

COUNCIL ON REVENUES

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

Friday, January 9, 2009
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Tu Duc Pham, Yvonne Chow, Hamid Jahanmir, Lester
Lau, and Cathleen Tokishi

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

Others:

Ho'onani Andermann, Office of Representative Yamane
Huong Bassford, Department of Budget and Finance
Charles Carole, Honolulu League of Women Voters
Georgette Deemer, House of Representatives
Derrick DePledge, Honolulu Advertiser
Denby Fawcett, KITV 4 News
Kristie Fukumoto, Office of Representative Isaac Choy
Terry Hunter, KGMB 9 News
Lowell Kalapa, Tax Foundation of Hawaii
Nandana Kalupahana, House Committee on Finance
Kurt Kawafuchi, Department of Taxation
Gina Mangieri, KHON 2 News
Jerry Nickelsburg, UCLA Anderson Forecast
B. J. Reyes, Honolulu Star-Bulletin
Donald Rousslang, Department of Taxation
Titin Sakata, Department of Taxation
Duane Shimogawa, KHNL 8 News
Barbara Stanton, AARP
Brian Takeshita, Office of House Speaker Calvin Say
Sandra Yahiro, Department of Taxation
Wayne Yoshioka, Hawaii Public Radio

ABSENT:

Council Members:

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:

None.

MINUTES OF THE MEETING OF OCTOBER 29, 2008:

The Chair asked if there were any corrections to the minutes of the October 29, 2008, meeting. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Dr. Imada Iboshi, and seconded by Dr. Suyderhoud, that the minutes of the October 29, 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	Absent
Dean Hirata	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

At this time, the Chair entertained a motion to revise the order of the day's agenda.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that agenda item V, "Discussion of Draft Single-Table Format for Budget & Finance Revenue Data Presentation," follow agenda item VI, "General Fund Revenue Forecast." The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Absent
Dean Hirata	Yes
Pearl Imada Iboshi	Yes
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 September 2008, report.

General Fund Non-Tax Revenues: No significant changes.

Special Fund Tax Revenues: No significant changes.

Special Fund Non-Tax Revenues: Significant changes in FYs 2009–2015 reflect (1) increases in the Department of Transportation, Airport Division's signatory terminal rental rates, landing fees, airport system support charges, and concession fees; (2) decreases in reimbursements for mental health and substance abuse treatment services; (3) revisions in Medicaid, HMSA, and other third party payments for the Hawaii Health Systems Corporation; and (4) transfers to the Department of Education's State Educational Facilities Improvements Special Fund.

Other Than Special Fund Non-Tax Revenues: Significant changes in FYs 2009–2015 reflect increases in federal funds for low-income housing projects and in various federal research, training, and indirect cost recovery for the University of Hawaii. Increases in FY 2009 reflect a reimbursement from HMSA for collection of rate credits to the Employer-Union Trust Fund. Changes in non-revenue receipts reflect revenue bonds sold for construction or rehabilitation of affordable housing projects in the Department of Business, Economic Development, and Tourism, and decreases in projected revenues for Correctional Industries (Department of Public Safety).

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	Absent

GENERAL FUND REVENUE FORECAST:

The Chair asked Dr. Pham to highlight some items. Dr. Pham directed their attention to the estimates of General Fund growth rates for FY 2009. Actual FY 2009 revenues as of December 2008 were down \$33.4 million, which is about -1.5%. If the model assumes average growth rates from January through June 2009 of -2% (basically a continuation of the current trend), 0.0%, and -4.0%, then the growth rates would be -1.7%, -0.7%, and -2.8%, respectively.

In response to a question from Dr. Imada Iboshi, Dr. Pham stated that we are currently down one weekend, and that although we will lose another weekend in January, we will regain that weekend in March.¹

The Chair noted that a few more data points for Hawaii had become available since the October meeting. He noted negative changes in total personal income for the third quarter, consistent with the aggregate personal consumption expenditures in the GPD report for the third quarter and other reports on retail and other consumer expenditures, auto sales, and consumer confidence, as well as the intensification of the financial turbulence since the Lehman Brothers collapse. In short, it is premature to think that consumers had repositioned themselves such that he sees continued fallout through the second half of the fiscal year rather than stabilization. The one exception is that he thinks that month over month visitor and passenger counts and expenditures may have hit bottom on a seasonally adjusted basis. Dr. Bonham pointed out that the year over year passenger count for the month of January is off 19% so far, but agreed with the Chair's observation that, from one month to the next, the counts have been declining for 15% to 20% since March 2008, such that the rate of decline from one month to the next is flattening out.

