

COUNCIL ON REVENUES

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

Monday, October 31, 2016
2:30 p.m.

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Carl S. Bonham, Elizabeth P. Cambra, Jack P. Suyderhoud,
and Kristi L. Maynard

Staff Members:

Department of Taxation (the Department): Jonathan White, J. Guitguiten, and
Yvonne Chow

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

Others:

Sabrina Nasir, Senate Ways and Means
Heather Schulz, Senate Ways and Means
Lee Leonard, Senate Ways and Means
Maria Zielinski, Director of Taxation
Damien Elefante, Deputy Director of Taxation
Vincent Yee, NewNectar.com

EXCUSED:

Christopher Grandy, Member
Marilyn M. Niwao, Member

CALL TO ORDER:

The Chair called the meeting to order at 2:30 p.m. A quorum was present.

COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:

Chair Kawafuchi asked if there was any communication to the Council on Revenues (the Council). There were none.

MINUTES OF THE MEETING OF SEPTEMBER 2, 2016:

Chair Kawafuchi called for a motion to approve the minutes. Ms. Maynard moved to approve the minutes. Ms. Cambra seconded.

It was moved by Ms. Maynard and seconded by Ms. Cambra that the minutes of the September 2nd meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

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

TOTAL PERSONAL INCOME FORECAST FOR CY 2016 AND CY 2017:

Chair Kawafuchi said that the next item on the agenda was the total personal income (TPI) forecast for calendar year (CY) 2016. Chair Kawafuchi asked if there was any discussion. Dr. Suyderhoud said that calendar 2016 is practically over and the Council should be able to reach a decision without controversy. Chair Kawafuchi introduced Mr. Jonathan White as part of the Council staff from the Department of Taxation. Chair Kawafuchi asked Mr. White what the Council has on record for calendar years 2016 and 2017. Mr. White replied that the Council is on record for 4.5% for 2016 and 4.5% for 2017. Dr. Bonham and other members of the Council pointed out that the TPI growth rate was 4% for 2015.

Dr. Suyderhoud said that 3rd quarter Gross Domestic Product growth was 2.9%. Chair Kawafuchi said this was higher than expected and asked if it was the first time it had reached 2% this year. Dr. Bonham said yes, explaining that the first half of the year was weak. Dr. Bonham said that inventories are being spent down and replenished. Ms. Maynard said there was a large sale of soybeans to China, though it probably will not be repeated every quarter.

Dr. Suyderhoud said the Council is on the record for 4.5% and asked if anyone saw any urgency to change that. He also asked if the Council wanted to discuss 2017 and 2016 together or separately. The Council agreed to discuss 2016 and 2017 simultaneously.

Ms. Maynard asked Dr. Bonham if he saw any signs of slowdown for 2017. Dr. Bonham said the State has very strong September visitor numbers, the 3rd quarter was good, and visitor spending was strong. Dr. Bonham said when working on the University of Hawaii Economic

Research Organization's (UHERO's) forecast, he was revising their visitor forecast up by as much as one percentage point for the year.

Dr. Bonham said UHERO uses statewide household median income but that the Council uses Oahu median income in its construction model. Dr. Bonham said that median income increased 7 or 8% in 2015. Dr. Bonham said this has repercussions in the construction model. He said it extends growth in construction activity slightly. Dr. Bonham stated that the Council's forecasts are similar. The Council is at 4.8% in the current version for both 2016 and 2017, which is what the Department of Business, Economic Development & Tourism had in its latest forecast. Dr. Bonham stated that the difference between 4.5% and 4.8% is immaterial.

Dr. Suyderhoud referred to table 4 on page 6 of the workbook. He said that implicitly the Council used 4.6% for their revenue forecasting. Dr. Suyderhoud moved 4.5% for both calendar years 2016 and 2017. Chair Kawafuchi asked if there was any further discussion. There was none. Chair Kawafuchi asked if there was a second. Dr. Bonham seconded.

