

## **COUNCIL ON REVENUES**

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

Tuesday, May 24, 2016  
2 p.m.

### **PRESENT:**

#### Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,  
Christopher Grandy, Elizabeth P. Cambra, Jack P. Suyderhoud and Kristi L. Maynard

#### Staff Members:

Department of Taxation (DOTAX): Yvonne Chow and Donald Rousslang

Department of Budget and Finance (B&F): Terri Ohta, Gregg Hirohata-Goto,  
Donovan Chun and, Neal Miyahira

#### Others:

Nandana Kalupahana, House Finance  
Alberto Vargas, House Finance  
Paul Harleman, Senate Minority Office  
Joy Kimura, LECET  
Maria Zielinski, Director of Taxation  
Joseph Kim, Deputy Director of Taxation  
Mallory Fujitani, Department of Taxation  
Titin Sakata, Department of Taxation  
Calvin Azama, Senate Ways and Means  
Kevin Dayton, Star Advertiser  
Wayne Yoshioka, KHPR

### **CALL TO ORDER:**

Chair Kawafuchi called the meeting to order at 2pm. A quorum was present.

### **COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:**

Chair Kawafuchi asked if there were any public comments or communications to the Council.  
There was none.

### **MINUTES OF THE MEETING OF MARCH 10, 2016:**

Chair Kawafuchi called for a motion to approve the minutes for the meeting of March 10.  
Ms. Maynard moved to approve the minutes (as amended). Dr. Grandy seconded the motion.

**It was moved by Ms. Maynard and seconded by Dr. Grandy that the minutes of March 10 meeting be approved (as amended). The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2016:**

Chair Kawafuchi said that April general fund growth was 6.1% and that the current forecast is 6.7%. He asked who wanted to start the discussion. Dr. Bonham moved to keep the forecast unchanged. Chair Kawafuchi asked if he wanted to make the motion with no discussion. Dr. Suyderhoud said he had the right to do so. Chair Kawafuchi said he wanted to make sure he had the proper information before the vote. He asked what was happening with the Department of Taxation (Department) refunds, if there were any delays or if money was coming in faster. He also asked if there was any update on the online travel cases.

Director Zielinski said refunds were up by \$101.2 million compared to the same time last year. Chair Kawafuchi asked if the Department was processing refunds faster. Director Zielinski said yes and that refunds were being managed very closely. She said there appears to be less in refund being requested this year compared to last year. She said they paid out \$101.2 million more in refunds than last year as of April 30. Chair Kawafuchi asked if she estimated that refunds would even out by the end of the fiscal year. Director Zielinski said that about \$38 million in refunds were waiting to be processed, which is a small amount. She said that last year they had paid about \$200 million at this time. She said they are still getting refund requests and that they estimated that about \$100 million more in refunds might be processed by the end of the year, including the \$38 million waiting to be processed. Dr. Rousslang said a hundred million dollars in refunds was a little more than was paid out in the last two months in fiscal years 2013 or 2014. Chair Kawafuchi asked if it was about \$10 million more. Dr. Rousslang said he thought the average of 2013 or 2014 was about \$90 million compared with over \$190 million for fiscal 2015. Dr. Bonham said he didn't think they should use 2015 in the comparisons, because the year was so atypical. Dr. Bonham said we've already paid out \$100 million more this year than we had at this time last year. Ms. Maynard said last year we had a catch-up at the end of the year. Dr. Bonham said that Director Zielinski had said only that we've paid out more. Chair Kawafuchi said that Director Zielinski had also said that refund claims seem to be less this year. Director Zielinski said that's what she had heard from staff. Dr. Bonham said that implied faster processing. Chair Kawafuchi agreed and said that if he understands correctly, the sense of staff is that the average refund claim is lower. Director Zielinski said the cumulative refund total as of April 30 was \$303.4 million. She said that compares to \$226.1 million in the previous year. She said the previous year was an anomaly. Director Zielinski said refunds as of the end of April were \$398.1 million in fiscal 2014 and \$350.1 million in fiscal 2013. She repeated that there is about \$38 million in the queue. She

said it seems like refund requests are lower than they were in previous years.

