

## **COUNCIL ON REVENUES**

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

Wednesday, September 8, 2010  
2:00 P.M.

### **PRESENT:**

#### Council Members:

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

#### Staff Members:

Department of Taxation: Johnnel Nakamura, Titin Sakata, Hamid Jahanmir and  
Jacquelyn Guitguiten  
Department of Budget and Finance: Neal Miyahara, Karen Matsunaga and  
Terri Ohta

#### Others:

Glenn Okimoto, University of Hawaii  
Charles H. Carole, Honolulu League of Women Voters  
Wayne Yoshioka, Hawaii Public Radio News  
Darcie Mayeshiro, Department of Taxation  
Maurice Morita, Hawaii LECET  
Sharon Kotaka, Budget & Finance  
Ezra Bendiner, Governor's Office  
Anthony Valdez, Senate Ways and Means  
Michael Ng, House Finance  
Georgette Deemer, House Majority Office  
Ross Tsukenjo, Senate Ways and Means  
Ken Kakesako, Senator Kokubun's Office  
Lowell Kalapa, Tax Foundation of Hawaii  
Gene Park, Star-Advertiser  
Andrew Pereira, KHON2 News  
Stanley Shiraki, Department of Taxation  
Ronald Randall, Department of Taxation

### **CALL TO ORDER:**

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

**COMMUNICATIONS TO THE COUNCIL:**

The Chair made reference to a set of communications to the Council. Through the course of the last couple of meetings, the Council has had some requests from some of the regular attendees (House and Senate Finance Committee Staff as well as some media inquiries) whether they would have access to the materials that Council uses for its forecast. As the Council members know, these have been the materials we receive from the staff of the Department of Taxation. We have thought this through and have received an opinion from the Attorney General that some of these materials could not be shared because it was considered work product of a deliberative nature. The Chair said he consulted with the Department of Taxation whether the hand-out could be cut-back on some of the materials they were providing to the Council because of staff reduction and reassignments. The Chair stated that unilaterally he made the decision to cut the material down.

He directed everyone's attention to the screen displaying slides the Council will be working with throughout the meeting.

The Chair mentioned to the Council that their individual forecasts are no longer included. He offered a discussion with the Council. He pointed out that in the past some of the members were concerned about line-item details in the tax revenue tables which are not actually reflective of what the Council forecasts. There has been some confusion about what the Council does and does not forecast. Therefore, by partly minimizing some of that risk, the number of tables was reduced to just posting total figures above and below the line (estimates without and with adjustments for the change in tax laws and collections). Mr. Jahanmir summarized the economic assumptions and their growth rates for the more recent quarters in a very concise two-page format. The Chair said that many of us are familiar with the data so we did not really need 10 or 12 pages of past data.

The Chair asked the Council to review the hand-out they have and provide their feedback to the Department of Taxation. The Council could reiterate to something that is supportive of the deliberations but within the budget and staff time constraints that now faces the Department of Taxation. The Chair mentioned that it may be time to begin a conversation more broadly about what kind of resources would be ideal in supporting the Council's deliberations. As the Council has gone over this once or twice in the past, this might be the moment to begin such conversation with the aim of informing the incoming leadership and the legislative decision-making body. The Chair asked the Council what their thoughts were on this matter.

All Council Members agreed that there is no need for all the material. However, they stressed the need for the forecast table, the 'inside scoop' on the tax collections like changing the refund timing or a big windfall settlement, etc. One Council Member suggested being provided a table that would consist of the collections on settlements that is useful to know whether it is extraordinary this year as compared to previous years. The Council Members agreed.

Since hand-outs were not made available to the public in attendance, the Chair instead referred to the slides being projected on screen. Dr. Bonham mentioned that it is useful to know the distribution of the Council's forecast - the graph that shows the forecasts' highs, the means and the lows.

The Council had a brief discussion about the kind of information being projected on screen and the concern that the nature of what is being projected would be constrained if it was handed out to the public in attendance. For instance, the line-item details are not the Council's forecast.

