

## **COUNCIL ON REVENUES**

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

Monday, March 13, 2017  
2:00 p.m.

### **PRESENT:**

#### Council Members:

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

#### Staff Members:

Department of Taxation (DOTAX): Seth Colby and J. Guitguiten

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

#### Others:

Wayne Yoshioka, KHPR  
Laurel Johnston, Budget & Finance  
Frank Louterbur, Bank of America, Merrill Lynch  
Katy Liu, Bank of America, Merrill Lynch  
Sharon Kotaka, Budget & Finance  
Scott Kami, Budget & Finance  
Jonathan White, Department of Taxation  
Damien Elefante, Deputy Director of Taxation  
Titin Sakata, Department of Taxation

### **EXCUSED:**

Christopher Grandy, Member

### **CALL TO ORDER:**

Chair Kawafuchi called the meeting to order at 2p.m. 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). There were no other comments or communications to the Council.

### **MINUTES OF THE MEETING OF JANUARY 4, 2017:**

Dr. Bonham asked for a general discussion about the minutes. He noted the minutes represent significant extra burden on the Tax Department with all the revisions and adding of content into

the minutes. He suggested that the minutes only need to include the major points, voting and conclusions. They do not need to record every single word that's said in the meetings.

Ms. Niwao said she thought there were some important points brought up that were excluded with the previous draft from the Tax department that she added it back in. She thought that the excluded statements she made were relevant to their discussions otherwise, there would be very little said as far as why they came up with those numbers and why they disagreed with certain numbers.

Chair Kawafuchi said they could discuss it at a future meeting. Chair Kawafuchi said to Ms. Niwao that he's not sure if she felt that highlights were one-sided. Ms. Niwao said yes and that her statements weren't in the minutes and wanted to include them. She said she added Mr. Case's statements as well.

Dr. Suyderhoud moved to approve the minutes and Ms. Maynard seconded.

**It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the January 4<sup>th</sup> meeting be approved (in its revised form). 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>Ed Case</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

#### **DISCUSSION OF THE GENERAL FUND REPORTING DEADLINES**

Chair Kawafuchi said there were comments made by at least one of the Legislators that the Council discuss changing the general fund reporting deadlines.

Dr. Suyderhoud made a motion to move the existing reporting deadline date on January 10<sup>th</sup> and June 1<sup>st</sup> to January 15<sup>th</sup> and June 15<sup>th</sup>. He said that requires a change in the statute. Ms. Maynard seconded. Chair Kawafuchi asked for a vote in the proposed adjustment of the reporting deadlines to January 15<sup>th</sup> and June 15<sup>th</sup>. The vote was unanimous.

Mr. Miyahira asked the Council if the September reporting deadline could also be included so that there will be two months of data when making the September projections.

Dr. Bonham agreed with adjusting the reporting deadline to September 15<sup>th</sup>. Dr. Suyderhoud said he would amend his motion to include September 15<sup>th</sup>. Ms. Maynard seconded. The vote was unanimous.

**The motion was amended by Dr. Suyderhoud to include the September reporting deadline. The proposed adjusted reporting deadlines are: January 15<sup>th</sup>, May 15<sup>th</sup> and September 15<sup>th</sup>. 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>Ed Case</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**REQUEST FROM TAX REVIEW COMMISSION (TRC)**

Chair Kawafuchi said that he received a request from the Tax Review Commission to speak with the consulting firm (PFM Group) to speak with some of the COR members.

Chair Kawafuchi asked for volunteers. Dr. Suyderhoud said he would volunteer to speak to The PFM group. Chair Kawafuchi said that Ms. Niwao would be the best person to talk about additional revenue projects (where the money is and how to collect it faster). Ms. Niwao agreed.

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

Next the Council discussed the general fund revenue forecast for fiscal year 2017. Dr. Colby presented a short report on the status of revenue collections in the state followed by a question and answer session with the Council.

Dr. Bonham said what we know is that the tax collections this year, has been incredibly volatile. He said the January numbers were off the charts. He said he thought the January collections were the second highest or the highest for January. He said we can guess what June is going to look like compared to last June. Dr. Bonham said what the Council has done in the past is try to guess what the growth rate would be for the rest of the fiscal year and use that to try and calculate what would actually happen this fiscal year. He said when he did it in preparation for this meeting he assumed the 4.5% growth for the rest of the fiscal year, which may be higher than their personal preference.