Chair Kawafuchi asked Director Zielinski if 'in the queue' meant the amount reported on processed returns. Director Zielinski said yes. Chair Kawafuchi said that didn't account for returns that haven't yet been entered into the system. Director Zielinski agreed.

Ms. Niwao said that large checks from some of her clients haven't been cashed. She asked if collections were being done normally. Director Zielinski said they had looked to see if there were delays in deposits. She said the GET that comes through the mail goes to a cash lock box at First Hawaiian Bank and is credited within 24 hours. She said for other tax types received in the mailroom, the delay is 3 to 4 weeks. Ms. Niwao asked if the delay is the same as last year. Director Zielinski said it was less than last year, which she said was 8 weeks. She said taxpayers with a GE tax liability of more than \$100,000 should E-file, but some of them were sending a physical check. She said that in answer to Ms. Niwao's question, the delay is 3 to 4 weeks, and that was during the peak season.

Dr. Grandy said there was a big drop in year-over-year net tax collections from April to April. He asked if something unusual happened in April. Director Zielinski asked what he was referring to. Dr. Grandy said that collections in April 2015 were higher than in April 2016 by 6.3% and he wondered what happened. Director Zielinski said she wasn't sure. Dr. Grandy said when he calculated the percentage change, not for fiscal year-to-date, but for 12 months-over-12 months ending in April, the 12-month growth rate fell from 6.33% in March to 4.12% in April. He said if we continue on that path, at the end of the fiscal year the growth rate would be something like 4%, and not 6.7%.

Dr. Rousslang said that April refunds for individual income tax were about \$40 million higher than last year. Director Zielinski said that in April they had processed over \$81 million in individual refunds. Dr. Bonham said it's not uncommon to have one month with negative growth. He said he thought there were two such months in 2015. Dr. Grandy said it's not the number of months with negative growth that concerned him, but the rates of growth over 12-month periods. Dr. Bonham said that the 12-month sum didn't constitute a trend. Dr. Grandy said that tracking the growth rates of the 12-month sum every month, he found that they seem to be falling. Dr. Bonham said one of the reasons they're falling is that we had an enormous start to the fiscal year. He said he thought we had growth of 20% in July or August, because of the Hurricane Relief Fund and the online travel company settlements. He said he thought growth rates have been falling fairly steadily since then. He said the question is what the trend growth rate is now. Dr. Grandy said they were trying to figure out what it was going to be at the end of June. He said the path we're on is not consistent with growth of 6.7%. Ms. Niwao agreed. Dr. Bonham said it was consistent with 6%. He said he took the difference between this year's general fund revenues and last year's through April, took the average monthly difference, then took out the huge August effect, then added that average to the next two months and still got over 6% growth for the fiscal year.

Ms. Niwao asked if he took out the online travel companies. Dr. Bonham said no, because that was part of the total collections for the fiscal year. Ms. Niwao asked if the online travel company revenues are included in GET collections. Director Zielinski said yes, about \$35 million. Ms. Niwao said the GET on business tax receipts was growing at 5.7% at the end of March and at 5%

at the end of April. Dr. Suyderhoud said the growth rates were slowing down. Ms. Niwao said it was a slowdown in the growth rates of the GET, which captures what's going on in the economy for businesses.

Ms. Maynard asked Dr. Grandy if he was finding a growth rate of about 4% for the year instead of 6%. Dr. Grandy said the growth rate in the 12 months from April of last year through April of this year was about 4%. Dr. Suyderhoud asked if he was suggesting that the fiscal year 2016 general fund growth rate is going to be 4%. Dr. Grandy said yes. Chair Kawafuchi said that was a big drop in the last two months. Dr. Suyderhoud asked Dr. Grandy how he got to 4%, since right now growth rate was 6.1% with two months left (May and June). Dr. Bonham added that it would require having almost no growth for the rest of the year. Dr. Suyderhoud asked again how growth would drop from a rate of 6.1% as of the end of April to 4% for the fiscal year.

