

## COUNCIL ON REVENUES

Office on Aging Conference Room  
No. 1 Capitol District Building  
250 S. Hotel Street  
Fourth Floor, Room 436  
Honolulu, HI 96813

Thursday, May 26, 2011  
2:00 P.M.

### PRESENT:

#### Council Members:

Paul Brewbaker (Chair), Avery Aoki, Carl Bonham, Pearl Iboshi and  
Richard F. Kahle, Jr.

#### Staff Members:

Department of Taxation: Donald Rousslang, Titin Sakata, Hamid Jahanmir and  
Jacquelyn Guitguiten  
Department of Budget and Finance: Karen Matsunaga, Terri Ohta,  
Keith Shimada and Gregg Hirohata-Goto

#### Others:

Lowell L. Kalapa, Tax Foundation of Hawaii  
Wayne Yoshioka, KHPR News  
Charles H. Carole, Honolulu League of Women Voters  
Maurice Morita, LECET  
Sharon Kotaka, Budget and Finance  
Nandana Kalupahana, House Finance  
Johnnel Nakamura, Department of Taxation  
Ross Tsukenjo, Senate Ways and Means  
BJ Reyes, Star Advertiser  
Daniel Truong, Senate Ways and Means  
Roosevelt Freeman, HMIR  
James Delavon, HMIR  
Darryl Huff/Bert Yoshishige, KITV4 News  
Roderick Becker, Senate Ways and Means  
Mary Alice Evans, DBEDT  
Paul Smith  
Georgette Deemer, House of Representatives  
Mark Niese, AP  
Tony Valdez, Senate Ways and Means  
Frederick Pablo, Department of Taxation  
Yea Tin Lee, Department of Taxation

**ABSENT:**

Jack Suyderhoud  
Albert Yamada

**CALL TO ORDER:**

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

**COMMUNICATIONS TO THE COUNCIL:**

The Chair asked if there was any communication to the Council. There was none.

The Chair then moved on to the minutes of the meetings of March 10<sup>th</sup> and March 29<sup>th</sup>.

**MINUTES OF THE MEETINGS OF MARCH 10<sup>th</sup> & 29<sup>th</sup>, 2011:**

The Chair asked the Council for any comments regarding the minutes of the meetings of March 10<sup>th</sup> and, March 29<sup>th</sup>. There were none, so the Chair called for a motion to approve the minutes.

**It was moved by Mr. Kahle and seconded by Mr. Aoki that the minutes of March 10<sup>th</sup> and March 29<sup>th</sup> meetings be accepted. The Chair called for the vote, and the motion passed with the following votes:**

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Avery Aoki</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST:**

Before beginning the Council's discussion of the general fund forecasts for FY 2011, the Chair asked the Director of Taxation, Mr. Frederick Pablo, to comment on collections for April, which were unexpectedly high.

Director Pablo said that in the month of May, the Department had received calls with questions about the increase in the collections in the month of April, which were the result of changes in the way the Department processed returns. Since coming to the organization in January, he has been looking at all the financial reports and statements and also at the processing procedures and noticed that there have been a lot of complaints from taxpayers who had mailed in their tax payments and said it was taking up to 6 to 8 weeks to cash their checks. In the past, returns were generally processed on a first-in/first-out basis. Beginning around mid-April, the Department changed its processing to put priority on the State's assets (cash payments and the accounts

receivable). By processing tax returns with balances due before other returns, the Department can get increase collections and avoid losing interest. That was the biggest change and may have brought in as much \$100 million more than last year at this time.

If the taxpayers call and say they've been waiting 6 to 8 weeks, you know there's been about a 6 to 8 week backlog. By focusing on cash payments and accounts receivables, we reduced the backlog. You can probably say we brought March collections up-to-date and we got the April receipts on time. The part of the receipts that were not processed in April it will be done in May.

The Chair asked whether the Council should be concerned that the 2.3% year-to-date decrease will change materially by the end of the fiscal year. Director Pablo said that at this point he would only say that the Department has brought in the cash payments first and that there are still refunds to be processed. The accounts with payables are being processed first and, for the remainder of the quarter we should see more payments of refunds.

In an answer to a question as to whether the refunds are going out as normal, Director Pablo responded that the Department intended to process everything received in fiscal year 2011 by the end of the fiscal year. He described what has happened in the past: 2 furlough days a month (24 days a year), which caused a work backlog that hasn't been adequately caught up because of reductions in force, 'frozen' vacancies and so forth. But he said the Department's aim is to eliminate its backlog by fiscal year-end. He also said that if the new processing procedures are maintained, we will be able to compare receipts across years under the same accounting system. Comparisons between this year and last year are hard, because of the delay in refunds.

Dr. Bonham asked whether the department is completely caught up on cash payments and cash receivables through April or would they spill-over into May? Director Pablo said that some has spilled-over into May so we will still see a climb compared to last year. He believes that last year we had about \$360 million for May, which was pretty close to that amount we're looking at right now. So May's collections would be slightly higher than last year's.

Dr. Bonham made a motion to leave the FY2011 forecast unchanged. The Chair agreed. Dr. Iboshi seconded the motion. The Chair asked if there was any further discussion. There was none.

**Dr. Bonham made a motion to keep the general fund tax revenues forecast at -1.6% for FY2011. Dr. Iboshi 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>Avery Aoki</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>

The Chair mentioned that he didn't have a strong feeling about a change in the forecast for any of the out years.