Ms. Niwao mentioned the estimated taxes and as discussed at the last meeting about estimated taxes using 2015 tax rates that were much higher than 2016 tax rates.

Chair Kawafuchi asked Ms. Niwao to comment from her experience as to how much of the extra refunds are going to be in this fiscal year versus on extension. He said a lot of these taxpayers with complicated returns are going to file by October.

Ms. Niwao said she thought there's going to be one adjustment and that would be next year because the tax rates for 2016 are lower. She said you're going to have estimated taxes for the

next fiscal year that's going to be lower because it's going to be based upon the 2016 tax rates.

Chair Kawafuchi said he thought there were some people that calculate based on the lower bracket. He thought that a lot of people from his experience are doing what Ms. Niwao had stated.

Mr. Case asked for the last 4 months of this fiscal year (which he said is where we are right now), there are two estimated tax payments, is the \$57.5 million all in the next four months or is that a full year? Ms. Niwao said we already had the estimated taxes come in January. Mr. Case said so now we're just talking about the \$57.5 million. Ms. Maynard asked if she thought it would be half of the \$57.5 million, as we have to get it down to a number to include it in the forecast.

Dr. Bonham said there's a problem here he thought. He said the \$57.5 million below-the-line is not all estimated tax payments. It's also the fact that the tax rates all went down and withholding also went down.

Ms. Niwao said if she had to guess she's thinking of that total of about \$35, \$40 million. Mr. Case asked if that was net after she accounts for the increased refunds. Ms. Niwao said that would be including the refunds and the lower estimated taxes for the first two quarters.

Ms. Sakata said the Tax department would like to clarify the \$57.5 million. She said in referring to page 2, it's a combination of: (1) Act 60, the new tax rates at \$36 million, (2) Act 97, the cap in itemized tax deductions at \$10 million, (3) Act 20, cesspools tax credit at \$5 million, and (4) Act 223, food tax credit at \$6.5 million. Cesspools and food tax credits are not part of the discussion. Ms. Sakata said the new tax rates and the cap in itemized deductions totaled \$46 million. She added if you're only talking about the rich people take away the \$11.5 million from the \$57.5 million.

Chair Kawafuchi asked Dr. Colby if the 3.8 was done after January. Dr. Colby said it was done February 20<sup>th</sup>. Chair Kawafuchi asked if it did take into account the February numbers. Dr. Colby said yes.

Ms. Niwao said if you see where the negative is—the biggest thing here is retail. Dr. Colby said he didn't include it here but he has a graph that shows once we do the revise numbers, retailing has been going up for the last three years. Ms. Niwao asked for the number. Dr. Colby said he could not remember the particular number.

Dr. Bonham said he would throw out that his view that the 3% that the Council adopted at the last meeting is probably about right. Ms. Niwao said she doesn't agree at all not when we're at 1.8 and that is actual hard numbers—the actual tax collections.

Dr. Bonham said the way he got that number is by putting in an assumed growth rate for the rest of the year. He said he thought the Council should talk about what they think the growth rate is going to be for the rest of the fiscal year and once they've adopted that they'll come up with what they think the revenue forecast is for the fiscal year.

Ms. Niwao said she thinks there's a fundamental difference in how they're looking at this because the economist is looking at economic growth, whereas we are looking at tax growth using the cash basis for collections.

Dr. Bonham said he thought the 3.0% is about right. He said in his assumptions he used 4.5% in his model. Chair Kawafuchi said 4.5 gives us 2.7 if you're using 4.5 for the last 4 months. Dr. Bonham said maybe he was rounding and he would have to double check. Dr. Bonham said if 2.7 is what the math says then he would say the difference between 2.7 and 3 is basically way less than err.

Ms. Niwao said we have to still payout the refunds for the difference in tax rates from 2016 & 2015. She questioned shouldn't that number be going down somewhat? Dr. Bonham said if you use the methods that we've used in the past which is to start by forecasting above-the-line and then let the adjustments do their work. He said he'd have to look and see. He said the number he was talking about was the below-the-line numbers. He said we've deviated so severely from historical practice on this Council which has been to focus on the economy and to come up with a forecast for the economy and then the below-the-line is supposed to capture the holes. We know how well it has worked in the past.