Dr. Grandy said in May of 2015 the percentage change from May 2014 was a negative 16% for general fund revenue and June 2015 over June 2014 was positive 12%. He said big swings in the last two months last year might have played a role. Dr. Bonham said part of what's going on is that we had very unusual data at the end of last year. He said he thought 4% growth might make sense for next fiscal year, but he didn't think it was likely for this fiscal year. Dr. Grandy said okay. He said his concern was that the sum of the monthly numbers from April 2015 to April 2016, which is a whole year of data, showed growth of only about 4% (actually, 3.7%). Dr. Bonham said if we grow at 4% for the next two months, we would still have 5.8% general fund revenue growth. He asked Dr. Grandy what he thought the growth rate would be for the last two months of fiscal 2016. Dr. Grandy said he thought the best forecast was about 4%. He said to get to 6.7%, we would need to grow over the next two months by about 9.7%. Dr. Suyderhoud said, actually, 9.3%. Ms. Maynard said we'd have to have negative growth for the last two months to get 4% for the fiscal year.

Chair Kawafuchi said that a forecast of 4% for the year would reduce the forecast by 2.1% from the preliminary figure for April, but even further from the 6.7% previous forecast. He said if we have zero growth for the last two months, we end up with 5% for the year, because it's one-sixth of the year. But he said May and June tend to be high months. Ms. Maynard said 6.1% times 10 yields 61%, so if we have zero growth for two months and divide by 12 we have about 5% for the year. Chair Kawafuchi said that means we would have to have negative 10% growth in the last two months to pull the total growth for the year down to 4%. Ms. Maynard said yes.

Ms. Niwao asked if they had considered the roughly \$36 million that came in earlier this year that would not be coming in for the next two years. Chair Kawafuchi said there was the one-time large amount from the resolution of the case that would increase the base slightly going forward. Ms. Niwao said the bulk of it came at the beginning of the year and that it is worrisome that the GET revenue growth rate is going down. Chair Kawafuchi asked about further work on the online travel company cases. Director Zielinski said they were working with the special deputy AG on various aspects of the online travel company cases. She said that amount at stake was smaller than from the earlier settlement, perhaps several million dollars. Chair Kawafuchi said he understood they were working on more than the online travel companies. He asked about the effect on the general fund revenue stream. Director Zielinski said they were trying to speed up the audits. She also said they were looking at a number of initiatives, and the second roll out for the new tax

system modernization (GET and TAT) will take effect in August. Chair Kawafuchi said thank you.

Ms. Maynard said she didn't know how much of the revenue usually comes in the last two months. Dr. Suyderhoud said sometimes it is a lot. Ms. Maynard said if May and June are relatively typical, 5% growth may be an appropriate forecast. Ms. Niwao said she thought in the past there were problems with collections in the last two months, mainly because of the collection activity. She said the Department of Taxation didn't deposit the money or didn't make the refunds, or did other things that greatly affected the growth rate. She said she wasn't sure we have a situation like that this year and that it didn't sound like they were withholding the refunds.

Dr. Bonham asked Dr. Grandy about his calculations. Dr. Grandy said he did the calculations Dr. Bonham asked about and said growth rates would have to be negative 6% in the next two months to get to 4% growth for the fiscal year. Dr. Bonham asked about Dr. Grandy's 12-month sum, April to April. He said his calculations based on data from DBEDT (Department of Business, Economic Development and Tourism) yielded 5.3%. One of the reasons he thought that happened is that there were revisions of the monthly data. Dr. Grandy said yes, and that he was updating his numbers as the actual data come in. Dr. Bonham said if you applied Dr. Grandy's figure for growth through April to the last two months, the result is 6% growth for the fiscal year. Dr. Grandy said yes, but that by the time we get to the end of June, his calculation (the rolling 12-month growth rate) would be what was in fact achieved in the fiscal year, the number they were trying to forecast. He agreed with Dr. Bonham that growth in calculations would have to be negative 6% for each of May and June this year to reach 4% for the fiscal year.

