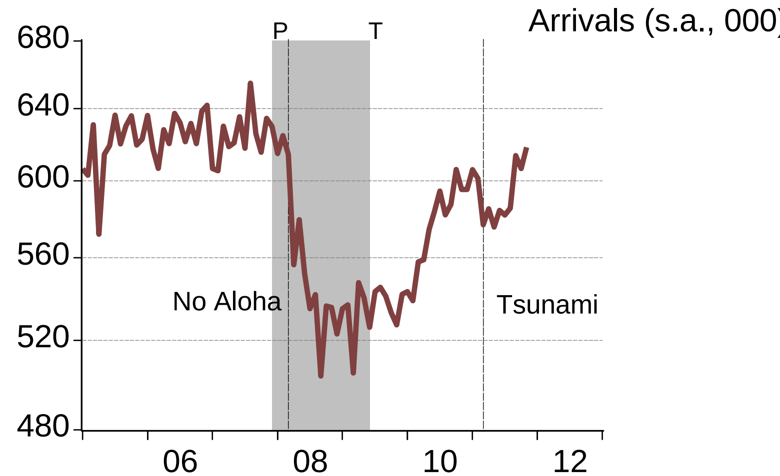
Visitor arrivals growth rates

(percent changes, y-o-y)	2011	2012
Forecasts:		
DBEDT	2.5	3.4
UHERO	2.1	2.7
Laney	3.2	2.6
Implied actual*		
Sep-Dec	3.3	
November visitors	3.6	
December passengers	4.5	
2011 total	2.3	
"No tsunami" addendum:		
Counterfactual trend[†]	3.9	

*including December *passenger* arrivals growth as visitor arrivals growth proxy

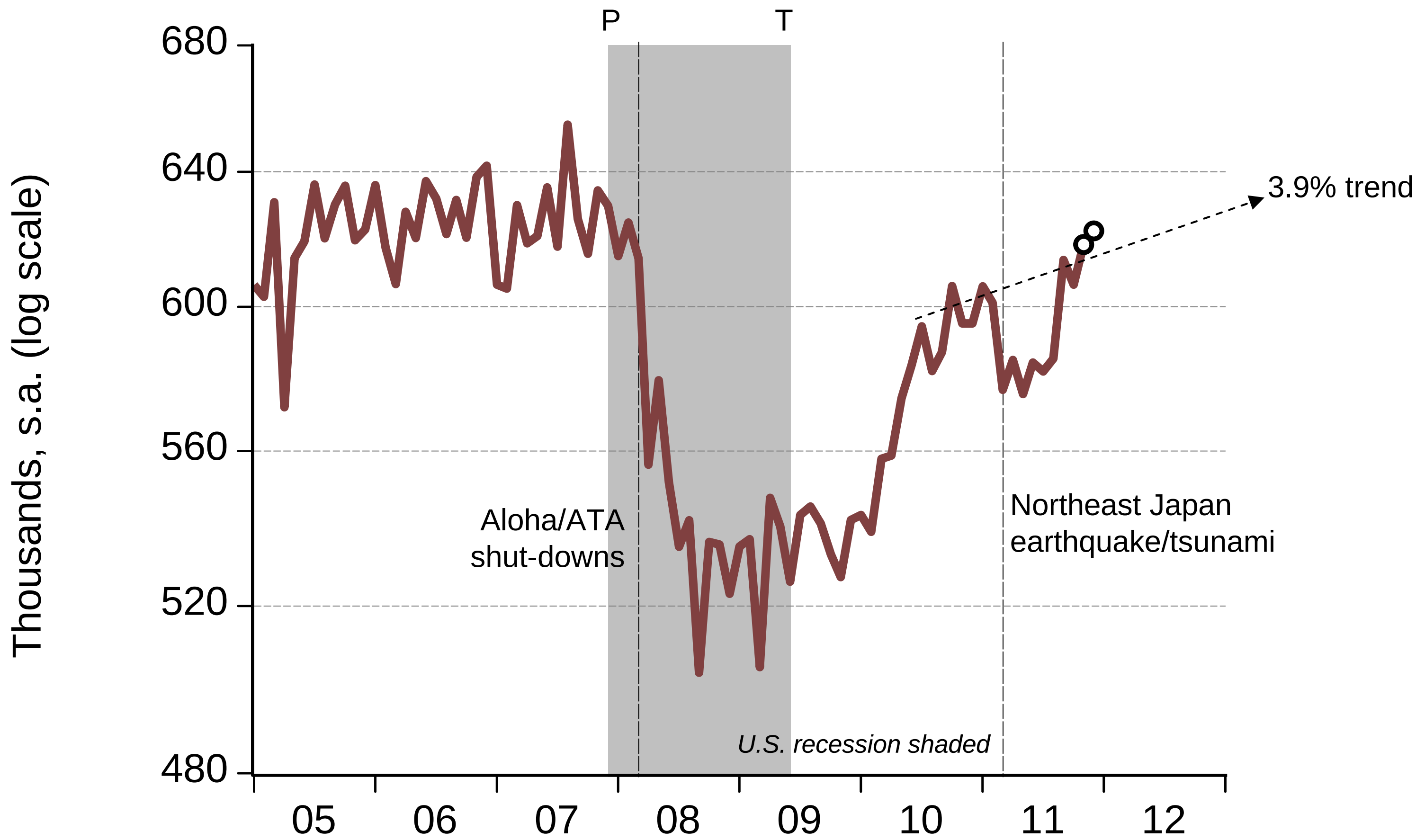
[†] Calculated from fall 2010 to fall 2011 ignoring the Japan seismic event

In retrospect—using December passenger counts to “guess” 2011 arrivals—one could say that 2011 would have been a better year *but for* the shocks [oil (–), tsunami (–), APEC (±)]. Arrivals growth was certainly stronger *after* their impacts “burned out,” even if the overall performance *includes* the shocks.



Source: Monthly data through November 2011 from Hawaii Tourism Authority, Hawaii DBEDT; seasonal adjustment using Census X-12 ARIMA filter and other calculations by TZE; forecasts as referenced in slide 1

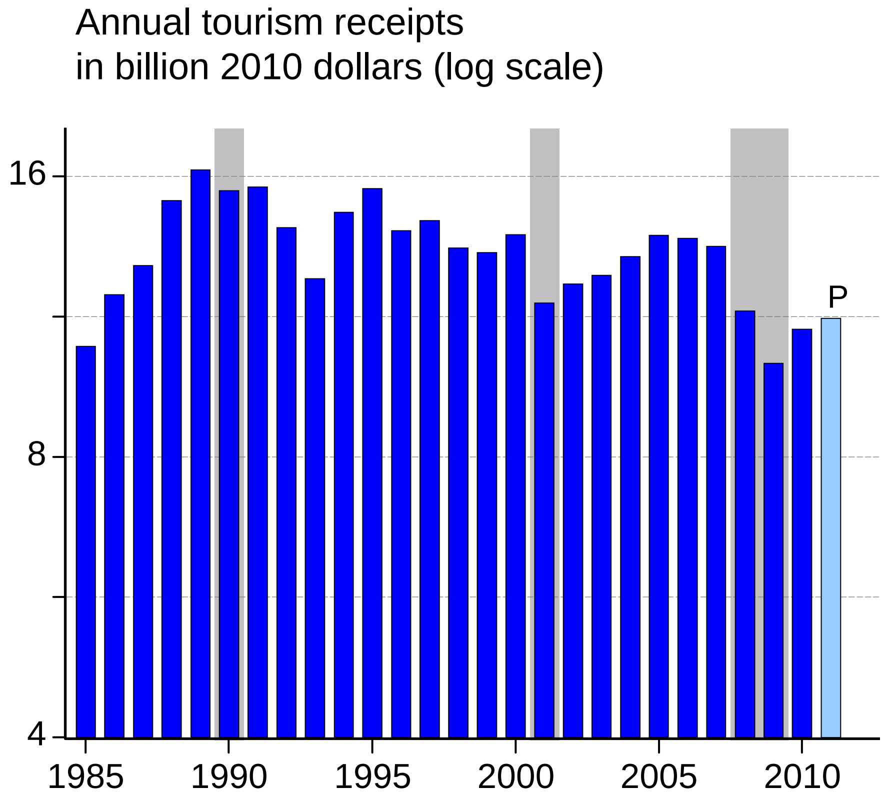
Hawaii visitor arrivals, s.a., along counterfactual "no shock" trend: record arrivals by end 2012?



Source: Monthly data through November 2011 from Hawaii Tourism Authority, Hawaii DBEDT including revisions; seasonal adjustment using Census X-12 ARIMA filter by TZE, December 2011 estimate (last dot) based on passengers

Tourism receipts after inflation haven't risen (on trend) since 1980s—failed "more dollars" strategy

1951-2010



1985-2011(P)

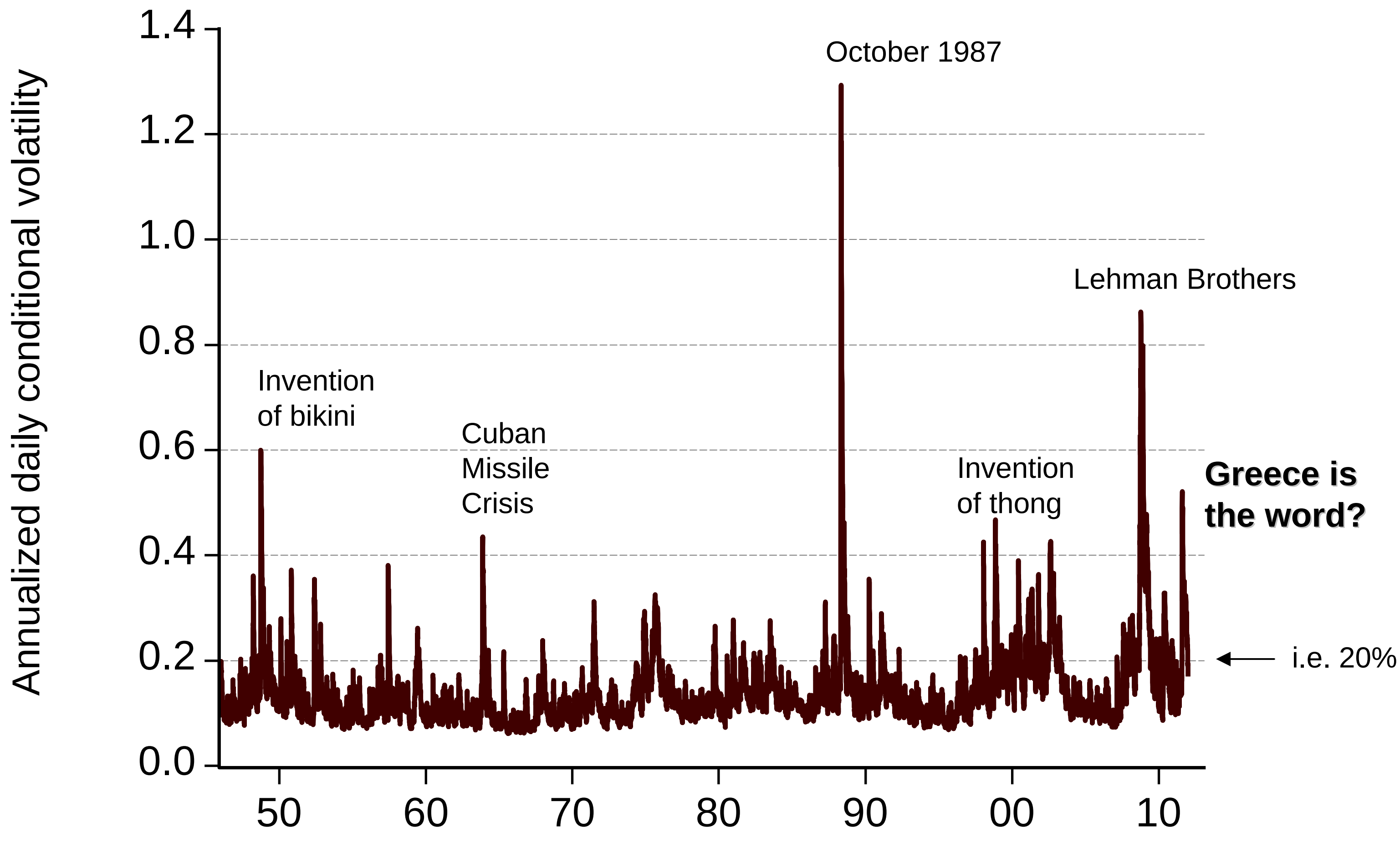
Source: Hawaii Tourism Authority, Hawaii DBEDT, BLS, U.S. Department of Labor; deflation using Honolulu CPI-U by TZE; 2011 projection from geometric unweighted averages of published forecast inflation and arrivals growth rates

Double Dip this

- Fear Factor in 2010: *double-dip recession*
- Fear Factor in 2011: *double-dip in home prices*
- The moral of these stories: *tune in tomorrow*—they *mean* to scare the crap out of you
- The reality: uneven recovery *has* proceeded even where housing prices came under additional downward pressure
- Additional reality: Honolulu is *not* one of those markets; ¾ of Hawaii's statewide economy is an island of economic resilience and growth in a sea of comparatively poor recent economic performance

Don't confuse Oahu for the Neighbor Islands, or Hawaii for the mainland

S&P 500 conditional volatility is in top five since WWII



Sources: Standard & Poor's, Federal Reserve Bank of St. Louis; standard deviations of the daily log change of the S&P 500 in a threshold autoregressive conditional heteroskedasticity model by TZE through Jan. 5, 2012

Spring (May) 2011: double-dip headlines keep double-dip recession fears alive

Forbes

Kenneth Rapoza, Contributor

Double Dip in Housing; Could Double Dip Recession Be Next?

