

## **COUNCIL ON REVENUES**

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

Friday, September 2, 2016  
10:30 a.m.

### **PRESENT:**

#### Council Members:

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

#### Staff Members:

Department of Taxation (DOTAX): Donald Rousslang,  
J. Guitguiten

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

#### Others:

Damien Elefante, Deputy Director of Taxation  
Titin Sakata, Department of Taxation  
Kathlyn Higa, Senate Minority  
Maria Calderon, Senate Minority  
Sharon Kotaka, Budget & Finance  
Landon Wong, HPPA (HI Public Policy Advocates)  
Sabrina Nasir, Senate Ways and Means  
Heather Schulz, Senate Ways and Means  
Randy Hyoto, House Finance  
Alberto Vargas, House Finance

### **EXCUSED:**

Christopher Grandy, Member

### **CALL TO ORDER:**

Chair Kawafuchi called the meeting to order at 10:32 am. A quorum was present.

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

Chair Kawafuchi asked if there were public comments or communications to the Council on Revenues (Council). Budget and Finance offered to present its report after the deliberations on the general fund revenues forecast. There were no other comments or communications to the Council.

**MINUTES OF THE MEETING OF JULY 14, 2016:**

Chair Kawafuchi called for a motion to approve the minutes for the meeting of July 14.  
Ms. Maynard moved to approve the minutes. Dr. Bonham seconded the motion.

**It was moved by Ms. Maynard and seconded by Dr. Bonham that the minutes of the July 14<sup>th</sup> meeting be approved. 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>Absent</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Excused</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**REVIEW OF RECENT LEGISLATION:**

Chair Kawafuchi asked the Department of Taxation (Department) who will be providing the review of legislation to the Council. Dr. Rousslang said he would provide the review due to Ms. Chow being absent. Chair Kawafuchi asked for the handout. Dr. Rousslang replied there was no handout and read from a short list.

Dr. Rousslang said there were few tax changes to review. Act 129, SLH 2016, amended the low income housing tax credit for buildings that become eligible for the tax credit after December 31, 2016 and before December 31, 2021. The amendment allows investors to take the State's tax credit over a five-year period rather than a ten-year period. The amendment is estimated to reduce general fund revenues by \$4 million in 2019; \$8 million in 2020; \$12 million in 2021; \$16 million in 2022; and \$20 million in 2023.

Chair Kawafuchi asked if credits were bunched in the first five years. Dr. Rousslang said yes. Chair Kawafuchi asked if there would be new credits as people continue to invest. Dr. Rousslang said it should not matter over the long term whether the credit is claimed over five years or over ten years. The impact is only during the transition period assuming taxpayers do not claim more total credits.

Ms. Maynard asked if there would be a decrease for the next 5 years. Dr. Rousslang said yes. Dr. Rousslang said there was another version of the bill that proposed to expand eligibility.

Chair Kawafuchi asked why the impact is so large in 2023 at \$20 million. Dr. Rousslang said it is because in the first year you have a certain number of claimants taking the accelerated credit; in the second year another group is taking the accelerated credit, so the impact in the second year is double the impact of the first year. The impact in the third year is three times the impact in the first year. This is assuming the same level of claims every year. Chair Kawafuchi asked if the amendment was effective after taxable year 2016. Dr. Rousslang said yes and that there is a two-

year lag between the time taxpayers receive approval and the time the credits are taken. Dr. Suyderhoud asked if the revenue impact was within the margin of error for purposes of the Council's business. Dr. Rousslang said yes.

Dr. Rousslang then covered the remainder of the Acts.

Act 202 repealed the ethanol facilities tax credit and created a non-refundable tax credit for production of renewable fuels. The Act became effective July 5, 2016 and applies to taxable years beginning after December 31, 2016. The credit is automatically repealed December 31, 2021. Dr. Rousslang stated that practically no one was claiming the ethanol facilities tax credit, which was repealed. The cost of the new credit is assumed to be the aggregate cap of \$3 million per year. Dr. Bonham said this cost does not show up in your table 2. Dr. Rousslang replied that the ethanol credit was too small.

Act 223 extended the amended TAT allocations. The Act gave the counties an extra \$10 million through fiscal year 2017.