Ms. Maynard said she didn't know how much of the big catch up in refunds last year happened in May and June. She asked what affected the year-over-year comparison. She said refunds in the last two months of fiscal 2015 totaled almost \$200 million. She said we probably would not have so much this year. Director Zielinski agreed and said there is only about \$38 million in the queue. Dr. Bonham said if you do the year-over-year growth rate and calculate the average growth rate over the last 12 months you get 6.6%. He said for the previous year, you get 6.1%. He said the average monthly growth of tax revenues has actually gone up, which made sense given that the Hurricane Relief Fund went away and other changes. He said one gets very different results depending on how the calculation is done. Ms. Maynard asked what the dollar amounts were. Dr. Bonham said that last May tax collections were \$525 million and last June they were \$482 million. He said the numbers varied widely, that the previous May (fiscal 2014) was \$624 million and the previous June was \$431 million.

Ms. Niwao said her biggest concern was the GET, which is the biggest revenue source. She said the growth rate for the GET in February was 6.6%, but it was only 5% as of the end of April. She said the growth rate was falling, which signaled a slowdown in business activity. Dr. Bonham said that is why growth is slowing down. Ms. Niwao said to her it meant that business activity was not growing as fast as before.

Dr. Bonham asked Ms. Niwao what information she was referring to. Ms. Niwao said the rate of general excise tax collection was coming down. Dr. Bonham asked if that was for the fiscal year-to-date, or for one month. Ms. Niwao said it was for the last few months of the fiscal year. Dr.

Bonham said we've had two months of negative growth rates in the year-over-year comparisons. Dr. Suyderhoud said the number Ms. Niwao was referring to was year-to-date. Ms. Maynard asked Dr. Bonham about the negative numbers. Dr. Bonham said the data were incredibly noisy. He said you can have 20% or 25% growth rates year-over-year, or minus 5% or minus 10% growth rates year-over-year. He cautioned against trying to convert noise into trends. Ms. Niwao said the growth in GET was at 5% the end of April, and part of that included collections of \$35 million from the online travel companies. Dr. Bonham said they had two months at the beginning of the fiscal year that were huge (July and August); \$300 million in July and almost \$300 million in August. Ms. Niwao said that the GET was the main source of revenue. Dr. Bonham said she was converting a growth rate that had been driven down in the last several months by unusual factors into a conclusion about the overall economy. He said the data were noisy and that all it would take was one good month to completely change the trends.

Ms. Niwao asked if the Council could discuss the underlying economy. Chair Kawafuchi referred to a hand-out provided by the tax department. He said to hit 6.7% growth for the year, they would need to average 9.3% growth for the last two months; to hit 6% for the year, they would need 5.3% growth for the last two months. He said during the first months of 2016, growth was hovering around 7%, but the April cumulative year-to-date showed growth of only 6.1% for the general fund. Ms. Niwao asked Dr. Bonham if he had seen any changes in the economy in the last two months. Dr. Bonham said that he thought the data for the first quarter of the year were coming in stronger than most people anticipated, certainly stronger than they had been forecasting. Dr. Suyderhoud said the visitor count and job growth numbers have been stronger. Dr. Bonham said job growth has been stronger than expected, over 2% job growth for the first three months of the year.

Ms. Niwao said she saw many empty retail spaces in shopping centers on Maui and that some of the bigger stores that are renting are going to build their own facility and then move. Ms. Cambra asked if the companies were closing or just relocating. Ms. Niwao said Lowe's was going to relocate elsewhere in Kahului. She said they will construct their own building and that the GET that would otherwise have been paid on rent to their landlord would be lost. She said the retailers are having more difficulty competing with online retailers. She said more online retailers are offering free shipping from the mainland and paying GET only if they have a presence in Hawaii. She said this makes it harder for the retail stores that are physically here to compete and that they are losing business. Dr. Bonham asked if that was something new for this year. Ms. Niwao said she's a shopper and has observed that for the last couple of years more people have been offering free shipping. Ms. Cambra said that was not a recent trend and that the businesses that Ms. Niwao referred to were moving rather than closing. Ms. Niwao said Sports Authority was closing all their stores. Dr. Bonham said retail trade jobs on Maui last year went up over 4%, although they were not at a new record yet. Ms. Niwao said the businesses were building their own facilities instead of leasing from the shopping centers. Dr. Bonham said that was vertical integration that would take out some of the excise tax. Ms. Niwao said they don't have to pay GET if they own their own building. Dr. Bonham said the GET savings becomes profits subject to corporate income tax. Ms. Niwao agreed, but repeated that the GET was lost.

