COUNCIL ON REVENUES

Office on Aging Conference Room
No. 1 Capitol District Building
250 S. Hotel Street
Fourth Floor, Room 410
Honolulu, HI 96813

Tuesday, August 28, 2007
2:00 P.M.

PRESENT:

Council Members:
Paul Brewbaker (Chair) (arrived late), Jack Suyderhoud (Vice-Chair), Carl Bonham, Dean Hirata, Richard F. Kahle, Jr., and Albert Yamada

Staff Members:
Department of Taxation: Tu Duc Pham, Yvonne Chow, Glenn Ifuku, and Cathleen Tokishi
Department of Budget and Finance: Neal Miyahira, Keith Shimada, and Karen Matsunaga

Others:
Gordon Arakaki, Senate Committee on Ways and Means
Huong Bassford, Department of Budget and Finance
Cynthia Johiro, Tax Section, Department of the Attorney General
Lowell Kalapa, Tax Foundation of Hawaii
Kurt Kawafuchi, Department of Taxation
Michael Ng, House Committee on Finance
B. J. Reyes, Honolulu Star-Bulletin
Brian Takeshita, Office of Speaker of the House Calvin Say

ABSENT:

Council Members:
Pearl Imada Iboshi

CALL TO ORDER:

The Vice-Chair called the meeting to order at 2:05 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF JULY 26, 2007:

The Vice-Chair asked if there were any corrections to or comments about the minutes of the July 26, 2007, meeting. There were none, so the Vice-Chair called for a vote and the minutes were approved unanimously.

It was moved by Dr. Bonham and seconded by Mr. Hirata, that the minutes of the July 26, 2007, meeting be accepted. The Vice-Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Absent
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

Before proceeding, the Vice-Chair introduced the new Council members, Mr. Hirata and Mr. Yamada. The Council also decided to next hear the report of the Department of Budget and Finance as the Chair was delayed for an additional minute or two and the next agenda item was of particular interest to him.

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES

Ms. Matsunaga reported the significant changes from their May 2007, report.

General Fund Non-Tax Revenues: In the category, Use of Money, the increase for FY 2007 reflected greater than estimated interest earnings, while the decreases for FYs 2008–2014 were due to lower bond fund balance assumptions. Dr. Suyderhoud noted that those reductions were pretty substantial. Mr. Shimada explained that the projected bond fund investment balance in the previous estimate inadvertently did not take into consideration expenditures that would lower the bond fund balance. Correcting this oversight lowered the interest earnings dramatically.

In the category, Charges for Current Services, the FY 2007 increase was due to higher FY 2006 transient accommodations tax interest earnings received by the Department of Budget and Finance (B&F), higher federal reimbursements received by the Department of Human Services (DHS), and increased reimbursements of health fund premiums, assessments of special funds for central services expenses, and ambulance service fees. Increases in FYs 2008–2014 reflect increased estimates of ambulance service fees and reimbursements from DHS for the employment services program of the Department of Labor and Industrial Relations (DLIR).

In the category, Non-Revenue Receipts, FY 2007 increases are due to (1) greater than estimated transfers from non-general funds for pension accumulation and social security reimbursements, from the Hawaii Hurricane Relief Fund (HHRF), and from Department of Human Resources Development (DHRD) accounts for workers' compensation and unemployment insurance reimbursements; and (2) a correction in recording prior year transfers from the HHRF. Increases in FYs 2008–2014 reflect increased estimated transfers from HHRF and the Public Utilities Special Fund and increased FY 2008 transfers from the Unclaimed Property Trust Fund.

Special Fund Tax Revenues: In the category, Transfer of Transient Accommodations Tax, changes for FYs 2008–2014 resulted from revisions due to the Council's May 2007 projections. In the category, Unemployment Compensation Taxes, FYs 2007–2014 increases reflect revisions due to actual FY 2007 collections and higher projected covered payroll amounts in the out years. In the category, Transfer of Conveyance Tax, the FYs 2009–2014 decrease is due to a correction in revenue estimate reporting by the Department of Land and Natural Resources (DLNR).

