

COUNCIL ON REVENUES

Meeting Minutes, Monday, January 8, 2018 (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), 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, Donovan Chun, Kenneth Shirokane and, Neal Miyahira

Others:

Sharon Kotaka, Budget & Finance
Alika Ke-Paloma, Senate Ways and Means
Erin Conner, Senate Ways and Means
Ross Tsukenjo, Senate President's Office
Nandana Kalupahana, House Finance
Laurel Johnston, Budget & Finance
Eugene Tian, DBEDT
Linda Chu Takayama, Director of Taxation

Absent: Carl S. Bonham, 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:

There was no communication to the Council and there was no public comment.

APPROVED MINUTES OF THE MEETING OF OCTOBER 25, 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 October 25, 2017.

It was moved by Mr. Case and seconded by Ms. Maynard and Dr. Grandy that the minutes of the October 25th 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	Absent
Christopher Grandy	Yes
Ed Case	Yes
Kristi L. Maynard	Yes

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2018:

Next, the Council discussed the general fund revenue forecast for FY 2018. Dr. Colby provided the Council with a report on tax liability by income level and the preliminary collection report without the adjustment for the campaign elections special fund. He said the Tax Department does not anticipate a material impact to the preliminary statement due to the absence of the campaign special fund, which was \$35,000 the prior year. The change in revenue has increased since November.

Ms. Niwao said that taxpayers in the upper-middle classes are paying the bulk of the taxes; 50,000 people may be affected paying 40% of the income tax for the State. Dr. Colby said 624,000 people filed resident returns in 2015. In referencing to a chart prepared by the Tax Department, Chair Kawafuchi said it's somewhat misleading because it's based on Hawaii's adjusted gross income (AGI) as opposed to the federal adjusted gross income. He said the federal AGI is a better indicator of total income because many pensions are taxed.

Ms. Niwao was concerned that online purchases will accelerate and local retail businesses will be negatively affected. She suggested the Tax Department take greater action to enforce compliance for the Use Tax in retail sales and to educate the public to pay the Use Tax on their purchases.

Dr. Grandy said if this were a factor that was seriously affecting revenue, he would expect to see this in GET receipts and in net individual income tax receipts and he's not seeing it. He said presently GET is growing at about 5%.

Dr. Grandy said in reference to the general economic conditions for the next months as compared to the last 6 months judging by the contracting tax base, for example, as a proxy for construction that's been growing since late 2016 at about 5%. Dr. Grandy said he doesn't see that changing. He said it's down from 15% a few years earlier but seems relatively stable now. Visitor arrivals are slightly ticking up to the 5% range; visitor expenditures seemed to be actually relatively healthy even in the last few months at 7%. Total spending by visitors is growing over the 12 months at about 7%.

Mr. Case thought the visitor industry did better than the visitor industry expected in the first 6 months of the year, largely driven by arrivals. Although, occupancy has been very low across

the State; occupancy on the neighbor islands are way up because of arrivals; Oahu is stagnant; and, expenditures were up. He said there's probably a lot of de-linking--something that he's talked about in previous Council meetings.

Ms. Niwao said she was concerned about the missile launching threat by North Korea and the recent natural disasters. She suggested to include 'things could change' in the report to the Governor.

Mr. Case said the threat by North Korea has been actively going on for a year now--the visitor numbers are what they are and the revenues have accounted for that.

Chair Kawafuchi said the report to the Governor provides some general language that mentions the Council had discussed the impact of potential geo-political events that could affect revenue.

Ms. Maynard said that both UHERO (UH Economic Research Organization) and DBEDT (Department of Business, Economic Development and Tourism) are projecting relatively modest increases in real GDP (Gross Domestic Products) for the State: UHERO 1.1%, 1.4% and DBEDT 1.7%, 1.5%. And, both are predicting (with visitor arrivals so high) the percentage is going down.

With respect to the effect of the recent Federal tax laws (Tax Cuts and Jobs Act of 2017) passed, Dr. Colby said the Tax Department does not automatically conform to the IRS code. He said if we were to conform to the codes, Hawaii would not conform to the rates or the standard deduction amounts. He said we really shouldn't consider anything until it's passed. The Department expects a small expansion of the tax base and a slight increase in revenue. The one exception to that is the Estate Tax (from \$5 million to \$10 million). The Estate Tax typically brings in \$17 million a year. And, if the department adopts all the other rules that would be more than made up for in terms of other tax revenues from individual and corporate taxes.