Chair Kawafuchi asked Ms. Cambra about bookings for the travel industry through the summer. Ms. Cambra said they were healthy. Chair Kawafuchi asked if it looked like decent growth. Ms.

Maynard asked if growth was 1% or 10%. Ms. Cambra said growth is positive, although it is not as aggressive as it has been over the past few years. She said airlift is slightly up and that a few more routes were added. She said they continued to watch the currency exchange rates. She said the Australian dollar was a bit low, but that there was no indication of a shift in tourism. She said the International Marketplace opens in August. She said she's not sure what the projections were for occupancy. She said she thought it was a bit lower than anticipated, but nobody has given official numbers. Dr. Bonham asked if the Ritz just opened. Ms. Cambra said yes, the first tower. Dr. Bonham also asked about the Hilton Garden Inn (the old Ohana Waikiki West). Ms. Cambra said she hasn't heard if their opening date has changed. She said based on the construction progress, the date may change, but not by too much. She's said she thought they were accepting bookings from late July and on. Dr. Bonham said the former Ihilani (Four Seasons) reopened. He said he thought they were going to do a soft opening, but then changed it because there was so much demand. Ms. Cambra said she hadn't heard anything about whether developments at Disney were having an effect. Dr. Bonham said Disney was unique. He said they had calculated that close to 2% of the official capacity for Oahu went out for renovation last year and is coming back.

Dr. Suyderhoud asked to make an observation on the collection trend for this year. He said cumulative refunds for individual income tax through April were \$300 million compared to \$226 million last year. He said the difference was \$77 million or 1.5% of general fund tax revenues. He said if refunds had been the same as last year as of the end of April, revenue growth would be 7.6%. He said all of the worry about the erosion of the revenue growth was driven largely by the timing of the refunds. Ms. Maynard said that was a big effect. Dr. Bonham said it was that way at the end of every fiscal year until they get a refund prediction model. Dr. Suyderhoud said the May revenues would look much better than last year, because we won't have as much refunds as last year. Ms. Maynard said if refunds were \$100 million or \$150 million less this year, the effect would be big. Dr. Bonham said the change in refunds helped to explain the decline in growth in the last few months. The growth declines earlier in the year came because of the big months at the beginning of the fiscal year, when growth started off close to 10%.

Ms. Maynard asked what sort of surprise they might see in refunds in May and June of this year compared to last year. Dr. Rousslang said he calculated that if refunds are \$100 million lower in May and June this year compared with last year and everything else is the same, the growth for the fiscal year would be 6.8%. He said if we collect the same in May and June as we did last year, the growth would be 5.5%. Ms. Maynard said refunds were clearly an important part of the story. Dr. Bonham added that it was "noisy." He asked if they had said earlier that refunds would be running about \$30 million less per month. Dr. Rousslang said refunds in the last two months of last year were \$192 million, but that in the two years before that, they averaged only about \$87 million in the last two months. He said if refunds this year are like those in fiscal 2013 or fiscal 2014, then refunds will be \$100 million lower than in the last two months of the year. He said total refunds last year were very low. He said if we have only \$100 million refunds for the rest of this year, then the total for the year would be lower than it was last year. Director Zielinski said that staff had said the refund claims seemed lower this year.

