

## COUNCIL ON REVENUES

### Meeting Minutes, Wednesday, January 9, 2019 (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, and Kristi L. Maynard

##### Staff Members:

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

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

##### Others:

Wayne Yoshioka, KHPR  
Sharon Kotaka, Budget and Finance  
Dane Wicker, Senate Ways and Means  
Damien Elefante, Deputy Director of Taxation  
Eugene Tian, DBEDT

##### Absent:

Jack Suyderhoud, Member

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

Chair Kawafuchi called the meeting to order at 2:00 p.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 NOVEMBER 1, 2018:**

Chair Kawafuchi asked if there was any discussion on any item in the minutes. There was none mentioned. Chair Kawafuchi called for a motion to approve the minutes for the meeting of November 1, 2018.

**It was moved by Ms. Niwao and seconded by Ms. Maynard that the minutes of the November 1<sup>st</sup> meeting be approved. 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>Absent</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2019:**

Chair Kawafuchi asked the Council members how the economy was doing according to their own perspective. Dr. Grandy said he thought he was the most optimistic amongst the rest of the Members. Chair Kawafuchi asked if it the GET was 2.2% cumulative through November? Dr. Colby said it was 2.2%. However, some accounting transfers that occurred last fiscal year may be depressing that figure.

Dr. Grandy said from his perspective visitor arrivals and expenditures are growing higher than the long run average, down slightly from last month. He said the contracting tax base has come up, real GDP (Gross Domestic Products) growth that might be higher than 3% this year, accelerating for the last several quarters.

Dr. Bonham said his forecast is slightly cooler as well. Visitor arrival growth in his forecast submitted for last meeting was 3.5%, and 2.95% for this meeting--construction weakened quite a bit, and he thought it's the timing of when we think the projects are actually going to happen boosting the next fiscal year.

Ms. Niwao referred to the forecast of the World Bank and the slowing of the global economy. She mentioned other concerns with the economy slowing; with trade; with receivables and cash flow problems; with businesses that are looking to hire employees; and, owners unable to grow their businesses because of the limitations for employees and residents.

The Council discussed further the slowing of the economy; cash flow and the 'cooling' (lower, positive growth rates) of the economy that is going to eventually affect tax revenues.

Ms. Maynard said November's visitor spending was slightly down year-over- year minus 0.3. She thought we are seeing some slowing on the real estate side--a slowing in the real estate market due in part to higher interest rates. Ms. Maynard said she thought there are more signs of caution now. Dr. Grandy said the US economy is not slowing. Dr. Bonham agreed.

The Members briefly discussed the slowdown in arrivals and in spending that's been related to what's happened on the Big Island and on Kauai in terms of natural disasters with not much of a recovery on the Big Island; direct airlift and passenger counts to the Big Island are still up every month; the federal government shut down including the IRS and the delay in refunds that may impact Hawaii.

Chair Kawafuchi called on the State's economist, Dr. Eugene Tian. Dr. Tian said the BEA (Bureau of Economic Analysis) reported the first half of 2018 at .5%, revised every quarter. Dr. Tian said DBEDT's forecast for 2018 was at 1%, higher than the BEA. He said DBEDT believes the GDP growth will be revised upward--other areas of the economy labor market appear strong. He said he thought the federal shutdown will have some impact--the first week at 1.50% in passenger decrease, but the economy is generally growing slower but still growing at about 1% and is expected to be at 1.2%, 1.4% in the next few years.

Ms. Maynard said the general fund so far year-to-date for the fiscal year has grown by 4.3% and she thought that it appears the second half is going to be slower. That's why she would argue for something closer to 4% rather than something higher than that.

Ms. Niwao said she would be more comfortable with the 4% because she sees the economy slowing and if we're going to go up from where we are right now, it seems like we're going in the wrong direction from where the economy seems to be trending.

Dr. Bonham said we haven't seen the effects of the December activity yet. The Council Members discussed the higher interest rates and whether the feds would lower the rates by the end of this year. Ms. Maynard mentioned that the futures market suggests a higher probability that the fed funds rate go down than increase, while the most probable forecast is that there will be no change in the feds funds rate this year.