The Chair referred to the slide of the current estimates of general fund tax revenues and stated that he previously had a discussion with Ms. Sakata about preparing a table simply with the net totals, the gross and growth rates totals and some of the footnotes.

Dr. Suyderhoud added that Council Members could also change their forecast from period to period. They would also like to get what their forecast is, which they did not receive this time. The Chair stated that he kept the bare minimum and can add back anything if they have to. And, they will definitely add the individual member's forecasts back in to the hand-out. Dr. Bonham agreed that it would be a good add-in.

The Chair asked the Council if there were any other comments. There were none.

The Chair summarized and confirmed their understanding with Ms. Sakata.

The Chair further stressed that they were trying to minimize the effort that is going into this process given that the staff came to him with the expression of some constraints on their ability to fulfill this. However, the Department of Taxation is happy to do what the Council asks. If it is what the Council wants he is down with it. He decided unilaterally to do the minimum this time and see what happens.

The Chair referred to specific details in the table and said we have some methodological issues with the way the footnotes are constructed, which we can come back to it at another time. But, for now, let us keep the footnotes so that the table would only have the net and gross totals.

Dr. Suyderhoud stated that the adjustments are valuable too.

The Chair agreed that they are valuable but he said there is this question as to whether they show up only once and then go into the next year's phase. He said we can come back to that, but thinks the data compression, so-to-speak, was a good idea as well as a couple of other things as we go along through the deliberations. The Chair asked the Council if they had any more comments to pass them along to the Tax Research & Planning Office staff. To feel free to call them, they are open to the Council's suggestions but, they are facing some constraints right now and in the new fiscal year. He wanted to be sensitive to some of the challenges the department is facing.

With that, the Chair moved on to the minutes of the last meeting.

**MINUTES OF THE MEETING OF AUGUST 3, 2010:**

The Chair asked the Council for any comments regarding the minutes of August 3, 2010 meeting. There was one change made to the minutes. Sheila Kanemaru's name should be omitted to be replaced by Sharon Kotaka as Council staff in attendance. The Chair called for a motion to accept the change and to approve the minutes.

**The Chair called for the vote to accept and approve the minutes, and the motion passed with the following votes:**

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Jack Suyderhoud</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Dean Hirata</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Albert Yamada</b>	<b>Yes</b>

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

Ms. Matsunaga reported the significant changes to the May 2010 report as indicated on the consolidated multi-year revenue report were generally reflected in the following revenue categories.

**General Fund Non-Tax Revenues** estimates for FYs 10-17 reflect decreases in investment earnings attributed to lower than anticipated principal balances and interest rates, as well as the delay in posting FY10 investment revenues due to staffing shortages. Increases in Revenues from Other Agencies are due to a correction of the Department of Health's (DOH) Tobacco Settlement Revenues from Non-Revenue Receipts to Revenues from Other Agencies.

**Special Tax Revenues** estimates for FYs 10-13 reflect decreases from cigarette tax for DOH's Trauma System Special Fund and Emergency Medical Services Special Fund based on actual collections for FY10, and reduced distribution of cigarette taxes pursuant to Act 192, SLH 2010; and decreases in the transfer of transient accommodation taxes for the Department of Business, Economic Development and Tourism (DBEDT).

**Special Fund Non-Tax Revenues** estimates for FYs 10-17 reflect adjustments in FYs 10-17 federal grants based on actual collections for FY10 and projected increases for the Hawaii Health System Corporation's (HHSC) Medicare payments and increases for the Department of Transportation (DOT) Highway Division. Increases in Charges for Current Services, Utilities and Other Enterprises are attributed to forecasted increases in DOT Airport's rent-a-car, parking revenues, and rental motor vehicle customer facility charge rates pursuant to Act 204, SLH 2010. The decreases in Charges for Current Services FYs 10-17 reflect lower FY10 collections and

projected revenues for HHSC's hospital patient and Medicaid payments; which were partially offset by increases in HHSC's Quest and HMSA revenue projections.

