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STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS

March 14, 2008

Chair Baker and Members of the Committee:

Thank you for this opportunity to discuss with you the recent developments regarding the State's financial condition.

We are all aware of the national trends pointing to problems in the credit and financial markets and a further softening in the economy. This is of great concern to us in Hawaii. Although our local economy continues to fare relatively well in terms of employment and personal income, the impact of a national, and possibly global, slow down is hard to escape. We have seen slower growth in our actual tax revenue collections: 3.4% in FY 07 and 3.1% in the first eight months of FY 08. Revenue projections from the Council on Revenues (COR) were revised in January 2008 and again in March, resulting in substantial reductions to the general fund revenue base. To manage the State budget at a lower level of resources, we have taken the necessary and appropriate steps to ensure that the general fund financial plan remains in the positive balance. My presentation today focuses on the fiscal actions that have been implemented and will be pursued to achieve this objective.

Attachment 1 is the General Fund Financial Plan submitted to your committee on January 11, 2008. The revenue estimates included in this plan were based on the COR forecast of August 28, 2007. The expenditure numbers were based on the proposed Executive Supplemental Budget for FB 2007-09 and the Administration's legislative package for the 2008 Session.

Attachment 2 is the revised Financial Plan as of March 5, 2008. This plan incorporates all the changes and adjustments to revenues as well as expenditures since January 2008. It reflects: 1) the revised revenue projections from the COR as of January 9, 2008, and 2) the impact of various fiscal measures that have been put into effect. This updated Financial Plan shows that the general fund balance is projected to be \$191.2 million at the end of this fiscal biennium (June 30, 2009). The following adjustments are incorporated into this updated plan:

A. Adjustments to revenues

	<u>FY 08</u>	<u>FY 09</u>
1. Revised COR revenue estimates (January 2008)		
Taxes	(37.0)	(22.3)
Non-tax revenues	6.7	13.3
Net general fund revenues	(30.3)	(9.0)
2. One-time rebate from Medicare Part D	10.3	
3. Revenue impact from additional legislative proposals		(7.1)
• 50% conveyance tax to RHTF		
• Tax credits for low-income housing		
• Tax credit for wind-resistive devices		
	<u>(20.0)</u>	<u>(15.5)*</u>
	*including other minor adjustments	

B. Adjustments to expenditures

1. Additional emergency appropriations:		
• Hawaii Public Housing Authority	10.0	
• Hawaii Health Systems Corporation	14.0	
2. Governor's budget message, February 25, 2008		
• Adjustment for health benefit premiums		(15.8)

	<u>FY 08</u>	<u>FY 09</u>
3. Actions to address budget shortfall:		
• FY 08 restrictions/spending controls	(9.2)	
• Converting UH cash CIP to G.O. bonds (regional bio-containment lab, included in Gov's Message of 2/25/08)	(12.5)	
4. Revised requirements from specific appropriations		3.7
5. Increase in expected lapses	(5.0)	(5.0)
6. Increase in legislative expenses (HB 2688)	2.6	3.6
	<u>(0.2)*</u>	<u>(13.5)</u>
	*including other minor adjustments	

The net impact on the General Fund from all adjustments is a reduction of -\$19.8 million in FY 08 and -\$2.0 million in FY 09, as compared to the January financial plan. Where appropriate, the adjustments were also carried out through the four out-years.

The most recent revisions from the COR on March 12, 2008 resulted in a further net revenue reduction of -\$72.3 million for the current biennium. Although these changes have not been discussed in this presentation, I would like to assure you that we will continue to implement the necessary measures to safeguard the State's long-term financial plan.

Attachments

MULTI-YEAR FINANCIAL SUMMARY  
GENERAL FUND

FISCAL YEARS 07 - 13  
(in millions of dollars)

