

COUNCIL ON REVENUES

Office on Aging Conference Room
No. 1 Capitol District Building
250 S. Hotel Street
Fourth Floor, Room 410
Honolulu, HI 96813

Thursday, July 31, 2008
2:00 P.M.

PRESENT:

Council Members:

Paul Brewbaker (Chair), Jack Suyderhoud (Vice-Chair), Carl Bonham, Pearl Imada Iboshi, and Richard F. Kahle, Jr.

Staff Members:

Department of Taxation: Tu Duc Pham, Lisa Bravender, Hamid Jahanmir, Davis Kawamoto, Kyle Nakahara, and Cathleen Tokishi

Department of Budget and Finance: Keith Shimada, Karen Matsunaga, and Terri Ohta

Others:

Gordon Arakaki, Senate Committee on Ways and Means
Huong Bassford, Department of Budget and Finance
Derrick DePledge, Honolulu Advertiser
Lowell Kalapa, Tax Foundation of Hawaii
Nandana Kalupahana, House Committee on Finance
Ronald Randall, Department of Taxation
B. J. Reyes, Honolulu Star-Bulletin
Titin Sakata, Department of Taxation

ABSENT:

Council Members:

Dean Hirata and Albert Yamada

CALL TO ORDER:

The Chair called the meeting to order at 2:03 P.M. with a quorum present.

ELECTION OF COUNCIL CHAIR AND VICE CHAIR:

Pursuant to internal rules adopted by the Council and as scheduled by the Council at its May 29, 2008, meeting, the Council members discussed the election of a Chair and Vice-Chair for the current fiscal year.

It was moved by Dr. Imada Iboshi, and seconded by Mr. Kahle, that Dr. Brewbaker be re-elected as Council Chair. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

It was moved by Dr. Brewbaker, and seconded by Dr. Bonham, that Dr. Suyderhoud be re-elected as Council Vice-Chair. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

COMMUNICATIONS TO THE COUNCIL:

The Chair acknowledged the receipt of a letter dated March 28, 2008, from Governor Lingle thanking the Council for its May 2008 report.

The Chair acknowledged the receipt of a letter, also dated March 28, 2008, from Governor Lingle asking the Council to review its May 2008 General Fund revenue estimates. This topic is included as item VI on the agenda.

MINUTES OF THE MEETING OF MAY 29, 2008:

The Chair asked if there were any questions or comments regarding the minutes of the May 29, 2008, meeting. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Dr. Imada Iboshi, and seconded by Mr. Kahle, that the minutes of the May 29, 2008, meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

TOTAL PERSONAL INCOME (TPI) FORECAST:

The Council considered its forecast of nominal TPI growth for calendar year (CY) 2008 and CY 2009. At their November 2007, meeting, the Council had forecast 6.2% for CY 2007 and 5.9% for CY 2008; the actual TPI for CY 2007 was 6.2% according to the U.S. Department of Commerce, Bureau of Economic Analysis.

The Council discussed their TPI forecast in nominal terms rather than in real terms due to the uncertainty surrounding the impact of the high energy costs and the tourism downturn on Hawaii's inflation. The Chair noted that energy would have a big impact on the Honolulu Consumer Price Index (CPI) for the first half of 2008, which will be released in August, such that the TPI, in real terms, may be zero (0), at best.

The Chair noted that TPI growth had been approximately 5%, and asked if anyone thought it would "sag" to 4% or 3% in the next couple of years; a forecast of 4.5% or below would result in negative real TPI. The initial discussion indicated that the nominal TPI for CYs 2008 and 2009 could be 4.5% and 3.5%, respectively, with the one percentage point drop in the CY 2009 forecast largely attributed to higher job losses in 2009 than in 2008. After further consideration the members suggested that a 4.0% growth rate for CY 2009 might be more likely, though the lower 3.5% growth rate was certainly possible.

At this time, the Chair called for a motion on the CY 2008 and CY 2009 TPI forecasts.

It was moved by Dr. Suyderhoud, and seconded by Dr. Bonham, that the Council's forecast of nominal total personal income growth for CY 2008 and CY 2009 be 4.5% and 4.0%, respectively. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Absent
Pearl Imada Iboshi	Yes
Richard Kahle, Jr.	Yes
Albert Yamada	Absent

GENERAL FUND REVENUE FORECAST:

The Council's General Fund tax revenue forecast for FY 2008 was 3.3%; however, actual tax collections for FY 2008 increased by only 1.2% over FY 2007. Governor Lingle asked the Council to review its earlier forecast, particularly with respect to FYs 2009 through 2011, to assist the State in managing its current budget and in planning for the 2010–2011 fiscal biennium.

