

Economic uncertainty

Hawaii's tax revenue collection outlook darkens amid federal policy changes

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A gloomy new forecast is depressing the amount of state tax revenue Hawaii's Legislature has available to finalize its budget for the next two fiscal years.

The state Council on Revenues on Wednesday unanimously decided to drop its general fund tax revenue growth forecast to 5% from a prior 6.4% in the current fiscal year ending June 30 and expects such revenue to contract 2.25% in the fiscal year beginning July 1.

A 2.25% revenue decline would shave \$226 million from what is expected to be \$10 billion in general fund tax revenue this fiscal year, influencing a state budget bill that the House of Representatives sent Wednesday to the Senate.

Council members said their forecast was affected by incredible uncertainty over how ongoing Trump administration attempts to slash the federal workforce, reduce federal spending and impose high tariffs on many countries would play out.

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BY THE NUMBERS

State general fund tax revenue:

FISCAL YEAR 2024
\$9.57B

FISCAL YEAR 2025
\$10.05B
(5% increase)

FISCAL YEAR 2026
\$9.82B
(2.25% decrease)

FISCAL YEAR 2027
\$10.11B
(2.9% increase)

Note: Fiscal years end on June 30 of each year

Source: State Council on Revenues

REVENUE

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"By many measures, it's the worst it's been," Carl Bonham, a council member and director of the University of Hawaii Economic Research Organization, said during the meeting, referencing uncertainty.

Bonham also said that a decline in state tax revenue for Hawaii is uncommon, occurring during the first year of the coronavirus pandemic in 2020 and before that in 2002 after the 9/11 terror attacks.

"It's actually pretty rare," he said.

The concern among the council's seven members is that reciprocal tariffs and big cuts to federal program funding and jobs will hurt major Hawaii industries including tourism, construction and real estate. For instance, higher prices for materials could stymie construction, and job losses could depress domestic visitor arrivals.

Tax revenue flowing into the state's general fund includes general excise, corporate, personal income and transient

accommodation tax collections.

Historic Hawaii income tax cuts occurring in steps from 2024 to 2031 were factored into council forecasts previously.

In January, the council changed a prior growth projection it made for general fund revenue in the coming fiscal year to a 1.5% drop from a 2.2% gain. At Wednesday's meeting,

council member Kristi Maynard, chief financial officer at Finance Factors Ltd., made a motion to increase the size of the expected decline to 2%.

Another member, Mike Hamasu, didn't think that was enough.

"I hate to be the Gloomy Gus, but do you feel that it could be worse than that?" asked Hamasu, consulting and research director for commercial real estate brokerage firm Colliers in Hawaii.

"Oh sure," said Bonham, after two other members replied similarly. "It could get a lot worse."

Because the council lowered its forecast for the current fiscal year and next fiscal year, it did not change its forecast for the following fiscal year or ones after that

because the revenue baseline heading into those further-out years would already be lower.

For the 2027 fiscal year, which begins July 1, 2026, the council forecasts a general revenue fund increase of 2.9%, which represents an added \$285 million to bring the total to \$10.1 billion.

State House members gave final approval to their version of the state budget, House Bill 300, on Wednesday before the Council on Revenues meeting. But House leaders anticipated the negative outlook.

The greatest unknown remains the fallout from the Trump administration's ongoing cuts to the federal government that could amount to "hundreds of millions of dollars" in lost funding for Hawaii programs and agencies, House Finance Chair Kyle Yamashita told reporters at the state Capitol on Wednesday after the House passed its version of the bill.

The House budget currently covers Hawaii's "social safety net," Yamashita said, along with \$200 million in reserve for contingencies.

But House leaders are already making tentative

plans for a potential special session once the regular sessions ends on May 2 to address any needs from the fallout from Trump administration funding cuts, including the effects of Trump-mandated tariffs on steel and other construction materials that could slow Hawaii's otherwise hot construction industry, he and House Speaker Nadine Nakamura said.

House leaders are circulating different five-day blocks of time to let members know when they may need to be available to return to the Capitol for a special session, Nakamura said.

There are no plans to scale back on record tax breaks that began in January and are scheduled to give every working resident more money in their paychecks over the next six years, Yamashita said.

And it's far too soon to talk about the possibility of raising taxes to cover any shortfalls, he said.

"I'm very confident we'll figure this out," Yamashita said.

Star-Advertiser reporter Dan Nakaso contributed to this story.