Chart from Business Insider. Used by Permission.

You know that $400,000 house you want to buy; offer them $350,000. If they don't take it now, they will soon enough.

This chart from Business Insider shows what the Standard & Poor's Case-Shiller Index looks like on a graph chart: bad. National home prices are back to their 2002 levels, according to the index data released May 31.

As of March 2011, US home prices fell 4.2% in the first quarter after falling 3.6% in the fourth quarter in 2010. Home prices are down 5.1% from the first quarter last year, according to the S&P/Case-Shiller report.

CNBC

'Double-Dip' in Housing Prices Even Worse Than Expected

Published: Tuesday, 31 May 2011 | 9:05 AM ET

By: Reuters

U.S. single-family home prices dropped in March, dipping below their 2009 low, as the housing market remained bogged down by inventory and weak demand, a closely watched survey said Tuesday.

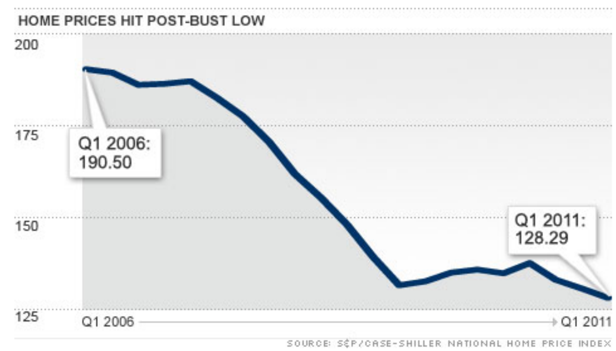
CNNMoney

UNLIMITED RENTAL COVERAGE

OUR AUTO INSURANCE HELPS PROTECT YOUR WALLET, CAR, AND PEACE OF MIND.

Home prices: 'Double-dip' confirmed

By Les Christie May 31, 2011: 10:43 AM ET



NEW YORK (CNNMoney) -- Home prices hit another new low in the first

abc NEWS / Money

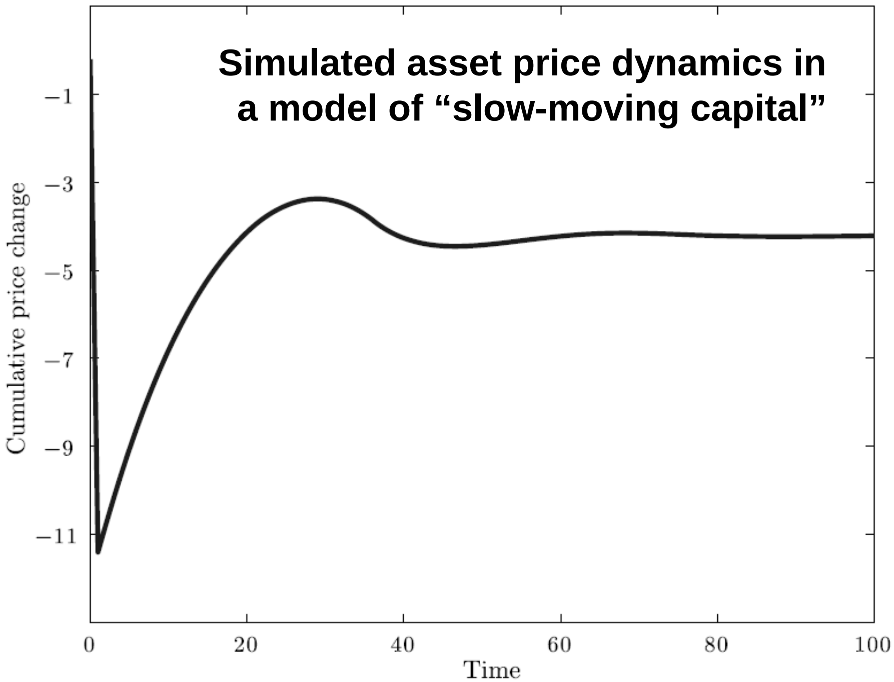
MORE MONEY: Business Traveler | Foreclosure Mess | Ford's Comeback | Top-Earning Dead Celebrities | Savings Tips

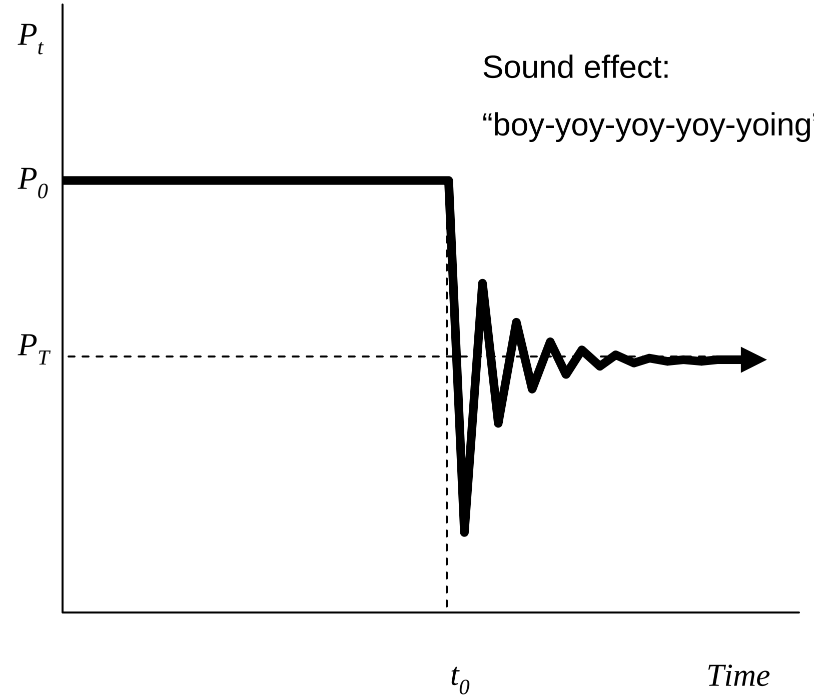
HOME > MONEY

Home Prices Double Dip to Levels Before Housing Bubble Burst

Sources: web sites as illustrated

"'Slow-moving' capital" one version of "overshooting" models of asset price dynamics



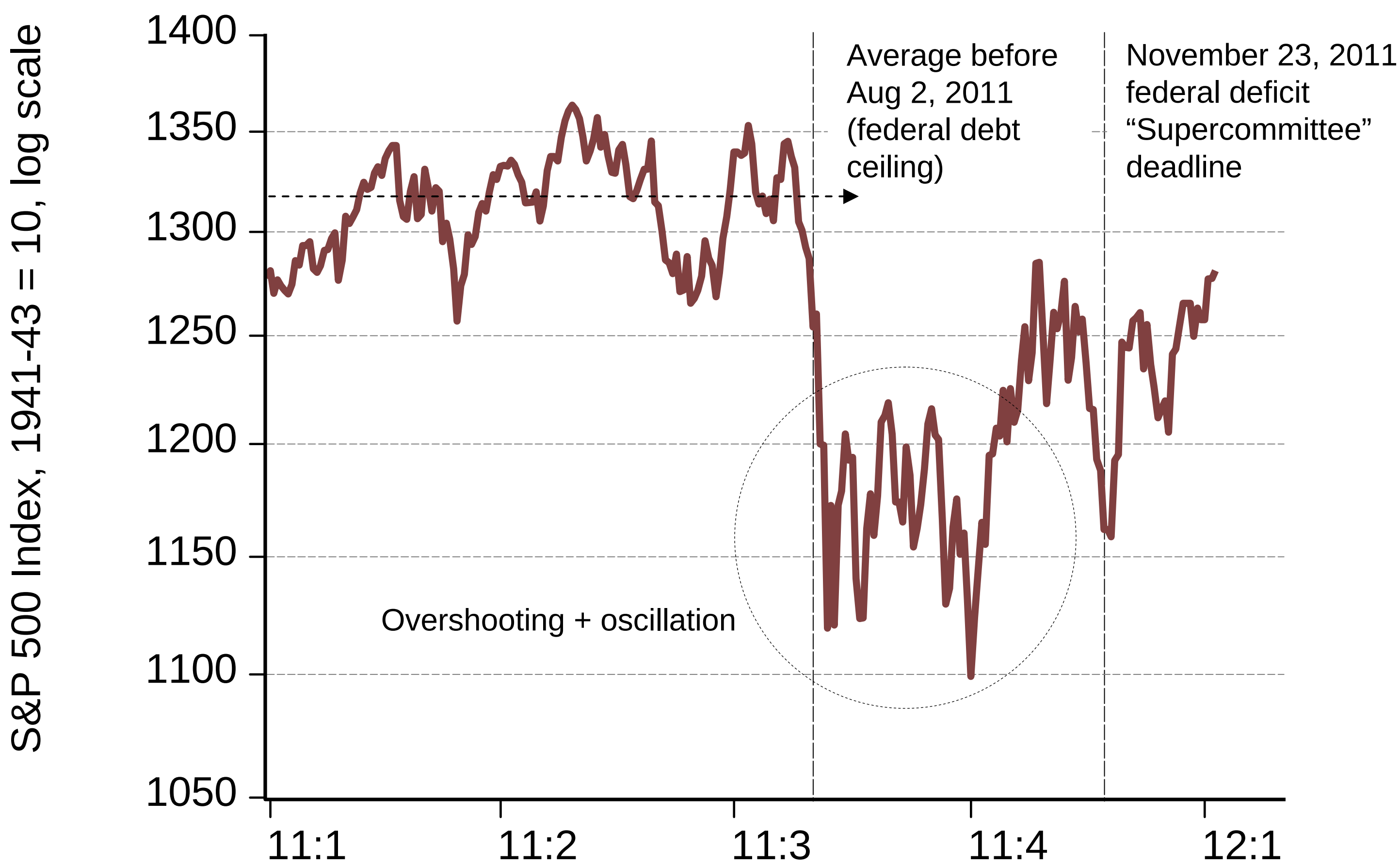


"The key implication is that supply or demand shocks must be absorbed on short notice by a limited set of investors. The risk aversion or limited capital of the currently available investors, including intermediaries, leads them to require a price concession in order to absorb the supply or demand shock. They plan to 'lay off' the associated risk over time as other investors become available. As a result, the initial price impact is followed by a price reversal that may occur over an extended period of time."