**Other than Special Fund Non-Tax Revenues** estimates for FYs 10-17 reflected adjustments in three particular categories. The increases in federal grants for FYs 11-17 are attributed to additional federal grants for the Department of Human Services' (HMS) medical assistance grants, Section 8 subsidy, and Shelter Plus program; DOH's HIV Prevention Project and comprehensive mental health services; and the UH's student financial aid program. The net increases in the American Recovery and Reinvestment Act (ARRA) grants for FYs10-13 are attributed to increases for DBEDT housing projects, DHS medical assistance grants and the Department of Labor and Industrial Relations (DLIR) unemployment compensation grants. The total ARRA funding increased \$200 million for a total slightly over \$1 billion. For the Non-Revenue Receipts, the net increases in FYs 10-17 reflect increases in bond issues for various housing projects (DBEDT); and increases to other post employment benefit plan contributions from the Kauai Department of Water, Board of Water Supply, and Hawaii County.

Overall, the significant changes on the Consolidated Multi-Year worksheet was attributed to the federal grants and non-revenue receipts categories.

Ms. Matsunaga also presented a report outlining historical information from FY05 to FY10 as requested by the Chair at the previous Council on Revenues meeting in May. It was noted that the revenue projections seemed to fluctuate in total around \$6 million over several years.

The Chair asked Ms. Matsunaga how much out of the FY2010 increment of \$560 million, would be ARRA. She responded for FY2010, ARRA was approximately \$34 million.

The Chair asked the Council Members if they had any other questions or comments. There were none.

The Chair called for a motion to accept the report.

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

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Jack Suyderhoud</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Dean Hirata</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Albert Yamada</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST:**

Pointing out to the first two slides (past estimates), the Chair said this is what we were looking at last time, 4's and 6's (percentage growth rates of general fund tax revenues in FY10 and FY11 respectively), and then we had the refund timing.

Dr. Bonham said, the Council tried to do the math to figure out how much was going to be paid out last fiscal year and how much was paid this fiscal year. It seems like what you are doing is looking at the 6.2% for FY2011, that we forecast in our last meeting, and comparing it to the 0% that is being forecast (by the model) in this meeting. However, that zero is not in any way coming out of the refund activity that happened in July and August because the model has no idea about that data. These models are quarterly or annual, so no one is inputting information into that model that would come out about the refunds. Last year's number was right; exactly what the Council said it was going to be.

Ms. Sakata explained why this model is forecasting a -0.3% growth rate which had something to do with the refund being paid out this fiscal year.

Dr. Suyderhoud said the Council's inputs were used to create a forecast subtracting the refund payments. Ms. Sakata said without the refund paid out in July; the forecast would have been around 4.0% instead of -0.3%. She pointed out the negative \$187.4 million for FY2011 (and positive \$187.4 million for FY2010) under Delayed Tax Refunds for Tax Year 2009. The Chair stated that an intercept in the adjustment was made.

One Council Member noted that the fiscal years in Table 3BB is labeled wrong, which should be corrected.

Dr. Bonham said it is a little challenging to do the math that way to just subtract out those refunds because at least he was already trying to adjust for them in his model so his forecast was already coming in low; and had already been pulled down by the projected need to be refunding money.

After a further technical discussion about the delayed refund and its effect on the forecast generated by the model, the Chair asked for a motion to forecast the general fund tax revenues at 2% for FY2011 and 10% for FY2012 and 6% for FY2013 through FY2017.

**Dr. Bonham made a motion to forecast the general fund tax revenues at 2% for FY2011 and 10% for FY2012 and 6% for FY2013 through FY2017. Mr. Kahle seconded the motion. The Chair called for the vote, and the motion passed with the following votes:**

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Jack Suyderhoud</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Dean Hirata</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Albert Yamada</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Wednesday, November 3, 2010 at 4:00 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 3:03pm.