Dr. Bonham said the refunds on the individual tax returns seem to be lower, but that so far this year we have paid out more, which implies we've accelerated refund processing relative to April last year. Ms. Maynard said we paid out more in refunds, so net collections are less but for the last

two months it will probably turn around, although we don't know how much. Director Zielinski said she thought Dr. Rousslang had said that refunds for the remainder of the year might be about \$100 million. She said she thought Dr. Rousslang was being conservative about the effect on tax revenue.

Ms. Niwao said there were some big refunds resulting from the photovoltaic credit and from audits. She said refunds from two years ago were being paid this year, because they were closing audits. Ms. Maynard asked if she understood correctly that we paid out more refunds this year so far, but we think the total for the year may be less than last year, which would point to a higher growth for the remainder of the year.

Dr. Suyderhoud said Dr. Bonham had suggested leaving the growth forecast at 6.7%. He asked the members to give a number. Dr. Bonham said that he thought they didn't have enough new information to change the forecast, although he said Dr. Grandy might disagree. Ms. Niwao asked Dr. Bonham if he thought we would have growth of 9.3% in the next two months. Dr. Bonham said we certainly could if the refund situation changes. Dr. Suyderhoud agreed. Ms. Maynard said 9.3% was a big number. Ms. Niwao agreed. Dr. Bonham said we had growth of 9.5% in March, 10.7% in December, and -6.3% in April compared to the same month last year. He said anything could happen in two months.

Dr. Grandy suggested talking a little bit about the economy in general. He said when he was putting together his forecast of the nine variables, he felt quite positive. He said construction activity as measured by the contracting tax base is at fairly high growth rates: although they were beginning to slow down, they were still above 10%. He said growth in visitor arrivals has now crept up to a steady 5%, based on rolling 12-month percentage changes. He said growth in visitor expenditures is around 3%, which has been fairly steady for the last couple years, while real personal income seems to be growing on average at about 3.5% for the last quarters. He said when he was doing his forecast he thought that things were going fairly steadily and at reasonably high levels. He said he was surprised afterward to see the April number and the big effect it had on general fund revenue growth. He said that in answer to Dr. Suyderhoud's question, he would probably forecast growth for the fiscal year at about 5% or 5.5%.

Dr. Suyderhoud said the models, which are based on the members' economic assumptions, were giving growth rates of 7.5% to 10.3%. He said this implied they were all more optimistic than the revenue numbers were suggesting. He said he thought that Dr. Grandy's figure of 4% growth was due to the refund story. He said if refunds were being paid faster this year, then they would be less in the last two months. He said he thought that was likely. He said he was willing to reduce his forecast to 6.4%. He said he thought Dr. Bonham was right and that the general fund collections in the last few months were reflecting noise. He said he thinks the economy is sufficiently strong and that they should not be distracted by the noise. He said he would be happy to second Dr. Bonham's motion of 6.7%, but that he knew it would not be accepted by the rest of the members.

Dr. Bonham said the economic data has grown stronger since the last meeting. He said he thought the forecasts submitted in the last meeting were a bit weaker than those for the present meeting. He said the strength in the incoming data was a surprise. He said they had anticipated that growth would slow as the year went on, but in the first quarter of the year they saw 20% growth in



construction jobs. Ms. Maynard said that was hard to believe. Dr. Bonham agreed, and said the growth came on top of 10% last year. He said that the economic data is coming in strong, but that a couple of things were working to reduce the general fund tax data. He said we started off the year with incredibly high growth because of the online travel companies and also the Hurricane Relief Fund, so growth rates have been slowing steadily. He said there was also a change in refund processing from last year to this year. Ms. Niwao said that the numbers don't incorporate people who are non-compliance with taxes. Dr. Bonham said there are no data that could help forecast that. Dr. Suyderhoud said that they had the same discussion two years ago. Dr. Bonham said they also had the discussion last year when they lowered the forecast.