Simulated asset price dynamics in a logistic growth model

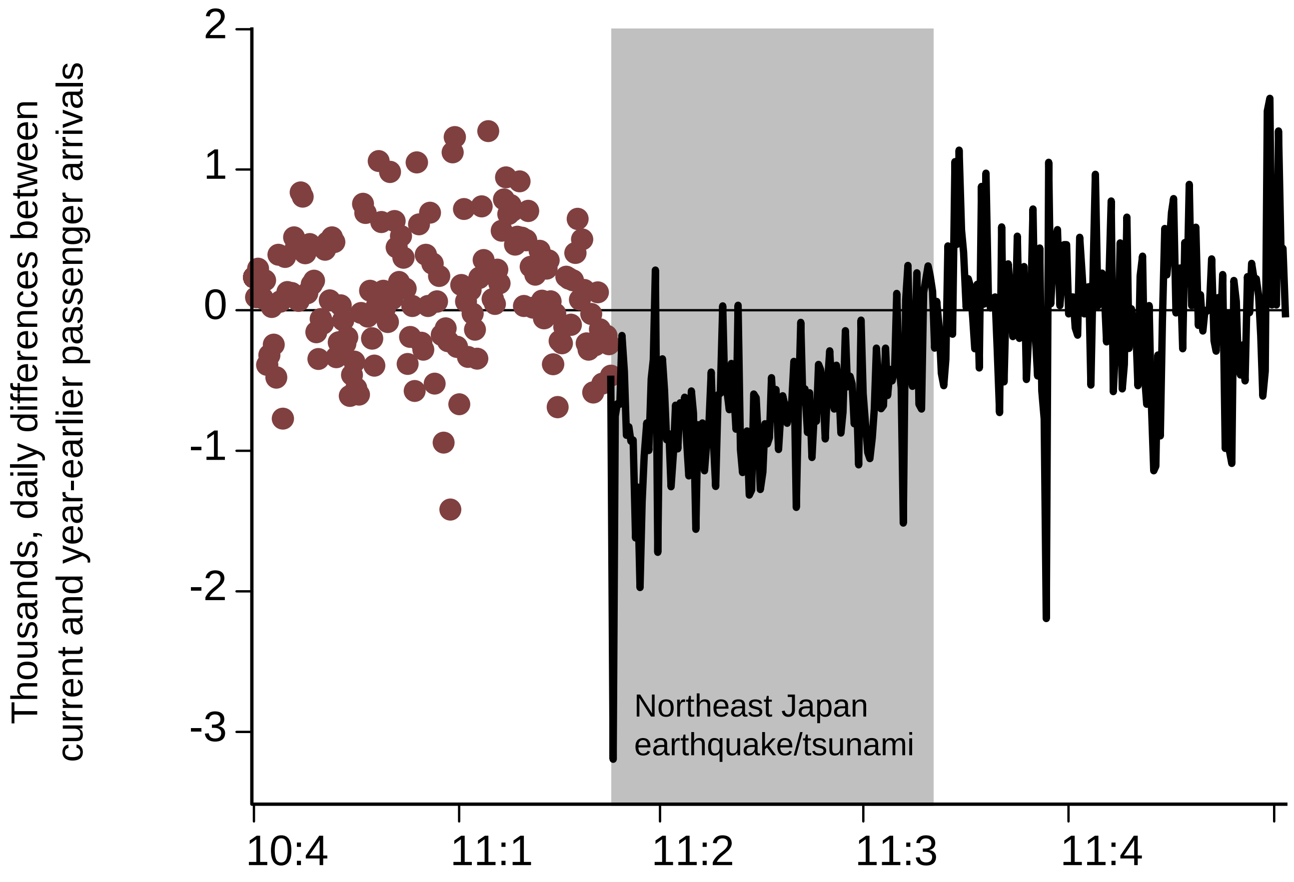
Sources: Darrell Duffie, "Asset Price Dynamics with Slow-Moving Capital" *Journal of Finance* vol. 65 no. 4 (August 2010) pp 1239-1267 (http://www.darrellduffie.com/uploads/pubs/DuffieAFAPresidentialAddress2010.pdf); TZ Economics calculations

S&P 500 Index daily closing values: markets concerned about U.S. Congressional fiscal policy-making FAILs



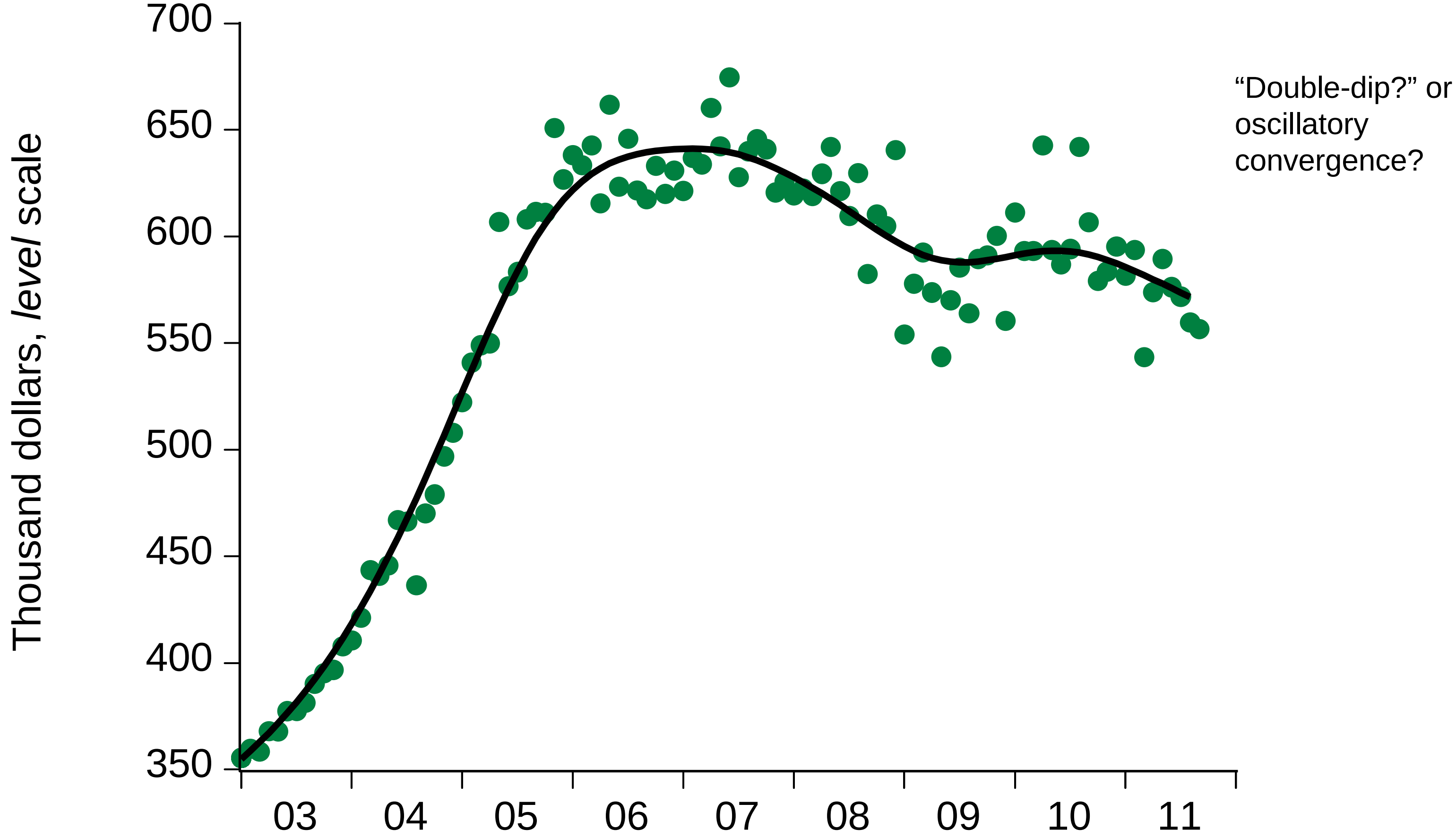
Sources: Standard & Poor's, Federal Reserve Bank of St. Louis; daily data through Thursday, January 5, 2012

Real overshooting : Japanese passenger arrivals growth and the Great Tohoku seismic event



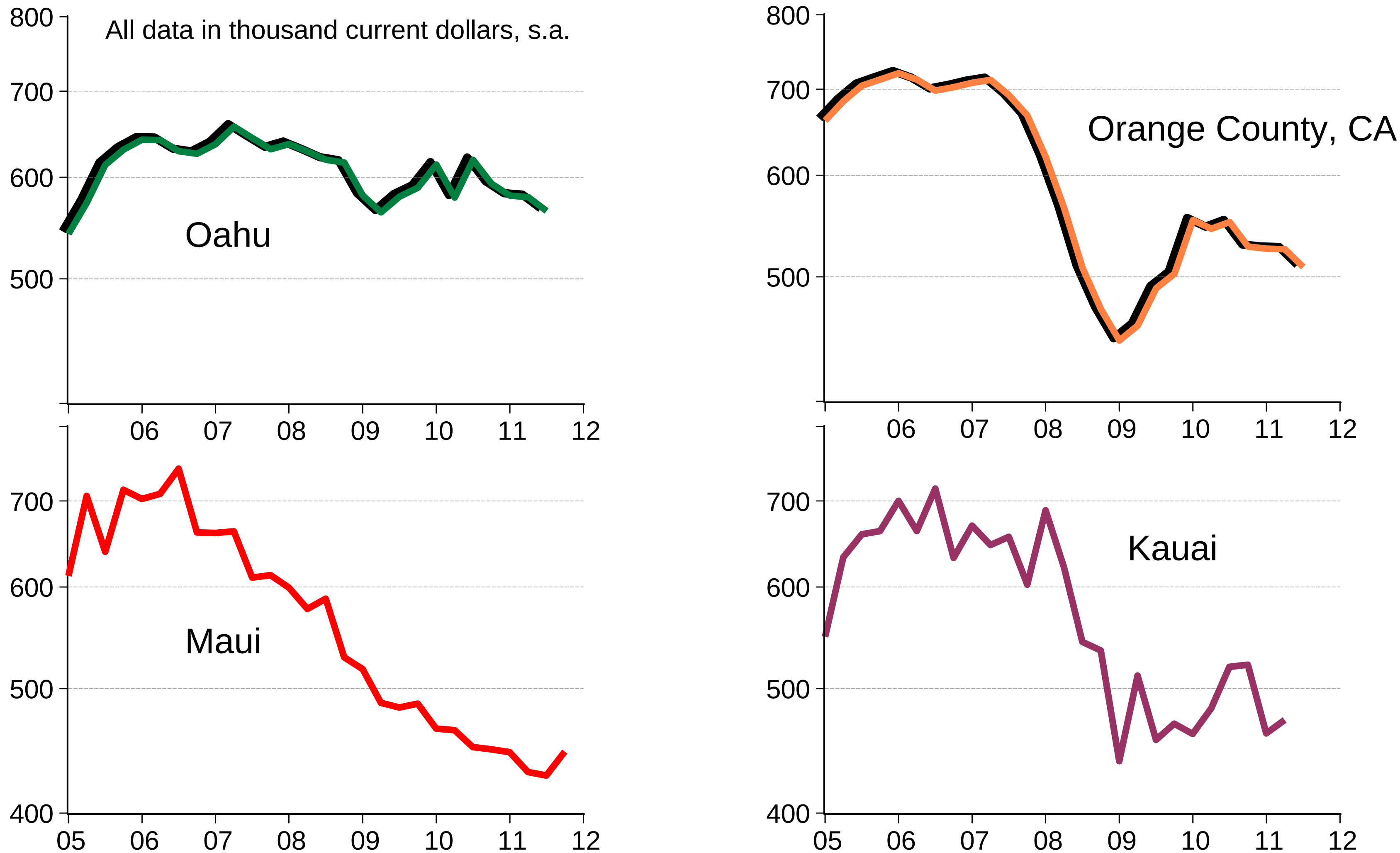
Source: Daily data through January 6, 2012 from Hawaii Tourism Authority, Hawaii DBEDT; calculations by TZE

Oahu single-family median existing home sales prices from 2003 through 2011:



Sources: Honolulu Board of Realtors; seasonal adjustment using Census X-12 filter, Hodrick-Prescott filter trend extraction by TZ Economics

