

COUNCIL ON REVENUES

Princess Ruth Keelikolani Building
DLIR Conference Rooms Third Floor
Room 310-313
Honolulu, HI 96813

Thursday, August 1, 2013
2 p.m.

PRESENT:

Council Members:

Jack P. Suyderhoud (Vice-Chair & Acting Chair), Carl S. Bonham, Christopher Grandy, Elizabeth P. Cambra 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 and Donovan Chun

Others:

Dan Purcell
Lowell Kalapa, Tax Foundation of Hawaii
Sharon Kotaka, Budget and Finance
Susan Hirai, Senate Ways and Means
Calvin Azama, Senate Ways and Means
Roderick Becker, Senate Ways and Means
Nandana Kalupahana, House Finance
Marc Takei, House Minority Research Office

ABSENT:

Council Members:

Kristi L. Maynard
Kurt Kawafuchi

CALL TO ORDER:

Dr. Suyderhoud (the Acting Chair) called the meeting to order at 2 p.m. with a quorum present. He introduced the new Council member, Ms. Elizabeth Cambra, who was appointed by House Speaker Joseph M. Souki for a two-year appointment. He asked Ms. Cambra if she would like to tell the Council about her background.

Ms. Cambra said she has been based in Hawaii for almost ten years, working with Outrigger Hotel, and that she was recently appointed as the Vice President of Pricing & Revenue. She said

she works with assets throughout Hawaii and Asia-Pacific. She said she has been in the hospitality industry for almost 16 years, focusing on pricing and revenue forecasting.

Dr. Suyderhoud thanked Ms. Cambra and welcomed Ms. Marilyn Niwao, who was reappointed by House Speaker Souki for another two-year term. He also said that Senate President Donna Mercado-Kim has appointed Mr. Kurt Kawafuchi, who was unable to attend the meeting, and that Ms. Kristi Maynard has been re-appointed. He said that he is the Vice-Chair and the Acting Chair in the meeting, but that in the next meeting the Council will vote on a permanent chair.

COMMUNICATIONS TO THE COUNCIL:

Dr. Rousslang said that there was a request that the Council consider changing the dollar amount of its forecast for 2014 and beyond by applying their most recent growth forecast to the actual collections in 2013. He said the same request was made last year when the forecast for FY2012 was substantially lower than the actual collections. Ms. Niwao asked if the reason for the request was the higher base. Dr. Bonham said the base was higher by several percentage points. Dr. Rousslang agreed. Dr. Suyderhoud asked if it was an action item. Dr. Rousslang said yes and that the Council would need to vote on it. Dr. Suyderhoud asked if the Council wanted to do that at present, or to move it to another part of the agenda. Dr. Grandy asked if it was just a timing issue, because an adjustment would happen in any case in September at the Council's next meeting to forecast the general fund. Dr. Bonham asked if the request is from the Department of Budget and Finance (B&F). Dr. Rousslang said yes. Dr. Bonham asked if B&F was already working on the budget. Ms. Niwao said yes. Dr. Grandy said the Council has only preliminary tax data for FY2013. Dr. Rousslang said the FY2013 preliminary data are usually within a couple of million dollars of the final figure. Dr. Bonham said the drawback would be if the members decided that they wanted a lower growth rate for the September forecast.

Dr. Suyderhoud noted that failure to adjust for the higher base in FY2013 would lower the percent growth rates for the future years. Ms. Niwao agreed and asked when the next meeting is scheduled. Ms. Guitguiten told the Council that the reporting deadline for the next general fund meeting is September 10th. Dr. Bonham said the members did not come into the meeting prepared to make a new general fund forecast. He said that applying the old growth rates to the actual collections would not be an unreasonable thing to do, but that B&F could do that on their own. He added the Council would have a new forecast in September. Dr. Grandy said it may be a matter of form. Dr. Bonham agreed, but said that B&F does not submit the budget in August or September. Ms. Niwao said she thought they start working on it now. Dr. Bonham agreed.

Dr. Suyderhoud suggested the Council ask B&F how big a problem it would be to wait until the September forecast. Ms. Niwao asked if B&F had somebody at the meeting. Dr. Suyderhoud said they did. Ms. Kotaka from B&F said it was a timing issue for them because they intend to come up with the instructions by the end of the month. She said they do not know if the Council wanted to change the growth rates or apply them to the higher base.

