

COUNCIL ON REVENUES

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

Wednesday, September 3, 2008
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Tu Duc Pham, Yvonne Chow, Lisa Bravender, Jacquelyn Guitguiten, Hamid Jahanmir, Lester Lau, 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, Honolulu League of Women Voters
Rick Daysog, Honolulu Advertiser
Lowell Kalapa, Tax Foundation of Hawaii
Kurt Kawafuchi, Department of Taxation
Michael Ng, House Committee on Finance
Donald Rousslang, Department of Taxation
Robert Shikina, Honolulu Star-Bulletin

CALL TO ORDER:

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

COMMUNICATIONS TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF July 31, 2008:

The Chair asked if there were any corrections to the minutes of the July 31, 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 July 31, 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	Yes
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 May 2008, report.

General Fund Non-Tax Revenues: Significant changes in FY 2008 reflect higher than projected actual interest earnings, increased collections in ambulance and emergency medical services, increased reimbursements for the employer's share of health benefit premiums from non-general funded programs, reimbursements of prior years' expenditures for the employer's share of social security/Medicare payments, realizations of premium bonds sold, transfers from Department of Land and Natural Resources special funds, reimbursement of start-up funds from the Emergency Medical Services special fund, and actual transfers from non-General Funds for pension accumulation and social security reimbursements.

Special Fund Tax Revenues: Significant changes in FYs 2008–2015 were attributed to projected increases in collections for liquid fuel (aviation) and vehicle surcharge (rental vehicles). The increases were offset by projected decreases in unemployment compensation taxes and transfers of conveyance tax.

The Chair suggested looking at the Maui and Hawaii Island visitor counts, which indicate a current decline in the liquid fuel (aviation) and vehicle surcharge numbers.

Special Fund Non-Tax Revenues: Significant changes for FYs 2008–2015 were attributed to Department of Transportation revisions to interest income, increased federal funds for the Highways Division, projected decreases in the Airport Division's signatory terminal rental rates, landing fees, and concession fees, and changes in the Airport Division's passenger facility

charges; a delay in the University of Hawaii's (UH) Kapolei land sale, revisions to UH's resident and nonresident tuition fees, and increases in UH Manoa dormitory rental revenues; and decreases in workers compensation insurance premiums under the Department of Labor and Industrial Relations.

Other Than Special Fund Non-Tax Revenues: Significant changes in FYs 2008–2015 were attributed to increases in projected federal funds for the Department of Health (DOH); increases in federal funds for the recovery of indirect costs; an increase in FY 2008 unclaimed property collections; and increases in projected employee contributions for health benefits due to increased health plan costs for active employees. The increases are offset by decreases in FY 2008 interest earnings for the Department of Business, Economic Development and Tourism (DBEDT), Hawaii Housing Finance and Development Corporation; decreases in FYs 2010–2015 due to lower than projected employer contribution health benefit retiree rates; and decreases in loan repayments for DBEDT low- and moderate-income home mortgage loans, DOH State water pollution control loan principal payments, and decreases in principal payments for UH student loans.

The Chair called for a motion to accept the report.

It was moved by Mr. Hirata, and seconded by Mr. Kahle, 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	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The Chair asked that, rather than reading the report, the Department just highlight the top 5 or 10 items in terms of the dollar amount and proportion of change. For the next meeting, he also asked everyone to think about which of the four tables had historically shown the most movement. He noted that the fourth table is large in terms of dollar amounts, but the various changes tend to cancel each other out. On the other hand, there are other categories, such as those related to tourism, that the Council may be able to assist the staff to understand or that the Council may itself want to better understand.

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

Ms. Matsunaga distributed a new draft of the consolidated table.

The Chair noted that highlighting selected items would become increasingly important should they move to the summary table, because much of the detail will be hidden. Although the sum total is only about \$100 million of a total of about \$5.5 billion, they should at least pay attention to the major items.

There was some discussion regarding the Chair's suggestion that the Department of Budget and Finance use the Council members' economic assumptions to do their projections. In some cases, for example, the projections use the Council forecasts of transient accommodations tax (TAT) revenue although the Council doesn't specifically discuss and forecast line items such as TAT revenues. While the TAT forecasts may be useful with respect to projections relating to the allocation of the TAT, it may not be appropriate for projecting other tourism industry-related changes for which another measure, such as a visitor count forecast, may be more appropriate. Consensus on this issue was not reached.