Special Fund Non-Tax Revenues: In the category, Use of Money and Property, actual FY 2007 collections resulted in net increases for FYs 2007–2014. There were significant increases in estimated interest earnings resulting from (1) greater investment balances for the Department of Transportation (DOT), Harbors Division and (2) projected Airports revenue bond sale proceeds. However, there was a decrease in the DLIR Unemployment Insurance Trust Fund's interest earnings.

Net federal sources were decreased for FYs 2007–2014 based on actual FY 2007 collections. Significant changes resulted from a decrease in DLIR's unemployment insurance benefits to federal employees and a correction in the reporting of revenues from early intervention Medicaid cost reimbursements from this category to the more appropriate category, Charges for Current Services – Others, and an increase due to the phasing in of a new cardiovascular program at Maui Memorial Medical Center.

In the category, Charges for Current Services – Utilities and Other Enterprises, net increases for FYs 2007–2014 were due to actual FY 2007 collections. Significant changes in revenues were attributed to: 1) decreases in the DOT Airports Division's terminal building rentals, landing fees, and Duty Free Shoppers minimum annual guarantee; 2) net decreases due to the deferral to FY 2009 of the Harbors Division's wharfage revenue rate increase, changes in how the Office of Hawaiian Affairs' revenues are recorded, and rent re-openings; and 3) increases in the airport system support charges.

In the category, Charges for Current Services – Others, FY 2007–2014 increases were due to actual FY 2007 collections. Significant changes increasing revenues were attributed to: 1) the phasing in of the new cardiovascular program at Maui Memorial Medical Center for FYs 2008–

2010; 2) increased fee-for-service Medicaid reimbursements; 3) increases in the number of undergraduate students and housing units at the University of Hawaii (UH); 4) changes to more appropriately record revenues for early intervention Medicaid cost reimbursements previously included in the Federal category; and 5) corrections in reporting UH residence dining fees. The increases were partly offset by decreases due to a -$233 million correction by the Hawaii Community Development Authority's FY 2010 assessments for the Kakaako Improvements District.

Other Than Special Fund Non-Tax Revenues: In the category, Use of Money and Property, the changes for FYs 2007–2014 were due to an increase in estimated interest earnings resulting from greater investment balances for the Department of Health (DOH). The increase was offset by a decrease in general lease and sub-lease revenues for the Department of Hawaiian Home Lands (DHHL) to correct a reporting error.

In the category, Federal Grants, changes for FYs 2007–2014 reflect increases in federal grants to the Department of Defense (DOD) to improve emergency preparedness, response, mitigation, and recovery for all hazards, for environmental compliance and corrective projects at Army National Guard facilities statewide, and for disaster assistance for the October 2006 Kiholo Bay earthquake. Increases were also due to grants to: 1) the Department of the Attorney General for child support enforcement; 2) the DOH to provide low interest loans for groundwater protection and water pollution control; 3) the DLNR for endangered species restoration; 4) conduct manpower research and development projects for DLIR; and 4) the UH for student financial aid. The increases were partially offset by decreases in grants to: 1) the DOD for the State Homeland Security program; 2) the DHS for the medical assistance program; 3) the DOH due to recruitment difficulties for public health bioterrorism preparedness and response, and a delayed start of the strategic prevention framework to reduce substance abuse-related problems in the community; and 4) the DLIR for job training due to Hawaii's low unemployment rate.

In the category, Revenues from Other Agencies, increases in FYs 2007–2009 reflect projected proceeds from a Kapolei land sale for UH and an increase in funds collected by B&F from holders of unclaimed property.

In the category, Charges for Current Services, FYs 2007–2008 changes reflect an increase in risk management revenues, which were offset by decreased reimbursements for Medicaid rehabilitation option services.

In the category, Non-revenue Receipts, increases in FYs 2007–2014 reflect increases: 1) in UH endowment income; 2) by the Department of Accounting and General Services (DAGS) for the development of family and children learning resource centers at emergency and transitional shelters for the homeless; 3) by B&F for employer contributions for health benefit cost plans; 4) in estimated investment interest earnings for the Department of Commerce and Consumer Affairs (DCCA); and 5) in DOH low-interest loan collections for drinking water systems and water pollution control.

