

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, May 29, 2008
2:00 P.M.

PRESENT:

Council Members:

Paul Brewbaker (Chair), Jack Suyderhoud (Vice-Chair), Carl Bonham, Pearl Imada Iboshi (arrived late), and Richard F. Kahle, Jr.

Staff Members:

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

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

Others:

Gordon Arakaki, Senate Committee on Ways and Means

Huong Bassford, Department of Budget and Finance

Charles Carole, Oahu Metropolitan Planning Office (Citizen Advisory Committee)

Derrick DePledge, Honolulu Advertiser

Denby Fawcett, KITV

Hamid Jahanmir, Department of Business, Economic Development, & Tourism

Lowell Kalapa, Tax Foundation of Hawaii

Kurt Kawafuchi, Department of Taxation

Nandana Kalupahana, House Committee on Finance

B. J. Reyes, Honolulu Star-Bulletin

Titin Sakata, Department of Taxation

ABSENT:

Council Members:

Dean Hirata, Albert Yamada

CALL TO ORDER:

The Chair called the meeting to order at 2:00 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

The Chair acknowledged the receipt of a letter dated March 28, 2008, from Governor Lingle, thanking the Council for its March 2008 report.

MINUTES OF THE MEETING OF March 12, 2008:

The Chair asked if there were any questions or comments about the minutes of the March 12, 2008, meeting. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that the minutes of the March 12, 2008, 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	Absent
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES

Ms. Matsunaga reported the significant changes from the March 2008, report.

General Fund Non-Tax Revenues: Net increases in fiscal years (FY) 2008–2014 were attributed to increases in ambulance and emergency medical services, employer health benefit contribution refunds for the Voluntary Employees' Benefit Association health plan, reimbursements for the employer's share of health benefit premiums from non-general funded programs, and actual funds received from the Medicare Retiree Drug subsidy for calendar year (CY) 2006.

Special Fund Tax Revenues: Significant changes in FYs 2008–2014 were attributed to projected decrease in collections for liquid fuel, vehicle surcharge (rental vehicles), and transfers of conveyance taxes. The decreases were offset by projected increases in FYs 2008–2014 for motor vehicle weight tax collections.

Special Fund Non-Tax Revenues: Significant changes for FYs 2008–2014 were attributed to the Department of Transportation (DOT)—revisions to the Airports and Highways Divisions' interest income, projected increase in federal funds for the Highways Division, the Airports

Division's projected decreases in signatory terminal rental rates and landing fees, and changes in imposed passenger facility charges; projected increases in FYs 2008–2009 for the Hawaii Health System Corporation; decreases for the Department of Land and Natural Resources due to a correction in the Diamond Head revenue projections; and the suspension of administrative assessment fees associated with the Department of Commerce and Consumer Affairs, Insurance Division, for FYs 2008–2009.

Other Than Special Fund Non-Tax Revenues: Net increases in FYs 2007–2014 are attributed to increases in projected federal funds, payments for project completions, interest earnings, revenue bond proceeds, revenues from the Maili Self Help Project and the Shared Appreciation Equity Program, long-term and special financing programs, and payments for rental housing assistance.

The Chair called for a motion to approve the report.

It was moved by Mr. Kahle, and seconded by Dr. Suyderhoud, 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	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

DISCUSSION OF DRAFT SINGLE-TABLE FORMAT FOR BUDGET & FINANCE REVENUE DATA PRESENTATION

Ms. Matsunaga distributed a new draft of the consolidated table; one page showed just the revised figures while the other showed both the revised figures and, where different, the previous report's lined-out figures so that the changes could be easily identified. She also noted that some of the categories had been consolidated to fit the page.

The Chair stated that this would help focus the Council's attention on the big items, and that he would like this to be included in the actual report. In the future they might want to consider modeling some of the economic drivers such as the tourism-dependent, real estate-dependent, and construction-dependent components of the various revenue streams that they are tracking. The Chair noted that the bottom line, as a proportion of the total, has remained about the same over the years—a little more than half—for as long as he has been looking at the numbers. He concluded this section by complimenting the Budget and Finance staff on the excellent results of their efforts thus far.

GENERAL FUND REVENUE FORECAST:

The tables and charts prepared by staff used Council inputs that had been submitted prior to the March 2008 Council meeting if updates had not been received prior to this meeting.

Consequently, the materials may more positively reflect the economy than actual conditions warrant.

There was discussion about the Council members' individual forecasts, which might better reflect recent tourism performance or recent energy inflation in the CPI forecast. The Chair's current forecast of nominal growth was 5.7% for FY 2008 and 3.9% for FY 2009. Dr. Bonham's forecast was 5.4% for FY 2008 and 1.5% for FY 2009. Dr. Suyderhoud's forecast for FY 2009 was 3.8%.

Though his nominal growth forecast for FY 2008 is relatively high, Dr. Bonham stated that there would be no real economic growth due to 5% inflation. However, he expects inflation to rapidly decrease between FY 2008 and FY 2009 due to the housing component, hence his 1.5% forecast for FY 2009.

There was some discussion regarding the Council's visitor assumptions. Dr. Bonham expressed surprise that the tourism numbers were not lower; both he and Dr. Imada Iboshi agreed that resident numbers were "plummeting." The Chair noted that Dr. Bonham's, Dr. Imada Iboshi's, his visitor forecasts have been in the range of -8.0% to -12.0% for the second quarter of CY 2009, increasing to neutral by the end of the year. The problem for travel demand has been consumption compression.