Dr. Imada Iboshi stated that February looked like it would be slightly better than January due to various groups coming to Hawaii, as did March. They also noted the low airline fares, free nights

¹ This "weekend effect" results when an end-of-the-month due date falls on a holiday or weekend and taxpayers have until the first workday of the following month to timely file their returns and pay the tax owed. Because this affects the general excise tax, a significant revenue source, the shifting of the revenue from one month to the next is significant (approximately \$40 million for each weekend effect).

given by hotels slightly extending stays, etc. However, Dr. Bonham pointed out that a significant factor weighing on decisions to travel in the spring and summer is the fear of losing their jobs, and there is no indication that job losses in the U.S. economy are stabilizing. His published forecast shows only very gradual improvement, such that he isn't looking for any strength coming from the visitor sector. The Chair noted that his forecast is also quite gradual; the second most gradual rate of improvement of the published forecasts. While Dr. Bonham's forecast for the first quarter of 2009 is almost -17% and his forecast for the second quarter is -7% for about -14.5% for FY 2009; he noted that his forecast was based on the U.S. and Japanese forecasts, which he thinks are too high. Dr. Imada Iboshi stated that their forecast was about -15% for the first quarter of 2009, and slightly better than zero for the second quarter. The Chair stated that his tourism forecast for FY 2009 was -12.6%. Dr. Imada Iboshi and Dr. Suyderhoud are at -10% for FY 2009. For FY 2010, the Chair's tourism forecast is 8.0%, Dr. Bonham has -4.5%, Dr. Suyderhoud is at 0.0%, Mr. Hirata is at 1.5%, and Dr. Imada Iboshi is at 1.0%.

The Council then turned its attention to the distribution of the model forecasts based on the Council's mean, high, and low forecasts. In the course of this discussion, the Chair asked the members if he could have their permission to obtain their individual model forecasts, without attribution, to illustrate the distribution when he gives his presentation at the January 13, 2009, informational briefing before the Senate Committee on Ways and Means and the House Committee on Finance; permission was given.

Resuming their discussion regarding their tourism forecasts, the following was noted. For FY 2009, the Chair's tourism forecast was -12.6%, and Dr. Imada Iboshi's and Dr. Suyderhoud's forecast was -10%. For FY 2010, the Chair's tourism forecast was 8.0%, Dr. Bonham's was -4.5%, Dr. Suyderhoud's was 0.0%, Mr. Hirata was 1.5%, and Dr. Imada Iboshi's was 1.0%. The difference between the Chair's forecast and the others could in part be attributed to the deeper drop in the Chair's forecast, such that they actually all end up at roughly the same level in FY 2010. Dr. Bonham thinks that a stabilization of negative economic factors in late 2009 could lead to people taking advantage of the low airfares and traveling to Hawaii.

In construction, the situation was one in which there were projects ready to go, but the credit crunch halted a number of projects, primarily in nonresidential construction, and government projects did not occur as expected due to difficulties selling municipal bonds.

Dr. Bonham noted that the other significant item to consider was real total personal income. The members discussed their individual forecasts. The Chair noted that the range of their forecasts seem to be reconverging—at the last meeting the range differed even to the extent of the sign (+/-)—and requested permission to use their economic assumptions in his presentation to the Legislature as well.

The Council discussed the model's forecasts of the members' individual economic assumptions, which ranged from -2.0% (the Council high forecast was -1.6%) to -3% (the Council mean forecast was -2.3%) to -4% (the Council low forecast was -3.8%). However, Dr. Bonham noted that, although the forecast based on his assumptions was -2.5%, he ran an alternative model that

resulted in a -3.85% forecast. The Chair stated that he, too, had an alternative model run that resulted in a forecast of -3.87%. The central tendency ranges from -2.5% to -3.0% for FY 2009, with the range for FY 2010 ranging from 0.0% to slightly positive with, as Dr. Suyderhoud noted, the bulk being above zero.

