

COUNCIL ON REVENUES  
Office On Aging Conference Room  
March 6, 2006

PRESENT:

Council Members:

Carl Bonham, Paul Brewbaker, Vito Galati, Michael Hirai, Pearl Imada  
Iboshi, Jack Suyderhoud and Eric Yeaman

Staff Members:

Department of Taxation: Tu Duc Pham, Yvonne Chow, Josephine  
Malama, Donald Rousslang and Joseph Tichey  
Department of Budget and Finance: Shirl Fujihara, Keith Shimada and  
Neal Miyahira

Others:

Terrence Aratani, Senate Ways and Means Committee  
Casey Shoji, Senate Ways and Means Committee  
Randall Hiyoto, Senate Ways and Means Committee  
Kurt Kawafuchi, Department of Taxation  
Titin Liem, Department of Taxation  
Joseph Tichey, Department of Taxation  
Nandana Kalupahana, House Finance Committee  
Tara Goodvin, Associated Press  
Derrick DePledge, Honolulu Advertiser  
Lowell Kalapa, Tax Foundation of Hawaii

CALL TO ORDER:

Chair Brewbaker called the meeting to order at 3:00 p.m.

COMMUNICATION TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF December 16, 2005:

Chair Brewbaker called for a motion to approve the minutes of the December 16, 2005, meeting. Dr. Bonham made the motion and Dr. Suyderhoud seconded it. The minutes were approved.

REPORT BY THE DEPARTMENT OF BUDGET AND FINANCE ON OTHER REVENUES:

Ms. Fujihara presented the report.

General fund Non-Tax Revenues. Charges for current services declines from fiscal year 2006 through 2012 by \$8.4 million each year due to net of expected decrease in reimbursements from non-general funded programs for EUTF health benefit premiums and increases for central services assessments and departmental administrative costs.

Special Fund Tax Revenues. There were decreases in the transfer of liquid fuel taxes for fiscal years 2006 through 2010 due to lower than expected demand for gasoline. The Transient Accommodations Tax was updated to reflect the Council's December forecast. The motor vehicle weight tax was increased for fiscal years 2006 through 2010 to reflect anticipated increases in the number of vehicles registered.

Special Fund Non-Tax Revenues. For use of money and property, lower than projected actual fiscal year 2005 and increases for fiscal years 2006 through 2012 are due following factors: actual earnings on Department of Transportation (DOT) Highways investments for fiscal year 2005 was \$3 million less than projected, and increases in fiscal years 2007 through 2009 for Airports is due to expected increase in interest rates. Under charges for current services – utilities, increases for fiscal years 2008 through 2012 for DOT airports reflects expected increases in the landing fee system support charge revenues due to increases in debt service requirements. Under charges for current services – others, adjustments reflect expected decreases in Medicaid cost reimbursements.

Other than Special Fund Non-Tax Revenues. Federal grants reflect new funding for fiscal years 2006 through 2011 for Department of Health child mental health program, additional funding for fiscal years 2006 through 2007 for pandemic influenza preparedness, and a decrease of \$6 million in each fiscal year 2011 and 2012 to reflect the revised end date of the co-op agreement for pandemic influenza preparedness (from fiscal year 2012 to 2010). Charges for services for the Department of Accounting and General Services increased \$5 million per year for fiscal years 2006 and 2007 to reflect anticipated insurance proceeds to administer the state's risk management program. Non-revenue receipts were adjusted for fiscal years 2006 through 2012 for Budget and Finance Employee Union Trust Fund to reflect updated projections based on annualized premiums taking into account a one-time premium holiday and revised project enrollments and premium rates.

Chair Brewbaker pointed out that if one believed that the forecast error for fiscal year 2006 of about a 50% increase in conveyance tax was due to a surprisingly high volume of transactions, that this was the last year for such growth and that it should be accounted for in future forecasts.

Dr. Bonham opined that going from \$12 million in fiscal year 2005 to \$37 million in fiscal year 2006 was improbable.

Dr. Iboshi pointed out that the jump to \$37 million was due largely to the new conveyance tax law.

Dr. Pham pointed out that the conveyance tax rates had increased and mentioned the new schedule of six conveyance tax rates, going from 0.1% to 0.35%, in place of the single rate of 0.1% under the old law.

Chair Brewbaker mentioned that we might want to calibrate to economic forecasts that are available, if motor vehicle rental forecasts are based on economic assumptions.

After the presentation by the Department of Budget and Finance, Chair Brewbaker asked if there was a motion to accept the report. Dr. Bonham made the motion and Dr. Iboshi seconded it. The motion carried.

