

## TAX REVIEW COMMISSION

MINUTES OF THE EXECUTIVE SESSION OF THE  
TAX REVIEW COMMISSION  
HELD AT 830 PUNCHBOWL STREET, ROOM 221  
IN THE CITY AND COUNTY OF HONOLULU  
STATE OF HAWAII, ON TUESDAY, MARCH 7, 2006

The Commissioners of the Tax Review Commission met in executive session at the Department of Taxation, Director Conference Room, in the City and County of Honolulu, State of Hawaii, on Tuesday, March 7, 2006.

**Members Present:** Chair Isaac Choy, Manoa Consulting Group, LLC CPA's  
Vice-Chair Ronald Heller, Torkildson Katz Fonseca Moore &  
Hetherington, AAL, ALC  
Christopher Grandy, UH Manoa, Public Administration Program  
John Roberts, Niwao & Roberts, CPA's  
Carolyn Ching, Carolyn L. Ching CPA  
Lon Okada, Hawaiian Electric Industries, Inc.

**Staff:** Tu Duc Pham, Donald Rousslang, Josephine Malama

### CALL TO ORDER

It was moved by Ms. Ching and seconded by Mr. Roberts that the Tax Review Commission goes into executive session. The motion carried with no opposition.

Chairman Isaac Choy called the executive session to order at 10:15 a.m. with a full quorum present.

### REPORT FROM SUBCOMMITTEES ON PROPOSALS FOR EXTERNAL STUDIES

#### **Study 1: Economic, Revenue and Distribution of General Excise and Use Taxes (Chris Grandy, Ron Heller and Carolyn Ching)**

Dr. Grandy reported that Dr. William Fox was the only bidder for Study 1. He combined Study 1 with Study 3. The proposal is largely responsive to the RFP, but specifically proposed to do some things and not others. He sees these two studies as connected because Study 1 is contracting the base while Study 3 is expanding the base. One of the items not addressed in his proposal is the county surcharge. The committee suggested we contact Dr. Fox and ask him to address the county surcharge question or enter into some kind of conversation where it might become a component.

Dr. Fox is asking for \$48,500 but did not have much detail or breakdown. He did mention in his proposal that he does not know the precise cost until he gets into it. He has substantial experience elsewhere and in Hawaii. He has been doing this kind of work for a number of years, including a prior study for the Tax Review Commission. Ms. Ching felt the price was reasonable for the size of the study. It was perceived that the county surcharge may constitute almost half of the study; therefore, she would like to pursue negotiations with him about adding it into his study.

Mr. Heller commented that what the other members of the subcommittee have already said is pretty much the consensus. We all agree Dr. Fox is well qualified to do this study. He has substantial experience and a great background not only with state taxation in general but with Hawaii tax in particular. There is no doubt he could do a good job. The price, given the fact that he covers two out of the four studies, does not seem to be out of line. The Commission should clarify with him, though, that an open-ended hourly rate contract is not contemplated. What we need is a fixed price quotation, not an estimate. Mr. Heller agreed that the county surcharge is an important part of what we wanted to look at. Mr. Heller was willing to negotiate with Dr. Fox on how many exemptions would be specifically addressed in the study, and whether cutting back on the scope of work in other areas, would allow him to do a real analysis of the county surcharge.

Mr. Roberts questioned how much maneuvering space the subcommittees have in negotiating beyond the initial proposal. Discussion followed with concern about treating each bidder fairly. If there were only one bidder, it would not be a problem. Also, the county surcharge was part of our RFP – we are not really changing it, we are just going back to what we originally asked for.

At this time, Ms. Erickson reported that she needed to correct herself. After looking at the agenda, she opined that the reports from the subcommittees should not be made in executive session. Mr. Roberts stated that the qualification of the bidders will be discussed in this meeting. Ms. Erickson responded that qualifications and pricing can be done in executive session. However, in order for the Commission to vote on the recommendations next week, the subcommittees need to report their recommendations in a public meeting. Discussion followed with the recommendation that those who left will be contacted and invited to return to the meeting for the report from the subcommittees. Ms. Malama was asked to call these people and invite them back to the meeting in half an hour.