Dr. Suyderhoud said the members would not know that until they did their new forecast. Ms. Kotaka agreed, but said they had asked a similar thing last year when the growth rate was very different from what it was projected.

Ms. Niwao asked whether the members decided to leave the growth rates the same last year. Dr. Rousslang said yes. Dr. Bonham said he thought that would be the most common reaction on the Council's part. He said the Council makes adjustments to the forecasts for the current and next fiscal year, and then tends to adopt a steady growth path for later years, which means that when the level changes, they were growing from the new level. He said what the members have not done is have a conversation about why the forecast was several percentage points too low. Dr. Grandy agreed. Dr. Bonham said, for example, if the Tax Department found a delinquent taxpayer to give them a couple of hundred million, then he would not want to project that forward. Ms. Niwao agreed and said she still had a problem with the refund issue from March. She said she has some clients that still have not received their refunds, including some who have a large amount coming. She thought there was a problem with the refunds that was not resolved by June 30th.

Dr. Bonham suggested that the Council address the economy. Dr. Suyderhoud agreed. He suggested that the Council stick to the topic of personal income. He asked if the Council should respond to the request by B&F at the present meeting. Dr. Bonham asked how the Council would respond. Dr. Suyderhoud said he was inclined to ask B&F for their indulgence and allow the Council to update the revenue forecast at their September meeting. Dr. Bonham agreed and said he did not want to provide more information until September. Dr. Grandy agreed and said he did not think that the Council should try to make a forecast at the present meeting. Ms. Niwao said it would be like making a general fund forecast. Dr. Bonham agreed. Dr. Suyderhoud said it would be a change in the general fund forecast made without regular processes. He said the Council extends its apologies to Budget and Finance, but asked them to wait for the Council's revenue forecast in September. He asked if there were any other communications to the Council. There were none.

MINUTES OF THE MEETING OF MAY 28, 2013:

Acting Chair Suyderhoud called for a motion to approve the minutes.

It was moved by Ms. Niwao and seconded by Dr. Grandy that the minutes of the May 28th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Absent
Kurt Kawafuchi	Absent
Marilyn M. Niwao	Yes

TOTAL PERSONAL INCOME FORECAST:

The Council then turned to the forecast for the growth rate of total personal income. Dr. Suyderhoud asked Dr. Rousslang if he wanted to take the Council through the COR workbook. Dr. Rousslang asked Mr. Jahanmir if he could walk the Council through the workbook, which he had prepared. Mr. Jahanmir compared the Council's forecasts with the actual personal income growth in 2012. He said the actual growth of 3.94% was close to the Council's latest forecast of 4.40%. Dr. Bonham asked if the forecasts are for calendar years. Mr. Jahanmir said yes, and he presented the different forecasts for 2013 and 2014 that were generated by the Tax Department's different models.

Dr. Suyderhoud pointed out that the growth in total personal income being forecast was nominal growth, which includes inflation. Dr. Bonham asked for an average of all the model forecasts. Dr. Rousslang said the simple average is 4.01% growth for 2013 and 4.75% growth for 2014. Dr. Suyderhoud asked if the average included UHERO (University of Hawaii Economic Research Organization) and DBEDT (Department of Business, Economic Development & Tourism) forecasts. Dr. Rousslang said no. Dr. Bonham suggested having an average of just the Department of Taxation's models, and another average of all the forecasts, including the ones by DBEDT and UHERO, which would pull the average up. He said UHERO's forecast will be a bit lower the next time it is released. He said he would be surprised if there is a 5% increase in personal income this year, because of the effects of sequestration and of the tax increases, which he said would affect the economy. Mr. Jahanmir said the quarterly trend in personal income is downward. Dr. Bonham said yes, but that the fall is slow. He said some of the decline was caused by the jobs data for 2013. He said in the first quarter, in almost all sectors, there was a decline over the 4th quarter of the previous year, but that he thought those figures would be revised. He said UHERO expected 2014 and 2015 to be the strongest years of this cycle because 5 thousand to 7 thousand construction workers would be going to work and because tourism is still contributing positively to growth.