Mr. Case asked the reason we're down to 2.7 to 3.0% is it because (he thought) they all agreed that the number was inflated last year, the base is high. Dr. Bonham said yes and some of the shifting as well.

Mr. Case said he thought there is definitely a little bit of a disconnect going on between the actual economy and collections for reasons that still are not quite clear to him. He thought there are some leakages on some of these areas online as Ms. Niwao stated--certainly the vacation rentals. He said he's not sure its material yet but it's definitely there.

Dr. Bonham said he understands exactly what Mr. Case is saying about the potential disconnect between the economy and tax revenues, he's unconvinced that's actually true.

Ms. Maynard said she would like to point out a 3.1% forecast is higher by about \$50 million, than we have collected to date. If we stay at that level for the next four months, then collections would be approximately 2.2% for the year. Dr. Bonham said in other words if you use the adjusted year-to-date revenue forecast and assume that the rest of the year is going to be the same even though typically the second half of the year has stronger growth than the first half. He said then, if we use that 3.1 we would get to a 2.2% number for the full fiscal year.

Mr. Case asked for Dr. Colby's view. Mr. Case asked if the 3.1% holds through the whole fiscal year with the adjustments as a real revenue and not economic. Dr. Colby said what he's saying is from the 3.1% number is tax collections are down this year for sure, but what the Tax department is saying is if you actually make the adjustments the tax system does not appear to be fundamentally different in FY2017 from FY2016 in terms of leakages and things like that. He said in terms of what we expect from the rest of the year, because the last 2 years have seen accelerations in collections, he would expect to see acceleration in collections in this year as well (just like the last two years) and that would help close the gap a little bit.

Ms. Niwao said we're actually forecasting the actual tax revenues collected not a hypothetical economic model that shows we have a strong economy.

Dr. Suyderhoud said so far he hasn't seen a motion from anybody other than something close from what Dr. Bonham suggested not changing from the 3%. He asked if anyone had a number besides what was already suggested. Ms. Niwao said 1.8%. Ms. Maynard said if the Council goes with the adjusted tax collection trend that was calculated, which is around 3%, for the rest of the year, we would end up with an estimated growth rate of 2.2%. This doesn't take into account acceleration of refunds or anything like that. Ms. Niwao said then it may be more like 1.5%.

Ms. Maynard asked Dr. Suyderhoud what he thought. Dr. Suyderhoud said he thought it's going to end up over 3% by the year's end. Ms. Maynard said in order to get to 3%, they'd have to be over 5% for the rest of the year (year-over-year). Dr. Suyderhoud said it happens.

Ms. Niwao moved that the Council project for this year a revenue growth be at 1.8% because that is the 2.2% (less the refunds). Ms. Maynard said it seems a bit low to her. Chair Kawafuchi asked if Ms. Maynard wanted to make a motion. Ms. Maynard made a motion to lower the forecast to 2.5%, which would assume growth of 4% for the last four months. Mr. Case seconded the motion.

Ms. Niwao said if we over-estimate this and it goes down, especially when we're at 1.8 it would have to go up .7 at a time when the individual taxes are going to be refunded. She said she can't see we're going to go up that much.

Mr. Case said he thought 2.5% is cautious but not too cautious. He said in his industry, for example, tourism (you read about it in the papers how good it's doing) but actually there's some weakness there, especially in actual collections.

He said Ms. Niwao has raised some good points about reasons why we would not see the same level of revenue in the remaining four months. He said there is a conversion going on from one tax rate to another and that does influence people and he thought there're reasons why some of that could be contributory. He said its \$20 million, and didn't think its \$40 million. Ms. Niwao said she would be happier if it was something a little lower than 2.5%.

Ms. Niwao asked if the Council would consider anything lower, 2.3% but she would be really happy with 2%. Chair Kawafuchi asked if there was further discussion.

**It was moved by Ms. Maynard that the general fund tax revenues growth rate be 2.5% for FY 2017 (below-the-line). Mr. Case 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>No</b>
<b>Jack P. Suyderhoud</b>	<b>No</b>
<b>Carl S. Bonham</b>	<b>Yes</b>

<b>Christopher Grandy</b>	<b>Excused</b>
<b>Ed Case</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

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

Next, the Council discussed the general fund revenue forecast for the fiscal years 2018 through 2023. Chair Kawafuchi said the current year's forecast is 5% for FY 2018 (table 1, page 1) and 4.4% for the next 5 years (FYs 2019 through 2023). Ms. Niwao said 5% is too high because the refunds are still coming through and the estimated taxes will be lower in the next fiscal year for 2 quarters.