A motion was made by Dr. Suyderhoud and seconded by Dr. Bonham that the Total Personal Income forecast remain at 4.5% for CYs 2016 and 2017. The Chair called for the vote, and the motion passed with the following votes:

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

TAX DEPARTMENT UPDATE INCLUDING TAX SYSTEM MODERNIZATION'S IMPACT

Chair Kawafuchi told the Council that he had asked the Department for an update on its Tax System Modernization (TSM) project and on anything else affecting revenue. Chair Kawafuchi acknowledged that the Council's current meeting is not a general fund meeting but that the executive departments are preparing their budgets so this information may be helpful. Chair Kawafuchi then introduced the Director of the Department of Taxation, Maria Zielinski.

Director Zielinski began by referring to written materials provided to the Council on TSM and a GET adjustment. Director Zielinski noted the impact of a \$25 million adjustment to general excise tax (GET) and transient accommodations tax (TAT) Revenue. Director Zielinski said the

adjustment increases TAT collection for the first 3 months of fiscal year 2017 and reduces GET collection for the same period. She said the September collection numbers include a \$25 million dollar adjustment between GET and TAT. The adjustment is due to settlement of a case in April 2015, the accounting for which was completed in August 2016; hence the impact in the most recent GET numbers.

Director Zielinski explained that the handout she provided showed the GET and TAT collections without the \$25 million adjustment. This reflects the actual amounts collected in the period. This calculation shows annualized GET collection of \$3.3 billion for the year. Director Zielinski compared this to the previous year's actual total of \$3.2 billion. Dr. Bonham pointed out that GET is still down for the first quarter of fiscal year 2017 compared to fiscal year 2016. Director Zielinski agreed.

Director Zielinski then provided the Council with an update on the TSM project. Director Zielinski explained that the project is being completed in planned stages, or roll-outs. Director Zielinski stated that at the end of December 2014 the Department completed Roll-out 1. Roll-out 1 consisted of hardware and a Modernized e-filing portal. The Department completed Roll-out 2 in August 2015. Roll-out 2 included the following taxes and functions: GET, TAT, Use Tax, Sellers' Collection, Rental Motor Vehicle, County Surcharge and Discovery Data Warehouse.

Director Zielinski said that so far the project has improved certain operations at the Department. Director Zielinski noted the e-filing and scheduled payments functions available to taxpayers. Director Zielinski also pointed out that check payments are now scanned and deposited into the bank the day after receipt. Director Zielinski explained that this is an improvement over the previous procedure which was partly manual. Director Zielinski stated that the downside to the new system is the steep learning curve for the Department's staff. She said the staff has to learn a new system while still using the old system for some tax types and functions.

Director Zielinski then noted the volume of phone calls the Department's Call Center receives. She stated the number has long averaged 30,000 per month. The Call Center has 16 staff and the Call Center system holds a queue of 20. Director Zielinski stated that currently the Call Center receives approximately 80,000 calls per month. Director Zielinski stated that the number is declining now that e-services is available and should decline further as more taxpayers learn to use this function. She said the Department has hired seasonal staff in the Call Center but that 80,000 calls per month is still unmanageable.

Director Zielinski said that one of the Department's priorities is to have as much streamlined as possible before the tax season begins. Director Zielinski said the project has been very successful and the new system is working well. She said the Department wants it to be as user-friendly as possible.

Director Zielinski then moved on to whether there will be any revenue impact due to the new system. She reminded the Council of the steep learning curve and the disruption caused by increased calls. Director Zielinski also noted some positives of the project. For example, statements are going out monthly and reaching people who were not aware they owed taxes but are willing to pay now that they do know. Director Zielinski said the Department expects a positive benefit from the new system but that it will take time to materialize. She said she was disappointed to see the GET revenue down. Director Zielinski said the project is far from complete but overall the Department is pleased with the performance so far.

Ms. Maynard stated that the business activity report from First Hawaiian Bank shows same store sales up almost 11% for the quarter. Ms Maynard noted she was surprised to see GET collections down given this, even with the GET to TAT adjustment. She asked Director Zielinski whether the roll-out is delaying some payments and if so, by how much. Director Zielinski replied that it was not. She said the question was posed within the Department and nothing was revealed.