Act 230 allowed medical marijuana dispensary licensees to deduct their expenses as ordinary businesses are allowed to do. Under federal income tax law these businesses are not allowed to claim deductions or credits. Historically, Hawaii conformed to this treatment. Act 230 decouples Hawaii income tax from this federal rule.

Dr. Suyderhoud asked if this change was for income tax purposes. Dr. Rousslang said yes. He said it is estimated to cost \$1.5 million per year starting in 2017. Dr. Rousslang said it is for medical marijuana businesses licensed under the medical marijuana program. Chair Kawafuchi asked if sale of medical marijuana qualifies under the general excise tax exemption. Dr. Rousslang said no. Chair Kawafuchi also asked if it qualifies as a prescription drug. Dr. Rousslang said no. Dr. Rousslang referred the question to Deputy Director Damien Elefante. Deputy Director Elefante said the sales would be subject to GET.

Dr. Rousslang said Act 235 amended the income tax credit for dependent care expenses by increasing the income thresholds at which taxpayers can claim certain percentages of their expenses for purposes of the credit. The percentage bottoms out at 15% at adjusted gross income of \$50,000 per year beginning in 2017.

Act 258 created a new tax credit for organic food production. The credit applies to taxable years beginning after December 31, 2016 and is automatically repealed December 31, 2021. The credit is expected to reduce general fund revenues by \$2 million per year for fiscal years 2018 through 2022.

Chair Kawafuchi asked for the overall impact of all the changes. Dr. Rousslang said he knew that question was going to come up and he did not have a chance to do the addition. He said it would depend on the years because of the low-income housing tax credit amendment. Chair Kawafuchi asked if he thought it was going to be less than one point. Dr. Rousslang said yes.

Chair Kawafuchi asked the Council if there were any questions. There were none.

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2017:**

Dr. Suyderhoud asked Dr. Rousslang to provide the Council with an explanation of the workbook. He said the forecast contained in table 1 for 2017 in dollar amounts got boosted. Dr. Suyderhoud added that revenues came in stronger in 2016 and there was a higher base. Dr. Rousslang said yes, the base was higher by about \$100 million.

Chair Kawafuchi asked if there was a reason why total revenue came in higher but went down about 2 points in July. Dr. Bonham replied that month-to-month fluctuations can be large. The Council was looking at a couple of months of big swings. Dr. Suyderhoud said these monthly variations should not be focused on. Dr. Bonham agreed.

Dr. Suyderhoud said that this year's July number is due to unusually high July numbers last year. Dr. Rousslang said that July last year was not high and neither was July this year but that some items were down, for example, corporate income tax is down by 63% (down by \$5.6 million compared to last July). If you are looking at July over July any change like \$5 or \$6 million becomes important. The total decline is \$10 million and that is 2.2% collections last year. Chair Kawafuchi asked about the end of the prior year for corporate income tax for fiscal year 2016. Dr. Rousslang said that collections were \$93 million, which was an increase from fiscal year 2015. Chair Kawafuchi said it did not go up by \$93 million but that it went up by about \$40 million. Dr. Rousslang said it went up \$40 or \$50 million.

Chair Kawafuchi said the base is higher by about 2%. Dr. Bonham said the base is higher because the Council was wrong. Dr. Bonham said the higher base does not mean the Council should lower the forecast.

Chair Kawafuchi asked how the new system will affect processing payments. Deputy Director Elefante said it is too early to tell because Roll Out Two was just two weeks ago. Chair Kawafuchi asked if there is a hope that the system will generate more money and improve compliance. Deputy Director Elefante said it would help with efficiency. For compliance, the Department will not see benefits until the last roll out. Chair Kawafuchi asked if the final rollout was a couple of years from now. Deputy Director Elefante said yes. Chair Kawafuchi asked whether the Department would be expecting an increase in revenue before the final roll out in two years. Deputy Director Elefante said no.

Chair Kawafuchi asked whether there will be more electronic payments and whether processing will be faster. Deputy Director Elefante said yes. Deputy Director Elefante said the department will see those benefits but that we have not quantified the expected benefits yet. Chair Kawafuchi asked whether the Department had any idea of the potential benefits when it was trying to get funding for the project. Deputy Director Elefante said yes, the Department knew there would be benefits but that it will take time for the benefits to materialize and be measured.