Ms. Niwao noted that the Obamacare and taxes would be taking effect. She said individuals are supposed to sign up for health insurance in 2014. She said there are a lot of people and families without health insurance. She said large employers will be required to pay for the health insurance for their employees in 2015, which could cause them to cut back on wages or wage increases for their employees. She said the payments they now make for health insurance are not included in personal income. Dr. Bonham said the benefits are included in personal income. Dr. Rousslang said total income included transfer payments to people, but contributions to social programs were subtracted. Dr. Bonham said UHERO was considering how the new health law was going to affect the healthcare industry. He said one possibility is increased activity in setting up the exchanges, digitalizing records, and other activities surrounding the law changes. Ms. Niwao said the Medicare reimbursements to doctors would decline. Dr. Bonham said that the Congressional Budget Office had estimated that the new health care laws would have a net positive effect on economic growth and he did not think there was reason to believe that the effect would be the opposite for Hawaii. Ms. Niwao said it was a question of how the small businesses would be affected by the age-rated structure for the insurance. She said she now pays a set amount for each employee, but that under the new healthcare law, the payment would be

based upon age. Dr. Bonham said businesses with an old workforce will pay more, but those with a young workforce will pay less. Ms. Niwao noted that we have a lot of older workers in Hawaii. Dr. Bonham said it was necessary to keep in mind that the forecast is for total personal income and not tax revenues. He said in forecasting the economy, some big details are that there would be work on 5 or 6 condo towers in 2014 in Kaka'ako. He said some of the projects have already broken ground and that others will be breaking ground at the beginning of the year. He said that visitor spending is continuing to grow and that the State and local governments are no longer cutting jobs because of the budget increases that they have had. He said those are big considerations. He said another big consideration would be if there was another round of sequestration.

Ms. Niwao said they talked about another round (of cuts) for the military. Dr. Bonham said that could happen. He thought rather than a growth rate of 4.7%, he would prefer a number like 4.4%, but he said he thought they were in the ballpark for 2013.

Dr. Suyderhoud asked if the Council is also forecasting for CY 2015 at that meeting. Dr. Rousslang said no, the forecast is just for 2013 and 2014.

Dr. Bonham said he would prefer 4.5% growth for CY 2013 and a range from 5.0% to 5.50% for 2014. Ms. Niwao asked if his forecast was based on expected construction. Dr. Bonham said it was based on a lot of things: construction was a big consideration, but also, unless there is another round of sequestration, even if spending does not rise, the negative impact of the spending reduction will be gone. He said the whole economy has started to function again, including construction, consumer spending, visitors' spending, State and local government spending, and rail. Dr. Grandy said he agreed with Dr. Bonham, but that Dr. Bonham's figure is a little stronger than his own would be. He said the trend of the quarterly growth rates for personal income has come down a little and the decline is worrisome. He thought that it reflected things like sequestration. He suggested 4.3% growth for 2013 and 4.7% growth for 2014. Dr. Suyderhoud asked if lower inflation was part of Dr. Grandy's lower forecasts. Dr. Bonham said he was comfortable with a forecast of 4.3% growth. Dr. Grandy said he does not see future inflation in commodities. Dr. Suyderhoud said lower inflation may be the cause of slower nominal growth, as oppose to slower real growth. Dr. Grandy agreed.

Dr. Suyderhoud asked Ms. Cambra what people in the visitor industry were forecasting for the rest of this year and next year. Ms. Cambra said although the fall's numbers are a little bit softer, the industry remained extremely healthy. She said Hawaii has the top growth rate in the United States and that the currency exchange rates looked good. She said the airlift for fall was softening a bit, but that was normal. She said everyone is predicting that the revenue per room for Oahu would grow for the 4th year in a row. She said everybody is feeling solid about growth, even with the talk of sequestration. Ms. Niwao asked if Ms. Cambra was talking about growth in the number of visitors, or just increases in hotel room rates. Ms. Cambra said the growth in visitors' spending. Dr. Bonham said one thing that has happened is the length of stay is coming down, because occupancy rates and room rates have gone up. Ms. Cambra said from the consumer's perspective, they are also having a harder time being away longer. She said visitors are using vacation in smaller blocks.