The Chair asked, as he has from time to time in the past, if it was possible to combine the 4 spreadsheets and produce a consolidated worksheet. He observed that the problem is that there are some net flows that are really hard to track; while they have a detailed discussion about the General Fund tax revenues, they only have a general discussion about "everything else" although the "everything else" is as big or bigger than the tax revenues. Mr. Shimada noted that it would be difficult to show all the transfers. The Chair said that there must be an accounting method for netting it all, though he isn't an accountant, which would enable them to say that the bottom line is that there are $X for everything except the General Fund. Dr. Pham stated that the Department of Business, Economic Development, and Tourism (DBEDT) used to be expert at conducting income and expenditure studies revenue and receipt side, etc. The Chair stated that he just wanted to pose the question again and maybe start something. The reason is that they may be entering a period in which the General Fund tax revenue may not be so robust, and that some of the non-tax General Fund revenue may be of interest.

It is odd that they are going to vote on accepting the report without much discussion.
Dr. Bonham agreed that it is odd given that they are talking about roughly half of the income, but that they include it as part of their projections without having anything to do with the calculations, which they couldn't possibly figure out if they had to. The Chair noted that they certainly couldn't net them to a single figure.

Dr. Bonham noted that some of the fluctuations are quite massive. The Chair added that they could occur in line items about which at least some of the Council members, or the Council as a whole, may have some helpful insight. This is a long-standing issue and it is helpful to bring it up once in a while.

The Chair welcomed Mr. Hirata and Mr. Yamada, and explained that they spend considerable time on the General Fund piece since they understand how that connects with the underlying economic drivers. However, these are significant sums, and many of the assumptions that go into the estimates are drawn from the Council's discussions. Although the Council may not specifically work with or provide assumptions to the various agencies that B&F draws the data from, the agencies do rely on the Council's forecast and the kinds of things they discuss to guide them in forming their projections.

The Chair called for a motion to approve the report.

It was moved by Dr. Suyderhoud and seconded by Mr. Yamada, that the report of the Department of Budget and Finance be accepted. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

PROPOSED USE OF FUNDS APPROPRIATED TO THE DEPARTMENT OF TAXATION TO IMPROVE REVENUE FORECAST ACCURACY FOR THE COUNCIL ON REVENUES:

The Chair stated that, in light of various e-mails from the Department of the Attorney General and others, the Council members might not want to know as much about how the services are procured and the monies spent as they might otherwise.

His concern was the latent conflict that arises from the primarily academic affiliation that many of the members have with State government, adding that Dr. Imada Iboshi is on State payroll, and the long-standing principle that the Council is supposed to be autonomous and independent. The idea was to improve forecast accuracy by drawing on the Department's resources to obtain analytical input, but that expertise lies with the same people.

Dr. Pham noted that he had previously asked for the Council's help to obtain funding from the Legislature for the Council to spend on improving forecast accuracy, and there was a series of meetings in 2006 about the same. He did, with Director Kawafuchi's support, request a permanent Economist VI position and $75,000 per year for next two years. When that request was reviewed by B&F, he was told that he could have either the position or the money. Initially, the Economist VI position was cut. The Department appealed and the Governor restored the position but cut the budget to $25,000 per year. The Legislature also gave him a choice of the position or the money, and he ended up with the $25,000 per year for two years. Although the funds are provided to the Department, Dr. Pham wants to use the monies as the Council wishes.

The Chair stated that he is inclined for the Department to use the appropriated funds as Dr. Pham deems appropriate due to the potential for the Council members' professional affiliations to give the appearance of a conflict. He noted that they had discussed the Council playing a more active role and using academic resources in the form of graduate students to do the work rather than actually hiring someone. The Chair then asked for comments from the other Council members.

Dr. Pham stated that, for the Tax Review Commission last year, he had advertised a $35,000 per year full-time position for a graduate student and that there had been no applicants. He noted that it might be possible to find an applicant for a permanent job, but that it is difficult to find someone willing to take a temporary job.

Dr. Suyderhoud stated that he understood that the funds were to be used to do projects on behalf of the Council, and that he thought that the Council should at least try to define the scope of the project. It does not have to be detailed, but it should state what the Council wants.

Dr. Pham suggested that they follow the Request for Proposal (RFP) process and that he would prefer to have the Council's Chair and Vice-Chair on selection committee. The Chair expressed concern about the potential for conflict if they do. Dr. Pham continued that he would be willing to send the draft RFP to the Council members for their comments and input. Other members of the selection committee would be Dr. Pham and one additional person from the Department.