Chair Kawafuchi said he remembers when accelerating the revenue that each day is quite big and he thought it was perhaps \$6 or \$7 million. Dr. Rousslang said the weekend adjustment is based on a formula now because the bulk of the payments are made electronically for GET. Chair Kawafuchi asked what dollar percentage has come in electronically for GET. Dr. Rousslang said

87%. Ms. Sakata said that it is over 50% of GET dollar amounts and that the total dollar amounts are the big taxpayer dollar amounts. Chair Kawafuchi reiterated what Ms. Sakata stated, which is that more than 50% of the total dollar amount for GET is paid electronically. Ms. Sakata said she was not sure; it is the big taxpayers that are already required by law to file electronically. Chair Kawafuchi asked whether it is the Department's hope that eventually 80% or 90% of all GET taxpayers will pay electronically. Deputy Director Elefante said yes.

Dr. Suyderhoud said the Council is on record for 5% for fiscal year 2017 and Models 1, 2, and 3 average 5.2% according to table 6A. Dr. Suyderhoud said he thought that was low and that he did not know why the single-equation model is coming in so low, model 1 is 5.5% and model 2 (UCLA) is 5.7%. He said he proposes 5.5% for fiscal year 2017.

Dr. Bonham asked for the single-equation model. He asked if it is the old equation where tax collections total is a function of visitor arrivals and construction spending. Dr. Rousslang said it has more variables but is the aggregate of most tax types except TAT which is added to the result. Dr. Bonham asked whether it is a single-equation or if it is a single-equation for each tax type where each result is added up. Dr. Rousslang said it is a single equation for all tax types except for TAT.

Dr. Bonham said the economy has not changed since the last 3 months of last year; it is still strong. Dr. Bonham agreed with Dr. Suyderhoud that 5.2% is probably low. Ms. Maynard said there must have been a really large number for June. She asked whether the June numbers came in exceptionally strong. Dr. Rousslang said refunds were quite a bit lower for May and June. Dr. Suyderhoud said they had predicted that in April. The Council said April was low because the refunds were high; and the Council thought May and June refunds would come down. In spite of this the Council still lowered its forecast.

Dr. Suyderhoud said the Council is on the record for 5% and the issue for the Council is whether any members think the forecast will be lower than 5%. The next issue is whether the forecast should be above 5%. Dr. Suyderhoud said he does not think 5.5% is unreasonably high given what we know about the economy at the present time. Ms. Maynard said she likes 5.5%.

Dr. Bonham said the Council is working on updating its forecast and that most major categories on an annual basis for 2016 and 2017 are higher than what the Council thought in the 2<sup>nd</sup> quarter.

Chair Kawafuchi said the economy grew last year and asked what is going to keep pushing it up. Dr. Bonham said the same things that pushed it up last year. Chair Kawafuchi said the issue is whether the construction sector has peaked. Dr. Bonham said he thinks the sector had peaked. Dr. Bonham said he does not expect this cycle to look like the last two cycles, which were abrupt downturns. Instead it will be a flattening out because of the transition away from high-rises toward single-family homes.

Dr. Suyderhoud asked if single-family homes are more labor-intensive than high-rises. Dr. Bonham said that is his gut reaction. Dr. Bonham then said that if you look at the construction cycle, total statewide permits are below their previous peak by 20%. However, the construction

job count has exceeded its previous peak. Some of that is because the rail does not show up in permits at all. Dr. Bonham did not think that was enough to explain the difference.

Ms. Maynard asked about new home construction on Maui. Dr. Bonham said Ho'opili is doing grading work there now. There are permit applications for 140 multi-family homes for that development and that groundbreaking should be in November. Koa Ridge is taking longer. Alexander & Baldwin is doing quite a bit on Maui; there are a lot of permit applications for multi-family homes on Maui.

Ms. Maynard then asked about single family homes. Dr. Bonham said they are starting with the multi-family and that single-family would follow. He said multi-family means townhomes, not high rises. Dr. Bonham said Ho'opili is planning to start single-family work.