Ms. Niwao said there seemed to be a disconnect between the economy and the actual tax collections. Dr. Suyderhoud said the actual tax collections are subject to a lot of things (processing, tax laws, aggressive refund analysis, refund processing) that can change from month to month. Ms. Maynard said she was concerned that they had started out with high growth numbers, but that every month the growth rate kept going down. Dr. Bonham said it had to. Ms. Maynard agreed, but said it was currently at 6.1%, with two months left. Ms. Niwao agreed. Dr. Bonham said that when he calculated the year-over-year growth rates and screened out some of the effects from the unusual events at the start of the year, he found growth from December through March went from 9% to 8%, but that it was the April collections that really yanked the growth rate down. He said the question was whether the May number would yank us back up to 8% growth, or whether growth would be 6% or even lower. Dr. Suyderhoud said that the 1.5% yank down in April was due to accelerated refunds. Ms. Niwao said Director Zielinski had said that the collection for the GET had been streamlined. Deputy Director Kim said that was only for a small portion of GET receipts (mostly individuals).

Dr. Bonham said that the running 12-month average growth rates of GET collections have been very steady. He said they were at 5.3% for the trailing 12 months right now and were very steady. He said if you only did the fiscal year, he thought there would be an even bigger drop off, because of the Hurricane Relief Fund issue. He said as he recalled last year when they were dealing with the tax fraud and the slowdown in refund processing, he thought the Council first lowered their forecast and then raised it over a couple of meetings. Ms. Maynard said their forecast ended up off, because the refunds were processed by the end of the year, whereas they had expected about \$100 million to be held over. Ms. Niwao said they had thought that 6.7% growth was conservative, but now growth was at only 6.1%. Dr. Suyderhoud asked what growth forecast would make her happy. Ms. Niwao suggested 5.8% to 6%. Dr. Bonham said that he thought 6% and 6.7% were not substantially different. Ms. Maynard asked Dr. Bonham whether he would mind changing his forecast. Dr. Bonham said he wouldn't mind. He said the models had errors that were much larger than that. He said their forecast errors tended to be larger than .7%, though not necessarily at this time of the year. He said he could accept a forecast of 6%. Ms. Niwao said that they could justify the forecast reduction based on the cumulative-to-date figure of 6.1% as of the end of April. Dr. Suyderhoud said watch the May figure. Ms. Niwao asked if it was going to go up. Dr. Suyderhoud said it would.

Ms. Niwao asked Dr. Suyderhoud what he thought about the June numbers. Dr. Bonham said if Dr. Suyderhoud was happy with a growth forecast of 6.7%, he must believe that growth in May and June are going to be higher. Dr. Suyderhoud asked Dr. Bonham if he was going to move to

make the growth forecast 6%. Ms. Maynard said she was influenced by the refund story. Ms. Niwao asked her if she thought 6.2% growth was a good forecast. Ms. Maynard said yes. Dr. Bonham said the difference between 6% and 6.7% was not material. Dr. Grandy agreed. Dr. Bonham suggested using the current growth rate, which was 6.1%. Ms. Niwao agreed. Dr. Bonham moved to adopt a growth forecast of 6.1% for fiscal year 2016. Ms. Cambra seconded the motion. Chair Kawafuchi called for a vote.

Chair Kawafuchi asked for all in favor. Dr. Suyderhoud voted no.

**It was moved by Dr. Bonham to adjust the general fund tax revenues growth rate down to 6.1% for FY 2016 (below-the-line). Ms. Cambra seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>No</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2017 THROUGH 2022:**

Chair Kawafuchi asked Deputy Director Kim if he wanted to say anything about the tax modernization program. Chair Kawafuchi said that he thought it would start in August. Deputy Director Kim said that would be the roll out of the GET and TAT. Chair Kawafuchi asked if the payment fee (\$1.00) for payments on line was going to be removed. Deputy Director Kim said yes, for the GET and TAT. Other tax types would be rolled out later. Chair Kawafuchi said he hoped the roll out for the GET in August would speed up the processing and the cash flow.

The Council members referred to tables 5A and 5B on pages 9 and 10 of the workbook. Dr. Suyderhoud asked the Council if there was any reason to change the current forecasts for the out years. The Council members agreed there was not. Dr. Bonham moved to keep the forecasts unchanged. Dr. Suyderhoud seconded the motion. Chair Kawafuchi said the motion was to keep the growth forecasts the same for all the out years, fiscal 2017 through fiscal 2022.