The Chair stated that, based on his forecasts of key economic indicators, the model forecasted General Fund tax revenue growth for FY 2009 of 0.6%. Dr. Bonham reported that the model's forecast based on his forecasts of key economic indicators was for 0.7% growth. Dr. Suyderhoud reported that the model's forecast based on his forecasts of key economic indicators was for 2.3% growth, though he believed that was too high based on current information. Dr. Imada Iboshi reported that the model's forecast based on her forecasts of key economic indicators was for 2.0% growth, though she believed that was too high in part because she hadn't changed her forecasts to reflect the lower actual FY 2008 revenues.

Larger negative tourism growth forecasts and negative TPI forecasts by the Chair and Dr. Bonham accounted for the difference between their forecasts and those of Dr. Imada Iboshi and Dr. Suyderhoud.

Dr. Suyderhoud asked Department of Taxation representatives if anything specific had contributed to the declines in expected May and June tax revenue. He noted that there had been a regular spike in tax revenue due to collections, settlements, and the like, during those months in recent years. Dr. Pham stated that the major reason for decreased revenues was that those spikes did not materialize this year. Other factors mentioned were lower than expected general excise tax revenues that even a double "weekend effect" could not overcome and higher individual income tax refunds.

The Council observed that withholding payments had declined by 12% in May and 8% in June although the job count had been flat. Dr. Pham has been looking into this at the request of Dr. Bonham, but he had not yet found a reason for the decline.

The model's forecast, based on the Council's mean forecasts of key economic indicators, was 1.7% for FY 2009, but their consensus was that this was too high. Because their just-forecast nominal TPI for CY 2009 is 4%, there was some discussion on what would keep growth above zero given current inflation forecasts. Weighing down any potential growth are lower tourism and consumption factors. Withholding is not expected to contribute to positive growth since jobs are flat. Construction permitting is negative, such that, as current projects are completed, there will be fewer projects than there were last year to move on to; the exception is military construction.

The Council asked if there were any tax law changes of note—there were none—and whether they should be concerned about claims for tax credits including the high technology business investment tax credits. Dr. Pham stated that the latest number they have for the high technology business investment tax credit claims was \$100 million for TY 2006; \$70 million was claimed for TY 2005, so claims for this credit are growing. Claims for this credit are expected to peak at \$144.6 million for TY 2009 before declining to \$12.5 million for TY 2014.

Contributing to a lowered forecast were consumer retrenchment and, perhaps, some filing anomalies. However, the major factor considered was the downturn in tourism, which the Chair suggested would take 10% to 15% of the volume and revenues right off the top. The tourism downturn is radiating outwards and affecting tourist activity businesses, restaurants, and other businesses within the tourism sector such that businesses that were on the margin are now closing. The impact is also extending to businesses outside of the tourism sector.

The Council agreed that the most important piece of information that they lacked in May was the amount by which tax revenues would drop at the end of FY 2008. They also acknowledged that, while they may have discussed an anticipated slowdown in tourism months ago, they had not actually updated their forecasts to reflect a negative number early in the year. Discussion coalesced around a new below-the-line forecast of 1.0% growth for FY 2009.

Based on the Council's mean forecasts of key economic indicators, the model forecasted 4.3% growth in FY 2010 over the 1.7% the model had originally forecasted for FY 2009. As reported by the members, the FY 2010 rebound was reflected in the model's forecasts of their individual forecasts of key economic indicators: Chair—3.9%; Dr. Bonham—4.4%; Dr. Suyderhoud—4.3%; and Dr. Imada Iboshi—4.2%. Their collective opinion was that these forecasts appeared overly optimistic and various lower projections, 4% or less, were discussed.

After further discussion regarding the forecast for FYs 2011 through 2015, the Chair called for a motion on the revised General Fund tax revenue forecast for FYs 2009 through 2015.

It was moved by Dr. Bonham, and seconded by Dr. Suyderhoud, that the below-the-line growth rates for FYs 2009 through 2015 be 1.0%, 4.0%, 3.9%, 4.6%, 5.6%, 6.0%, and 4.3%, respectively. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

NEXT MEETING:

As previously scheduled during the Council's meeting on May 29, 2008, the next three meetings through January 2009, will be held as follows:

- Wednesday, September 3, 2008 (September 10, 2008, General Fund forecast reporting deadline).
- Wednesday, October 29, 2008 (November 5, 2008, Total Personal Income forecast reporting deadline).
- Friday, January 9, 2009 (January 10, 2009, General Fund forecast reporting deadline).

All meetings will be held at 2:00 P.M. in the Office on Aging Conference Room.

ADJOURNMENT:

The meeting adjourned at 2:57 P.M.