Chair Kawafuchi asked Dr. Bonham if this would replace high-rise activity. Chair Kawafuchi said there has been a lot of high-rise construction. Dr. Bonham said he thinks 2015 was the peak. Dr. Bonham said he thinks construction jobs may have peaked in 2016. He also believes the economy will not see precipitous decline because of pent-up demand for single-family and multi-family townhouses.

Chair Kawafuchi asked Ms. Cambra about the tourism industry.

Ms. Cambra said there is seasonality approaching but our seasonality is still many other markets' dream scenario. There is some shift on the geographic makeup. Chair Kawafuchi asked about the geographic shift. Ms. Cambra said Japan is down slightly. Chair Kawafuchi said the Yen has been strong. Ms. Maynard asked about Canada. Ms. Cambra said she did not think Canada was down. Dr. Bonham said he thought Canada was down in total.

Dr. Suyderhoud made a motion to adopt 5.5% for 2017.

Chair Kawafuchi asked how much inventory has increased. Ms. Cambra said that for Waikiki inventory is up about 2%. Ms. Cambra added that it is unclear how the increased inventory will be absorbed. Ms. Cambra stated there will be pressure on prices when the shoulder season comes but added that it is not going to have a significant impact. Chair Kawafuchi asked if the additional inventory is from The Ritz, Hilton Garden Inn, and Ko'olina. Ms. Cambra said yes. The Hilton Garden Inn, The Ritz, and the Autograph will open in 2017. Ms. Cambra said she thought these would be in Q1 in 2017. Dr. Bonham said he thought the Ihilani came back on line this summer after refurbishment. Ms. Cambra & Dr. Suyderhoud agreed.

Ms. Niwao said the State is not going to get the Online Travel Company (OTC) money this year. Chair Kawafuchi affirmed that the big deposits were last year. Chair Kawafuchi asked about the rental car assessment. Deputy Director Elefante said he thought it aggregates to \$1 to \$2 million per year. Chair Kawafuchi asked if it was for all years and if it is from the direct bookings of the rental cars. Deputy Director Elefante said yes. Chair Kawafuchi said the court ruled that GET could be collected if someone goes on line and purchases solely a rental car. Deputy Director Elefante said yes. Chair Kawafuchi asked if the cumulative effect is only \$1 to \$2 million.

Deputy Director Elefante said yes. Chair Kawafuchi said if you divide that to a yearly basis, it is a fraction of that. Deputy Director Elefante said yes.

Chair Kawafuchi pointed out the lack of a deposit into the Hurricane Relief Fund of \$55 million during fiscal year 2016. Dr. Bonham affirmed, but added that the State still managed 8% growth in revenue for the year. Ms. Niwao said yes and stated it was because of the money from the OTCs. Chair Kawafuchi said in prior years \$55 million had to be paid out of the general fund. Ms. Niwao said last year we were a negative point 6 most likely due to the travel money. Dr. Bonham said it is one month of data so who knows. Dr. Bonham said if you look at the year-over-year growth rates, in May 2015 it was down 16%; in October it was down 9%; in August it was up 32%.

Dr. Bonham reiterated that the Council should not look at one month of data and let that affect its forecast for the year. Dr. Bonham said the Council should focus on the overall economy, i.e., what the Council members know about the overall economy and the relationship between the overall economy and tax revenue. If the Council has information on something large, not just \$2 or \$3 million dollars, like a payout from a lawsuit then the Council should take that into account.

Dr. Bonham pointed out that the Council has a motion on the table. Dr. Bonham seconded it. Ms. Cambra asked for clarification that the motion was at 5.5%. Dr. Suyderhoud affirmed. Chair Kawafuchi said the base went up by 1.2 percentage points to 8%. So the basis had gone up by 1.8% and then we are proposing to increase the previous forecast from 5.1% to 5.5%. Chair Kawafuchi said it is a one-half percentage point increase but over a base that has gone up almost 2%.

Dr. Suyderhoud stated that after the Council provided their input to the models, the models forecast about 5.5%. Dr. Bonham said 5.2%. Dr. Suyderhoud said that in March, when the Council was considering April, the Council was spooked by the April number. As a result, the Council did what was suggested by certain Council members, which was to base the forecast on one month of data when it was unclear the pattern would continue.