Dr. Colby said it might affect some of the estimated taxes this fiscal year—withholdings will not be affected and he thought there will be no impact other than the minor stimulus.

Dr. Suyderhoud said his sense of this is basically full employment and over-full employment (in the case of Hawaii) is going to result in higher wages causing business expenses to increase. Those businesses that can pass those expenses on to consumers will do so and would expect an uptick in inflation. The Council members were comfortable with a forecast of 4.3%, 4.5% 4.6%, 5.0%. Chair Kawafuchi said he thought there would be some stimulus from the feds with 100% write-offs. Chair Kawafuchi asked for the vote. It was unanimous.

It was moved by Dr. Grandy that the general fund tax revenues growth rate be 4.5% for FY 2018 (below-the-line). Dr. Suyderhoud 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	Absent
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 FY 2019 through 2024. Dr. Suyderhoud asked if anyone thought enough has changed since September. Ms. Niwao said she didn't see any change right now in construction as far as the permitting process. There's no movement for permitting (no infrastructure set-up for rail transit). She said there was a lot of construction in Kaka'ako, Ala Moana Shopping Center and presently it looks like a lot of it is already built.

Ms. Maynard said she thought there's been a slowing in that area and nationally there's been a slowing in lending.

Mr. Case said he recalled the Council factoring a declining growth rate going out 4.3% to 4.0% and that's about whether tourism could continue to sustain itself at that pace. He said the present forecasts are still reasonable. He didn't see any reason to increase any of it. Ms. Niwao said the question is right now we have it across the board at 4%. Mr. Case said 4.3% (FY 2019) and 4.0% for the out years.

One Council member thought 4.3% is reasonable given the discussions so far. Also mentioned were the high price of housing and the cost of living having been a continuing problem.

Dr. Grandy said he's quite comfortable with their existing forecast for FY 2019 and through the out years. Ms. Maynard moved to keep the existing forecasts the same. Dr. Grandy seconded. Chair Kawafuchi asked if there was any further discussion.

Ms. Niwao said that there's a lot the State could do to increase revenues simply by increasing compliance on the Use Tax, online sales and Internet fraud which could affect collections. Chair Kawafuchi added that having a more diverse enforcement to increase compliance and revenue and decrease tax fraud.

Dr. Suyderhoud suggested that in addition to a caveat about external geo-political forces and North Korea, to include a statement that a lot of the forecasts are going to depend on how the legislature responds to the federal tax changes. Other Members agreed.

Members of the Council asked the Tax Department whether there are other things that are interfering with the collections and if the e-filing system, etc. is working properly. Dr. Colby said the processing time is 4 weeks, which is the average for the Department of Taxation (processing of forms is 4 weeks and the processing of cash payments is 5 days).

Chair Kawafuchi asked if there was any further discussion before they take a vote.

A motion was made by Ms. Maynard that the General Fund revenue for the out years remain the same: 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	Absent
Christopher Grandy	Yes
Ed Case	Yes
Kristi L. Maynard	Yes

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

Mr. Donovan 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 September 7, 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 increase in FY 18 reflects higher than anticipated reimbursements from the federal government (Department of Human Services (DHS)).
\$116,982,000.

Special Fund Non-Tax Revenues

Federal Grants – the net decreases in FYs 18-24 primarily reflect the reduced Medicare collections due to the transfer of the Maui Region Hospitals to the Maui Health System (Department of Health – Hawaii Health Systems Corporation (DOH-HHSC)).
~-\$50M.

Charges for Current Services, Others – the net decreases in FYs 18-24 primarily reflect the reduced collections for services due to the transfer of the Maui Region Hospitals to the Maui Health System (DOH-HHSC). ~-\$195M.

Dr. Suyderhoud moved to accept the B&F report as submitted and 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	Absent
Christopher Grandy	Yes
Ed Case	Yes
Kristi L. Maynard	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Tuesday, March 13, 2018 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 3:20 p.m.