The Council briefly discussed the inflation rate, which they felt would not be a significant factor given lower fuel costs and softening of rental income. This recession may, according to the Chair, be a more deflationary event than they had anticipated.

Dr. Imada Iboshi asked if there were any material anomalies regarding tax collections that they were aware of. Director Kawafuchi stated that it would appear that withholding is still fairly strong, up about 4.2%. The Chair noted that they haven't really seen wage compression and that the increase could be attributed to regular wage increases, although Director Kawafuchi pointed out that there had been job losses. Dr. Pham noted that total tax collections included a one-time windfall collection in September 2008 of \$16.5 million; Dr. Suyderhoud noted that despite that windfall, tax collections were still down by \$1.2 million, and proffered -2.6% to start with. Several felt that -3.0% was more likely. Mr. Kahle stated that they shouldn't wait until the March meeting to forecast lower revenues if they thought the conditions warranted a lower number now. Dr. Bonham observed that the Council's forecasts have lagged the revenue downturns, and would probably miss the turn back up although that point has not yet been reached, such that he was more comfortable with -3.0%.

After further discussion, 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 below-the-line growth rate for FY 2009 be -3.0%. 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	Yes
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

The discussion then turned to the forecast for FY 2010. The Chair noted that the Council mean forecast for FY 2010, 1.9%, appeared to be too high. The potential impact of a federal stimulus package was discussed, though Dr. Bonham did not believe that any spending on capital improvement projects would occur quickly; Congressional approval on a stimulus package probably would not occur until the end of February, perhaps not until mid-March, and any tax cut, even if it targets low-income taxpayers, will not have much impact due to a low multiplier effect. Also discussed was the potential for additional disposable income due to refinanced

mortgages as well as a more positive wealth effect. However, it was felt that there was a structural impediment to credit. A consensus formed around 1.0% for FY 2010.

The Chair asked for discussion about the other members' outlook for FY 2011 through 2015. Based on the range of their individual forecasts, they felt that, the forecasted growth rates from the October meeting, albeit based on a lower 1.0% forecast for FY 2010, were pretty close.

After further discussion, the Chair called for a motion on the General Fund forecast for FY 2010–FY 2015.

It was moved by Mr. Kahle, and seconded by Dr. Bonham, that the below-the-line growth rates for FY 2010 through FY 2015 be 1.0%, 3.5%, 5.3%, 6.0%, 6.5%, and 6.5%, 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	Yes
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, which will be used to present their data at future meetings. Discussion was held on the nature of their oral presentations. The Chair stated that the Council was always interested in hearing about what the Department of Budget and Finance staff think is significant. They would like to continue to receive the detailed tables in addition to the consolidated worksheet.

The Chair suggested that the next project could be to move, over time, to a set of common economic assumptions amongst all the state agencies. Perhaps a steering committee composed of representatives from the Department of Business, Economic Development and Tourism, the Department of Taxation, the Department of Budget and Finance, and other agencies could be formed, and while they may occasionally disagree, any differences would be known.

DISCUSSION OF THE FORECAST MODEL:

The Chair discussed the current presentation of the Council's report. He'd like to do more to compare the dispersion amongst the individual members in addition to reporting on the mean. Dr. Imada Iboshi noted that the Legislature must use the Council's forecast, and Mr. Kahle had

strong reservations about appearing to provide them with a range. However, the Chair intends to communicate the forecast risks. For example, at the January 13, 2009, information briefing, he believes that it would be important to communicate the Council's belief that the conditions present a strong downside risk; that is, that the current forecast could prove to be too high depending on how the future unfolds.

NEXT MEETING:

The next Council meeting is to forecast General Fund Revenues to meet the (Sunday) March 15, 2009, reporting deadline. The meeting was scheduled for Thursday, March 12, 2009, at 2:00 P.M.

The Council staff will try to secure the Office on Aging Conference Room for the meeting.

ADJOURNMENT:

The meeting adjourned at 3:30 P.M.