

## COUNCIL ON REVENUES

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

Thursday, November 1, 2007  
2:00 P.M.

### PRESENT:

#### Council Members:

Paul H. Brewbaker (Chair), Jack P. Suyderhoud (Vice-Chair), Carl Bonham,  
Dean Hirata, Pearl Imada Iboshi, and Richard F. Kahle, Jr.

#### Staff Members:

Department of Taxation: Tu Duc Pham, Yvonne Chow, Davis Kawamoto, Kyle  
Nakahara, Titin Sakata, and Cathleen Tokishi

Department of Budget and Finance: Keith Shimada, Karen Matsunaga, and Terri  
Ohta

#### Others:

Gordon Arakaki, Senate Committee on Ways and Means  
Sean Hao, Honolulu Advertiser  
Lowell Kalapa, Tax Foundation of Hawaii  
Nandana Kalupahana, House Committee on Finance

### ABSENT:

#### Council Members:

Albert Yamada

### CALL TO ORDER:

The Chair called the meeting to order at 2:02 P.M. with a quorum present.

### COMMUNICATIONS TO THE COUNCIL:

The Chair acknowledged the receipt of a letter dated September 18, 2007, from Governor Lingle, thanking the Council for its August 2007 report.

Another letter from Governor Lingle dated September 18, 2007, asking the Council to meet as close as possible to the January 10<sup>th</sup> reporting date will be discussed later.

MINUTES OF THE MEETING OF AUGUST 28, 2007:

The Chair discussed the October 17, 2007, request from Mr. Hao to the Chair for the draft minutes of the August 28, 2007, meeting. The minutes must legally be available within 30 days of the meeting even if still in draft form. Ms. Sakata confirmed that draft minutes had been provided to Mr. Hao.

The Council discussed the content of future minutes. In the past, the minutes were relatively short. More recently, the minutes have been very detailed. It was generally agreed that future minutes would be less detailed.

The Chair asked if there were any corrections to or comments about the minutes of the August 28, 2007, meeting. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Mr. Kahle and seconded by Mr. Hirata, that the minutes of the August 28, 2007, meeting 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	Yes
Richard Kahle, Jr.	Yes
Albert Yamada	Absent

SUNSHINE LAW – RELEASING MINUTES TO THE PUBLIC

Dr. Pham stated that his staff would prepare draft minutes within three weeks of each meeting and provide the draft to the Council for their review and comment so that members will be able to review the draft minutes before making it available to the media 30 days after the meeting if requested.

TOTAL PERSONAL INCOME (TPI) FORECAST:

The Chair noted that the current TPI forecast was 6.2% for 2007 and 5.9% for 2008 based on 2% real personal income growth and a slowing of the inflation rate from about 5% this year to 3% in a couple of years.

The main issue is the extent to which the credit crunch would impact the economy. The September and October home sales data, seasonally adjusted, indicated a slight pull back as evidenced by an inventory backlog. Also, credit constraints may be having an adverse impact. The latest data indicated that visitor numbers are down 1% and visitor spending is down 4% in real terms. The cost of oil may also affect household consumption and visitor numbers.

UHERO's 2008 growth rate forecast for TPI is down 0.5%, in both real and nominal terms, as there was no change in their inflation forecast. Their nominal growth rate is 6.6% for 2007 and 5.2% for 2008 with most of the decline in inflation as their real growth rate is 1.9% for 2007 and 1.5% for 2008.

Both Dr. Bonham and Dr. Imada Iboshi thought that the total personal income growth rate should be in the low 6% range for 2007, as the Council's current forecast is 6.2%. The latest U.S. Bureau of Economic Analysis (BEA) estimate is currently about 6.8% for the first half of 2007. However, the BEA frequently revises their estimates, sometimes by over one full percentage point. The Chair observed that instead of forecasting the real growth rate and adding inflation, they forecast the nominal growth rate and subtract inflation.

The Chair suggested they consider the extent to which the tourism and housing numbers impair what is otherwise a good forecast. According to Mr. Hirata, the California housing decline is largely due to inventory dumping by the national homebuilders; not so with Hawaii, which also has much less exposure with respect to subprime loans. The Chair agreed and added that Hawaii also doesn't have a high subprime loan delinquency rate.

After further discussion, both Dr. Bonham and Dr. Imada Iboshi indicated that they were comfortable with the current forecast of 6.2% for 2007 and 5.9% for 2008.

Data indicated that the growth rate of the total number of jobs is about 2.1% for 2007, mainly due to the strong growth of the construction industry. Military construction had ramped up more slowly than expected and was now quite strong; the 2,000 new units this year almost make up for the private permits.

The Chair observed that, while there were reasons to revise the current forecast upward, they were comfortable leaving it unchanged due to the downside risk. The Council noted that the nation's housing problems might indirectly affect Hawaii through declining consumer confidence; business confidence declined in recent business confidence surveys.

At this time, the Chair requested a motion on the 2007 and 2008 forecast.

It was moved by Dr. Suyderhoud and seconded by Dr. Imada Iboshi, that the Council's forecast of nominal total personal income growth remain at 6.2% for calendar year 2007 and 5.9% for calendar year 2008. 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	Yes
Richard Kahle, Jr.	Yes
Albert Yamada	Absent

NEXT MEETING:

Governor Lingle asked the Council to meet in January to forecast General Fund revenues instead of mid-December, as they would have year-end economic data. The Council agreed to accommodate the Governor though they did not believe much more data would be available.

The Chair asked when the House Committee on Finance and the Senate Committee on Ways and Means were holding their pre-session hearing, which was last held on January 5, 2007. The committee representatives stated that it would be after the next Council meeting.

The next meeting will be held on Wednesday, January 9, 2008, at 10:00 A.M. The Council acknowledged that it would be more difficult for the staff to write the report and have it signed and delivered by the January 10, 2008, reporting date.

PROCUREMENT OF ECONOMETRICS STUDY

Dr. Pham reported that he had sent the proposed Request for Quotes (Proposal) to the Council members. He had not received any comments from the Council and would move the proposal forward. There were no objections from the Council members at the meeting. He indicated that the Tax Research & Planning Office had just hired Ms. Nakahara, who had been referred by two Council members, to assist with the econometric project.

ADJOURNMENT:

The meeting adjourned at 2:47 P.M.