

COUNCIL ON REVENUES

Meeting Minutes, Thursday, September 7, 2017 (2pm)

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

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham, Christopher Grandy, 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): Terri Ohta, Gregg Hirohata-Goto, Kenneth Shirokane and, Neal Miyahira

Others:

Randy Hyoto, House Finance
Sharon Kotaka, Budget & Finance
Titin Sakata, Department of Taxation
Jonathan White, Department of Taxation
Madison DeLuca, Hawaii Appleseed
Laurel Johnston, Budget & Finance
Erin Conner, Senate Ways and Means
Alika Ke-Paloma, Senate Ways and Means
Robert Nishimoto, Senate Ways and Means

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 said there was a request made to the Tax department from the Senate Ways and Means Committee Chair. The Tax department offered official estimates that only reflect the COR estimates. Dr. Colby said the department does not render an official estimate for years beyond the COR estimates. He agreed to a statement made that the department uses the Council's visitor arrivals forecast to get the TAT forecast—calculating off of the Council's General Fund forecast (using some of the Council's other inputs).

The Council members also discussed the forecasting models they use and the way TAT revenue is calculated as well as their own understanding of how they forecast the general fund estimates, their own assumptions and projections for visitor arrivals, visitor spending, etc. Ms. Niwao said according to the graph she prepared, the TAT has been increasing from the 1980s and with the

tax rate increase at 5% to 9.25%--when there is a tax rate increase, it increases the revenues. Dr. Bonham suggested calculating the base and then applying what the current rate is.

Mr. Case said the Legislature is using the annual growth of 8% of the TAT from now until 2030 as part of their rail fiscal plan. The 8% came from taking the last 29 years calculated by 8% a year with or without the tax rate increases during that period (calculated by Budget and Finance).

Ms. Niwao mentioned that communications are still continuing with the Senate Ways and Means, informally. In a response to a question as to whether there is a perception that the Council on Revenues has endorsed the 8% growth rate or that it is the Council's forecast, Mr. Case said there's no perception that the Council has endorsed, pre-determined or agreed upon an 8%.

Chair Kawafuchi suggested that when the Council has these kinds of requests, to have a special meeting or to circulate a draft to the Council before it goes to the Legislature. He said there was not much time for a review and for a response. It was asked of Dr. Colby to check into that possibility as well as the requirements for Open Meetings and to consult the Attorney General's Office and to report back to the Council by the next COR meeting. Dr. Colby said the Legislature was not requesting an official estimate from the Council on Revenues. They were looking at a current estimate based on what the department has done and it is up to the Legislature to utilize their own assumptions. Chair Kawafuchi said that we have the best Economists and top business people on the Council and it would be good to get their input. Dr. Bonham said he thought the department did a great job.

There were no other comments or communications to the Council.

APPROVED MINUTES OF THE MEETING OF AUGUST 1, 2017:

Chair Kawafuchi asked if there was any discussion on any item in the minutes. There were none. Chair Kawafuchi called for a motion to approve the minutes for the meeting of August 1, 2017. Ms. Maynard abstained her vote because she was not present at that meeting.

It was moved by Mr. Case and seconded by Ms. Niwao that the minutes of the August 1st meeting be approved. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Ed Case	Yes
Kristi L. Maynard	Abstain

REVIEW OF RECENT LEGISLATION:

Next, the Council was provided a review of recent legislation including the special session by

Dr. Colby. The Council was referred to the footnote of Table 2 of the COR workbook. Acts 107 included non-refundable tax rates and brackets for the highest-income taxpayers; establishes a State non-refundable EITC equal to 20% of the federal EITC; repeals the sunset date (December 31, 2017) for the amendments made to the food/excise tax credit by Act 223, SLH 2015. Act 143 SLH 2017 amends the motion picture, digital media and film production tax credit by limiting the total amount of credit to \$35 million/year and extending the credit to January 1, 2026. Act 54, SLH 2017 exempts certain affordable rental housing projects from GET and Use tax costs and limits the total amount of exemption to \$7 million/year starting July 1, 2018 through June 30, 2022; and Act 1, SSLH 2017 increases the TAT rate from 9.25% to 10.25%, effective January 1, 2018 through December 31, 2030 and allocates the tax revenue generated from the increase to the Mass Transit Special Fund. The Act also increases the annual allocation to the counties from \$93 million to \$103 million, beginning with FY 2018.