The discussion continued regarding contacting Dr. Fox and asking him to include the county surcharge. It was unanimously agreed that Dr. Grandy would make the contact before the next meeting and email the information to the committee members.

**Study 2: Cost and Benefit Analysis of Selected Revenue Tax Credits  
(Chris Grandy, Carol Ching, and John Roberts)**

Mr. Roberts reported that the scope of the proposals submitted by Belt Collins, and Dr. Marcia Sakai and her assistant Dr. Bruce Bird, was quite different. Dr. Sakai's team credentials are solid with a strong background in economics as well as the finance and legal background of Dr. Bird, a CPA attorney. They bring together considerable publication experience and general knowledge applicable in this field.

Belt Collins is a respected firm doing feasibility studies and engineering matters that are outside of the economic arena and for that reason, we question whether they are competent. The project manager has a Ph.D. in anthropology and his assistant a bachelor's in music education and undergraduate in French literature. It does not mean they do not qualify. The issue in this study is input and output. Mr. Roberts stated that he had reservations about whether someone who didn't have the specific education or training in this field could fully utilize the input and output data optimally.

The scope is different between the two studies with Dr. Sakai focusing primarily on the film industry and Belt Collins on everything in the RFP but the Ko Olina Resort and Mariana Attractions and Educational Facilities Tax Credit, probably due to a conflict of interest. The prices were different with Dr. Sakai's proposal for \$29,348 and Belt Collins for \$45,200, based on man hours between \$150-\$200/hr. range for the principals. The subcommittee expressed concern over Belt Collins' provisions for open-ended reimbursement for out-of-pocket expenses. Mr. Roberts was not sure if we could get a handle on it to restrain them. Their proposal also included the hiring of a third person to check if some expenses were appropriate beforehand. He did not think the Commission could afford them with that kind of process.

Ms. Ching had problems with the scope in Dr. Sakai's proposal and reservations about the qualification of Belt Collins. She was a little puzzled why they want to submit a proposal because it is not in their main line of work. She shares the same concern over the Belt Collins' price and open-ended reimbursement. She felt the cost for Dr. Sakai's proposal was too high for only one credit, the motion picture and film production income tax credit. She reported that the committee did not like either proposal. However, because of Dr. Sakai's qualifications, the committee thought they could negotiate with her to cover additional areas mentioned in the RFP.

The legality of the Belt Collins' proposal was discussed. There were several areas that did not comply with the state law. If the subcommittee recommends either of them, Belt Collins will be subject to all the legal corrections and will need to comply with the standard contract format of the state. Dr. Sakai will have to expand her scope of credits.

It was unanimously agreed that Dr. Grandy will contact Dr. Sakai to negotiate expanding her scope, if we get some kind of assistance from DBEDT.

Mr. Heller reported that Belt Collins might be a client of his law firm; therefore, he will abstain from voting as to Study 2.

**Study 3 – Economic Effects of Certain Possible Changes in Exemptions from the General Excise Tax  
(Isaac Choy and Ron Heller)**

This study was covered with Study 1. Mr. Heller felt the concept of combining Study 1 and Study 3 made sense, although he would like some flexibility to go back to the GE surcharge. To keep to the same price, we will have to negotiate with Dr. Fox for clarification to narrow his list of exemptions from ten to some smaller number, perhaps five. It was unanimously agreed that Study 1 and Study 3 be combined.

**Study 4: Effects of Eliminating or Adjusting Corporate, Franchise, Insurance and Personal Income Taxes  
(Isaac Choy, Lon Okada and John Roberts)**

No one submitted a proposal for Study 4.

At this time, the subcommittees took a short recess to discuss their recommendation for the proposals for external studies.

**ADJOURNMENT**

It was moved by Ms. Ching and seconded by Mr. Okada to adjourn the executive session at 10:50 a.m. The motion carried without opposition.