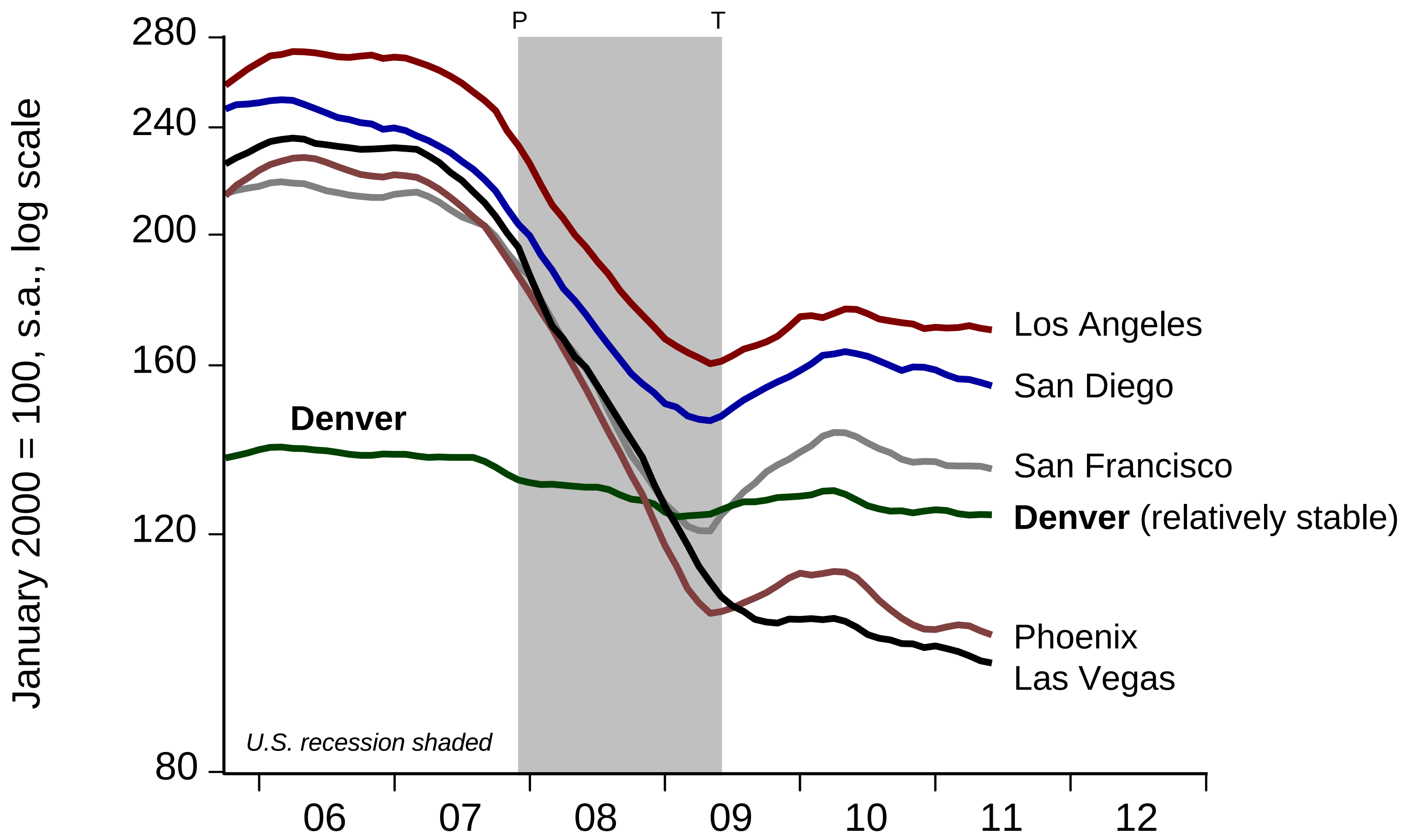
Oahu housing market most stable—relatively—of Hawaii Islands and many mainland urban markets



Slide copyright 2011, TZ Economics

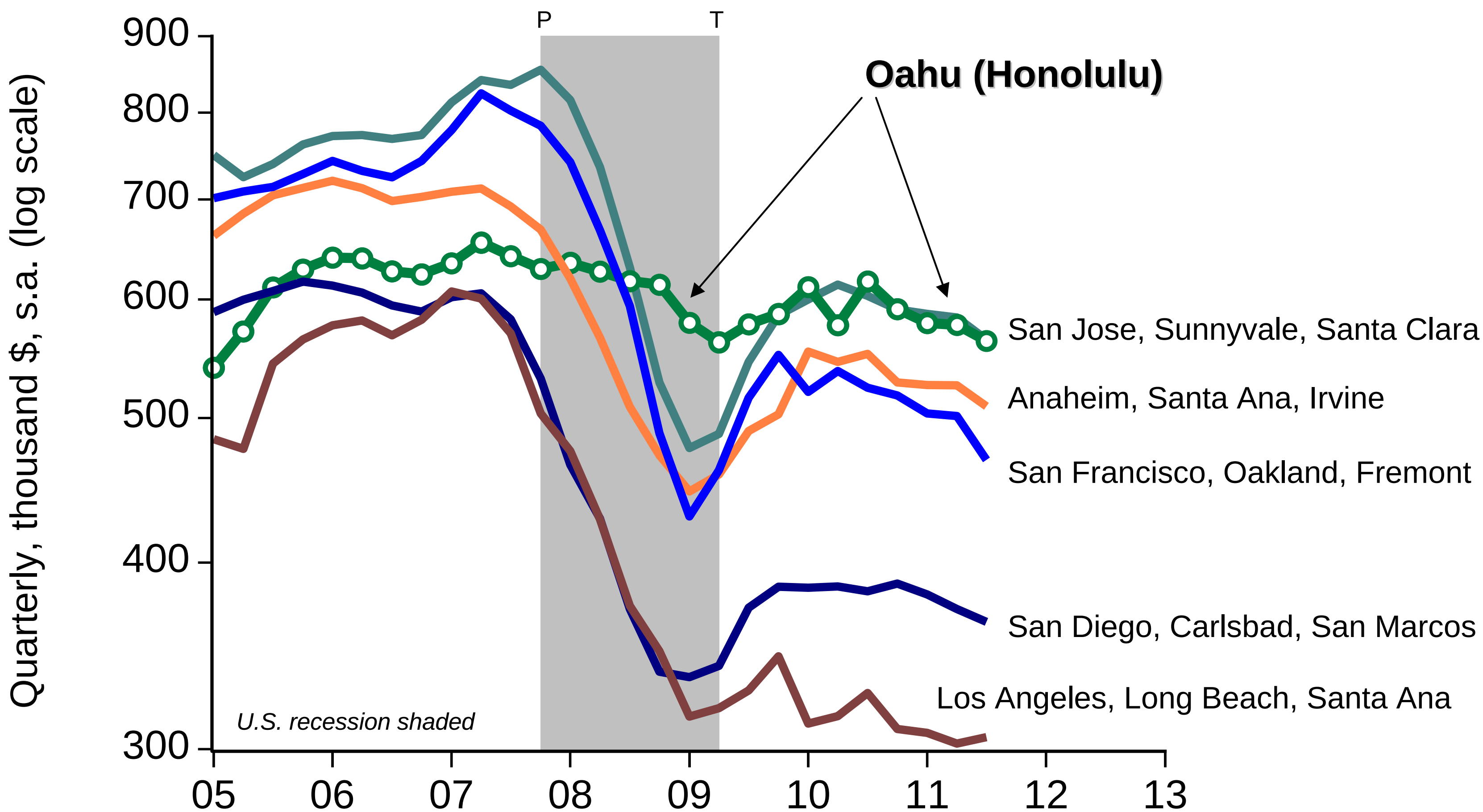
Sources: Honolulu Board of Realtors, Realtors Association of Maui, National Association of Realtors, Kauai Board of Realtors / Hawaii Information Service; seasonal adjustment by TZE using Census X-12 ARIMA filter

S&P Case-Shiller price indexes (“relative to Jan 2000”): “double-dip” in home prices in many mainland markets



Sources: Standard & Poor’s; seasonal adjustment using Census X-12 filter by TZ Economics

Median CA existing single-family home prices: "double-dip" or "overshooting + oscillation?"



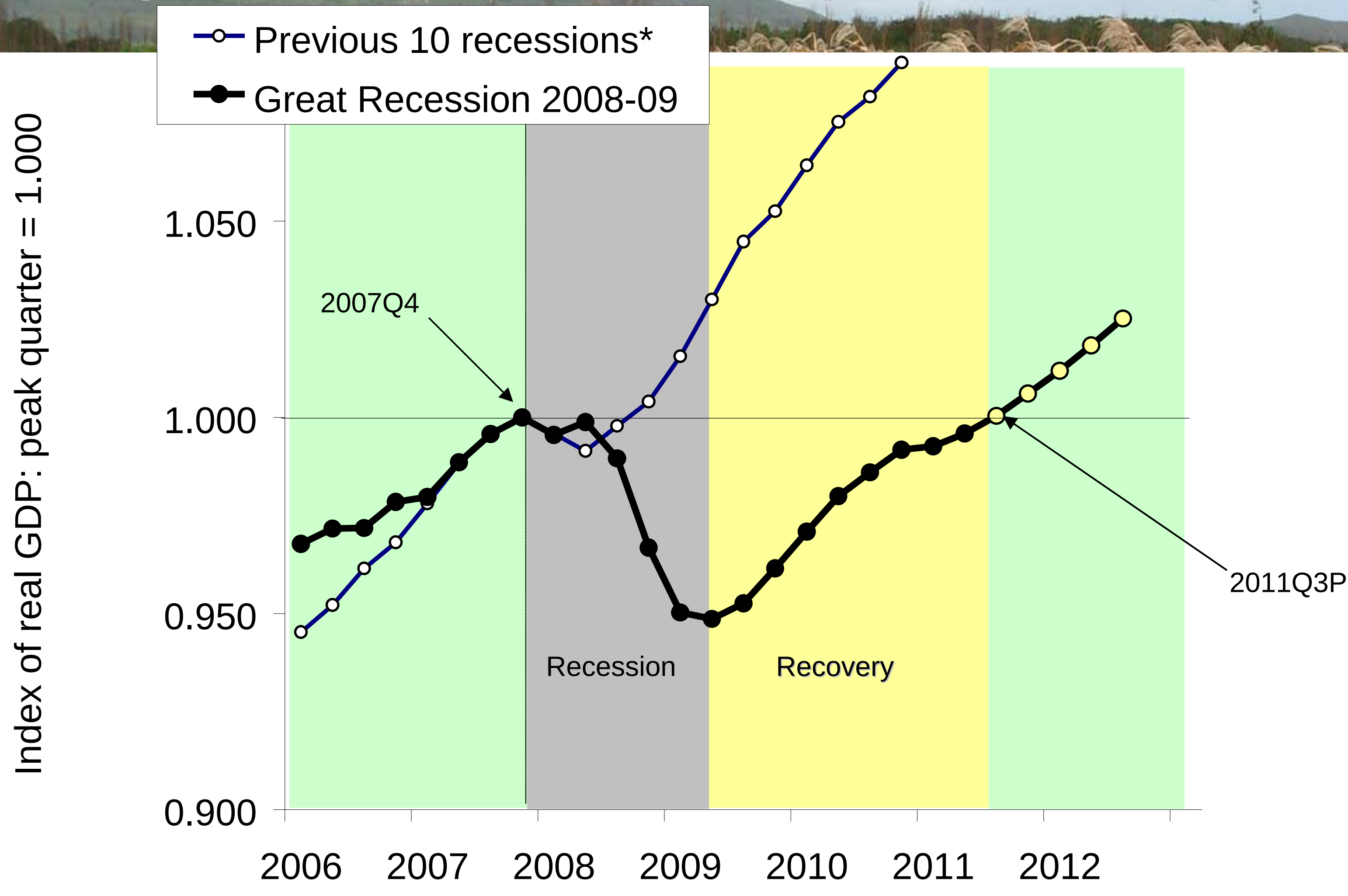
Sources: Honolulu Board of Realtors, National Association of Realtors; seasonal adjustment by TZE using Census X-12 ARIMA filter

Stabilization in the transition to expansion

- For two years, financial media have been beating the drum of “double-dip” recession risk
- Oscillation is part of asset price equilibration following extreme adjustment, a *normal* part of the process of transition from economic recovery to economic expansion, following severe macroeconomic breaks such as the financial crisis of 2007-08 and recession of 2008-09
- Both systemic risk exposure (including contagion exposure to European sovereign debt risk) and event risk exposure (such as last year’s geopolitical events in North Africa—affecting Hawaii via oil prices—as well as Japan’s seismic event) are *always* present
- I guarantee even more such surprises in 2012, and forever after
- You cannot spend your entire time frozen in fear of the unknown—especially when underlying trends are validating the recovery/expansion forecast

Are our forecasts too optimistic, or too pessimistic?