The Council members briefly discussed the affordable rental housing projects; exemptions under previous law, exemptions on excise tax on the construction activity and financing (service providers), as well as others claiming the exemption. And, the \$7 million/year aggregate cap that will be administered through HHFDC (Hawaii Housing Financial Development Corporation).

The (special session) Senate Bill 4 rail transit has no impact on the General Fund with the exception of \$10 million because the counties receive more, which should have a negative effect on the General Fund. The change in fee received by DOTax from 10% to 1% for the administration of the county surcharge is considered a fee for a service and not considered a tax, therefore, will not be collected by the Tax department. The moneys collected from the fee go to the General Fund and managed by Budget and Finance.

The Tax department stated that Act 7 only changed the filing frequency. When the bill changed the withholding return frequency, there was a gap left for the people that would've been in that return frequency (that was removed). The payment frequency for all taxpayers is the same as it was previously and the return frequency is what changed.

Chair Kawafuchi stated that the language of the bill changed both the return frequency (from quarterly to monthly returns) and also changed the payment frequency for those taxpayers over \$5,000 up \$40,000. Mr. White said the payment frequency had not changed. Dr. Colby said the Tax department will look at the bill again to find out what exactly had changed. Chair Kawafuchi asked if there were any further questions for Dr. Colby. There were none.

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2018:

Next, the Council discussed the General Fund revenue forecast for FY 2018. On behalf of the Tax department, Dr. Colby provided the Council with the preliminary numbers stating that July was quite positive at 11.8% General Fund increase and GET increased by 14.6%. It is important to remember that several accounting transfers will affect the growth rates. In July of 2016 there was a \$15.6 million transfer out of that fund. In August 2016 there was a \$25 million transfer out of the GET fund into the TAT fund. The Council referred to the COR workbook and discussed the withholding tables and estimated taxes, total individual income tax, total individual income tax withholding. They also discussed the effects of the tax rate decrease affecting the collections for the estimated taxes until 2019, retirees and their pension income that are not

taxed, the Council's high means and lows (out years and near-term), capacity limitations for tourists (tourism), visitor arrivals going up and visitor stays going down, expenditure surveys and, total visitor expenditures. It was mentioned briefly how Guam is also affected by the North Korea missile launch threats and that tourism is down.

Next, the Council briefly discussed the past forecasts as well as the current forecast, the highs and lows. Dr. Grandy made a motion for FY 2018 at 4.5%. Dr. Bonham seconded. Chair Kawafuchi asked for discussion.

Based upon what is seen in tourism for next year, it was not too optimistic to say the economy will be doing better, as one member stated. Another member mentioned the 40% increase in direct lift to Kauai and, questioned the assertion that tourism is going to be down next year. The Council's consensus for FY 2018 for arrivals is 2.4% and the visitor expenditure forecast is 3.8%.

Dr. Grandy said that 4.5% is a reasonable balance. Mr. Case said he thought that the Council wasn't materially different and the short-term is most of this fiscal year with tourism growth at that level although was concerned about the back part of the fiscal year and beyond. There's down pressure on construction and believes the economy is overall materially stronger than it was and is in agreement with the 4.5% out into the next year, adjusting the out years.

Ms. Maynard said she had some concerns for increasing the forecast and would rather the Council make a correction higher than lower. She said it was more difficult from the State government's standpoint when having to decrease the forecast. Chair Kawafuchi stated that this is a very important meeting for the budget.