Dr. Bonham said expenditures are growing much slower than he had originally forecast, partly because the length of stay has come down while room rates have risen faster than anticipated. He said there seems to be some substitutions going on; people are paying more for the rooms and maybe not doing as much in activities or eating out. Ms. Cambra said they are spending a little less but are still keen on spending while they are here.

Ms. Niwao said she thought she noticed a fairly big slow-down in the restaurants. She said whenever restaurants offer kama'aina specials; you know there is something wrong, because otherwise they would never do that. Dr. Bonham said that is also consistent with the higher payroll tax, which would tend to cause a reduction in retail activity. He said it showed up in the job numbers; food and beverage, jobs and some of the retail sector all saw some flattening out, or declines from the 4th quarter. Ms. Niwao said visitors on Maui stop at Costco (which is right by the airport) and then go to their condos, and so the restaurants do not see a lot of their business. Ms. Cambra said the vacation rental businesses are “through the roof,” especially on the neighbor islands.

Dr. Suyderhoud asked if the Council wanted to forecast 2013 and 2014 separately or together. Dr. Grandy suggested doing them together. Dr. Bonham suggested 4.3% growth for 2013 and 5% growth for 2014. Dr. Grandy suggested growth of 4.8% or 4.9% for 2014. Dr. Bonham said that would be fine, but he thought they would be wrong. Ms. Niwao said they could change it later.

Dr. Suyderhoud asked the members for more discussion, to reduce the chance that they would have to amend their motions. He asked the members if they were comfortable with growth forecasts of 4.3% and 4.9%. Ms. Cambra said she agreed with 4.3% growth for 2013 and that she would lean toward a 4.9%, or slightly less than 5% for 2014. Dr. Suyderhoud said he also agreed with 4.3% growth for 2013, but leaned more toward 5% growth for 2014, especially if construction picks up as expected. He said inflation may pick up as well. Dr. Bonham said he thought inflation would start to increase in 2014, mostly because of housing. He said energy is not expected to contribute to inflation in their forecast for this year or next year. Ms. Niwao said the interest rate has gone up 1 point for the long-term mortgages in just one or two months, and she thought it might put a little damper on housing. Dr. Bonham said that two years ago, people were re-financing to get that rate which is still an incredibly good rate. He thought people may be anxious to buy houses now before rates go up further. He said he knows two young people working at the University who are out looking for homes, and they are scrambling because they are afraid the rates will rise to 5.50% or more. He said he did not think rates would go up, and that they may have already seen an over-shooting on the rates for the near term. Ms. Niwao asked if Dr. Bonham thought that the rates would come down. Dr. Bonham said he thought the rate increase has already occurred, that the rate increase that was coming a year from now has already happened, and that it is not devastating to the housing market.

Dr. Suyderhoud said it seems like the members agree on the forecast for growth of 4.3% for 2013. Ms. Niwao said yes. He asked if anyone wanted to move to forecast growth of 4.3% for 2013. Ms. Niwao so moved. Dr. Suyderhoud asked if there was a second. Ms. Cambra seconded the motion. Dr. Suyderhoud asked for further discussion. There was none.

A motion was made by Ms. Niwao and seconded by Ms. Cambra that the Total Personal Income forecast for CY2013 be 4.3%. The Chair called for the vote, and the motion passed with the following votes:

Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Absent
Kurt Kawafuchi	Absent
Marilyn M. Niwao	Yes

Dr. Suyderhoud asked the members to consider the forecast for 2014. He said he heard a range from 4.5 to 5.0%. Dr. Bonham suggested 5% or higher. Dr. Grandy suggested 4.7%. Ms. Niwao suggested splitting the difference and taking 4.9%. She asked if the Council forecasts the personal income two times. Dr. Grandy and Dr. Suyderhoud said the next forecast is in October. Ms. Niwao said the members could look at it again then.

Dr. Bonham moved that the growth forecast for 2014 be 4.9%. Ms. Niwao seconded the motion. Dr. Suyderhoud asked if there as any further discussion. There was none.

A motion was made by Dr. Bonham and seconded by Ms. Niwao that the Total Personal Income forecast for CY2014 be 4.9%. The Chair called for the vote, and the motion passed with the following votes:

Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Absent
Kurt Kawafuchi	Absent
Marilyn M. Niwao	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, September 5, 2013 at 2pm; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

ADJOURNMENT:

The meeting adjourned at 2:42 p.m.