

COUNCIL ON REVENUES

Meeting Minutes, Thursday, October 31, 2019 (2pm)

Tax Conference Room
Princess Ruth Keelikolani Building
830 Punchbowl Street, Second Floor
Room 223
Honolulu, Hawaii 96813

Thursday, October 31, 2019
2:00 p.m.

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham, Jack P. Suyderhoud, Jessica Gluck, Kristi Maynard, Scott Hayashi

Staff Members:

Department of Taxation (the Department): Seth Colby, Baybars Karacaovali and Lynnette Santiago

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

Others: John Roberts, Hawaii Association of Public Accountants

CALL TO ORDER:

The Chair called the meeting to order at 2:01 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 AUGUST 29, 2019:

The Council Members suggested some grammatical changes.

Mr. Kawafuchi asked for clarification on the revenue sources used in the model that estimated the fiscal impact of the City and County of Honolulu Ordinance 89 presented in the August 29, 2019 meeting. Dr. Colby explained that the model approximated collections from the general excise tax and the transient accommodations tax. In relation to the impact of the Ordinance, Dr. Bonham said that there was an initial drop in TVU listings in Oahu. He said that the drop in listings on Oahu was made up for by growth on neighbor islands, effectively resulting in no change in the amount of listings for the state overall. Oahu listings initially dropped after the passage of the ordinance

and have since started to grow again. He said that many people were unaware of how the rental ordinance affects advertising, booking, risks, and how it is enforced.

The Council Members discussed rental platforms being subject to reporting details on who is renting what and where it is being rented. The City can do a cross check, which is like a tax clearance. The City has a provision that allows them to share information with the Department of Taxation. Dr. Bonham pointed out that the City currently has a difficulty enforcing without this information.

It was moved by Dr. Suyderhoud to accept the minutes subject to grammatical changes and seconded by Ms. Maynard that the minutes of the August 29th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2019:

Chair Kawafuchi asked for discussion and vote on the current year forecast on Total Personal Income (TPI) 2019. Dr. Colby said that Council is on record for 2.7% for 2019 and 2.0% for 2020. The actual TPI numbers for calendar year 2018 was 4.0%, and the first half of 2019 was 3.7%.

Chair Kawafuchi asked Dr. Colby to refresh his memory on why 2.7% was expected. Dr. Colby said it was expected because there was an expectation of lower income growth due to a decelerating economy and City and County of Honolulu's transient accommodation ordinance.

The Council Members discussed the tax numbers and tourism in Hawaii. They mentioned that tax collection numbers are strong. Dr. Colby said that tourist numbers are easier to beat in the last half of the year because there was a hurricane and lava flow last year.

Dr. Colby also noted that employment at the national level is strong.

Ms. Maynard said that DBEDT's forecast is not strong but is unsure if it translates to personal income numbers.

Ms. Niwao said that businesses are buying more inventory in anticipation of the imposition of new trade tariffs.

Dr. Bonham said that national TPI numbers in 2017 and 2018 were both revised upward. The growth rate for 2018 was revised from 2.9% to 4%. He said it is consistent with what is forecasted for employment. Based on the revised data, he thinks that the nominal forecast for 2019 should be 3.5% and his inflation projection is around 2%.

Dr. Bonham forecasts that inflation will be 1.7% to 1.9% for 2019. Dr. Suyderhoud asked if Dr. Bonham expects a slowdown in the second half of 2019. Dr. Bonham said that he was surprised at how strong the first half of 2019 was, as the jobs data was weak.

Dr. Bonham said that from looking at the first half of 2019, there will be fewer tourists in the second half. There is an approximate decline of 15% for Airbnb short-term listings. Statewide listings are up 2.5%, not including Airbnb listings.

Mr. Kawafuchi asked how seat patterns are. Dr. Bonham reported that the airlines have not been cutting back on flights. Ms. Maynard said that the news mentioned that the visitor spending was down for the month and year-to-date. Dr. Bonham said that there was a 10% decline in international visitor spending for the first half of 2019. He guesses the big spending drops were due in part to the Australian and Canadian visitors due to currency movements.