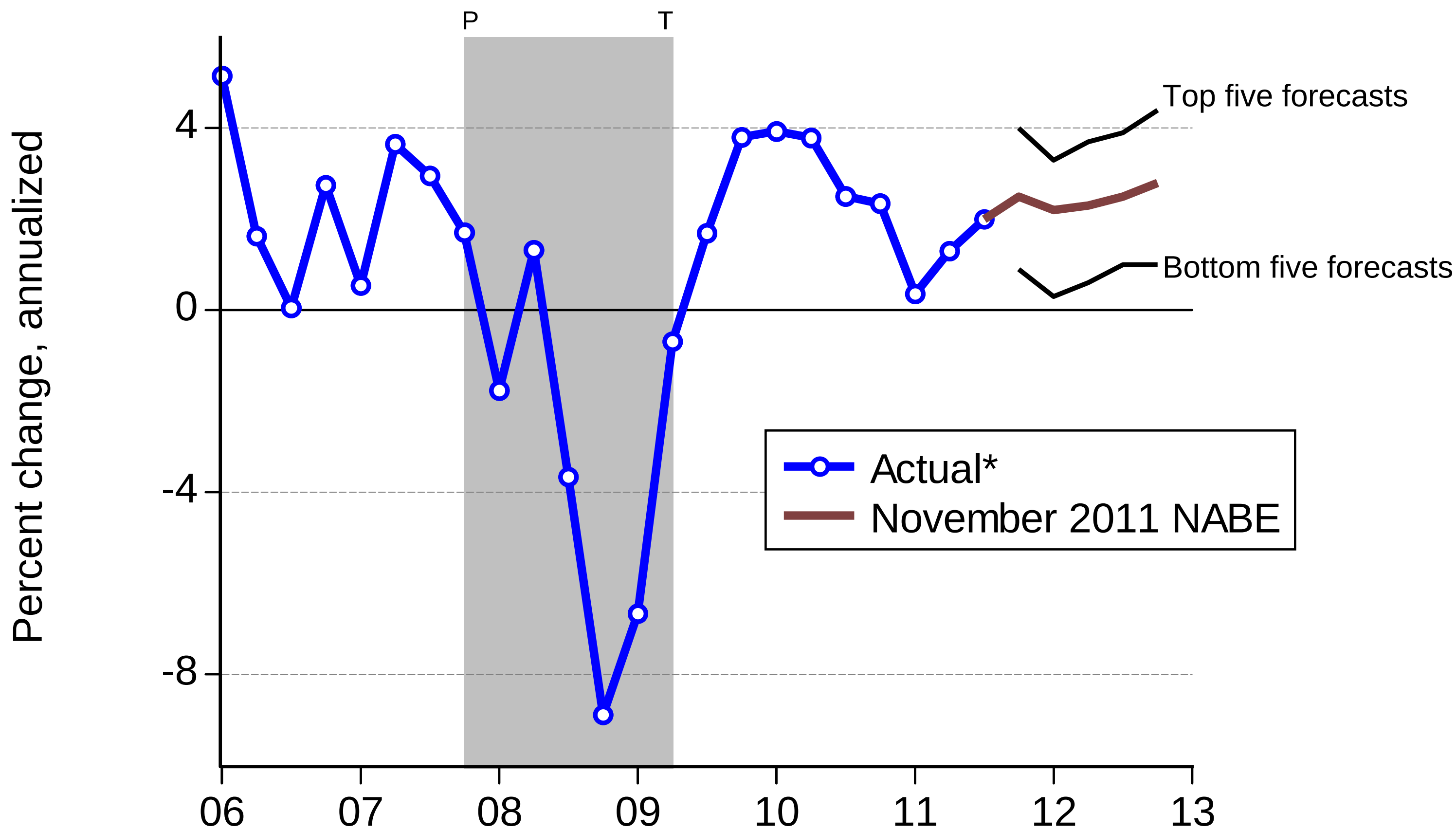
U.S. real GDP indexed to cyclical peaks: deep recession, slow recovery, definitive expansion



*Recessions since World War II—averages aligned to peak quarter of each business cycle and to 2007Q4

Source: Professor Robert Hall, Stanford University and Chair, NBER Dating Committee; Bureau of Economic Analysis, U.S. Department of Commerce; includes 2011Q3P data and NABE forecasts though 2012Q4

U.S. real GDP growth NABE forecasts November 2011



*Includes November 22, 2011 release (http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm)

Source: BEA (http://www.bea.gov/national/index.htm#gdp); NABE Outlook "Below-Trend Recovery Continues, Hindered by Policy Uncertainty," (November 21, 2011) (http://nabe.com/publib/macsum.html)

Federal Reserve economic outlook November 2011: real GDP growth 2.5-2.9% forecast for 2012

Percent

Variable	Central tendency[1]					Range[2]				
	2011	2012	2013	2014	Longer run	2011	2012	2013	2014	Longer run
Change in real GDP . .	1.6 to 1.7	2.5 to 2.9	3.0 to 3.5	3.0 to 3.9	2.4 to 2.7	1.6 to 1.8	2.3 to 3.5	2.7 to 4.0	2.7 to 4.5	2.2 to 3.0
June projection. . .	2.7 to 2.9	3.3 to 3.7	3.5 to 4.2	n.a.	2.5 to 2.8	2.5 to 3.0	2.2 to 4.0	3.0 to 4.5	n.a.	2.4 to 3.0
Unemployment rate. . .	9.0 to 9.1	8.5 to 8.7	7.8 to 8.2	6.8 to 7.7	5.2 to 6.0	8.9 to 9.1	8.1 to 8.9	7.5 to 8.4	6.5 to 8.0	5.0 to 6.0
June projection. . .	8.6 to 8.9	7.8 to 8.2	7.0 to 7.5	n.a.	5.2 to 5.6	8.4 to 9.1	7.5 to 8.7	6.5 to 8.3	n.a.	5.0 to 6.0
PCE inflation.	2.7 to 2.9	1.4 to 2.0	1.5 to 2.0	1.5 to 2.0	1.7 to 2.0	2.5 to 3.3	1.4 to 2.8	1.4 to 2.5	1.5 to 2.4	1.5 to 2.0
June projection. . .	2.3 to 2.5	1.5 to 2.0	1.5 to 2.0	n.a.	1.7 to 2.0	2.1 to 3.5	1.2 to 2.8	1.3 to 2.5	n.a.	1.5 to 2.0
Core PCE inflation[3]. .	1.8 to 1.9	1.5 to 2.0	1.4 to 1.9	1.5 to 2.0		1.7 to 2.0	1.3 to 2.1	1.4 to 2.1	1.4 to 2.2	
June projection. . . .	1.5 to 1.8	1.4 to 2.0	1.4 to 2.0	n.a.		1.5 to 2.3	1.2 to 2.5	1.3 to 2.5	n.a.	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 21-22, 2011.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Source: Federal Reserve Board Members and Federal Reserve Bank Presidents (advance release with FOMC minutes) (November 2, 2011) (http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20111102.pdf)

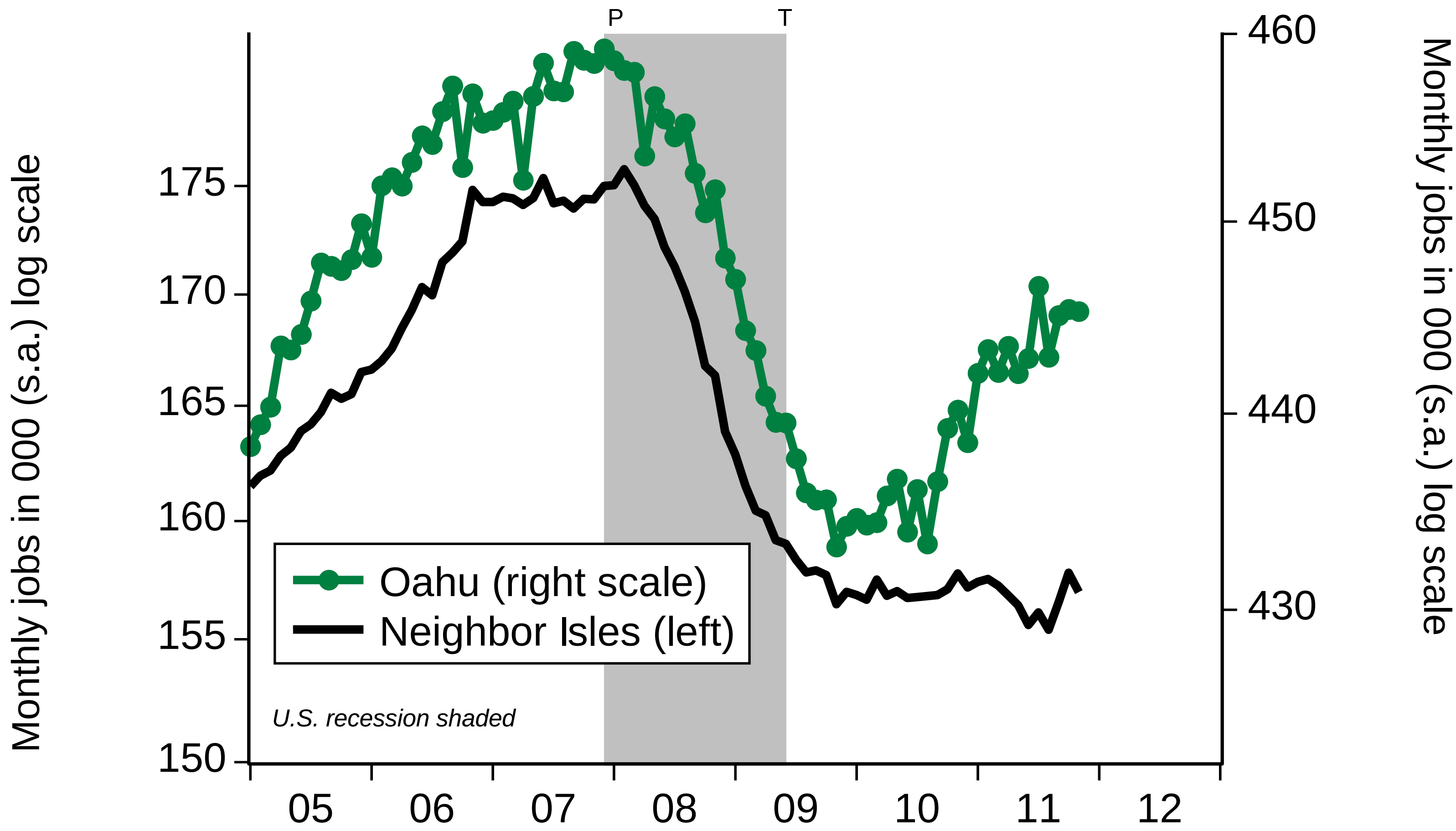
Hawaii *national* forecasts are at the low end of the range

<table>
<tr><th></th><th colspan="2">2011</th><th colspan="4">2012</th></tr>
<tr><th>(percent changes as noted)</th><th>Q3p</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th></tr>
<tr><td>Real Hawaii personal income growth</td><td colspan="2"></td><td colspan="4"></td></tr>
<tr><td>DBEDT</td><td colspan="2">1.3</td><td colspan="4">1.2</td></tr>
<tr><td>UHERO</td><td colspan="2">1.3</td><td colspan="4">0.9</td></tr>
<tr><td>Laney</td><td colspan="2">1.0</td><td colspan="4">0.9</td></tr>
<tr><td>Real U.S. GDP growth</td><td colspan="2"></td><td colspan="4"></td></tr>
<tr><td>DBEDT</td><td colspan="2">1.4</td><td colspan="4">1.8</td></tr>
<tr><td>UHERO</td><td colspan="2">1.7</td><td colspan="4">2.1</td></tr>
<tr><td>Actual</td><td>1.8</td><td>n.a.</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NABE</td><td></td><td>2.5</td><td>2.2</td><td>2.3</td><td>2.5</td><td>2.8</td></tr>
<tr><td>Top five</td><td colspan="2">2.0</td><td colspan="4">3.8</td></tr>
<tr><td>Median</td><td colspan="2">1.7</td><td colspan="4">2.4</td></tr>
<tr><td>Bottom five</td><td colspan="2">1.2</td><td colspan="4">0.9</td></tr>
<tr><td>Federal Reserve</td><td colspan="2">1.6-1.7</td><td colspan="4">2.3-3.5</td></tr>
</table>

Sources: as noted elsewhere in this presentation, National Association for Business Economics (NABE) (November 2011) http://nabe.com/publib/macsum.html and Bureau of Economic Analysis (BEA) (December 22, 2011), U.S. Department of Commerce http://www.bea.gov/national/index.htm#gdp; last four rows are Q4/Q4 growth rates, quarterly growth rates are annualized, other are year-over-year estimates