Dr. Suyderhoud reiterated that there was a motion for 5.5% for 2017. Dr. Bonham said he seconded it. Chair Kawafuchi took the vote. The vote was unanimous in favor of the motion.

**It was moved by Dr. Suyderhoud that the general fund tax revenues growth rate be 5.5% for FY 2017 (below-the-line). Dr. Bonham 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>Excused</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2018 THROUGH 2023:**

Chair Kawafuchi moved to discussion of fiscal year 2018 and onward. Dr. Suyderhoud pointed to table 5b and stated the forecasts are 5.5%, 4.5%, 4.5%, 4.5% and 4.5%. Dr. Bonham moved to adopt the current forecasts for the out years. Ms. Maynard asked whether Dr. Bonham had concerns it is too high. Dr. Bonham thought he was pulling down the average of the out years already. Dr. Suyderhoud said the average of the model has basically the same kind of behavior over 5% and then down to 4.5%. Dr. Suyderhoud seconded the motion.

Ms. Niwao asked about the baby boomers retiring, stating that they will not pay State income taxes on pensions. Dr. Bonham agreed but pointed out the additional taxes on retirement income other than pensions. Ms. Niwao said her concern is that pension income is largely not taxable, and the State will have to make that up with other ordinary income. Dr. Suyderhoud asked if Ms. Niwao thought the shift in the makeup of income would affect the revenue forecast. Ms. Niwao said yes. She stated she does tax returns for retirees so she sees the difference in pre- and post-retirement taxes paid.

Dr. Bonham said the Council does not know the magnitude of the shift in income type and therefore cannot quantify it. Dr. Bonham asked whether it is something that will lead to significant year-to-year changes in our forecast horizon. Dr. Suyderhoud reiterated that the Council cannot quantify the effect.

Ms. Niwao said that people are retiring from the construction industry leaving no one with the skills to replace them. Ms. Niwao thinks this will affect the forecast. Ms. Niwao said revenue will go negative because pension income is not taxable and retirees' incomes are lower.

Dr. Bonham said even if this materially affects the State's revenue stream, we do not know what tax rates are going to be five years from now. Dr. Bonham said pensions may not be taxed; maybe instead the tax rates on the top wage earners are increased. Ms. Niwao wants to quantify the demographic shift.

Chair Kawafuchi brought up the economic cycle on the national level and asked how many more years of growth the State can expect. Dr. Bonham said the State is seven years into continuous recovery as growth started in 2009. Dr. Suyderhoud said seven years is longer than the average expansion. Chair Kawafuchi agreed. Dr. Suyderhoud said he thinks there are warning signs.

Dr. Suyderhoud said the proposal for 2017 is 5.5% which is down 2.5 percentage points from 2016. However, the Council actually came in low for 2016 so we are forecasting a large deceleration of revenue growth. The forecast that is on the table right now is 5% through 2019 and 4.5% through 2022, which is a further deceleration. Dr. Suyderhoud said there probably would be a downturn in the out years so some of the numbers are too high. Dr. Suyderhoud also said that the Council could attempt to insert the downturn and make itself feel better now, but that if the Council did that the resulting number will have no more validity or accuracy than the current proposal. He said this is why he seconded Dr. Bonham's motion.



Ms. Niwao said she thinks there are two things that will have an impact: 1) baby boomers retiring and 2) from the balance sheet side, the State will be paying for pensions and benefits, and on a cash basis.

Dr. Bonham asked Ms. Niwao if she put that into her baseline forecast. Ms. Niwao said it is a complicated multi-variable thing and she does not have the data or the resources to figure it out. That she is just looking at what is happening from a macro, big picture perspective. Dr. Bonham said that was his point. He said we do not disagree with you that there will be some effects. But we have not quantified them.

Dr. Suyderhoud said a motion is on the floor, and asked Ms. Niwao if she had an alternative to that motion. Ms. Cambra said the motion is to adopt 5% for 2018; 5% for 2019; 4.5% 2020 through 2022 and 4.5% for 2023. Dr. Bonham said that technically that would not be the motion because he only moved to adopt the last forecasts. The Council would have a separate discussion on a 2023 forecast. Ms. Maynard asked if they should drop fiscal 2023 down to 4%. Dr. Bonham said yes.

