

COUNCIL ON REVENUES

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

Friday, March 12, 2009
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Tu Duc Pham and Cathleen Tokishi
Department of Budget and Finance: Neal Miyahira, Keith Shimada, Karen Matsunaga, and Terri Ohta

Others:

Brooks Baehr, KGMB9 News
Huong Bassford, Department of Budget and Finance
Roderick Becker, Senate Committee on Ways and Means
Richard Borreca, Honolulu Star-Bulletin
Calvin Calkins, HGEA - Negotiations
Charles Carole, Honolulu League of Women Voters
Tan Yan Chen, Office of the Governor
J. Chusma, KITV
Catherine Cruz, KITV
Georgette Deemer, House Communications
Claire Droper, House Minority Research Office
Tom Garbisch, KGMB9 News
Alex Grabiner, Office of Representative Yamane
Brian Hallett, Senate Committee on Ways and Means
Shawn James-Leavy, Office of Representative Marilyn Lee
Lowell Kalapa, Tax Foundation of Hawaii
Nandana Kalupahana, House Committee on Finance
Kurt Kawafuchi, Department of Taxation
Barbara Kim Stanton, AARP
Kenji Kimura, Office of Representative Yamane
Greg Lau, KHON2 News
Gina Mangieri, KHON2 News

Glenn Okimoto, University of Hawaii
Ku'uhaku Park
Titin Sakata, Department of Taxation
Herbert A. Sample, Associated Press
Wayne Yoshioka, Hawaii Public Radio

CALL TO ORDER:

The Chair called the meeting to order at 2:00 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

The Chair asked if there were any communications to the Council; Dr. Pham stated that there were none.¹

MINUTES OF THE WORKSHOP OF JANUARY 8, 2009:

The Chair asked if there were any corrections to the minutes of the January 8, 2009, workshop. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Mr. Kahle, and seconded by Mr. Yamada, that the minutes of the January 8, 2009, workshop 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

¹ Recorder's Note: A letter from Representative Isaac Choy, regarding a letter from the Chair to the Senate Committee on Ways and Means and the House Committee on Finance responding to a question asked at the January 13, 2009, Informational Briefing held by these committees regarding the high technology business investment tax credit, had been received and included in the Council members' materials, but it was inadvertently overlooked.

MINUTES OF THE MEETING OF JANUARY 9, 2009:

The Chair asked if there were any corrections to the minutes of the January 9, 2009, meeting. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Mr. Kahle, and seconded by Mr. Yamada, that the minutes of the January 9, 2009, 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

At this time, the Chair asked for a motion to revise the order of the day's agenda to accommodate some members who may need to leave before the end of the meeting.

It was moved by Mr. Yamada, and seconded by Mr. Kahle, that agenda item V, "Report by the Department of Budget & Finance on Other Revenues," follow agenda item VI, "General Fund Revenue Forecast." 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

GENERAL FUND REVENUE FORECAST:

In response to a question from the Chair, Dr. Pham stated that preliminary tax revenue collection data for FY 2009 indicated that, through February, tax revenues were down by 6.4% compared to FY 2008. The model's forecasts in the workbook were prepared using economic assumptions submitted by the Council members in early March. Two days prior to the meeting, Council members were asked to submit new assumptions, or in the alternative a tax revenue forecast based on their own model, due to rapidly changing economic conditions. Three members submitted new information prior to the meeting, and a revised summary table, Table 2 of the Supplemental Handout, was prepared just before the meeting.

The Chair referred to a histogram showing the evolution of the Council's forecasts for FY 2009 beginning with the Council model's forecasts using economic assumptions submitted for the July 2008 meeting. The histogram, originally prepared for, and included in, the Chair's January presentation at a joint session of the Senate Committee on Ways and Means and the House Committee on Finance, was updated to include the March forecasts.

Dr. Bonham described how his March 6, 2009, General Fund revenue forecast of -4.0% had been revised to -7.9% on March 11, 2009, and further revised to -9.2% forecast the morning of the meeting as a result of various corrections and data revisions.

The Chair pointed out that Dr. Bonham's experience was illustrative of the evolution of the Council's forecasts. The histogram started with the Council's July 2008 General Fund revenue forecast. Their October 2008 forecast moved slightly lower in the aftermath of the Lehman Brothers bankruptcy filing in September, and a large downward movement followed in January 2009. Since then, economic trends and financial market data have seen a post-Lehman cascade that is reflected in all forecasts. Although the financial markets and tourism seem to have found a bottom since the 3rd quarter, the risk, as evidenced by March results on the histogram, was still to the downside.

The Chair noted double-digit, year-over-year decreases in the January–February general excise tax and individual income tax collections, which was significant since the general excise tax and the individual income tax are the two largest revenue sources for the State. Dr. Suyderhoud asked if the Department of Taxation's decision to cut costs by no longer automatically mailing tax form and instruction booklets had resulted in a decrease in the number of returns filed. Ms. Sakata said that any decline was more likely due to having fewer seasonal employees to process the tax returns, though returns with payments are given a higher priority. Mr. Kahle noted that any causal relationship may become more apparent after the first quarter and semiannual periodic general excise tax returns become due, because small taxpayers are more likely to forget. Dr. Suyderhoud noted that the Council had not previously addressed processing delays as a significant issue.