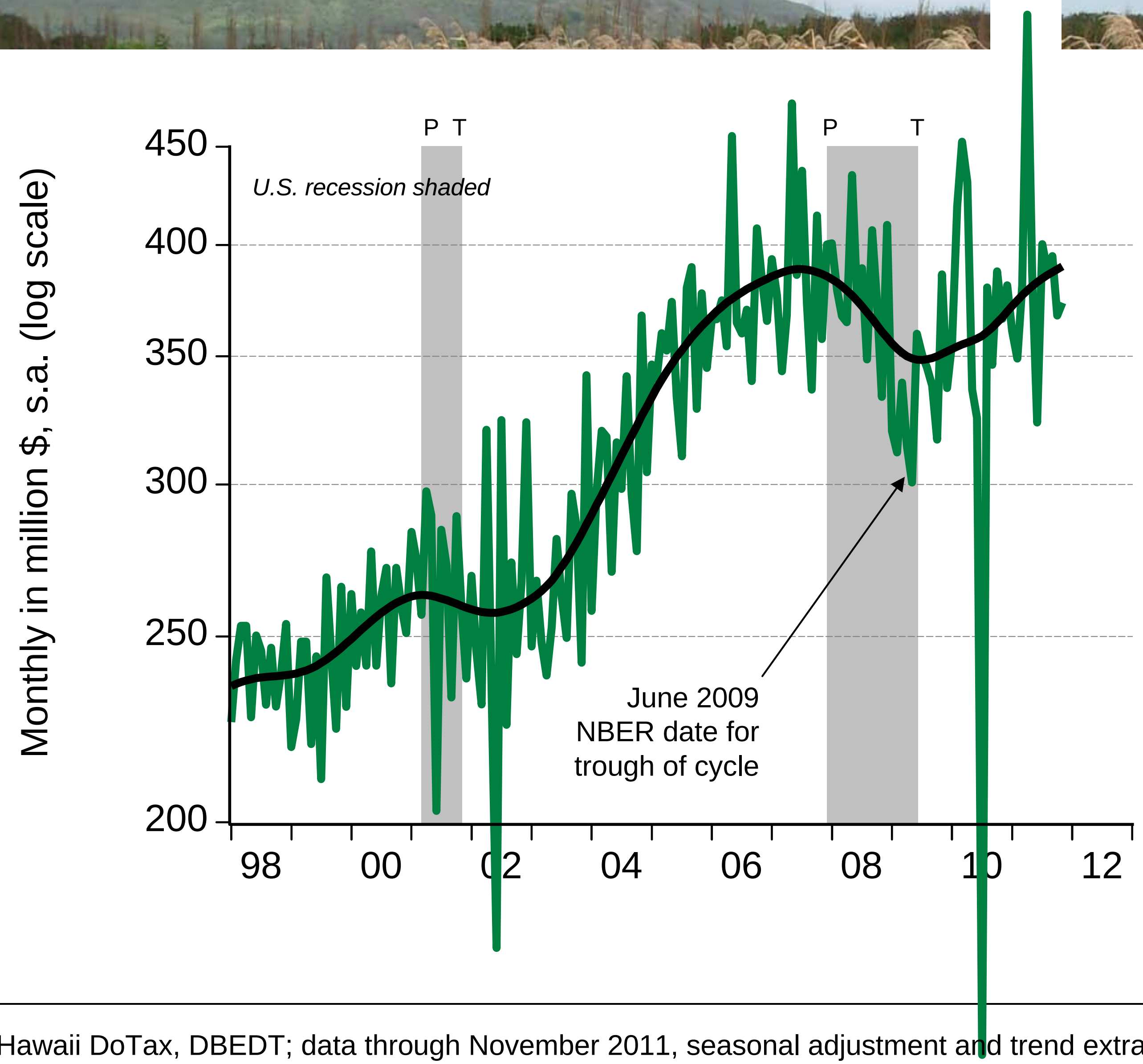
Note: as a group the NABE survey implied probability of recession in the near-term is 4.8% (*n* = 42)

Job growth? Oahu has, Neighbor Islands don't



Sources: Hawaii DLIR, Hawaii DBEDT; seasonal adjustment by TZ Economics through November 2011

Hawaii general fund tax revenues: signal vs. noise



Sources: Hawaii DoTax, DBEDT; data through November 2011, seasonal adjustment and trend extraction by TZE

Grains of Hawaiian rock salt

- Published forecasts for U.S. real GDP growth from Hawaii sources (DBEDT, UHERO) are in the lower half of the range of FRB and NABE counterparts
- Notwithstanding forecasters' concerns during second half 2009 and throughout the years 2010 and 2011, the following are true:
  1. Recession ended in mid-2009, as anticipated by at least some analysts
  2. Recovery ended in mid-2011, as anticipated by at least some analysts
  3. Transition to economic expansion (nationwide) came from a deeper trough, took longer and proceeded more slowly than at any time since the Great Depression of the 1930s
  4. U.S. economic expansion, rooted in mid-2009, punched out in mid-2011 and, led by Oahu, a contemporaneous rebound has occurred in Hawaii
- Hawaii has been a better than average state from an economic performance standpoint since the end of the last economic expansion (December 2007), though as a whole the recession-recovery cycle in Hawaii has largely followed the path of the national economy:
  1. The worst performing parts of the state, the Neighbor Islands, collectively comprise approximately ¼ of the total and approximately *matched* national economic performance
  2. The remaining ¾ of the total comprising Oahu's economy would be among the better performing state economies in the country, currently, without the Neighbor Islands
  3. Recovery patterns are consistent across a variety of Hawaii indicators, including general fund tax revenues (some of which are illustrated in the appendix)

Pau

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR OF FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE

January 9, 2012

Chairs Ige and Oshiro and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's FY 2013 Executive Supplemental Budget and Multi-Year General Fund Financial Plan. I would like to start by first discussing the Executive's supplemental operating and CIP budget and then cover the financial plan based on the Council on Revenues' (COR) September 8, 2011 revenue projections. After that, I would like to discuss the revisions that the COR made to its revenue forecast last week Thursday and the impact of those revisions on the financial plan.

FY 2013 EXECUTIVE SUPPLEMENTAL BUDGET – OPERATING

The Supplemental Budget includes proposed amendments that total $188.6 million in FY 2013 from all means of financing for operating costs. This represents an increase of 1.7% over FY 2013 in the FB 2011-13 Executive Budget. Of this amount, the net request for general funds totals $34.0 million in FY 2013, resulting in an increase of less than 1.0%.

The Supplemental Budget includes the following general fund adjustments pursuant to Sections 96 and 97, respectively, of Act 164, SLH 2011, which are necessary to fund non-discretionary costs:

1. **Labor cost savings adjustments due to collective bargaining agreements.** Section 96 requires $88.2 million in labor savings to be transferred to the Department of Budget and Finance (BUF) for the Retirement Benefits – State program (BUF 741) in FY 2013. $88.2 million in general funds is proposed to be transferred, as follows:
   - $69.1 million in general funds for labor savings will be transferred from other departments to BUF 741.
   - $11.5 million to be transferred from other BUF programs to BUF 741.
   - $7.6 million, the remaining amount, is available within the program (no transfer required).

     The program savings is based on updated projected requirements for Federal Insurance Contributions Act (FICA) and pension accumulation payments using the current payroll base.
2. **Program review adjustments**. Section 97 requires $50.0 million from identified program reductions to be transferred to BUF for the Health Premium Payments - State program (BUF 761).

   Earlier this year, we completed a systematic review of State programs and services. This review was the first step in the Administration's more global effort to reprioritize and retool State government as envisioned in the New Day Plan. Through this review, we identified $50.8 million (difference due to rounding) in general fund program adjustments:
   - $29.6 million of which will be transferred from other departments to BUF 761.
   - $1.1 million to be transferred from other BUF programs to BUF 761.
   - $20.0 million in savings already within BUF 761 (no transfer required).

The considerable health premium savings is due to: 1) lower than anticipated projected premium rates for actives and retirees; 2) the original projection assuming two premium increases instead of one, as per the current medical plan contracts; and 3) updated enrollment projections.

Additionally, the Supplemental Budget includes $100.7 million in general fund requests to:

1. **Restore the safety net.** A total of $46.4 million is being requested for the Department of Human Services:
   - $6.9 million for purchase of service (POS) contracts for the Child Protective Services program.
   - $1.5 million for POS contracts for domestic violence programs.
   - $8.1 million for Medicaid capitation payments.
   - $0.7 million for the State Supplemental Payments program which complements Social Security's Supplemental Security Income program.
   - $23.4 million for the Temporary Assistance for Needy Families program.
   - $5.8 million to fund critical positions.
2. **Provide for education.** Requests totaling $46.1 million are included for the Department of Education (DOE) and the University of Hawaii (UH):
   - $13.6 million for the DOE's Weighted Student Formula.
   - $25.0 million for the DOE's Student Transportation program.
   - $2.5 million for the DOE's Community School for Adults program to meet federal maintenance of effort requirements.
   - $5.0 million for the UH's enrollment increases and critical operating requirements.

3. **Maintain essential services.** Highlights of $8.2 million requested to maintain essential State services include:

    - $0.9 million to fully fund critical Legal Services and Child Support positions for the Department of the Attorney General.
    - $2.4 million for Army National Guard facility maintenance for the Department of Defense (which will be matched by $7.1 million in federal funds).
    - $1.4 million for expansion of the Department of Taxation's electronic filing program.
    - $1.2 million for inmate Hepatitis C treatments to be provided by the Department of Public Safety.

Finally, the Supplemental Budget includes $19.2 million in general fund requests that will make vital investments in the State's information technology (IT) infrastructure and watersheds as well as provide valuable support for our children and elderly as follows:

- $10.4 million for IT improvements to include business process and IT/Information Resource Management reengineering, IT integration pilot projects, Hawaii State Digital Archives, and technology triage to ensure mission critical business operations.
- $1.4 million for the State's Broadband Initiative to include E-government upgrades and a demonstration project to upgrade high schools to high speed broadband.
- $5.0 million for the Watershed Initiative to be spearheaded by the Department of Land and Natural Resources.

- $1.0 million for the Early Childhood Initiative to include funding for the Early Learning Council, an outreach program for the junior kindergarten transition and development of early childhood obesity and diabetes prevention programs.
- $1.4 million for an Aging and Disability Resource Center, a resource for elderly and their families.

The aforementioned general fund requests are offset by requests totaling $85.9 million (difference due to rounding) in general fund reductions to reflect projected savings:

- $24.9 million for debt service payments savings due to the general obligation (G.O.) bond sale delay and refunding of prior G.O. bond issuances.
- $22.5 million due to FICA and pension accumulation payment savings due to updated projected requirements (amount in addition to labor cost savings adjustment amount).
- $38.4 million for health premium payments savings due to lower than projected rates and enrollments (amount in addition to program review adjustment amount).

FY 2013 EXECUTIVE SUPPLEMENTAL BUDGET – CAPITAL IMPROVEMENTS PROGRAM (CIP)

For the CIP, an additional amount of $1,221.2 million in FY 2013 has been requested for all means of financing. This represents an increase of 123% over the FY 2013 appropriation in the FB 2011-13 Executive Budget. Of these amounts, the request for G.O. bonds is $300.0 million, resulting in an increase of 75% in FY 2013.

The $300.0 million in G.O. bond project requests include:

- $15.5 million for the State irrigation system safety improvements.
- $17.0 million for renovation and asbestos removal for the Kamamalu building.

- $8.0 million for resealing the State Capitol roof.
- $15.0 million for statewide financial system enterprise reengineering.
- $7.3 million for low income housing tax credit loans.
- $5.0 million for the Kalaeloa East energy corridor.
- $5.0 million and $10.0 million for infusions to the Rental Housing Trust Fund and Dwelling Unit Revolving Fund, respectively.
- $1.5 million for an Environmental Impact Statement for transpacific cable landing sites.
- $3.4 million for National Guard Armory upgrades and improvements.
- $50.0 million for DOE projects including various lump sum projects, completion of Ewa Makai Middle School, and fire safety improvements at McKinley High School.
- $8.0 million for the Honokowai water system.
- $18.8 million for various improvements for Hawaii Public Housing Authority properties, including Punchbowl Homes, Kahale Mua and Palolo Valley Homes.
- $6.0 million for health and safety improvements at Department of Health facilities.
- $20.0 million for various improvements at Hawaii Health Systems Corporation facilities, including Maui Memorial Medical Center, Hilo Medical Center, Leahi Hospital and Samuel Mahelona Memorial Hospital.
- $7.0 million for dam safety maintenance and remediation.
- $59.6 million for UH Systemwide health and safety improvements and capital renewal and deferred maintenance.
- $10.0 million for Kapiolani Community College Culinary Institute of the Pacific.
- $8.9 million for Coconut Island improvements.

