



Hawai'i Tax Review Commission Monthly Report	
To: Randy Iwase, Chair, Tax Review Committee Darryl Nitta, Member, Tax Review Committee Don Rousslang, Department of Taxation Titin Sakata, Department of Taxation	Date: April 30, 2012
From: Randall Bauer, PFM Heidi Patterson, PFM	Pages: 6

## PROJECT SUMMARY

The PFM Group's Study of the Hawai'i Tax System continues to make progress in several key project areas. There has been significant progress to date on activities associated with Phases 1 and 2 of the Project Plan. April activities included follow-up interviews with key stakeholders and further build-out on financial models.

On the less positive side, the project team has not yet been able to secure state revenue and expenditure data to be prepared and coded for input into the financial model. The absence of this data at this point in time is a significant concern. Should the data not be available within the next 1-2 weeks it will negatively impact the team's ability to ensure timely delivery of key deliverables for this project.

## Key Activities Last Month:

- The financial models are under construction and the team continues to work with the Departments of Budget and Finance, Taxation, Accounting and General Services, the CIO, etc. to gather the necessary revenue and expenditure data. Progress to date includes:
  - ✓ The basic 'shell' of the budget model has been completed and formatted.
  - ✓ State demographic and revenue growth forecasts have been collected and inserted into the model.
  - ✓ Meetings with the appropriate departments have been held to determine the best way to secure the additional data needed for the model and data templates have been provided to B&F.
  - ✓ A matrix inventory of Hawai'i state taxes, destination funds and tax sunsets has been compiled and reviewed for accuracy by the Department of Taxation.
- Additional activities within the model for this month included:
  - ✓ Summarized and analyzed historical tax revenue growth data.
  - ✓ Extracted and formatted Council on Revenues General Fund projections.
  - ✓ Generated preliminary General Fund revenue projections (using growth rates that tie to COR projections for now).



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- ✓ Set up Engine and Initiative functionality (for modeling impact of new revenues and special revenue scenarios).

- The Project Team had a valuable call with the Chair of the Employee Retirement System (ERS), Colbert Matsumoto on April 23.

The list of the interviews conducted to date can be found below:

Agency	Interviewee(s)
Tax Review Commission (TRC)	Randall Iwase, Chair Mitchell Imanaka, Vice Chair Roy Amemiya, Member Peter Ho, Member Mike McEnerney, Member Darryl Nitta, Member Gregg Taketa, Member
Dept. of Taxation (DOTAX)	Fred Pablo, Director Randy Baldemor, Deputy Director
Hawaii Institute of Public Affairs (HIPA)	Bill Kaneko, President & CEO Jeanne Schultz Afuvai, Executive Vice President
House Finance Committee	Representative Marcus Oshiro, Chair Legislative Committee Staff
Dept. of Accounting & General Services (DAGS)	Jan Gouveia, Deputy Comptroller Wayne Horie, Accounting Division Administrator Wayne Chu, Audit Division's Administrator
Dept. of Business Economic Development & Tourism (DBEDT)	Dr. Eugene Tian, Acting Administrator, Research & Economic Analysis Division (READ)
Office of the Governor	Beth Giesting, Healthcare Transformation Coord.
DBEDT, Energy Office	Mark Glick, Administrator Michelle Toma
Employer-Union Health Benefit Trust Fund (EUTF)	Barbara Coriell, Administrator
Employees' Retirement System (ERS)	Wes Machida, Administrator ERS Division Directors Colbert Matsumoto, Chair
Council on Revenues (COR)	Rick Kahle, Chair Dr. Jack Suyderhoud, Vice Chair
Dept. of Budget & Finance (B&F)	Kalbert Young, Director Neal Miyahira, Administrator
Hawaii Government Employee Association (HGEA)	Randy Perreira, Executive Director Michele Kurihara, Legislative Specialist HGEA Union Agent
Dept. of Agriculture (DOA)	Russell Kokubun, Chairperson Ken Kakesako Warren E Takenaka Earl J Yamamoto



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Agency	Interviewee(s)
Senate Ways and Means Committee	Senator David Ige, Chair Legislative Staff
Dept. of Human Resources & Development (DHRD)	Barbara Kreig, Director Leila Kagawa, Deputy Director
Chamber of Commerce	Sherry Menor-McNamara, Chief Operating Officer, Senior VP, Government Affairs
Office of Information Management & Technology (IMT)	Sanjeev "Sonny" Bhagowalia, State Chief Information Officer IMT Staff
Governor's Office	Blake Oshiro, Deputy Chief of Staff

- The project team has initiated best practices research on tax structure and tax policy issues that are applicable to the State of Hawai'i.
- The project team has started to benchmark Hawai'i in key areas that could potentially impact the baseline and/or key drivers of the financial models. The approach under consideration is to use differing benchmark states in various aspects of the project, and those recommended benchmarks this month have included:
  - States with similar Business Privilege /Transaction Privilege taxes
  - States that broadly tax services without broad-based corporate income taxes
  - States with a progressive personal income tax
  - States with similar key industries and demographics (similar dependence on the tourism industry and federal government employment and spending, less diversified economies, similarly aged population, cultural diversity, states with a higher proportion of state versus local government revenue and spending, state spending per capita, etc.)