	Actual FY 07	Estimated FY 08	Estimated FY 09	Estimated FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13
<b>REVENUES:</b>							
Executive Branch:							
Tax revenues	4,590.2	4,848.1	5,030.3	5,274.7	5,522.3	5,800.8	6,162.3
Nontax revenues	520.6	472.9	473.8	473.3	484.1	486.1	489.4
Judicial Branch revenues	31.2	29.1	29.6	30.1	30.5	31.0	31.5
Other		(0.6)	(42.2)	(59.4)	(59.4)	(59.4)	(59.4)
<b>TOTAL REVENUES</b>	<b>5,142.1</b>	<b>5,349.5</b>	<b>5,491.5</b>	<b>5,718.8</b>	<b>5,977.6</b>	<b>6,258.5</b>	<b>6,623.9</b>
<b>EXPENDITURES</b>							
Executive Branch:							
Operating	4,745.3	5,027.4	5,373.8	5,466.5	5,562.0	5,615.9	5,750.4
CIP	57.5	50.0	-	-	-	-	-
Specific appropriations	524.0	168.2	251.2	282.7	282.8	283.2	283.0
Sub-total	5,326.8	5,245.6	5,625.0	5,749.2	5,844.8	5,899.1	6,033.4
Legislative Branch							
Judicial Branch	34.0	35.0	34.0	34.0	34.0	34.0	34.0
OHA	134.1	143.8	151.8	151.8	151.8	151.8	151.8
Counties	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Lapses	0.6	-	-	-	-	-	-
	(117.4)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)
<b>TOTAL EXPENDITURES</b>	<b>5,381.0</b>	<b>5,367.5</b>	<b>5,753.9</b>	<b>5,878.1</b>	<b>5,973.7</b>	<b>6,028.0</b>	<b>6,162.3</b>
<b>REVENUES OVER EXPEND.</b>	<b>(238.9)</b>	<b>(18.0)</b>	<b>(262.3)</b>	<b>(159.3)</b>	<b>3.9</b>	<b>230.6</b>	<b>461.6</b>
<b>CARRY-OVER BALANCE (DEFICIT)</b>							
Beginning	732.3	493.4	475.4	213.0	53.8	57.7	288.3
Ending	493.4	475.4	213.0	53.8	57.7	288.3	749.9
<b>Emergency &amp; Budget Reserve Fund</b>	<b>61.5</b>	<b>49.7</b>	<b>62.0</b>	<b>74.3</b>	<b>86.5</b>	<b>98.8</b>	<b>111.1</b>

MULTI-YEAR FINANCIAL SUMMARY (revised)  
 GENERAL FUND

FISCAL YEARS 07 - 13  
 (in millions of dollars)

REVENUES:	Actual FY 07	Estimated FY 08	Estimated FY 09	Estimated FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13
Executive Branch:							
Tax revenues	4,590.2	4,811.1	5,008.0	5,252.2	5,499.3	5,773.6	6,130.3
Nontax revenues	520.6	476.7	484.0	482.9	493.7	494.4	500.3
Judicial Branch revenues	31.2	32.0	32.7	33.2	33.7	34.2	34.8
Other		9.7	(48.7)	(67.8)	(69.3)	(70.4)	(70.5)
<b>TOTAL REVENUES</b>	<b>5,142.1</b>	<b>5,329.5</b>	<b>5,476.0</b>	<b>5,700.5</b>	<b>5,957.4</b>	<b>6,231.9</b>	<b>6,594.9</b>

EXPENDITURES

Executive Branch:							
Operating	4,745.3	5,020.8	5,357.9	5,462.7	5,565.1	5,637.4	5,772.2
CIP	57.5	50.0	-	-	-	-	-
Specific appropriations	524.0	177.0	254.9	267.4	267.4	267.4	267.4
Sub-total	5,326.8	5,247.8	5,612.9	5,730.1	5,832.5	5,904.8	6,039.7
Legislative Branch	34.0	37.6	37.6	37.6	37.6	37.6	37.6
Judicial Branch	134.1	143.8	151.8	151.8	151.8	151.8	151.8
OHA	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Counties	0.6	-	-	-	-	-	-
Lapses	(117.4)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
<b>TOTAL EXPENDITURES</b>	<b>5,381.0</b>	<b>5,367.3</b>	<b>5,740.4</b>	<b>5,857.6</b>	<b>5,960.0</b>	<b>6,032.3</b>	<b>6,167.2</b>

REVENUES OVER EXPEND.

	(238.9)	(37.8)	(264.4)	(157.1)	(2.6)	199.6	427.7
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CARRY-OVER BALANCE (DEFICIT)

Beginning	732.3	493.4	455.6	191.2	34.1	31.5	231.1
Ending	493.4	455.6	191.2	34.1	31.5	231.1	658.8

Emergency & Budget Reserve Fund

	61.5	49.7	62.0	74.3	86.5	98.8	111.1
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