After further discussion, the Chair stated that he was inclined to discount the magnitude of the January and February declines in favor of the underlying trend. The forecast range considered by the Council for the current fiscal year's growth rate (Tables 8A–8C) was -3.0% to -6.0%.

The Council briefly discussed the potential impact of federal stimulus monies on construction. Dr. Bonham expressed concern that March and April revenues would continue to decline by double digits, though he expected improvement in May and June. Mr. Hirata's estimates fell between -4.5% and -5.0%. Mr. Yamada did not think that the economy had bottomed. Dr. Imada Iboshi was very uncomfortable with making a forecast without knowing the cause of the steep decline in the February tax revenues. Dr. Suyderhoud and Mr. Kahle were comfortable with -5% growth rate forecast for FY 2009.

After further discussion, the Chair called for a motion on the General Fund forecast for FY 2009.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that the below-the-line growth rate for FY 2009 be -5.0%. 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The discussion then turned to the forecast for FY 2010.

The general consensus was that FY 2010 would not be worse than FY 2009. However, with consumers spending less and saving more, the trajectory would be fairly flat.

Discussion regarding a possible bounce in tourist arrivals coupled with decreased spending, the impact of the current federal stimulus on FY 2010 revenues, and the possibility of another federal stimulus in late CY 2009 led to a consensus ranging between 0.0% to almost 1%.

After further discussion, the Chair called for a motion on the General Fund forecast for FY 2010.

It was moved by Dr. Imada Iboshi, and seconded by Mr. Kahle, that the below-the-line growth rate for FY 2010 be 0.5%. 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The discussion then turned to the forecast for FY 2011–2015.

The model's forecast for the remaining years appeared sluggish. There was some discussion regarding the application of a "judgmental" adjustment or a 3.5% to 4.0% real economic "pulse."

After further discussion, the Chair called for a motion on the General Fund forecast for FY 2011–FY 2015.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that the below-the-line growth rates for FY 2011 through FY 2015 be 5.0%, 5.5%, 6.2%, 6.2%, and 4.9%, 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES

Ms. Matsunaga reported the significant changes from the January 2009, report.

General Fund Non-Tax Revenues: Significant increases in FYs 2009–2015 reflected corrections to the Bureau of Conveyance’s recording fees (Department of Land and Natural Resources) and increases in year-to-date collections for the Department of Health (DOH) Ambulance and Emergency Medical Services.

Special Fund Tax Revenues: Significant decreases for FYs 2009–2015 reflected revisions to the transient accommodations tax that were based on the Council’s January 2009 report.

Special Fund Non-Tax Revenues: Significant increases in FYs 2009–2015 were attributed to projected increases in the collection for deposit beverage containers (DOH) and updated enrollment projections and tuition rates for the University of Hawaii’s (UH) undergraduate tuition and fees.

Other Than Special Fund Non-Tax Revenues: Significant increases in the Use of Money and Property for FY 2009 were attributed to the refinancing of revenue bonds for the UH faculty housing project by the Department of Business, Economic Development and Tourism (DBEDT). Significant changes also were reflected under Federal Funds due to (1) increases in FYs 2009–2012 for the Department of Human Services (DHS) Medicaid assistance program under the recently passed federal stimulus plan; (2) increases for DHS Section 8 contract administration for administrative fees paid by the U.S. Department of Housing and Urban Development; and (3) decreases in various UH research and training grants and the recovery of indirect costs. Under Non-Revenue Receipts, increases in FYs 2009–2015 reflect an increase in (A) revenue bonds sold for affordable rental housing projects (DBEDT) for FY 2009; (B) County of Hawaii contributions for other post-employment benefit plans for FY 2009; and (C) grants and gifts for UH research projects.

The Chair asked if future reports to the Council would contain more detail on the impact of the federal stimulus; Ms. Matsunaga said that there would be. Included in this report was approximately \$200 million for DHS. Dr. Imada Iboshi added that approximately \$300 million would be going to the DOH.

On a consolidated level, the significant changes were attributable to the Other Than Special Non-Tax Revenues revenue source; specifically anticipated federal funds from the federal stimulus plan for DHS, and non-revenue receipts for UH grants and gifts for research projects.

The Chair called for a motion to accept the report.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that the report of the Department of Budget and Finance 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

SELECTED BILLS IMPACTING REVENUE FORECASTS:

The Chair noted that the Council had never discussed pending legislation as part of their forecast discussions. He and several other Council members concurred that information on the pending legislation would not be received and discussed at this time.

NEXT MEETING:

The next Council meeting is to forecast General Fund Revenues to meet the (Monday) June 1, 2009, reporting deadline. The meeting was scheduled for Thursday, May 28, 2009, at 2:00 P.M.

The Council staff will try to secure the Office on Aging Conference Room for the meeting.

ADJOURNMENT:

The meeting adjourned at 3:20 P.M.