The Chair suggested that they not address the composition of the selection committee for the moment, and asked if any of the Council members would like to say something about what they had in mind for a research program.

Dr. Bonham stated that, while he doesn’t have a research program in mind, they had discussed the type of approaches might work although one really won't know until he/she really gets into it. He noted that it would be difficult to find a student to take on this line of study, as most students in his program focus on national and international issues rather than local issues. He noted that it was his belief that some of the concern regarding conflicts of interest have to do with his position as the Director of the University of Hawaii Economic Research Organization (UHERO), though he is not UHERO. He stated that he would not bid on anything that comes before the Council as the principal investigator (PI). Other faculty in his department may, though he does not believe that there is anyone interested in working on this project. As such, Dr. Bonham believes that an ethics problem is unlikely to arise.

Dr. Suyderhoud asked if the money could be used for a temporary hire. Dr. Pham stated that he did not know and would defer to B&F on this matter. Dr. Bonham suggested that one of the large mainland consultants be considered since he thought it unlikely that a local professional would be interested in the project. Dr. Suyderhoud, however, did not think it likely that a mainland consultant would consider the project for $50,000, and Dr. Bonham agreed.

Mr. Yamada asked what the purpose of the money was. Dr. Pham stated that the money is to improve the econometric model used to derive the Council's forecasts. Dr. Suyderhoud noted that the current model is based on technology that is at least 25 years old. Mr. Yamada asked if $25,000 was sufficient to achieve the stated purpose, because if not, then spending it would be a waste of money. Dr. Pham stated that he didn't know though he pointed out that it was far less than what had originally been requested.

Dr. Bonham and the Chair noted that this was an ongoing problem for the Department as well as DBEDT. It is not something that can be contracted for as a one-time deliverable. They involve training and ongoing recalibration. Dr. Bonham noted that UHERO updates their models at least once a year. They review the pieces that are not performing as expected and try to improve them – it is an ongoing process and is a lot of work.

Dr. Bonham noted that they do not believe that the project would result in perfect forecasts, but they would like to have some idea of how things were working. That is, that they had a logical basis so that they could think about a forecast for the major components, such as the general excise tax; they currently do not forecast each component. The Chair concurred, and cited two examples.

The first example in the current workbook was Table 7 on page 12. For each percentage change in the so-called right hand side variables, the economic indicators in the left column, there are associated elasticities – proportionate changes in the right column – such that for each percentage change in total personal income, there is a 0.66 percent change in General Fund tax revenue. The initiative would explore augmenting the list or substituting different kinds of things.

The second example in the current workbook was Table 4B on page 7 and also Table 2 on page 3. Regarding forecast error on Table 2, the model's individual income tax forecast would have been over by $70.594 million and the model's corporate income tax forecast would have been over by $65.621 million even if they had known with perfect foresight what the actual economic indicators numbers for last year were. When you look at the detail, however, it is not withholding that is a problem – it is the small stuff like estimated tax payments, payments with returns, and the like. In Table 4B, corporate income tax dropped from $181 million to $116 million even though it wasn't a bad year for corporations and cannot be explained based on what they have.

Therefore, they need to get to a different component breakdown than what is currently used, they need different variables than what they currently have, and there is a deeper question of methodology (e.g., time series versus structural modeling).

Dr. Pham noted that many states use an income tax calculator, which is very complicated and expensive.

The Chair suggested deploying the resources to look at these modeling questions and to ferret out where the unexplained movement is.

Dr. Suyderhoud asked if the $25,000 for each of two years could be lumped into one year, with the idea of hiring someone for $50,000 for one year. Dr. Pham initially said yes and that it could be a single contract over two years, but Mr. Kahle subsequently clarified that, while there could be a single contract covering both years, the entire $50,000 could not be expended in a single year since the appropriation was for $25,000 per fiscal year. Dr. Suyderhoud stated that this project could result in something better than the current single-equation models for each source, although they have been lucky in that the errors in one have often offset the errors in another.

As background for the new Council members, the Chair noted that this became acute because, about three or four years ago, the Council's forecasts were below the actuals, and though both the forecasts and the actuals have been coming down, the actuals have been coming down faster such that last year's actual was below the forecast—this is a problem; more of a problem than it going the other way.