Although the first quarter of CY 2008 was not negative (0.2%), they expect it will be negative for the year (-4% for Dr. Bonham; -6% for the Chair), particularly since the May through July 2008 published lift estimates are -13%. The Chair noted that the 1985 Continental strike, which began in April and ended at the beginning of June, is illustrative. Although that strike ended before the summer travel period, travelers had already planned and booked their trips and Hawaii couldn't recover. There were, however, a number of other relevant factors present in 1985 that are not currently present (e.g., the energy crisis, doubling of the value of the yen in dollars, etc.), and, as Dr. Imada Iboshi noted, the advent of Internet booking has changed the dynamics, with more people booking their travel later (i.e., closer to the travel date). The issue today and for the near future is the lack of consumer confidence and inability to mobilize discretionary spending given current energy costs and the loss of home equity.

The Chair asked the staff why actual revenue collections lagged the Council's forecast. Dr. Pham noted that general excise tax growth was flat so far, although individual income tax was growing 4.0–5.0%, and visitor expenditures grew. Car sales and sales of electronics were down. It was noted that nominal general excise tax revenue growth was positive (3.6% for the year to date through April over FY 2007), but negative in real terms assuming 4.0–5.0% inflation.

Withholding was up 20.9% for the first quarter of CY 2008, but Dr. Pham indicated that there might be some currently unidentified technical reason for this increase, as it appears unrealistic. He also noted that the Department had been issuing refunds far more quickly, which Director Kawafuchi attributed to increased e-filing of returns, additional departmental resources, and other factors, such that the May and June collections could be expected to increase although the May collections do not appear promising at this time.

Given the discrepancy between actual collections and the model, and given economic conditions, the Chair suggested 3.0% growth for FY 2008, and Dr. Bonham suggested 3.5% or 3.3%. The Chair stated that he didn't believe 3.3% was realistic, as it didn't reflect the ripple effect throughout the economy of the Aloha Airlines and ATA closures, and proffered a 3.15% compromise growth rate.

After further discussion, the Chair called for a motion on the General Fund forecast for FY 2008.

It was moved by Dr. Imada Iboshi and seconded by Dr. Suyderhoud that the FY 2008 below-the-line growth rate be 3.3%. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	No
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	No
Albert Yamada	Absent

The Council expects the first quarter of FY 2009 to be poor due to decreased tourism and other repercussions of the Aloha Airline and ATA closures, the increasing price of oil, the credit crunch, etc., but that it will probably improve by the end of the fiscal year. The model has 3.2% growth for FY 2009 on a higher base (5.1%) than the 3.3% FY 2008 growth rate just passed.

Dr. Bonham noted that, at the March 2008 meeting, the Council had thought that the worst was behind them and had forecast 4.1% growth for FY 2009 on top of the 3.9% growth forecasted for FY 2008. Given subsequent events, and depending on how much acceleration there will be and how much disinflation there will be, Dr. Bonham's FY 2009 forecast is a low 1.5%, in part because of lower inflation and nominal contracting receipts. Dr. Suyderhoud's FY 2009 forecast is 3.8%, and is higher in part because of higher inflation.

Both Dr. Bonham and the Chair agreed that 2.0% was a good starting point for the FY 2009 forecast. After further discussion regarding core inflation, the shelter component, inflation and other factors, the Chair called for a motion on the General Fund forecast for FY 2009.

It was moved by Mr. Kahle and seconded by Dr. Bonham that the FY 2009 below-the-line growth rate be 2.0%. 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	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

The Chair suggested that the effects of the current movements in tourism, inflation etc., will have run their course by July 2009, such that the forecasts for the outlying years, FYs 2010–2014, could remain at the same above-the-line growth rates based on the Council's mean forecasts in Table 3B, and letting the below-the-line adjustments based on the lowered levels flow from there to arrive at the below-the-line growth rate. Dr. Suyderhoud pointed out that they are not, in any event, particularly robust anyway.

The Chair called for a motion on the forecasts for FYs 2010–2014.

It was moved by Dr. Suyderhoud and seconded Mr. Kahle, that the above-the-line growth rates for FYs 2010 through 2014 be 3.3%, 3.7%, 4.0%, 4.0%, and 4.4%, respectively. 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	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

The Chair instructed Dr. Pham to compute the final below-the-line growth rates for FYs 2010 through 2014.¹

¹ Recorder's Note: The final below-the-line growth rates for FYs 2010 through 2014 were subsequently computed to be 4.4%, 3.9%, 4.4%, 5.5%, and 5.7%, respectively.

NEXT MEETING:

The Council asked that the election of a Council Chair be placed on the agenda for the next meeting immediately following the Call to Order.

The Council also decided to schedule its meetings through January 2009 as follows:

- Thursday, July 31, 2008 (August 5, 2008, Total Personal Income forecast reporting deadline).
- Wednesday, September 3, 2008 (September 10, 2008, General Fund forecast reporting deadline).
- Wednesday, October 29, 2008 (November 5, 2008, Total Personal Income forecast reporting deadline).
- Friday, January 9, 2009 (January 10, 2009, General Fund forecast reporting deadline).

All meetings will be at 2:00 P.M. The staff will schedule the meetings for the Office on Aging Conference Room if available.

ADJOURNMENT:

The meeting adjourned at 3:15 P.M.