Chair Kawafuchi asked Dr. Bonham to further provide the Council why he thought construction would decline in the future. Dr. Bonham mentioned that the construction jobs count has fallen off quite a bit (by UHERO's estimate between 4 and 5% negative drop). There's a lot going on at Ala Moana, Under the Banyan Tree in Waikiki, the new retail in Kapolei happening all at once. And, when those projects ended, there wasn't an equivalent amount of activity to keep all those people at full employment. And now, there has been a flurry of activity around TOD (transit-oriented development) in the Ala Moana area that is positive.

It was suggested whether the Council would agree to a 4.2% instead of 4.5%. Dr. Grandy modified his motion to 4.3%. Dr. Bonham seconded. The Council voted and it was unanimous.

It was moved by Dr. Grandy that the general fund tax revenues growth rate be 4.3% for FY 2018 (below-the-line). Dr. Bonham seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Ed Case	Yes

Kristi L. Maynard Yes

GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2019 THROUGH 2024:

Next the Council discussed the General Fund revenue forecast for the out years 4% for FYs 2019 and FY 2020 and 4.5% for FYs 2021 through 2023 (no forecast yet for FY 2024). Ms. Niwao suggested the forecasts for the out years to show some variation instead of the same. The Council discussed further whether the next 6 years were going to be at the same level of growth as the current year. They also discussed the CPI (Consumer Price Index) rate of growth (housing/shelter, energy), GDP (Gross Domestic Products) deflator which is well below 2.

Dr. Suyderhoud made a motion for 4.3% for FYs 2019 through 2024. Dr. Grandy seconded. Chair Kawafuchi asked if there were any further discussion.

The Council discussed further the forecast (motioned at 4.3%) for the out years, which included discussions on construction, tourism and CPI (Consumer Price Index). Dr. Suyderhoud amended the motion for 4.3% for FY 2019; 4% for the out years (FYs 2020 through 2024). Dr. Grandy seconded. Chair Kawafuchi asked for a vote and the vote was unanimous.

A motion was made by Dr. Suyderhoud that the General Fund revenue be 4.3% (2019); 4.0% (2020); 4.0% (2021); 4.0% (2022); 4.0% (2023); and 4.0% (2024). Dr. Grandy seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Ed Case	Yes
Kristi L. Maynard	Yes

**REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:
Significant Changes from May 2017 Report**

Mr. Gregg Hirohata-Goto 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 30, 2017 meeting. Mr. Hirohata-Goto said the report includes a brief summary of significant changes and that there are several significant changes highlighted:

General Fund Non-Tax Revenues

Non-Revenue Receipts – the net increases in FYs 17-24 reflect increases in premiums on bonds sold (B&F), reimbursements of pension accumulation to reflect the impact of Act 17, SLH 2017 (B&F), and transfers from the General Fund portion of ceded land proceeds (Department of Land and Natural Resources (DLNR)). \$62M

Special Fund Non-Tax Revenues

Federal Grants – the net decrease in FYs 17 primarily reflects the update of actual federal grant awards funds received and the decreases in FYs 18-24 reflect revised estimated federal highway construction grant awards (DOT – Highways). \$86M

Other Than Special Fund Non-Tax Revenues

Transfers – The net increase in FY 2020 reflect the additional funds appropriated in Act 49, SLH 2017 for the Dwelling Unit Revolving Fund and Rental Housing Trust Fund at the Hawaii Housing and Finance Development Corporation (HHFDC, DBEDT). \$25M and \$25M

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:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Ed Case	Yes
Kristi L. Maynard	Yes

The Council members agreed that the minutes for September 7, 2017 going forward to be summarized with the main points (topics and issues) of the meeting, motions and votes.

Dr. Colby said from the Tax department's perspective we have to think about the cost benefit ratio and the value added – there's a lot of energy going into the production of these minutes. And, if there was a tremendous amount of value getting out of it then absolutely it would be worth it but sometimes he questions that. Chair Kawafuchi suggested we try summarization of the minutes and see what everyone says at the next meeting.

NEXT MEETING:

The Council tentatively agreed to meet on Wednesday, October 25, 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 4:09 p.m.