Chair Kawafuchi asked for a vote. The vote was unanimous.

Ms. Niwao asked if the TAT adjustments (which were \$213 million for 2016) were included in the below-the-line figures in table 6AA. Dr. Bonham said the above-the-line figures reflected the economic projections, whereas the below-the-line adjustments were made to account for changes in tax rules. Ms. Niwao said her question was whether the \$213 million TAT payments to special funds had already happened. Dr. Grandy said they were forecasting the below-the-line growth rate. Dr. Suyderhoud asked Ms. Niwao how the answer to her question would affect her forecast. Ms. Niwao said she wanted to know if further adjustments would be made in the last months. Dr. Rousslang said the below-the-line adjustment for the TAT was capped and was a fixed amount every month. Dr.

Bonham asked if that meant the cap amount was divided by 12. Dr. Rousslang said yes. Dr. Bonham asked if that meant playing "catch up" if there was a big downturn and funds were insufficient to make the payment, although he said that would probably require a big downturn. Dr. Rousslang said yes.

**It was moved by Dr. Bonham that the general fund revenue forecast remain the same for the remaining fiscal years: 5.0% (2017); 5.0% (2018); 5.0% (2019); 4.5% (2020); 4.5% (2021); 4.5% (2022). Dr. Suyderhoud seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

Mr. Chun from Budget & Finance provided the Council with the following revenue updates.

**REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:  
Significant Changes from March 2016 Report**

Mr. Chun provided the Council members with Budget & Finances' report of revised projections of general fund non-tax revenues and non-general fund tax and non-tax revenues since the March 2016 meeting. He said although our report includes a brief summary of significant changes, there are several significant changes highlighted:

**General Fund Non-Tax Revenues**

**Charges for Current Services** – the increases in FYs 16-22 reflect increases for reimbursements of other post-employment benefits prefunding from non-general funded programs (Department of Budget and Finance (B&F)). (\$61.0 M).

Mr. Chun clarified his statement to the Council members saying that the post-employment benefits are paid out of general funds and we're getting reimbursements from non-general fund programs (back into the general fund). So, we are charging back to the general funds their portion from special funds which includes federal funds of programs or special funded programs that generate revenues.

**Non-Revenue Receipts** – the increase in FY 16 reflects the premiums on bonds sold at a recent bond sale (B&F) (\$46.8 M) and transfer from the Public Utilities special fund pursuant to Chapter 269, HRS (B&F) (\$5.8 M).

**Special Fund Non-Tax Revenues**

**Charges for Current Services, Others** – the changes in FY 15 reflect adjustments by the Hawaii Health Systems Corporation due to an increase in acute patient days, additional revenues as a result of catch-up interim settlements for Critical Access Hospitals, and additional revenues from third-party payor contract negotiations (\$51.8 M).

Mr. Chun explained that this is over several years—contracting with a third party specialist to negotiate better (maximize) the reimbursement rate for the prior year and normally it's on the Medicaid. Dr. Bonham said so they got a payment but then payment was changed.

Dr. Suyderhoud said if we're looking at fiscal 2016, we're talking about more than a \$50 million dollar swing in table 4a 'Charges for Current Services, Others'. Mr. Chun said the total is about \$52 million.

Dr. Suyderhoud said he wanted to remind the Council that they've been arguing for an hour about \$50 million dollars, basically. Dr. Bonham said yes, well, if you go back and look at the swings, they are way larger than \$50 million when you add them all up.

**Dr. Suyderhoud moved to accept the B&F report as submitted and Ms. Cambra and Ms. Maynard seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Thursday, July 14, 2016 at 2pm for the next Total Personal Income (TPI) meeting and on Friday, September 2, 2016 at 10:30am for the next General Fund (GF) meeting; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

The Chair adjourned the meeting.

**ADJOURNMENT:**

The meeting adjourned at 3:21 p.m.