

## **COUNCIL ON REVENUES**

No. 1 Capitol District Building  
250 S. Hotel Street  
DBEDT-Diamond Head Conference Room  
Fourth Floor, Room 436  
Honolulu, HI 96813

Thursday, November 3, 2011  
10:00 A.M.

### **PRESENT:**

#### Council Members:

Richard F. Kahle, Jr. (Chair), Jack P. Suyderhoud (Vice-Chair), Avery K. Aoki,  
Carl S. Bonham, Christopher Grandy, Ronald K. Migita and Marilyn M. Niwao

#### Staff Members:

Department of Taxation (DOTAX): Donald Rousslang, Hamid Jahanmir, and  
Jacquelyn Guitguiten

Department of Budget and Finance (B&F): Terri Ohta, Keith Shimada and  
Gregg Hirohata-Goto

#### Others:

Gladys Marrone, BIA - Hawaii  
Nanea Kalani, Civil Beat  
Randy Hiyoto, House Finance  
Johnnel Nakamura, Department of Taxation  
Titin Sakata, Department of Taxation

### **CALL TO ORDER:**

The Chair called the meeting to order at 10 a.m. with a quorum present.

### **COMMUNICATIONS TO THE COUNCIL:**

The Chair asked if there was any communication to the Council.

Dr. Rousslang said there was an error that caused the model to overstate the general fund revenues for the Transient Accommodations Tax (TAT) in the workbook prepared for the September 6, 2011 General Fund meeting. However, when determining the effect of the tax law changes, the Council looked directly at DOTAX's revenue estimates, which were not affected by

the error. Therefore it appears that the error did not have any influence on the Council's general fund forecast.

**MINUTES OF THE MEETING OF SEPTEMBER 6, 2011:**

The Chair then moved to the minutes of the meeting of September 6, 2011. The Chair asked the members for any comments on the minutes of the meeting. Dr. Bonham said the minutes were too long and suggested that they be limited mainly to discussion of the Council's votes. He said the details for how the Council derives the forecast would be noted in the report to the Governor. Ms. Niwao thought the details as to how the Council derived their forecast are necessary so that the public will have a better understanding of the process. The Council members agreed that the report to the Governor would provide sufficient details as to how the Council members derived their forecast.

The Chair called for a motion to approve the minutes.

**It was moved by Ms. Niwao and seconded by Mr. Aoki that the minutes of the September 6, 2011 meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:**

<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

**TOTAL PERSONAL INCOME FORECAST:**

The Council then turned to the forecast for the growth of total personal income.

Dr. Bonham said at the last meeting, the Council failed to take into account the reduction in federal payroll tax, which was scheduled to expire. Mr. Aoki said Congress has talked about extending it. Dr. Bonham said it should be a one-time jump in personal income in the first quarter of 2011.

Ms. Niwao asked Dr. Bonham why the payroll social security tax deduction affects the growth of personal income. Dr. Bonham said when you get paid and your employer pays towards your social security taxes that, is treated as income. It is the income that you have earned and your employer has essentially contributed for you to your retirement benefits.

Ms. Niwao asked whether the employer portion of payroll taxes is included in personal income. Dr. Suyderhoud said yes, and not for tax purposes, but for the economic measure of total personal income.

Dr. Bonham said total personal income consisted of total labor earnings, minus the social security taxes, plus transfer payments; plus dividends; interest and rent. He said if social security payments go down it means total income goes up.

Dr. Bonham said the bottom line is that the change in the tax law raised the personal income in the first quarter of 2011, and if the tax law changes the way it is supposed to right now, it is going to lower personal income in 2012. Ms. Niwao asked if the reason is because they have more disposable income. Dr. Bonham said that is true and the last Council's forecast was probably too high by close to a percentage point.

The members further discussed the changes in labor income, transfer payments and other components of personal income.

Dr. Bonham said he thought the economy is basically stalled, just like the US economy. He said we look just like the rest of the country. Dr. Grandy said it does not look that bad to him.

Dr. Suyderhoud pointed out that rail construction is coming up. Dr. Bonham said that is what the members said last year and are assuming that in the forecast.

The Council further discussed the construction industry and number of jobs in the economy.

Dr. Grandy said he came to the meeting ready to suggest going with 4.5% for 2011 and 4.6% for 2012. Mr. Aoki said he agrees with Dr. Grandy's 4.5%, or somewhere in that range, for 2011, but he thought that 4.6% sounded a little on the high side for 2012. Dr. Suyderhoud said that depends on how things resolve on the mainland and in Europe, it could be much better.

Dr. Bonham said it could also be much worse. He said Europe is probably already in recession and it could be going into a deep recession. He said there is no such thing as being isolated from Europe and there is a lot of uncertainty.

Ms. Niwao said the growth rates for first two quarters of 2011 are both 4.8%, which is a jump from the rates for the prior year. She said she did not think we would see that big of a spike in the growth rate of personal income because it seems like it already started July of last year and cannot be sustained at that rate. Dr. Suyderhoud said that was consistent with what Dr. Bonham said. Dr. Bonham said the wild cards are tourism and construction. Those are the two real questions going forward. Dr. Suyderhoud asked the Council in focusing on Dr. Grandy's comments how comfortable are they with 4.5% growth for the rest of 2011? Dr. Bonham suggested something like 3.0% for 2012.

Ms. Niwao said she was not sure about the effect on the overall economy but she thought they probably would see a lot more foreclosures next year. Dr. Bonham said he was not too concerned and that looking at the history of foreclosures, the high point in foreclosures was 2009 and they gradually tapered off and there has been another slowdown now because of law changes. Ms. Niwao agreed.

Dr. Bonham said he was not comfortable with the idea that growth in 2012 would be just as good as in 2011. He did not think that things are necessarily going to fall, but he thought they are going to be a little slower, like 4.5% for 2011, but maybe 3.5 or 4.0% for 2012.

After further discussion about the outlook for the visitor industry and other related data, the Chair asked if there would be any more discussion. There was no more discussion.

**It was moved by Dr. Suyderhoud, and seconded by Mr. Migita, that the Total Personal Income forecast for CY2011 be 4.5% and CY2012 be 4.0%. The Chair called for the vote, and the motion passed with the following votes:**

<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Thursday, January 5, 2012 at 10am; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DBEDT Diamond Head Conference Room for the meeting.

**ADJOURNMENT:**

The meeting adjourned at 10:53 am.