#### REPORT BY THE DEPARTMENT OF TAXATION

Dr. Pham presented the Department of Taxation forecast. He stated that the forecast was based on the following economic assumptions: We have 4.5% inflation for the second half of calendar year 2005. The Council average forecast was a slight increase from 3.8% to 3.9% for fiscal year 2006. If annual inflation is to meet the forecast of 3.9%, inflation for the remainder of the year must slow to 3.3% for the current 6 months. The total personal income rate of growth was increased from 6.8% to 7.1% and visitor arrivals increased from 4.5% to 5.1%. These assumptions were used to rerun the model.

Dr. Bonham asked what visitor arrivals were.

Dr. Pham answered that they grew by around 4.5%. He also said that using the new, more optimistic assumptions in the model (visitor arrivals and construction completed were increased by about ½% each, personal income was increased by about 0.3% and the CPI was increased about 0.1%), the forecast for growth of general fund tax revenue increased to about 8.5%, compared with 8% before. Thus, the change in economic assumptions led to an increase of about ½% in the general fund forecast.

Referring to the figures on page 32 of the Department of Taxation's handout, Dr. Pham indicated that to reach the growth forecast of 8% for the current fiscal year, tax collections for the remaining five months of the fiscal year would need to be only 4.4% greater than the corresponding period of the previous fiscal year.

Dr. Iboshi asked what the January growth rate was.

Dr. Pham answered that it was about 4.5%. He asked the Council to recall that last year we had ½ month withholding, so even with that we still increased \$18.7 million in January. He clarified that last year, January 2005, we had a change in withholding from a

45 day deadline to a 5 day deadline, so we had one short period and extra collections of \$40 million.

Mr. Kawafuchi reemphasized that the change in withholding resulted in a one-time infusion of \$40 million in January of 2005.

Chair Brewbaker repeated that if we were to end up with 8% growth, we would need slow growth of 4.4% for the rest of the year.

Dr. Iboshi asked if we knew yet what happened to collection in February of 2006.

Dr. Pham answered that February was pretty good. Instead of the estimated negative 4.3% shown in Table 8A of the handout, it was probably positive 4.3%.

Dr. Suyderhoud stated that the inflation assumption was 3.9% for fiscal year 2006 and that it was actually running at 4.3% for the fiscal year. He asked how much of the under forecast could be accounted for by the underestimate for inflation.

Dr. Pham answered that it was probably about 0.4%.

Chair Brewbaker opined that the below-the-line adjustments, delinquent collections, were responsible for part of the under forecast.

Dr. Pham answered that below-the-line adjustments for delinquent collections will, in future periods, show up as above-the-line collections.

Dr. Bonham observed that the Council was under forecasting income and inflation, as it did in the previous year. There followed a general discussion of the effect that revisions in employment data were responsible for part of the forecast.

Dr. Iboshi pointed out that there were large adjustments in the last few months and that without them, the economic assumptions looked alright.

Dr. Bonham said that last year the Council under forecast real income and inflation and that there were unexpected increases in collections. He said a similar phenomenon may occur again this year. He opined that real income growth may be faster than what was believed.

Dr. Iboshi and Dr. Bonham both pointed out that there were some large, one-time increases in collections near the end of the last fiscal year.

Chair Brewbaker asked for a motion to produce a new forecast. The Chair proposed 10%.

Dr. Suyderhoud asked if there was anything to suggest a slowing in the next four months.

Chair Brewbaker pointed out that home sales were declining and Dr. Iboshi pointed out that tourism was slow in the first few months of the year.

Chair Brewbaker asked if there was a motion for 10%.

Dr. Iboshi expressed concern that there were a number of large adjustments toward the end of last year. She said she was more comfortable with a forecast of 9.5%. Dr. Bonham moved to adopt 9.5% as the growth forecast for the current fiscal year and Mr. Hirai seconded the motion. The motion carried.

Dr. Iboshi suggested assuming that the change from 8.5% to 9.5% in table 4B of the handout will come from below-the-line adjustments. There followed a general discussion of various out-year forecasts of the individual council members.

The Council generally agreed to leave the above-the-line forecast in table 4B of the handout unchanged and to change the fiscal year 2006 forecast growth rate to 9.5% by assuming it would come from below-the-line adjustments to delinquent taxes.

Dr. Suyderhoud moved that the below-the-line numbers from Table 4B of the handout be adjusted, that the fiscal year 2006 number for the below-the-line growth rate be 9.5% and that the remaining below-the-line dollar amounts be kept the same with the below-the-line growth rates being determined by these assumptions. Dr. Bonham seconded the motion. The motion carried.

#### NEXT MEETING

Chair Brewbaker set the next meeting for Tuesday, May 30 at 3:00 p.m.

#### ADJOURNMENT:

The Chair asked if there was any other business. There being none, the meeting was adjourned at 4:00 p.m.