Mr. Aoki said that right now, growth for FY2012 is forecast to be 11%. So if you back out the effect of withheld refunds, we should take out 4.50% off of the 11% to get a forecast of underlying growth of 6.50%. He asked if that is reasonable, because it sounds a little high. The Chair said the Council has been talking about 6% trend growth. Dr. Iboshi noted that GET collections were up 6.50%. Mr. Aoki noted that if you look at the figures, without the refund delays, we would have had revenue growth of 3% or so for fiscal year 2011. He added that he was unsure what would account for improvement, higher growth next fiscal year.

Dr. Bonham said he didn't think of this fiscal year as anything like normal in terms of the overall economy, because he didn't believe we saw any job growth, or job growth was tiny. So if the underlying forecast for job growth and income growth and visitor's spending are wrong then 6% would be way too high. But if the underlying economy grows at 2% (some may have it as high as 2.50% or 3%), with another 2% inflation, that adds up to about 6% growth. Another factor is the "bounce back". When the economy turns down sharply people aren't paying taxes, they're avoiding taxes, and as they begin to recover they start paying again. So you actually get a bigger bounce in tax revenue than you do in the economy. The Chair noted that the range of estimates for revenue growth in FY2012 from the last meeting ranged from 8.9% to 13.4%, so that 11% was reasonable average. He asked Ms. Sakata to go back to the presentation slide from the April meeting. He noted that withholding was growing about 4.8%. He was concerned that a revision at this point would communicate more than the Council was actually willing to say. Dr. Bonham said that since the last meeting, much of the news has been positive and Mr. Aoki agreed. Dr. Bonham noted that oil prices had fallen and that the visitor's data is probably stronger. Mr. Aoki said the visitor's industry is not going to see double-digit growth. Dr. Bonham said he would be more comfortable with an estimate of steady-state growth at 5% rather than at 6% for the out years, but that he didn't think the Council had enough information to adjust its forecasts. He said that if the rail construction is included, he gets growth of 13.5% for next year. Mr. Aoki said it simply seemed to him that 6.50% growth for next year, which was double this year, seemed high.

The Chair asked the Council for clarification of the discussion to use in the communication to the Governor. Maybe it would be reasonable to say we could expect the economy to settle into a pattern of growth that will narrow, somewhat, the bandwidth of our uncertainty. He wasn't sure how to express the uncertainty. The growth forecasts range from 8% to about 13%. Dr. Bonham noted that the range actually tightens up next year. The Chair opined that it might be because the refund adjustment dominates over the differences in assumptions. He called for the vote: all in favor of the motion to keep the forecast for the out years the same as they had been.

**Dr. Iboshi made a motion to keep the forecast of general fund tax revenues at 11.0% for FY 2012; 6.0% for FYs 2013 through 2017. Dr. Bonham 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>Avery Aoki</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>

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

Ms. Matsunaga reported the significant changes to the March 2011 report.

There were no significant changes for **General Fund Non-Tax Revenues**.

There were no significant changes for **Special Tax Revenues**.

**Special Fund Non-Tax Revenue** estimates reflect revisions to the University of Hawaii's Kapolei land sale strategy and increases in tuition as well as an increase in enrollment at the University of Hawaii.

**Other than Special Fund Non-Tax Revenue** estimates reflect additional ARRA funds for the Education Jobs Fund and Race to the Top program (Department of Education), and increases in FYs 11 and 12 for projected changes in employer/employee contributions into the Employer-Union Health Benefits Trust Fund (EUTF) benefits plan and the addition of State teachers into the plan and changes to projection calculations (B&F).

The Chair inquired if adjustments were due to actuarial changes. Ms. Matsunaga responded that she was not sure, but that Budget and Finance would be discussing the revenue projections with EUTF.

The Chair asked whether the source of the line-item detail that's prepared by the Tax Research & planning Office reconciled to the Council's forecast is explained in the table prepared for the Governor. Dr. Rousslang confirmed that it was and that the table would be the same as for the last meeting. He asked if members had any comments on the table and its language.

The Chair asked if any of the line items in the table sent to the Governor would change, whether there had been any changes in law. Dr. Rousslang said there were not.

The Chair asked whether there have been any BEA release date changes that the Council should be thinking about. Dr. Bonham indicated that the state quarterly personal income for the first quarter of the year, according to his calendar, is June 22<sup>nd</sup>. That would be the last income data for the State unless we move into August.

**REPORT BY THE DEPARTMENT OF TAXATION**

The Chair asked for a motion that the Council acknowledge that the Department of Taxation's Tax Research & Planning Office will prepare a table with detailed line items estimates to the Governor, along with the Council's forecast, and to accept the B&F report as submitted.

The Chair called for a motion.

**It was moved by Mr. Kahle, and seconded by Dr. Iboshi to acknowledge that the Tax Research & Planning Office prepare and submit a detailed line-items Table and, to accept the B&F report as submitted. The Chair called for the vote, and the motion passed with the following votes:**

<b>Paul Brewbaker</b>	<b>Yes</b>
<b>Avery Aoki</b>	<b>Yes</b>
<b>Carl Bonham</b>	<b>Yes</b>
<b>Pearl Iboshi</b>	<b>Yes</b>
<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to set a meeting date in order to meet the reporting deadline date of August 5, 2011. Presently, all COR members' terms will expire on June 30, 2011. There is no official announcement yet as to the names of the appointees for a term to begin on July 1, 2011.

The next COR meeting is tentatively scheduled for Thursday, August 4, 2011 at 2:00 pm; however, the date and time will be confirmed by e-mail once the COR appointees have been officially named. The Council staff will attempt to secure the Office on Aging Conference Room for the meeting.

**ADJOURNMENT:**

The meeting adjourned at 2:45pm.