Additionally, the CIP budget includes:

- $654.1 million ($534.0 million in revenue bonds, $14.5 million in federal funds, and $105.6 million in other funds) for airports modernization and runway improvements, statewide.
- $161.5 million ($25.0 million in special funds, $136.5 million in revenue bonds, and $5,000 in federal funds) for harbors modernization projects, statewide.
- $95.0 million ($28.0 million in revenue bonds, $66.0 million in federal funds, and $1.0 million in private funds) for highway repair and maintenance projects, statewide.

For a more in-depth summary of what is contained in the Supplemental Budget operating and CIP requests, please refer to "The FY 2013 Executive Supplemental Budget, Budget in Brief" that is available on Budget and Finance's website at http://hawaii.gov/budget/supplementalbudget/budgetinbrief.

MULTI-YEAR GENERAL FUND FINANCIAL PLAN

The financial plan shown in Attachment 1 is based on the COR's September 8, 2011 general fund tax and non-tax revenue projections. The tax revenue projections provide for a 14.5% growth for FY 2012 over FY 2011, a 6.5% growth for FY 2013, a 3.0% growth for FY 2014, and a 5.0% growth annually for FYs 2015-17. The 14.5% growth in FY 2012 reflects a 4.3% increase due to the delay in payment of individual tax refunds during FY 2011, a 5.2% increase attributable to anticipated economic growth, and a 5.0% increase due to tax law amendments enacted during the 2011 Legislative Session.

Also included on the revenue side are $106.7 million in FY 2012 of premiums on bonds sold last November, various other non-tax revenues not reflected in the COR's non-tax revenue projections, and anticipated revenues from various Administration bills that we will be submitting.

On the expenditure side, the expenditure amounts reflect the Executive Supplemental Budget, Judiciary's supplemental budget, and continuation of existing FY 2013 funding levels for the Office of Hawaiian Affairs and Legislature. Also included are emergency appropriations to address the following FY 2012 funding shortfalls which require immediate attention:

- $1.7 million for the Office of Elections to fund electronic voting system lease payments for the 2012 elections.
- $3.4 million to reimburse DOD and other departments for costs incurred to support the Asian Pacific Economic Conference held in Hawaii last November.
- $11.9 million for the Department of Human Services to cover child welfare services POS contracts and to fully fund critical positions in various programs.

Additionally, the expenditure side includes various specific Administration appropriation bills. The most notable are the appropriations to recapitalize the State's emergency reserves – the Hawaii Hurricane Relief Fund (HHRF) and Emergency and Budget Reserve Fund (EBRF):

- $55.0 million in FY 2012 and $56.0 million in FY 2013 for the HHRF.
- $20.0 million in FY 2012 and $43.7 million in FY 2013 for the EBRF.

As can be seen, the financial plan submitted to this body in December shows significant positive balances for the current fiscal biennium and the planning period. This reflects the Administration's cautious approach in spending to ensure flexibility in addressing economic uncertainties which could affect the State's revenues.

COUNCIL ON REVENUES' JANUARY 5th REVENUE PROJECTION REVISIONS

The COR met last Thursday, January 5th, and revised its general fund tax revenue projection for FY 2012 downwards from a 14.5% growth to 11.5% and made no revisions to the growth rates for the subsequent fiscal years except for FY 2016, where the rate was reduced from 5.0% to 3.0%. The impact of these decreases and the slight revisions to its non-tax revenue projections are shown in Attachment 2. The net revised tax and non-tax revenue projections amount to a decrease of $122.4 million in FY 2012, $131.8 million in FY 2013, $136.1 million in FY 2014, $148.4 million in FY 2015, $267.5 million in FY 2016, and $281.5 million in FY 2017.

Attachment 3 is an updated general fund financial plan based on the revised COR projections. As can be seen, there is a relatively small negative balance in FY 2013; however, the negative balances become significantly larger in FY 2014 and beyond. The Administration is actively developing a comprehensive strategy to rebalance the financial plan that will be presented to this body shortly.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9, Article VII of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level that includes all branches of government, the total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 2012 and FY 2013.

For the Executive Branch, the total proposed appropriations from the General Fund (which include the Executive Supplemental Budget for FB 2011-13 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by $371.5 million (or 7.2%) in FY 2012 and by $12.3 million (or 0.2%) in FY 2013. These excesses are due to the substantial costs of social assistance entitlements, support for public education, and other critical requirements identified in the previous sections.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included in Attachment 4.

THE DEBT LIMIT

Section 13, Article VII of the Hawaii State Constitution, places a debt limit on G.O. bonds that may be issued by the State. It has been determined that the total amount of principal and interest calculated on: a) all bonds issued and outstanding; b) all bonds authorized and unissued; and c) all bonds proposed in the Executive Budget, including State guaranties, will not cause the debt limit to be exceeded at the time of each bond issuance.

The Declaration of Findings with respect to the G.O. bond debt limit is included in Attachment 5.

In closing, I want to again thank you for the opportunity to present this overview. I would also like to assure you that the Abercrombie Administration will work with you on a continual basis during the 2012 Legislative Session to refine the Executive Supplemental Budget and rebalance the general fund financial plan.

Attachments

Attachment 1

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 11 - 17
(in millions of dollars)

	Actual* FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17
REVENUES:							
Executive Branch:							
Tax revenues	4,323.8	4,956.6	5,278.7	5,437.1	5,709.0	5,994.4	6,294.1
Nontax revenues	752.0	513.9	511.4	509.7	514.7	504.8	509.7
Judicial Branch revenues	41.1	36.8	37.4	38.0	38.7	39.4	40.1
Other		117.5	7.6	7.5	7.5	8.2	6.8
TOTAL REVENUES	5,116.9	5,624.7	5,835.1	5,992.4	6,269.9	6,546.7	6,850.6
EXPENDITURES							
Executive Branch:							
Operating	4,943.3	5,362.3	5,590.2	5,890.7	6,077.7	6,252.1	6,426.9
Specific appropriations	95.2	102.1	105.8	6.8	5.1	6.8	5.1
Other	-	(14.8)	-	-	-	-	-
Sub-total	5,038.5	5,449.6	5,695.9	5,897.5	6,082.8	6,258.9	6,432.0
Legislative Branch	31.7	31.7	31.7	31.7	31.7	31.7	31.7
Judicial Branch	130.7	132.7	134.5	134.5	134.5	134.5	134.5
OHA	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Lapses	(234.7)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	4,968.7	5,551.4	5,799.6	6,001.1	6,186.4	6,362.5	6,535.6
REV. OVER (UNDER) EXPEND.	148.2	73.3	35.6	(8.7)	83.5	184.2	315.0
CARRY-OVER (DEFICIT)							
Beginning	(22.2)	126.0	199.3	234.9	226.1	309.6	493.8
Ending	126.0	199.3	234.9	226.1	309.6	493.8	808.8
*Emergency & Budget Reserve Fund***	*9.7*	*25.5*	*69.2*	*76.7*	*84.2*	*91.8*	*99.3*

* unaudited

** reflects proposed recapitalization of EBRF in FY 12 and FY 13

Attachment 2

Comparison Between Council on Revenues' January 5, 2012 Meeting and September 8, 2011 Report
General Fund
(in millions of dollars)

	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Tax revenues								
	-0.8%	11.5%	6.5%	3.0%	5.0%	3.0%	5.0%	5.0%
01-05-12	4,328.9	4,826.7	5,140.4	5,294.6	5,559.4	5,726.2	6,012.5	6,313.1
	-0.8%	14.5%	6.5%	3.0%	5.0%	5.0%	5.0%	5.0%
09-08-11	4,328.9	4,956.6	5,278.7	5,437.1	5,709.0	5,994.4	6,294.1	6,608.8
Difference	-	**(129.9)**	**(138.3)**	**(142.5)**	**(149.6)**	**(268.2)**	**(281.7)**	**(295.7)**
Non-tax revenues								
Executive Branch:								
01-05-12	752.0	519.7	516.4	514.4	514.3	503.8	508.1	510.0
09-08-11	752.0	513.9	511.4	509.7	514.7	504.8	509.7	510.4
Difference	-	**5.9**	**5.0**	**4.7**	**(0.4)**	**(1.0)**	**(1.6)**	**(0.4)**
Judiciary:								
01-05-12	41.1	38.3	39.0	39.7	40.4	41.1	41.8	41.8
09-08-11	41.1	36.8	37.4	38.0	38.7	39.4	40.1	40.1
Difference	-	**1.6**	**1.6**	**1.6**	**1.7**	**1.7**	**1.7**	1.7
Total - Non-tax revenues								
01-05-12	793.1	558.0	555.3	554.1	554.6	544.8	549.8	551.8
09-08-11	793.1	550.6	548.8	547.8	553.4	544.1	549.7	550.4
Difference	-	**7.4**	**6.5**	**6.3**	**1.2**	**0.7**	**0.1**	**1.3**
TOTAL - TAX + NON-TAX								
01-05-12	5,122.0	5,384.7	5,695.8	5,848.7	6,114.0	6,271.0	6,562.3	6,864.9
09-08-11	5,122.0	5,507.2	5,827.5	5,984.9	6,262.4	6,538.5	6,843.8	7,159.3
DIFFERENCE	-	**(122.4)**	**(131.8)**	**(136.1)**	**(148.4)**	**(267.5)**	**(281.5)**	**(294.4)**

Attachment 3

Revised (Preliminary Council on Revenues' 01-05-12 Projections)
MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 11 - 17
(in millions of dollars)

	Actual* FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17
REVENUES:							
Executive Branch:							
Tax revenues	4,323.8	4,826.7	5,140.4	5,294.6	5,559.4	5,726.2	6,012.5
Nontax revenues	752.0	519.7	516.4	514.4	514.3	503.8	508.1
Judicial Branch revenues	41.1	38.3	39.0	39.7	40.4	41.1	41.8
Other		117.5	7.6	7.5	7.5	8.2	6.8
TOTAL REVENUES	5,116.9	5,502.2	5,703.4	5,856.2	6,121.5	6,279.2	6,569.1
EXPENDITURES							
Executive Branch:							
Operating	4,943.3	5,362.3	5,590.2	5,890.7	6,077.7	6,252.1	6,426.9
Specific appropriations	95.2	102.1	105.8	6.8	5.1	6.8	5.1
Other	-	(14.8)	-	-	-	-	-
Sub-total	5,038.5	5,449.6	5,695.9	5,897.5	6,082.8	6,258.9	6,432.0
Legislative Branch	31.7	31.7	31.7	31.7	31.7	31.7	31.7
Judicial Branch	130.7	132.7	134.5	134.5	134.5	134.5	134.5
OHA	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Lapses	(234.7)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	4,968.7	5,551.4	5,799.6	6,001.1	6,186.4	6,362.5	6,535.6
REV. OVER (UNDER) EXPEND.	148.2	(49.1)	(96.2)	(144.9)	(64.9)	(83.3)	33.5
CARRY-OVER (DEFICIT)							
Beginning	(22.2)	126.0	76.9	(19.3)	(164.2)	(229.1)	(312.4)
Ending	126.0	76.9	(19.3)	(164.2)	(229.1)	(312.4)	(278.9)
*Emergency & Budget Reserve Fund***	*9.7*	*25.5*	*69.2*	*76.7*	*84.2*	*91.8*	*99.3*

* unaudited
** reflects proposed recapitalization of EBRF in FY 12 and FY 13

SUMMARY STATEMENT OF GENERAL FUND EXPENDITURE CEILING AND APPROPRIATIONS

A. Total State Personal Income and State Growth

1. Total State Personal Income (in $ millions)

Calendar Year 2008	55,296
Calendar Year 2009	54,786
Calendar Year 2010	56,811
Calendar Year 2011*	59,367
Calendar Year 2012*	61,742

* As estimated by the Council on Revenues

2. State Growth

Fiscal Year 2012	2.66%
Fiscal Year 2013	2.42%

B. All Branches of State Government

1. General Fund Appropriations

Fiscal Year 2011	5,203,472,797
Fiscal Year 2012 (incl. proposed)	5,693,417,442
Fiscal Year 2013 (proposed)	5,831,841,910

2. General Fund Expenditure Ceiling

Fiscal Year 2012	7,299,258,105
Fiscal Year 2013	7,476,216,925

C. Executive Branch

1. Recommended General Fund Appropriations

Fiscal Year 2012	5,544,215,172
Fiscal Year 2013	5,690,885,616

2. Actual General Fund Appropriations

Fiscal Year 2011	5,038,530,673
Fiscal Year 2012	5,443,934,015
Fiscal Year 2013	5,556,181,624

3. Proposed Add'l Appropriations FY 12 — 100,281,157
   Proposed Add'l Appropriations FY 13 — 134,703,992

Total FY 2012	5,544,215,172
Total FY 2013	5,690,885,616

4. General Fund Appropriation Ceiling

Fiscal Year 2012	5,172,679,491
Fiscal Year 2013	5,678,625,787

DECLARATION OF FINDINGS

Pursuant to Section 37-72 of the Hawaii Revised Statutes, the Director of Finance finds and declares that with respect to the proposed capital improvement appropriations for the budget period 2011-2012 for which the source of funding is general obligation bonds:

(1) Limitation on general obligation debt. Article VII, Section 13, of the State Constitution, states in part: "General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed ... a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance." Article VII, Section 13, also provides that in determining the power of the State to issue general obligation bonds, certain bonds are excludable, including "reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year."