### Planned Activities Next Month:

- The project team will continue to work with departments to make progress on collecting the relevant data to populate the revenue and expenditure models and will work with the appropriate staff to ensure data integrity.
- The project team will continue to hold initial interviews and follow-up meetings via conference call.
- The project team will continue to develop the key areas in which there are opportunities to benchmark Hawai'i in key areas that could potentially impact the baseline and/or key drivers of the financial models.
- The project team will continue to conduct best practices research on tax structure and tax policy issues that are applicable to the State of Hawai'i
- The project team will hope to move from data gathering to the data analysis phase, with the goal of building out high level findings in June.



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### ACTION, SUPPORT, OR MATERIALS REQUESTED

- To date the project team continues to work with key departments on collecting the outstanding information from the Preliminary Information Request that was provided on February 15, 2011. The Project Team will not be able to confirm model assumptions as previously scheduled for April 30 and needs the assistance of the TRC and Department of Taxation to secure the necessary revenue and expenditure data to prepare and code the data for input into the financial model that will serve as the foundation for this study.
- The Project Team will continue to schedule and hold interviews and follow-up meetings via conference call – if there are internal or external stakeholders that the TRC and staff believe are warranted, please let us know so that we can arrange meetings.
- After last month's review, TRC Chair Iwase accepted the PFM recommendation that the high level findings milestone be held the week of June 18-22<sup>nd</sup>. Based on scheduling availability, we would propose holding this meeting with the TRC on Friday, June 22<sup>nd</sup>, at a time that is suitable to members of the TRC. As a second option, PFM would suggest Thursday, June 21<sup>st</sup>. PFM has been invited to make a project presentation to the Hawaii Chamber of Commerce Board of Directors on June 21<sup>st</sup> and will also work to fit that into the schedule (as well as any other interviews or meetings on Wednesday through Friday of that week).

### ISSUES AND RISKS (Carried Over as well as New)

Issue No.	ISSUE	Proj. Impact (High/Med/Low)	Responsibility Assigned To	Actions & Status	Date Logged	Target Resolve Date
1.	Data Integrity	High	State of Hawaii Departments	There is now significant concern about timeliness related to the lack of available state data.	March 19	<del>April 2</del> May 4
2.	Data Collection	High	State of Hawaii Departments	There is now significant concern about timeliness related to the lack of available state data.	April 17	May 4

High= Issue needs resolution, progress cannot be made, or quality will be severely impacted  
 Medium=Progress can be made, but will be slower, or quality will be somewhat impacted  
 Low= Should be resolved to ensure quality and completeness at deliverable date



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## PROJECT CALENDAR

The project calendar has been pushed back to reflect the lack of data sufficient to complete the financial models necessary for sufficiency analysis. Below is a revision to those project dates. It is notable that some of these new dates rely on extremely prompt replies to the data needs outlined in the previous section.

### April 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2 Data Deadline for Financial Models	3	4	5	6	7
8	9	10	11	12	13	14
15	16 Develop/Populate Financial Models	17	18	19	20	21
22	23 Benchmarking Deadline	24	25	26	27	28
29	30 Confirm Model Assumptions					

- **April 2** – Data deadline for collecting financial data to populate models.
- **April 16** – Develop and populate financial models.  
*Follow up with benchmarking states on survey requests.*
- **April 23** – Collect outstanding benchmarking survey data.
- **April 30** – Confirm model assumptions with state SMEs.

### May 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1	2	3	4 Develop/Populate Financial Models	5
6	7 Model Baseline Best Practice/ Benchmarking Research	8	9	10	11	12
13	14 Confirm Model Assumptions	15	16	17	18	19
20	21 Finalize Model Baselines	22	23	24	25	26
27	28	29 Revenue Policy Alternatives	30	31		

- **May 4** – Develop and populate financial models.
- **May 7** – Finalize model baselines (revenue and expenditures).  
Complete tax and revenue best practice research.  
*Finish analysis of benchmarking research data.*
- **May 14** – Confirm model assumptions with state SMEs.
- **May 21** – Finalize model baselines (revenues and expenditures)
- **May 29** – Complete evaluation of revenue policy alternatives.



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## June 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20 High Level Findings	21 High Level Findings Chamber of Commerce	22	23
24	25	26	27	28	29	30

- June 20-21- Target date for on-site high level findings update with Commissioners.
- June 21-Potential Chamber of Commerce meeting.