Dr. Suyderhoud noted that this was not the first time it had occurred. Dr. Bonham added that it would always happen regardless of the methodology; it would over-forecast going up and under-forecast going down.

Mr. Kahle suggested that Dr. Pham come in with a proposal on how to spend the money and for what. Whether there is a subcommittee of 3 or fewer members as suggested by Dr. Pham may be too preliminary. Perhaps more facts are needed as to how the money may be used, who might be available since $25,000 doesn't seem to buy much.

Dr. Pham proposed that the Chair or Vice-Chair assist him. The Chair asked if there was a way for the entire Council to assist without violating sunshine laws. The solution was for the Department to e-mail everyone and for everyone to e-mail the Department back without communicating with each other.

Dr. Pham stated that he would e-mail something to everyone and that they should e-mail responses directly to him. He asked if anyone would not want to receive e-mail regarding this project. Dr. Bonham asked to be excluded on the remote chance that UHERO bids on something even though he does not believe it would create an ethics problem since he does not benefit unless he is the PI.

<u>GENERAL FUND REVENUE FORECAST</u>:

The Chair directed everyone's attention to Table 4B on page 7 of the workbook, the current above and below the line forecast. For the benefit of the new members, he explained that they actually forecast the growth rate, which is in the middle of the table. They then adjust the numbers above the growth rate at the middle of the table by the technical adjustments listed below the word, "Adjustments," to arrive at the net total and growth rate at the bottom of the table.

The tax components at the top half of the table are initially prepared by Tax Research & Planning (TRP) using TRP's econometric model. The model takes economic assumptions submitted by the Council members and some other methodologies to arrive at the component numbers, which then aggregate to the gross total in the table.

Therefore, they look at the growth rates in the middle of the table with particular attention given to the growth rates for FY 2008 and FY 2009, after which Dr. Pham will go back to his model to align that part of the model with their forecast.

In response to a question from the Chair on why a 6.8% growth rate for FY 2008, Dr. Pham stated that it was based on the assumptions detailed in Table 6 on page 11.

Dr. Bonham started with the numbers reported as actual FY 2007 numbers. The $4.587 billion net total is the actual amount collected. The adjustments listed are added to the net total to arrive at the $4.995 billion above the line gross total, such that the gross total is a derived rather than an actual number. Therefore, it is not really possible to know what the transition from the 3.7% growth rate to 6.8% means. The Chair noted that it is contingent upon the assumptions regarding the technical adjustments, which, as Dr. Bonham pointed out, are not actual numbers.

The Chair noted that the FY 2006 adjustments are actual figures, which Dr. Pham clarified were almost final actual figures. The Chair directed everyone to the Tax Credits Claimed tables on page 9. He explained to the new members that the tax credits have been a big unknown, likening the credits to blank checks.

In response to a question from Dr. Bonham, Dr. Pham explained that the jump in the High Technology Business Investment Tax Credit from $38.1 million in FY 2006 to $52.8 million in FY 2007 and to $64.1 million in FY 2008 was based on what they know is "in the pipeline" and based on the 5-year period over which the credit may be claimed. Dr. Bonham asked Dr. Pham to comment on what he understood was a statement by Director Kawafuchi that the State would not pay out the full amount of the eligible credit because taxpayers were not claiming them. However, Director Kawafuchi said that such was not the case, although circumstances such as a company going out of business may result in some potential credit to go unclaimed.

Dr. Pham noted that there were new adjustments in Table 4B due to new tax laws that would become effective. Director Kawafuchi discussed the main changes. The first, enacted in 2006, was the individual income tax rate reduction and bracket expansion and standard deduction increase that became effective January 1, 2007, impacting returns filed beginning in 2008; its estimated impact is a reduction of $25 million. Of the 2007 tax legislation, the general excise tax exemption on sales of alcohol-blended fuel became effective July 1, 2007, and will continue for 2 years, at which time it will expire unless extended. The constitutionally mandated income tax credit will be claimed on 2007 returns that will filed beginning in 2008; its estimated impact is a reduction of $25.7 million. Effective January 1, 2008, the current low-income refundable income tax credit will be replaced with the food and excise tax credit; this credit will be claimed on returns filed in 2009. Its estimated impact is a reduction of $23.9 million. It was noted that the chart erroneously has it impacting FY 2008 instead of FY 2009.

