

## COUNCIL ON REVENUES

### Meeting Minutes, Thursday, July 26, 2018 (2pm)

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

Thursday, July 26, 2018  
2:00 p.m.

#### **PRESENT:**

##### Council Members:

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

##### Staff Members:

Department of Taxation (the Department): Seth Colby, Baybars Karacaovali and  
J. Guitguiten

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

##### Others:

Sharon Kotaka, Budget and Finance  
Tina Au, Business Integration Group

#### **CALL TO ORDER:**

The Chair called the meeting to order at 2:00 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 was none.

#### **APPROVED MINUTES OF THE MEETING OF MAY 24, 2018:**

Chair Kawafuchi called for a motion to approve the minutes. Dr. Suyderhoud moved to approve the minutes. Ms. Maynard seconded. Dr. Grandy abstained since he was not present at the last meeting. Mr. Case had resigned previously as a member of the Council. Mr. Case was contacted for the purposes of review of the minutes of the meeting for which he was in attendance. Mr. Case had no changes to the minutes of May 24, 2018.

**It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the May 24<sup>th</sup> meeting be accepted. 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>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Abstain</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**TOTAL PERSONAL INCOME FORECAST FOR CY 2018:**

Next, Chair Kawafuchi asked how close the Council's forecast was to the actual. Dr. Suyderhoud said the forecast was at 7.3% and the actual came in at 7.6%.

Dr. Colby said the changes the State of Hawaii has made in terms of the IRC Conformity Law is minimal to the individual income taxes, and the impact is expected to be close to zero; although, the corporate income tax is expected to rise over time and have an impact. Dr. Colby said it's very difficult to forecast and estimate the impacts of the corporate income tax. He said we haven't really changed the individual income tax law from the 2017 Tax Cuts and Jobs Act and should not expect a large impact.

Next, the Council discussed the forecast for CY 2018. Chair Kawafuchi asked Dr. Colby if he could lead the discussion. Dr. Colby said that he generally does not have a lot to say in this particular meeting because it does not have to do with the general fund revenue apart from the fact that the Hawaii economy seems to be doing quite well and we still have relatively lower than expected TPI (total personal income).

Dr. Suyderhoud said we're on record for 3.5% from the October 2017 meeting, and in May 2018 we were assuming nominal 4.15% on average to the general fund forecast. Dr. Bonham referred to the table on page 6, which he said those numbers were all made before the first half of the CPI (Consumer Price Index) data was released.

Dr. Bonham said inflation has come in about half of what we thought and our forecast for 2018 inflation is close to 3 (in the high 2's), Honolulu inflation is 1.6%, shelter component has come down quite a bit and energy was up significantly. Dr. Bonham said we've been operating under the maintained assumption that the 2% unemployment rate is going to generate some wage growth, but right now it's not happening. He said he would be comfortable with anything between 3% and 3.5%.

Dr. Suyderhoud said we're on record for 3.5% last year. Dr. Grandy said he wouldn't lower it and he would argue that for this calendar year it was slightly higher at about 3.8% and the numbers for visitor arrivals and expenditures are pretty impressive. The GDP (Gross Domestic

Products) growth seems to be doing pretty well and the only down side is not understanding what's happening with the contractor tax base or construction jobs. And, with further explanation, Dr. Grandy said by his long run average measure to the construction jobs are negative growth at about 2.8%; and the contractor tax base is still negative--at around negative 4% with everything else going pretty well.

Dr. Bonham said he thought the year-to-date construction jobs count is off 1% or 2% year-over-year; it fell for almost all of last year and it jumped 1<sup>st</sup> quarter (the 1 quarter jump) and started back down again. Dr. Bonham said much of what you're seeing is in comparison to when everything from Ala Moana to Kaka'ako first started. He said, interestingly, the government contracts that were awarded through the first 5 or 6 months of this year were more than all of last year. He said they have already hit a billion dollars through the first 5 months of the year. Chair Kawafuchi asked if it's state and local contracts with the State. Dr. Bonham said it's everything that goes through BIDService Weekly for government contracts. One caveat is rail station construction was included in the BIDService number, where it had not been included in the past.

Ms. Niwao said some of the stores and restaurants in the newly built shopping centers in Waikiki seemed to be going out of business. Dr. Bonham said retail is really hurting. He said the retail trade jobs were flat last year—2017 down at 1.6% year-to-date (2016 was flat), for the first 6 months in 2018, down at 1.5%. Ms. Maynard said it's surprising, given the strength in tourism.

Dr. Colby suggested it could be a labor supply problem and not just a problem in demand. Dr. Bonham said overall job growth has been pretty robust, and the non-foreign jobs year-to-date, almost 1.5% in just the first 6 months of this year.

Dr. Bonham said he's fine with 3.5% and having been on the high side last year he thought with their income forecast and with the really low inflation numbers it gives him pause. Ms. Maynard said she feels comfortable with 3.5% also. Dr. Suyderhoud moved 3.5%. Dr. Grandy seconded. Chair Kawafuchi asked for any further discussion. There was none. The vote was unanimous.

**It was moved by Dr. Suyderhoud and seconded by Dr. Grandy that the Total Personal Income forecast be 3.5% for CY 2018. 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>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**TOTAL PERSONAL INCOME FORECAST FOR CY 2019:**

Next, the Council discussed the total personal income forecast for CY 2019. The Members discussed construction and the expectant additional support for the visitor industry from the relatively strong US economy. It was mentioned that the Council at the present time does not have a Member from the visitor industry, with the resignation of Mr. Case. Ms. Niwao thought the Honolulu area already has had a lot of growth incrementally, and there's not much room to build much more. She mentioned the probability of growth from the neighbor islands, if there was a possibility of the rebuilding of the 600 homes that were recently destroyed from the volcanic eruption of Kilauea. Ms. Niwao said she thought that Maui is going to be the island that pulls the economy further up with the increasing number of visitors, although Maui is small compared to Oahu.

Dr. Grandy mentioned that the visitor numbers keeps growing. He said they've been making the argument about there being no room to grow for years and they've been wrong. Dr. Bonham added that it's been true from 2016 through 2018 to be extremely strong and strong in visitor numbers--real income growth at 1.3% in 2016; 0.50% in 2017 and 2.9% in the 1<sup>st</sup> quarter in 2018 and presently at 1.3%. And, the last strong income growth was in 2014 and 2015 during the construction boom. Chair Kawafuchi asked Dr. Bonham what were the upcoming construction projects. Dr. Bonham said the question is whether the resort development actually happens referring to the Atlantis project, Kapolei, Turtle Bay and the new towers along the Ala Moana corridor. Dr. Bonham said he thought that on Oahu it's whether or not the new inclusionary zoning rules will hurt or help because there are some benefits and there are also more restrictions.

**It was moved by Ms. Niwao and seconded by Ms. Maynard that the Total Personal Income forecast be 3.5% for CY 2019. 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>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Thursday, September 6, 2018 at 2 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 2:30 p.m.