GENERAL FUND REVENUE FORECAST:

The Chair, noting that the Council had previously issued a forecast of General Fund revenues at the request of Governor Lingle just a little over a month ago, asked if anyone thought that the forecast should change and if there may be an economic rationale for changing that forecast.

Only Mr. Hirata had submitted updated economic forecasts, but they did not significantly vary from the Council's mean forecasts.

In response to a question, Director Kawafuchi stated that, although general excise tax collections appear to be down by a less-than-expected \$25 million, this figure is preliminary and cannot be relied upon.

Asked about his construction forecast, Dr. Bonham stated that the forthcoming construction forecast would not be changing very much; the biggest change was in the declining visitor arrival growth rates, which would affect employment and other economic indicators. The Chair agreed, adding that it appeared likely that the tourism decline would linger longer than previous slowdowns. The declining visitor forecasts apparently are a result of low demand rather than low supply. Available lift (i.e., the number of available seats) is down, but seats are available; airfares have declined for fall travel due to low demand. Unfortunately, the supply-side won't react until demand increases.

In view of the impact on jobs and income that the lower and slower growth in visitor arrivals would have and the severity of the impact that the loss of the cruise business has had on the neighbor islands, Dr. Bonham thought that the current 4% forecast for FY 2010 was too optimistic and could be revised downward. The Chair and Dr. Bonham show slight visitor arrival increases for FY 2010, but not nearly enough to fully rebound from their expected FY 2009 decline.

Other than in construction, the Chair was somewhat surprised that unemployment had not increased more after the closing of Aloha Airlines and other businesses. He noted that businesses appear to be managing through attrition, not replacing those who leave, having employees take their vacations now, etc., instead of laying off large numbers of employees. As such, although a 4% increase in General Fund tax revenue for FY 2010 may be a little high, he was inclined to leave the FY 2010 forecast unchanged pending any new information.

After further discussion, the Chair called for a motion on the General Fund forecast for FY 2009–FY 2015.

It was moved by Mr. Kahle, and seconded by Dr. Suyderhoud, that the Council's July 31, 2008, forecasts for FY 2009–FY 2015 remain unchanged. 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 F. Kahle, Jr.	Yes
Albert Yamada	Yes

NEXT MEETING:

As previously scheduled during the Council's meeting on May 29, 2008, the next two Council meetings will be held at 2:00 P.M. in the Office on Aging Conference Room as follows:

- 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).

In anticipation of the January General Fund meeting, the Chair asked Dr. Pham about the status of the contract to improve on the forecasting model currently used for Council forecasts.

Dr. Pham reported that the almost \$20,000 contract had been awarded to UCLA Anderson Forecasting and that the vendor would prepare a quarterly model that would basically replicate the current table with single equations for each tax type. He noted that it wasn't very much money, so expectations should be reasonable.

The Council requested that a presentation be given to the Council, perhaps at the Council's March 2009 General Fund meeting. Dr. Pham said that the vendor would be coming to Hawaii twice, and that it was his intent to have them meet with the Council. The Council also asked that they be provided a copy of the contract to examine what the vendor would be doing, their methodology, etc., if it was a public document.

The Chair said that he was particularly interested because he recalled that the Council had been asked by the Senate Committee on Ways and Means (WAM) and the House Committee on Finance (Finance) to give a presentation in September of 2007 ahead of their regular pre-legislative session January briefing. (The Council is unlikely to be asked to do so this year since the primary election is being held on September 20th.) When the Chair speaks to the WAM and Finance committees, he presents only three categories of revenue: (1) general excise tax, (2) withholding, and (3) everything else. He noted that the transient accommodations tax, though small in terms of dollars, is of interest to many people because of other implications. He suggested that, since his less detailed presentation is apparently satisfactory, perhaps the same approach could be used for the new model.

The Chair suggested that they test this idea at their January meeting by having each Council member bring his or her own forecasts for (1) the general excise tax, (2) individual income tax, (3) transient accommodations tax, and (4) everything else. They will then compare their individual forecasts with the usual one prepared by the Tax Research staff.

At the request of the Council, Dr. Pham agreed to coordinate the communication of the data set, containing both the dependent and independent variables, to the Council members.

ADJOURNMENT:

The meeting adjourned at 3:07 P.M.