Chair Kawafuchi said last year's growth rate was basically one-time events: the OTCs accounted for almost 1 point; not having to deposit the \$55 million into the Hurricane Relief Fund accounted for almost 2 points. Dr. Bonham said the average annual growth in general fund tax revenues from 1981 to 2015 is 5.5%. Chair Kawafuchi said he thought the short-term indicators are pretty positive. Dr. Bonham said we have already decided 2017; that it is no longer on the table. Chair Kawafuchi agreed.

Ms. Niwao said the Council should factor in the higher base. Dr. Suyderhoud asked for Ms. Niwao's proposal. Ms. Niwao said if the State had a recession, income growth would go down.

Dr. Suyderhoud pointed out that the Council has a motion on the floor, either offer an alternative or let the Council move on. Ms. Niwao asked whether anyone seconded the motion. Chair Kawafuchi reminded Ms. Niwao that the Council was giving her an opportunity to make a counter-proposal.

Ms. Niwao said if the construction is at the peak and people are going to start retiring, the Council should lower the forecast for 2019 or 2020 to 4%.

Ms. Cambra asked for clarification that Ms. Niwao was proposing 4% for 2019 or 2020. Ms. Niwao affirmed. Ms. Cambra asked about 2021 and 2022. Ms. Niwao's counter proposal was 4% for 2021 and 4.5% 2022. Ms. Cambra asked Ms. Niwao for her proposal for 2023. Ms. Niwao said 4.5%. Ms. Niwao said she thought there was going to be a downturn but she did not know when.

Ms. Maynard asked Dr. Bonham if he would feel comfortable if the Council dropped to the lower numbers for those three years. Dr. Bonham said yes because statistically there is no difference in the level of uncertainty between 4.5% and 5%. Ms. Niwao asked if there is a problem with the forecast for 2019 going from 5% to 4%, from 4.5% to 4% for 2020, and from 4.5% to 4% for 2021, and up to 4.5% for 2022. Dr. Bonham said he thought it was silly. He said we have a motion on the floor and thought the Council should vote on it.

Chair Kawafuchi asked for all those in favor of the motion. The yes votes: Ms. Cambra, Dr. Bonham and Dr. Suyderhoud. Chair Kawafuchi said the motion did not carry. Dr. Suyderhoud asked to do a count here. Chair Kawafuchi gave the count as three votes in favor out of six members.

Dr. Bonham said what you see in our out year forecast tends to be very stable because we do not know what the year-to-year fluctuations are going to be. So we tend to have these forecasts sort of converge on their long-term averages.

Dr. Suyderhoud asked for a point of order from the Chair. Chair Kawafuchi asked if the Council would like to take a vote on Ms. Niwao's proposal. Dr. Bonham and Dr. Suyderhoud both said the Council did not have a motion.

Ms. Niwao motioned her position of: 2018 at 5%; 2019 to 2021 at 4%; 2022 at 4.5%; and 2023 at 4.5%. Chair Kawafuchi said that if the Council used this proposal the result would be more in terms of dollars because the base increased by almost 2 points. Ms. Maynard seconded the motion. Chair Kawafuchi asked for a vote on Ms. Niwao's proposal. The motion did not carry.

Dr. Bonham reiterated his earlier point that he thinks it is silly for the Council to be moving the forecast up and down by little amounts over a short period of time. He said the reason why they adopt a flat line forecast is because we do not know when it will increase or decrease. Ms. Niwao said she would amend 2022 and 2023 to 4% so it looks even.

Chair Kawafuchi said the State is seven years into the economic cycle and that historically the economy does not keep growing but will dip. The construction boom peaked in 2016 and the State had some one-time payments in 2016. Chair Kawafuchi said that is how he sees the forecasts. Dr. Bonham agreed. The members do not know when the recession is going to happen so therefore we do not know when tax revenues are going to go down and when they are going to bounce back. For this reason the Council does not know when the next expansion is going to start in which the State will see growth rates of 7%, 8%, or 9% for a few years as the recovery happens. That is why the averages are used. That is why we tend to have the models converge towards those averages.