Mr. Case said going out into the next sequence of years, a couple of things he thought is going on. He said first of all, hopefully the 2.5% was kind of an equalization of an inflated base in 2016; hopefully we're down to some more realistic number where we don't have to adjust the next number for an inflated number this year. Mr. Case said he thought it would be in the next 1 or 2 years—a reduction of somewhere around point 5 or 1 somewhere in that range from what has actually been happening. He said he wouldn't just go automatically to a 5%.

Dr. Suyderhoud said their long-term forecast was kind of based on the perception of the average, adjusted for more modest period of growth. Dr. Bonham said the average--just looking at the last 15 years, you can use whatever sample you want. He said in real terms is 2.3% tax revenue growth which it makes sense for them. He said we usually talk about this in nominal terms but it doesn't make that much sense to do it in nominal terms just because the big cycles in inflation that we've seen over time.

Dr. Bonham said they were at 2% last year for inflation and their forecast is for it to be closer to 2.5 going forward mostly just because of rising housing/shelter costs. He said you saw our last forecast and it talked about slowing growth and it's all there. Dr. Suyderhoud said both and the long-term revenue growth rate (nominal) is above 5%, very long-term.

Dr. Bonham said he'd be perfectly happy to adopt a 4.5% from FY2018 through FY2023. Mr. Case said he would go with 4% for the next two years. Dr. Bonham said there's been a tendency for the Council to essentially adopt a long-run growth forecast that somewhat consistent with history—4% is not that far off.

Mr. Case moved for 4% for the next two fiscal years and 4.5% after that. Ms. Maynard seconded. Chair Kawafuchi asked if there was any discussion. The Chair clarified the forecast for the out years: 4% (FYs 2018/2019); and 4.5% (FYs 2020 to 2023). Chair Kawafuchi asked if there were further comments. There were none.

Dr. Colby said if he understood correctly if they're doing a 4% below-the-line adjustment it makes no material difference what the legislature decides to do with revenue. Ms. Niwao said okay. Dr. Bonham asked what the forecast is (already) for next the fiscal year. Ms. Niwao and Ms. Maynard said 5%. Dr. Bonham added and we're bringing it down to 4% then that does make a difference.

Dr. Colby said if it was above-the-line adjustment he could understand that but what if the

legislature wants to adopt legislation and increases revenue by 1% then we would have to basically change the economic growth rate. Dr. Suyderhoud said you have to shift up the base. Dr. Colby suggested the Council do long-term, above-the-line adjustments. Dr. Bonham said even when we forecast above-the-line you put all the adjustments below-the-line. He said he thought what he's saying is by the end of the session they change the below-the-line. Dr. Colby said yes. Dr. Bonham said but even when they do that we basically have to meet again. Chair Kawafuchi said it's too much to predict. Ms. Niwao said we can't predict what they'll do. Chair Kawafuchi said it could go either way. Mr. Case said this is status quo. Dr. Bonham said once it's been reported it's done until we have another meeting even though you could adjust the below-the-line that would make sense. Chair Kawafuchi said a vote on Mr. Case's proposal 4% growth rate for FYs 2018/2019 and 4.5% growth rate for FYs 2020 through 2023. Chair Kawafuchi asked for a vote. The vote was unanimous.

**A motion was made by Mr. Case that the general fund revenue forecast be 4.0% (2018); 4.0% (2019); 4.5% (2020); 4.5% (2021); 4.5% (2022); 4.5% (2023). 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>Ed Case</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:  
Significant Changes from January 2017 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 January 2017 meeting. Mr. Chun said the report includes a brief summary of significant changes and that there are several significant changes highlighted:

**General Fund Non-Tax Revenues**

**Charges for Current Services** – the net decrease in FYs 17-23 reflects decreases in estimated reimbursements of health fund premiums from non-general fund programs (Department of Budget and Finance (B&F)).

**Non-Revenue Receipts** – the decreases in FYs 17-23 reflect revised estimates for reimbursements of pension accumulation and social security from non-general fund programs (B&F).

**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>Ed Case</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Tuesday, May 30, 2017 at 2 p.m.; 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 3:48 p.m.