

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, March 11, 2010
2:00 P.M.

PRESENT:

Council Members:

Paul Brewbaker (Chair), Jack Suyderhoud (Vice Chair), Pearl Iboshi,
Richard F. Kahle, Jr., and Albert Yamada

Staff Members:

Department of Taxation: Johnnel Nakamura, Titin Sakata, Yvonne Chow,
Hamid Jahanmir, and Jacquelyn Guitguiten
Department of Budget and Finance: Neal Miyahira, Karen Matsunaga, Terri Ohta
and Sheila Kanemaru

Others:

Wayne Yoshioka, Hawaii Public Radio News
Cathy Peterman, University of Hawaii
Sharon Kotaka, Budget & Finance
Tu Duc Pham
Mark Niese, Associated Press
Lowell Kalapa, Tax Foundation of Hawaii
Maurice Morita, Hawaii LECET
Brian Hallett, Senate Ways and Means
Keith Shimada, Senate Ways and Means
Nandana Kalupahana, House Finance
B.J. Reyes, The Star Bulletin
Ross Tsukenjo, Senate Ways and Means
Keith Mulligan, HGEA
Derrick DePledge, The Advertiser
Patrick Williams, City & County of Honolulu
Tan Yan Chen, Governor Policy Office
Robert Koike
Anthony Valdez, Senate Ways and Means
Gina Mangiarie, KHON2 News
Ken Moslyn, KHON2 News
Georgette Deemer, House Majority Office

Ralph Schultz, Budget & Finance
Holly Juscen, Hawaii News Now
Kurt Kawafuchi, Department of Taxation
Stanley Shiraki, Department of Taxation
Darcie Mayeshiro, Department of Taxation

ABSENT:

Council Members:

Carl Bonham

Dean Hirata

CALL TO ORDER:

The Chair called the meeting to order at 2:04 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF DECEMBER 17, 2009:

The Chair asked if there were any comments regarding the minutes of the December 17, 2009, meeting. There were none, therefore the Chair called for a motion to approve the minutes.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle that the minutes of the December 17, 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	Absent
Dean Hirata	Absent
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

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

Ms. Matsunaga reported the significant changes to the December 2009 report. As indicated on the consolidated multi-year revenue report, these changes were generally reflected in the following two revenue categories.

Federal Funds – the significant increases of approximately \$50 million over FYs 10 – 16 were due to additional federal grants projected by the University of Hawaii research and training programs.

Federal-American Reinvestment & Recovery Act (ARRA): the projected revenues for ARRA funds increased by approximately \$26 million over FYs 09-13, due to additional ARRA energy grants for the Department of Business and Economic Development & Tourism. Total revised ARRA funds for FYs 09-13 is slightly over \$1.0 billion.

The Chair stated that he was a little struck by the fact that ARRA causes the non-General Fund Revenue totals to start out at \$6.7 or \$6.8 billion and then actually settle to \$6.4 billion.

The Chair called for a motion to accept the report.

It was moved by Dr. Iboshi, and seconded by Mr. Yamada to accept the B&F report. The Chair called for the vote, and the motion passed with the following votes:

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

GENERAL FUND REVENUE FORECAST:

The Chair asked Ms. Chow to provide the council members with an explanation of the existing forecast from the last meeting, the new mean forecast from the DoTax econometric model and the new forecast from the UCLA model. She also reminded the council members about the differences between the current econometric model and the UCLA econometric model.

The Council discussed its members' individual forecast and their assumptions. The Chair mentioned that he had promised the House Finance & Ways and Means Committees in January that he would follow-up on their question regarding the distribution of Council's forecast, which he still has not done. He said he thinks that there is a lot of dispersion that shows up in the forecasts for FY2011 that the Council should spend some time thinking about – some of the dispersion extends into FY2012. The range of growth forecasts is from 2% to 6% or 7%; or from 2% to 8% if you include Dr. Bonham's estimates. He said that is a big range and indicates the kind of economic uncertainty that we deal with.

The Chair asked the members for their comments. Dr. Suyderhoud asked if the Council could first discuss the forecast for FY2010. The Chair asked whether there was a strong sentiment to

change the numbers from the prior forecast. He suggested to the members that they should think about the remainder of the fiscal year.