Chair Kawafuchi said he didn't expect another dip in the forecast period like in the recession of 2008 and 2009, nor the large recovery. He thinks it is going to be more modest.

Dr. Suyderhoud said that is why averages are used. Ms. Maynard seconded the motion. Chair Kawafuchi said a motion is on the table to keep the forecast at 5% for 2018 and lower it to 4% for 2019 through 2023. The votes were taken. In favor: Chair Kawafuchi, Ms. Maynard, and Ms. Niwao. Opposed: Dr. Bonham, Dr. Suyderhoud, and Ms. Cambra.

Dr. Bonham moved to adopt 5% for 2018; 4.5 for 2019; and 4.5 for the remainder of the forecast period. Dr. Bonham stated that is one hundred basis points below the long run average growth rate of general fund revenue. He considers that to be conservative but consistent with some of the concerns that Ms. Niwao has raised. Ms. Cambra seconded the motion.

Chair Kawafuchi said the motion is to keep the forecast for fiscal year 2018 at 5.0%, lower it from 5.0% to 4.5% for 2019; and keep at 4.5% for the remaining out years to include fiscal 2023.

Ms. Niwao suggested a compromise at 4.3% for all years.

Ms. Cambra said Dr. Bonham made a motion earlier and that she seconded it. The proposal was 5% for 2018 and 4.5% from 2019 through 2023. Dr. Suyderhoud called to question. Chair Kawafuchi asked for all in favor of the motion. In favor: Dr. Bonham, Dr. Suyderhoud, and Ms. Cambra. The motion did not carry.

Ms. Niwao moved for 4.3% as a compromise and proposed 5.0% for 2018 and 4.3% for the other years. Ms. Cambra asked if there was a second. Ms. Maynard seconded. Chair Kawafuchi asked to take a vote. In favor: Ms. Niwao, Ms. Maynard, and Ms. Cambra. Chair Kawafuchi stated the Council still did not have a consensus. Opposed to the motion were: Dr. Bonham and Dr. Suyderhoud. Abstaining: Chair Kawafuchi.

Ms. Niwao then suggested 4.4%. Dr. Bonham said it is ridiculous to make 10 basis point adjustments to a growth rate forecast for five years out. We will be lucky if we are within 200 or 400 basis points. Ms. Niwao said she agreed that along the way those numbers are going to be different and that one of the years is probably going to be below 4.5%. Dr. Bonham said you are talking about the differences in average growth rates over a six or seven year period of 10 or 20 basis points which is far outside of the range of our ability to forecast. Ms. Cambra made a motion to adopt 5% for 2018 and 4.4% for 2019 through 2023. Ms. Niwao seconded.

Chair Kawafuchi took the vote. Opposed: Dr. Suyerhoud and Dr. Bonham.

**A motion was made by Ms. Cambra that the general fund revenue forecast be 5.0% (2018); 4.4% (2019); 4.4% (2020); 4.4% (2021); 4.4% (2022); 4.4% (2023). Ms. Niwao 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>No</b>
<b>Christopher Grandy</b>	<b>Excused</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

As part of communications to the Council, 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 May 2016 Report**

Mr. Chun provided the Council members with Budget & Finance's report of revised projections of general fund non-tax revenues and non-general fund tax and non-tax revenues since the May

2016 meeting. Mr. Chun said the report includes a brief summary of significant changes and that there are several significant changes highlighted:

**Special Fund Non-Tax Revenues**

**Non-Revenue Receipts** – the net increase in Fiscal year 2017 reflects a one-time transfer from the general fund to the Emergency and Budget Reserve Special Fund as authorized by Act 104, SLH 2016 (B&F) in the amount of \$150,000,000.

**Other Than Special Fund Non-Tax Revenues**

**Non-Revenue Receipts** – The net increase in Fiscal year 2016 reflects a one-time transfer from the EUTF reserve account (B&F) into the Other Post-Employment Benefits account (B&F) in the amount of \$75,000,000.

**Dr. Suyderhoud moved to accept the B&F report as submitted 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>Excused</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 Monday, October 31, 2016 at 2:30pm; 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 12:05 p.m.