Ms. Maynard said that the state-wide spending for the month of September was down nearly 4%, averaging less than 5% per day and 7% less per trip. Dr. Bonham emphasized that the second half of 2018 and the first half of 2019 were bad due to the eruptions. Ms. Maynard said that spending declined less than 1% for the first nine months of 2019.

Dr. Bonham was comfortable with 3.5%. Ms. Niwao said that the TPI forecast was 3.4% at the Council's General Fund Meeting. Dr. Colby clarified that 3.4% is the average of the forecasts that the Council provided.

It was moved by Dr. Suyderhoud and seconded by Dr. Bonham that the Total Personal Income forecast be 3.4% for CY 2019. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2020:

Dr. Suyderhoud asked what the Council was on record for next year. Members responded that the record reflects 2%. Ms. Maynard asked why TPI came in so high since the job count is dropping. Dr. Bonham said the dividends interest in rent component had been revised up significantly from 2% to 4.7% growth in 2018. TPI does not include capital gains. Dr. Colby brought the Council members' attention to the actual numbers of Total Personal Income, and the different components, noting that much of the TPI increase is coming from Dividends, Interest, and Rent. The Council members discussed how the Tax Cut and Jobs Act allows corporations with the lower tax rate to have more money to distribute to shareholders, increasing dividend payments.

Dr. Suyderhoud said that the tax withholding is strong. Dr. Colby said that strong individual income tax collections was due to high estimated tax payments and strong withholding numbers. Dr. Suyderhoud said that withholding payments are up \$21 million.

Ms. Niwao said that we have higher estimated taxes now, had a big bump in income in April, and won't be able to exceed it. Dr. Colby said that phenomenon of higher estimated tax payments is not only found in Hawaii. Many states are seeing large increases in estimated taxes. There is a debate among state tax economists if this represents a one-off gain or if these are permanent revenue gains. Ms. Niwao said that there won't be a growth in estimated payments for the next year because people pay estimated taxes based on the prior year.

Mr. Kawafuchi asked Dr. Colby if the rates went up from 8.25% to 11% at the top end and how much money is in that band. Dr. Colby confirmed the rates and said that the revenue gained was about \$55 million.

Dr. Bonham moved at 3% for 2020. Ms. Maynard asked to lower it. Dr. Colby said that the average of the total personal income is 2.99%. Dr. Suyderhoud said he was comfortable with 3%. Ms. Niwao said that Dr. Bonham's number was 2.2% in September and asked what the number is now. Dr. Bonham said it is 2.5%.

Dr. Bonham pointed out that the first half of the year is not as strong this year as it was last year. Mr. Kawafuchi asked how the average rents are. Dr. Bonham responded that the rents are flat statewide. By county, Maui is up; Oahu is flat.

The Council members discussed the possibility of a recession next year. There is a great deal of political uncertainty, especially given the election in 2020. Dr. Bonham said he is not optimistic about Hawaii's economy. Dr. Suyderhoud expressed his concern of being wrong about the strength of the economy in the past. Dr. Bonham noted that the household survey data indicates that the labor force and population have been declining leaving more vacant jobs.

Ms. Niwao commented about the cost of tariffs and its effects on the cost of items. This has influenced employers to purchase inventory in anticipation of the tariffs. The fear is that this will result in employers having excess inventory and low cash and not being able to profit

because the costs of everything will be increased, slowing down the economy. Dr. Bonham agreed that the tariffs bring uncertainty. There is a possibility of a trade deal because it would help the president with his reelection campaign. Other matters that could affect the economy are Brexit, Asia's economies, tourism, and construction.

The Council Members discussed the construction industry. Dr. Bonham stated that construction jobs are up 6%, but there has been a slow down of permitting and the backlog continues to increase. Architects, developers, contractors, and union representatives are very optimistic. Dr. Bonham expects construction to increase given the reinstatement of "courtesy inspections" by the City and County of Honolulu which helps expedite the permitting process.

It was moved by Ms. Maynard and seconded by Ms. Niwao that the Total Personal Income forecast be 2.8% for CY 2020. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, January 9 at 2 p.m. However, the date and time will be re-confirmed by email. The Council staff will attempt to secure the Tax Office Conference Room 223.

ADJOURNMENT:

The meeting adjourned at 3:03 p.m.