Dr. Iboshi asked the Council to discuss February's tax collections. Ms. Sakata responded that the February tax report has not yet been finalized, but that the nominal number was \$396.8 million cumulatively through the end of February, which was a decrease of 1.4% compared with the previous year. Mr. Kawafuchi added that it is on a nominal basis because there is another \$60 million refund adjustment.

Dr. Suyderhoud clarified that, cumulatively in February we recovered from a -6% position at the end of January to a -1.4% by the end of February. He asked what the position would be if we had not held on to the refunds. Mr. Kawafuchi said -5.4% nominally.

The Chair agreed with Dr. Suyderhoud, stating that he was correct when he said that the nominal number is the number the Council should be tracking relative to its prior forecast. He questioned whether we are going to get growth of -5.4% or -2.5%.

The Chair added that if the present trend continues for the remainder of the fiscal year, consistent with the visitor count on a seasonally adjusted basis stabilizing or rising slightly; home sales on Oahu rising slightly; employment falling at a slower rate; and unemployment rates steady at around 7%, eventually the year-over-year change turns to zero and we would be on the way to revenue growth.

He said if we stayed at -5% year-over-year for the remainder of the fiscal year, the cumulative change would be 2.0% under that assumption.

Mr. Shiraki said that the income tax refunds will start going out on July 1st. Mr. Kawafuchi added that is only applicable to the current income tax calendar year refunds.

Dr. Suyderhoud asked where we are going to end up in fiscal year 2010 if we do not take into consideration the delay in the tax refunds. Are we going to get from -5.4% by the end of February to -2.5% by the end of FY2010?

Mr. Kawafuchi responded that at the last Council on Revenues Meeting, the Council thought it could end up with -2.5%.

Dr. Suyderhoud asked the Council if they could have a discussion about the delay of the income tax refunds.

Dr. Iboshi stated that she thought the tax collections are likely to be more positive, 2% or 3%, for the rest of the year. The Chair agreed.

The Council Members agreed to keep the forecast at -2.5% for FY2010.

Mr. Kawafuchi explained to the Council that the decision for the refund delay is an administrative decision.

Dr. Suyderhoud suggested that the Council move on the motion that the forecast remain at -2.5% for FY2010 and that the Council makes its forecast in the absence of the refunds policies.

The Chair added that the protocol the Council has always adopted is that the forecast reflects the current law and its expectations for the economy. If the Council considers the fiscal management strategy, the outcome is going to be different. Dr. Suyderhoud agreed and suggested that the Council make clear that it is not changing its underlying forecast. He added that he would like the Council's motion to reflect that it is maintaining the -2.5% forecast of tax revenues, not forecasting the cash flow position of the state.

The Chair asked for a motion to keep the forecast of general fund tax revenues for FY 2010 at its previous -2.5% in December 2009.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that the General Fund forecast for FY 2010 remains at -2.5%. The Chair called for the vote, and the motion passed with the following votes:

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

The Council had a discussion about the income tax refund strategy and its impact on the actual receipts.

The Council agreed that there is a large adjustment to the -2.5 % forecast due to income tax refund strategy, but that the Council will not change its underlying forecast. The Council further stated that any adjustment to the forecast needed to account for the income tax return strategy is purely a function of the State's administration policy and that the tax department's estimate of the adjustment is likely to be about +4.4 or 4.5 percent.

The Chair called for the vote, and the motion passed with the following votes:

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

Next, the Council discussed the forecast of general fund tax revenue for FY2011 to FY2016.

After some discussion about the effect of shifting the income tax refunds to the next fiscal year and about the states of the national and local economy, the Council decided to reduce the forecast for FY2011 from 7.6% to 6.0% but to keep the forecasts for FY2012 through FY2016 the same as the December 2009 forecasts.

Dr. Suyderhoud made the motion that the future growth rates for FY 2011 be reduced to 6.0% and FY2012 through FY 2016 be kept the same (FY2011 through FY2014: 6.0% and, FY2015 to FY2016: 5.0%). The motion was seconded by Mr. Kahle. The Chair called for the vote, and the motion passed with the following votes:

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

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, May 27, 2010 at 2:00 pm; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the Office on Aging Conference Room for the meeting.

ADJOURNMENT:

The meeting adjourned at 3:25pm.