The Chair noted that the above the line growth rates would be the forecasted result if nothing changed over time. Because things change, the below the line adjustments are made. However, he questioned the continuing of the credits as a below the line adjustment once they have been incorporated.

In response to a question from the Chair, Dr. Pham confirmed that the above the line amounts reflect the world as it is today and forecasts future years assuming that there are no technical changes. The new credit's impact, as well as other changes that will impact the present state, is a below the line adjustment for the forecast period. The Chair asked why the new credit is not a below the line adjustment for the year in which it begins and then be part of the above the line growth rate in subsequent years. Dr. Bonham stated that, once it becomes part of the base, it would no longer affect the growth rate.

Dr. Suyderhoud asked if the models were re-estimated, but the Chair stated that they were not because they didn't have dummy variables to pick up the changes. There was some discussion regarding the methodology; however, Dr. Bonham noted that certain items, such as the high technology credits, seem to be carried out as a below the line adjustment forever rather than being incorporated into the model and then re-estimated. He stated that the ideal would be for these mechanisms to be built into the model such that someone could sit at the table with a laptop and instantaneously update the model as the Council proposed possible changes.

The Chair summarized the below the line adjustments: there are some new adjustments due to the law changes and they have the credits for which they have some data through 2006. Dr. Pham noted another error; the food/excise tax credit adjustment was double adjusted as it also was in the individual tax credit number. Dr. Suyderhoud indicated that the bottom line growth rate should be about 0.5% higher.

The Chair drew attention back to the growth rate in the middle of the table noting that the growth rates were about 4%, which seemed pretty low to both the Chair and Dr. Bonham, as he thought they were in the 5%–6% range—2% real growth and 3% or 4% inflation. However, Dr. Pham stated that they had additional elasticity regarding construction output; some years, such as 2009 and 2010, were flat or had a slight negative.

The Chair noted that, in Table 6, Part B, on page 11, there is a real growth rate of about 2% and an inflation assumption that starts at about 4% in 2008 and ends in 2014 at about 3%. Therefore, from 6% growth (2% real growth rate + 4% inflation) you end up with about 5% (2% real growth rate + 3% inflation). He did not think that there was enough movement although they expect slowing in the construction cycle and they would argue that nobody expects tourism to be as strong as the table presents, to go from 6% to 4%.

Dr. Bonham stated that something in a subset of the forecast is pulling it down. He noted that Tax Research is aggregating the input and running the model. Looking at Chart 1 on page 5, however, he notes that the UHERO forecast includes the construction cycle, which puts them low in 2009, but that their forecast is the highest every other year. He therefore agrees with the Chair's assessment that the 3%–4% range in the out years is a little low. Dr. Pham clarified that Chart 1 is the below the line forecast. Dr. Bonham stated that the assumptions result in 5% nominal growth; above the line is 3.5%–4.5% nominal growth in revenues—therefore, the above the line growth rate looks about 0.5% too low. The Chair noted that the below the line growth rate appeared closer though perhaps still 0.5% too low.

The Chair then directed attention to the time-series tax data beginning on page 23. Dr. Pham noted that there is only one month of data for the current fiscal year, and the large increase is in part due to a weekend effect and a processing effect. Director Kawafuchi explained that he believed that the Department had been able to process tax returns faster this year, which meant that tax refunds also were issued faster and that they were now depositing payments faster—about a $15 million impact. He added that there is still about a $30 million increase after carving out the weekend and processing effects. In response to a question from Dr. Bonham, Director Kawafuchi added that there wasn't a large, one-time delinquent collection in that number although settlements continue to be made and the monies paid deposited.

Dr. Bonham and the Chair agreed that the discussion on assumptions was not adding much to the discussion as a whole since they have a "gut feeling" that the projections are too high even though the 2% tourism growth is too high. Therefore, the discussion returned to the core economic data as they usually do.

Dr. Bonham stated that the visitor growth for 2008 is definitely too high. The Chair explained that the visitor numbers were upwardly revised last year such that this year will not even be as good as they thought it would be before the revision. Dr. Suyderhoud asked about the absolute numbers that drive everything, and Dr. Bonham stated that it would be a wash. The Chair noted that it had been 7.5 million for a couple of years and would probably be the same this year. Dr. Bonham stated that we are down 0.5% so far this year from the un-revised numbers.