(2) Actual and estimated debt limits. The limit on principal and interest of general obligation bonds issued by the State, actual for fiscal year 2011-2012 and estimated for each fiscal year from fiscal year 2012-2013 to 2014-2015, is as follows:

Fiscal Year	Net General Fund Revenues	Debt Limit
2008-2009	5,034,984,956	
2009-2010	4,841,194,658	
2010-2011	5,102,646,283	
2011-2012	5,495,350,000	923,694,264
2012-2013	5,819,113,000	952,083,441
2013-2014	5,977,253,000	1,012,388,406
2014-2015	(not applicable)	1,066,322,487

For fiscal years 2011-2012, 2012-2013, 2013-2014 and 2014-2015, respectively, the debt limit is derived by multiplying the average of the net general fund revenues for the three preceding fiscal years by eighteen and one-half percent. The net general fund revenues for fiscal years 2008-2009, 2009-2010 and 2010-2011 are actual, as certified by the Director of Finance in the Statement of the Debt Limit of the State of Hawaii as of July 1, 2011, dated November 9, 2011. The net general fund revenues for fiscal years 2011-2012 to 2013-2014 are estimates, based on general fund revenue estimates made as of September 8, 2011, by the Council On Revenues, the body assigned by Article VII, Section 7, of the State Constitution to make such estimates, and based on estimates made by the Department of Budget and Finance of those receipts which cannot be included as general fund revenues for the purpose of calculating the debt limit, all of which estimates the Director of Finance finds to be reasonable.

(3) Principal and interest on outstanding bonds applicable to the debt limit. In determining the power of the State to issue general obligation bonds for the fiscal years 2012-2013 to 2031-2032, the total amount of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year	Gross			Excludable			Net Debt Service		
Ending June 30	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable
2012	287,520,000	256,786,355	544,306,355	8,662,677	2,339,523	11,002,200	278,857,323	254,446,832	533,304,155
2013	374,030,000	260,828,337	634,858,337	6,393,408	2,036,478	8,429,886	367,636,592	258,791,858	626,428,451
2014	432,315,000	242,344,914	674,659,914	5,765,774	1,853,218	7,618,992	426,549,226	240,491,696	667,040,922
2015	413,960,000	223,886,285	637,846,285	5,684,380	1,694,914	7,379,294	408,275,620	222,191,371	630,466,991
2016	408,405,000	203,224,507	611,629,507	4,392,997	1,540,729	5,933,726	404,012,003	201,683,778	605,695,781
2017	428,200,000	183,408,823	611,608,823	4,162,432	1,409,788	5,572,219	424,037,568	181,999,035	606,036,604
2018	419,750,000	163,388,649	583,138,649	3,111,048	1,274,682	4,385,731	416,638,952	162,113,966	578,752,918
2019	372,820,000	144,715,366	517,535,366	2,230,352	1,153,278	3,383,630	370,589,648	143,562,088	514,151,736
2020	311,960,000	127,293,807	439,253,807	2,339,328	1,044,279	3,383,607	309,620,672	126,249,528	435,870,199
2021	262,130,000	113,194,784	375,324,784	2,453,591	930,000	3,383,591	259,676,409	112,264,784	371,941,193
2022	277,305,000	100,344,300	377,649,300	2,572,569	808,089	3,380,658	274,732,431	99,536,210	374,268,642
2023	271,955,000	87,158,813	359,113,813	2,700,670	680,029	3,380,698	269,254,330	86,478,785	355,733,115
2024	276,700,000	73,881,232	350,581,232	2,835,234	545,738	3,380,972	273,864,766	73,335,494	347,200,260
2025	248,375,000	61,067,820	309,442,820	2,976,674	404,301	3,380,975	245,398,326	60,663,518	306,061,845
2026	237,005,000	49,174,104	286,179,104	3,124,957	255,885	3,380,842	233,880,043	48,918,219	282,798,262
2027	198,125,000	37,639,204	235,764,204	1,135,554	100,184	1,235,738	196,989,446	37,539,019	234,528,466
2028	177,390,000	27,489,433	204,879,433	893,484	43,869	937,352	176,496,516	27,445,564	203,942,081
2029	153,530,000	18,353,370	171,883,370	0	0	0	153,530,000	18,353,370	171,883,370
2030	108,195,000	10,619,763	118,814,763	0	0	0	108,195,000	10,619,763	118,814,763
2031	67,260,000	4,988,675	72,248,675	0	0	0	67,260,000	4,988,675	72,248,675
2032	70,550,000	1,699,725	72,249,725	0	0	0	70,550,000	1,699,725	72,249,725

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is $233,500,000, all or a portion of which pursuant to Article VII, Section 13 of the State Constitution, is excludable in determining the power of the State to issue general obligation bonds.

(4) Amount of authorized and unissued general obligation bonds and proposed bonds. As calculated from the State Comptroller's bond fund report as of October 31, 2011, adjusted for (a) appropriations made in Acts 164 and 61, Session Laws of Hawaii 2011, to be expended in fiscal year 2012-2013 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2011-2013] (referred to as the "Budget") the total amount of authorized but unissued general obligation bonds amounts to $2,447,514,421. The amount of general obligation bonds proposed in the Budget is $300,000,000 (does not include capital improvement appropriations to be funded through the issuance of general obligation bonds proposed by the Judiciary). The total amount of general obligation bonds previously authorized and unissued and the general obligation bonds proposed in the Budget is $2,359,595,421.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2011-2012 to 2014-2015, the State proposed to issue $0 in general obligation bonds during the remainder of fiscal year 2011-2012, $325,000,000 in general obligation bonds during the first half of fiscal year 2012-2013, and $375,000,000 in general obligation bonds during the second half of fiscal year 2012-2013, $500,000,000 in general obligation bonds during the first half of fiscal year 2013-2014, and $350,000,000 in general obligation bonds during the second half of fiscal year 2013-2014, $500,000,000 in general obligation bonds during the first half of fiscal year 2014-2015 and $325,000,000 in general obligation bonds during the second half of fiscal year 2014-2015. It is the practice of the State to issue twenty-year serial bonds with principal repayments beginning the fifth year, payable in substantially equal annual installments of principal and interest payment with interest payments commencing six months from the date of issuance and being paid semi-annually thereafter. It is assumed that this practice will continue to be applied to the bonds which are proposed to be issued.

(6) Sufficiency of proposed general obligation bond issuance to meet the requirements of authorized and unissued bonds and the bonds proposed in the Budget. From the schedule reported in paragraph (5), the total amount of general obligation bonds, which the State proposes to issue during this fiscal year and in fiscal years 2012-2013, 2013-2014, and 2014-2015, is $2,375,000,000. The total amount of $2,375,000,000 which is proposed to be issued through fiscal year 2014-2015 is sufficient to meet the requirements of the previously authorized and unissued bonds and the bonds proposed in the Budget, the total amount of which is $2,359,595,421 as reported in paragraph (4). Thus, taking the Budget into account, the amount of previously authorized and unissued bonds and bonds proposed, versus the amount of bonds which is proposed to be issued by June 30, 2015, the Director of Finance finds that in the aggregate, the amount of bonds is sufficient to meet these requirements.

(7) Bonds excludable in determining the power of the State to issue bonds. As noted in paragraph (1), certain bonds are excludable in determining the power of the State to issue general obligation bonds. (A) General obligation reimbursable bonds can be excluded under certain conditions. It is not possible to make a conclusive determination as to the amount of reimbursable bonds which are excludable from the amount of each proposed bond issuance because:

(i) It is not known exactly when projects for which reimbursable bonds have been authorized in prior acts and in the Budget will be implemented and will require the application of proceeds from a particular bond issue; and

(ii) Not all reimbursable general obligation bonds may qualify for exclusion.

However, the Director of Finance notes that with respect to the principal and interest on outstanding general obligation bonds, as reported in Section 3 herein, the average proportion of principal and interest which is excludable each year from calculation against the debt limit is 1.074 percent for the ten years from fiscal year 2011-2012 to fiscal year 2020-2021. For the purpose of this declaration, the assumption is made that 1 percent of each bond issue will be excludable from the debt limit, an assumption which the Director of Finance finds to be reasonable and conservative. (B) Bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor can be excluded but only to the extent the principal amount of such guaranties does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under subparagraph (A) of this paragraph (7) and provided that the State shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State as provided by law. According to the Department of Budget and Finance and the assumptions presented herein, the total principal amount of outstanding general obligation bonds and general obligation bonds proposed to be issued, which are not otherwise excluded under Article VII, Section 13 of the State Constitution for the fiscal years 2011-2012, 2012-2013, 2013-2014 and 2014-2015 are as follows:

Fiscal Year	Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution
2011-2012	5,797,480,000
2012-2013	6,168,730,000
2013-2014	7,010,230,000
2014-2015	7,826,980,000

Based on the foregoing and based on the assumption that the full amount of a guaranty is immediately due and payable when such guaranty changes from a contingent liability to an actual liability, the aggregate principal amount of the portion of the outstanding guaranties and the guaranties proposed to be incurred, which does not exceed seven percent of the average amount set forth in the last column of the above table and for which reserve funds have been or will have been established as heretofore provided by, can be excluded in determining the power of the State to issue general obligation bonds. As it is not possible to predict with a reasonable degree of certainty when a guaranty will change from a contingent liability to an actual liability, it is assumed in conformity with fiscal conservatism and prudence, that all guaranties not otherwise excluded pursuant to Article VII, Section 13 of the State Constitution will become due and payable in the same fiscal year in which the greatest amount of principal and interest on general obligation bonds, after exclusions, occurs. Thus, based on such assumptions and on the determination in paragraph (8), the aggregate principal amount of the portion of the outstanding guaranties; which must be included in determining the power of the State to issue general obligation bonds, is $0.

(8) Determination whether the debt limit will be exceeded at the time of issuance. From the foregoing and on the assumption that the bonds identified in paragraph (5) will

be issued at an interest rate of 5.25 percent thereafter, as reported in the Budget, it can be determined from the following schedule that the bonds which are proposed to be issued, which includes all bonds issued and outstanding, bonds previously authorized and unissued and the bonds proposed in the Budget, will not cause the debt limit to be exceeded at the time of each bond issuance:

Time of Issue and Amount of Issue to be Counted Against Debt Limit	Debt Limit at Time of Issuance	Greatest Amount & Year of Principal & Interest
2nd half FY 2011-2012 $0	923,694,264	674,659,914 (2013-2014)
1st half FY 2012-2013 $321,750,000	952,083,441	683,105,852 (2013-2014)
2nd half FY 2012-2013 $371,250,000	952,083,441	674,659,914 (2013-2014)
1st half FY 2013-2014 $495,000,000	1,012,388,406	674,659,914 (2013-2014)
2nd half FY 2013-2014 $346,500,000	1,012,388,406	675,298,882 (2015-2016)
1st half FY 2014-2015 $495,000,000	1,066,322,487	701,265,698 (2016-2017)
2nd half FY 2014-2015 $321,750,000	1,066,322,487	718,157,573 (2016-2017)

(9) Overall and concluding finding. From the facts, estimates, and assumptions stated in this declaration of findings, the conclusion is reached that the total amount of principal and interest estimated for the general obligation bonds proposed in the Budget and for all bonds previously authorized and unissued and calculated for all bonds issued and outstanding and guaranties, will not cause the debt limit to be exceeded at the time of issuance.

The Director of Finance hereby finds that the bases for the declaration of findings set forth herein are reasonable. The assumptions set forth in this declaration with respect to the principal amount of general obligation bonds which will be issued, the amount of principal and interest on reimbursable general obligation bonds which are assumed to be excludable and the assumed maturity structure shall not be deemed to be binding, it being the understanding that such matters must remain subject to substantial flexibility.

Director of Finance
State of Hawaii