Dr. Bonham then asked if the new system would report on non-filers and if the Department has noticed increased numbers of non-filers due to confusion about how to file with the new system. Director Zielinski said she does not have that information right now. She said the Department gets good metrics from the system and that the data provision should improve further.

Dr. Bonham asked if there is anything year-over-year in the GET that stands out, such as a lump sum that went in at the beginning of the prior year. Director Zielinski said no. Chair Kawafuchi mentioned the lack of a Hurricane Relief fund payment. Dr. Bonham said that would only make a difference on a growth rate basis and not on a level basis because the payment was not subtracted last year and this year. Chair Kawafuchi said he was talking about last year versus the year before that.

Director Zielinski reiterated that the Department has looked in all areas, including collections, bankruptcy, field audit, office audit, and taxpayer services, but does not have an answer. Dr. Suyderhoud asked if anyone has looked at the composition of the GET base to see whether there is anything unusual in a particular sector like retailing or construction. Director Zielinski said she did not know that and the Department will look into it.

Ms. Maynard said she would expect the GET to be up 5% or 10% rather than down .50% considering the way the economy is performing. She said her concern is 2014, during which the Council continued to think GET growth would catch up but then ended the year negative. Ms. Maynard reiterated that making that mistake again is her concern.

Director Zielinski stated that the Department has looked everywhere for a reason for the lower collections and has found nothing. Chair Kawafuchi noted that it is a swing of eight percentage

points because currently the actual growth is negative 3 while the forecast is positive 5. Dr. Bonham asked if he is comparing it to the Council's forecast. Chair Kawafuchi said yes. Director Zielinski said she realizes there is a large shortfall to catch up. Dr. Suyderhoud said overall the general fund is negative 3.3%. Chair Kawafuchi said even with the adjustment for the GET it is still slightly negative. Ms. Maynard asked if it was year-to-date. Chair Kawafuchi said yes.

Chair Kawafuchi asked if economic activity in June, July and August was strong. Dr. Suyderhoud said the State has had consistent record arrivals for 20 straight months. He said it is not the arrival numbers but the spending numbers. Dr. Bonham said nominal spending was up 4% in June; 1.5% in July; and 5.2% in August. Dr. Bonham was unsure if he had the September data yet. Ms. Maynard said the information that has been reported on a calendar year-to-date basis for 9 months showed spending up 4%, confirming the previous data. Ms. Maynard noted that September was very strong. Dr. Bonham said October collections should be strong.

Ms. Maynard mentioned an article discussing the increase in tourism and the tax revenue being generated. The article mentioned an increase in tax revenues of \$43.6 million. Ms. Maynard stated the Council is still waiting to see that. Chair Kawafuchi said hopefully it catches up.

Chair Kawafuchi thanked Director Zielinski. Director Zielinski said the Department is watching the numbers closely for changes. Ms. Maynard asked the Director to inform the Council if anything was discovered. Director Zielinski agreed to do that.

Chair Kawafuchi asked Mr. White if he wanted to introduce himself to the Council. Mr. White told the Council that he is the Department's Acting TRP Officer. Mr. White said he is from the Department's Rules Office. He started his employment with the Department in 2013 with the Rules Office and has a legal and an economics background. Dr. Bonham asked about Dr. Rousslang. Mr. White said that Dr. Rousslang is on vacation now but he had informed the Department that he is not going to be the Acting TRP Officer in the future. Mr. White said he believed there would be a permanent TRP Officer soon, though not Dr. Rousslang or himself. Dr. Suyderhoud asked if the Department was presently recruiting. Director Zielinski said yes.

NEXT MEETING:

The Council tentatively agreed to meet on Wednesday, January 4, 2017 at 1 p.m. However, the date and time will be re-confirmed by email. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

ADJOURNMENT:

The meeting adjourned at 2:57 p.m.