The Chair pointed out that visitor spending had not increased more than inflation for about 20 years. Should visitor spending match inflation from now on it would be something new. Dr. Suyderhoud stated that he suspects an underlying numeric growth in the arrival numbers, and if that drops to zero (0), then you are left with the inflation rate.

Regarding the Consumer Price Index (CPI) on page 12 that shows that a 1% change in CPI would have a 0.01% impact on revenue, Dr. Bonham asked if that was really the CPI or whether it was the inflation rate. Dr. Pham stated that it was the CPI. Dr. Suyderhoud noted that this, again, is a problem for the model because the change in CPI would affect the Total Nominal Personal Income, etc. They noted that if all the prices went up by 1%, then the general excise tax should also go up by 1%.

Leaving the discussion of the model, the Chair stated his belief that: (1) the State would go a few years without material visitor growth and then the politics would change and someone would be able to change the visitor plant in a manner that would enable some visitor growth to occur in the 20-teens; and (2) construction will also have a quiet period and then enter a more robust period in the 20-teens because he feels that housing will come back. Therefore, there would be more of a flat spot in the growth rate for tourism and construction than is currently indicated by their assumptions on page 11 (not inconsistent with his 2% real total personal income growth rate or transition to lower inflation idea), but more growth in construction and maybe tourism in the out years.

Dr. Suyderhoud asked if that wasn't what was already there, but the Chair added that it was more muted.

Dr. Bonham noted that they had spoken in the past about constraints on tourism that are holding it level. He also noted that the estimates included in the most recent UHERO construction report are for 5,000 more units between 2006 and 2010; perhaps a 3%–4% increase in total accommodations statewide. That would be 73,000 units or 6% between 2006 and 2010. There are a number on Maui and Kauai, plus timeshares, although some may not be built if they haven't already been started due to the credit crunch. He added that he was not as worried about out years as he is about the next couple of years, and the Chair agreed.

At this time, attention returned to Table 4B on page 7 and what the Council's below the line forecast will be. Dr. Suyderhoud, with Dr. Pham's concurrence, noted that the 2008 below the line forecast based on the model should be 5.7% instead of 5.2% due to the removal of the Food/Excise tax credit, which would not have an impact until 2009.

At this time, the Chair called for a motion on the 2008–2014 forecast.

It was moved by Dr. Bonham and seconded by Dr. Suyderhoud, that the 2008 through 2010 above the line growth rates of 6.8%, 4.3%, and 3.6% be retained, and that the above the line growth rate for both 2011 and 2012 be 4.5%, and that the above the line growth rate for both 2013 and 2014 be 5.0%, with Dr. Pham making the necessary adjustments to arrive at the correct below the line growth rates for those years. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

NEXT MEETING:

The Chair stated that it has been customary for the Council to meet before the holidays in December to discuss the January 10th General Fund revenue forecast. One reason is that they don't get much more data in the first week of January, which is a hard week for them to meet anyway, than they would have in the second week of December. They may get one more month of visitor counts. Also, Dr. Bonham stated that they would get the Bureau of Economic Analysis' 3rd Quarter Total Personal Income data in late December, about December 20th, although as Dr. Pham noted, they often subsequently revise that initial number. Dr. Bonham noted that it would be difficult to meet after that date. Dr. Suyderhoud suggested December 27th or 28th, but nobody liked those dates. The Chair also noted that the Legislature generally wants them to appear the first week of January. Although they can decide on the date later, he raised the issue because he believes that they really need to pay attention to the revenue streams over the next couple of months because there is so much volatility. He thought that it would be revealing to look at the quarterly data to see if there was a pattern, but no. They can think about whether to wait until after they get the Total Personal Income data or not and further discuss this matter at their next meeting.

The next reporting date is Monday, November 5, 2007, regarding their Total Personal Income forecast.

The next meeting will be held on Thursday, November 1, 2007, at 2:00 P.M. in the Office of Aging Conference Room.

Dr. Bonham noted that they would have the 2nd quarter Total Personal Income data around September 20th as well as revisions going back to 2004.

ADJOURNMENT:

The meeting adjourned at 3:35 P.M.