Dr. Grandy said he thought it's not always a great idea to base their forecast on the fiscal year-to-date number starting from July of each year because in the early months there is very little data. Dr. Grandy suggested to the Council that it's a better practice to look at the rolling 12-month average, which is also not subject to the seasonal variation. Dr. Bonham said he thought that most of the taxes are collected in the 2<sup>nd</sup> half of the year. Dr. Grandy suggested this could be for future discussion or maybe the Council can decide whether to do this now. He said it might be useful to consider moving from reporting fiscal year-to-date to reporting the 12-month average.

Ms. Niwao said she would like to point out that the Tax Cuts and Jobs Act was passed in December 2017 and it took effect at the beginning of the 2018 tax year. She said people were doing a lot of planning and took action to maximize their tax savings at the end of 2017.

Dr. Bonham said Dr. Grandy is suggesting that statistically it's often the best forecasting tool to essentially say 'we're going to be where we were in the previous fiscal year'. In other words, Dr. Grandy is saying that we should be seeing a number closer to the 6%. He said we can adjust that forecast but the question is do you really want to adjust it all the way down to 4%. Dr. Bonham said there's a motion on the table for 4.6% and there's no second.

Ms. Niwao said there are some tax law changes on table 6AA of the workbook, and the growth rate from the economic models, is consistent with 5.1% and 4.6% after the adjustments--a .5% decrease in the revenues based on the tax adjustments. Ms. Niwao said they should also consider the tax effects (i.e., tax ramifications, tax law changes).

Ms. Maynard made a motion to change the forecast to 4.2%. Ms. Niwao seconded the motion. Chair Kawafuchi asked if there was further discussion or comments.

There was no further discussion or comments. Chair Kawafuchi said we have a motion for 4.2% and there's a second. Chair Kawafuchi asked for the vote.

**It was moved by Ms. Maynard that the general fund tax revenues growth rate be 4.2% for FY 2019 (below-the-line). Ms. Niwao 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>Absent</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>No</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

Chair Kawafuchi acknowledged he liked the suggestion made by Dr. Grandy with the 12-month rolling average which would be useful. Dr. Grandy said in addition to. Chair Kawafuchi asked Dr. Colby whether that could be done by the Tax Department. Dr. Colby said yes.

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2020 THROUGH 2025:**

Next, the Council discussed the general fund revenue forecast for fiscal years 2020 through 2025.

Ms. Maynard said currently the forecast is 4% for the out years. She said there's going to be a recession sometime and she's comfortable with those numbers. Dr. Bonham moved to adopt the same forecast for the out years at 4% for FYs 2020 through 2025. Ms. Maynard seconded the motion. Chair Kawafuchi asked if there was any discussion. There was none. The vote was unanimous.

**A motion was made by Dr. Bonham that the General Fund revenue for the remaining out years remain the same: 4.0% (2020); 4.0% (2021); 4.0% (2022); 4.0% (2023); and 4.0% (2024) and, FY 2025 at 4.0%. 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>Absent</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</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 September 2018 Report**

Mr. Donovan Chun said we have provided you with our report of revised projections of general fund non-tax revenues, non-general fund tax and non-tax revenues since the September 6 meeting. Mr. Chun said although the report includes a summary of significant changes, there are several changes he wanted to highlight:

**Transfer of General Excise Tax** – FY 18 reflects the actual and FYs 19-25 reflect projected general excise tax transfers to the Mass Transit Special Fund (B&F).

**Transfer of Transient Accommodations Tax** – FY 18 reflects the actual and FYs 19-25 reflect projected net transient accommodations tax transfers to special funds. There was a \$10,000,000 reduction to the Convention Center Enterprise Special Fund (Department of Business, Economic Development and Tourism (DBEDT)) from FY 19, and a one percent transfer from the TAT to the Mass Transit Special Fund (B&F).

**Other Than Special Fund Non-Tax Revenues**

**Non-Revenue Receipts** – The net increases in FYs 19-25 reflect the update of planned bond issuances for the Housing Project Bond Special Fund Multi-Family Fund for providing financing to construct affordable rental housing projects at the Hawaii Housing Finance and Development Corporation, DBEDT.

**Ms. Maynard moved to accept the B&F report as submitted. Dr. Grandy & Dr. Bonham seconded. The Vice-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>Absent</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Tuesday, March 12, 2019 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 310-314.

The Chair adjourned the meeting.

**ADJOURNMENT:**

The meeting adjourned at 2:59 p.m.