

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 28, 2009
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Tu Duc Pham, Hamid Jahanmir, and Cathleen Tokishi
Department of Budget and Finance: Neal Miyahira, Keith Shimada, Karen Matsunaga, and Terri Ohta

Others:

Boyd Akase, House Minority Research Office
Huong Bassford, Department of Budget and Finance
Roderick Becker, Senate Committee on Ways and Means
Richard Borreca, Honolulu Star-Bulletin
Calvin Calkins, HGEA
Charles Carole, Honolulu League of Women Voters
Tina Chau, KGMB
Georgette Deemer, House Communications
Derrick DePledge, Honolulu Advertiser
Denby Fawcett, KITV
Randy Hiyoto, House Committee on Finance
Lowell Kalapa, Tax Foundation of Hawaii
Kurt Kawafuchi, Department of Taxation
Barbara Kim Stanton, AARP
Gina Mangieri, KHON2 News
Kevin Mulligan, HGEA
Michael Ng, House Committee on Finance
Stacy Ogimi, Senate Committee on Ways and Means
Glenn Okimoto, University of Hawaii
Titin Sakata, Department of Taxation
Herbert A. Sample, Associated Press
Wayne Yoshioka, Hawaii Public Radio

ABSENT:

Council Members:

Dean Hirata and 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 MARCH 12, 2009:

The Chair asked if there were any corrections to the minutes of the March 12, 2009, 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, 2009, 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	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 March 2009, report.

General Fund Non-Tax Revenues: Significant changes in FYs 2009–2015 reflect lower year-to-date investment pool interest earnings and an early transfer of excess funding from Unclaimed Property in FY 2009 with a corresponding decrease in FY 2010.

Special Fund Tax Revenues: Significant changes for Vehicle Surcharge, Rental/Tour, in FY 2009 reflect lower collections due to current economic conditions. Adjustments to the Unemployment Compensation Taxes for FYs 2009–2015 reflect lower year-to-date collections in FYs 2009–2010 and projected increases in FYs 2011–2015 due to changes in the taxable wage base and contribution rates schedule.

Special Fund Non-Tax Revenues: Significant changes in FYs 2009–2010 reflect lower year-to-date interest earnings for the Unemployment Compensation Fund, and lower dockage and wharfage fees for the Department of Transportation, Harbors Division, the latter of which Council members noted were in part due to the exiting of the Superferry. These decreases were offset by higher year-to-date collections in FY 2009 that were associated with the tobacco master settlement agreement.

Other Than Special Fund Non-Tax Revenues: Significant increases in FYs 2010–2011 reflect the reclassification of Department of Human Services funds from the federal fund category to the American Recovery and Reinvestment Act (ARRA) category, and estimated increases for Medicaid reimbursements that were inadvertently not being reported (Department of Health). As requested by the Council in March, a separate category for ARRA monies was added and reflects a total of approximately \$765 million in stimulus funds for FYs 2009–2012 (note that not all departments were able to update their ARRA revenue projections).

On a consolidated level, the significant changes resulted from: (1) adjustments relating to Unemployment Compensation tax revenues, and (2) ARRA stimulus monies.

The Chair called for a motion to accept the report.

It was moved by Dr. Imada Iboshi, 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

GENERAL FUND REVENUE FORECAST:

A preliminary, unaudited report on daily tax collections for the month through May 27, 2009, was distributed to the Council. Although the daily totals can be volatile, Director Kawafuchi stated that May collections were about 46% of May 2008 General Fund collections. For the fiscal

year through April, Dr. Pham stated that collections were down about 9%. Given the trends, the Chair noted that, with little more than a month left in the fiscal year, actual revenues could be down by 10%. The Council briefly discussed noneconomic reasons for the decline, noting in particular the steep decline in estimated tax payments, but Dr. Bonham correctly pointed out that the decreased collections are consistent with the severity of the recession.

The Chair stated that the economy had been unraveling pretty quickly for the last six to nine months, and that the Council's forecasts have been trailing the downward trend of actual collections. As such, the Council should have placed more weight on the lower forecast model scenario presented to the Council rather than the higher forecast model scenario. It was noted that Dr. Bonham's -9.2% personal forecast at the previous meeting was close to the model's -9.4% projection based on the current -20% growth rate for May and June. However, because the end of the 2009 fiscal year is so close, the Council's forecast for the current fiscal year is important only to the extent that it establishes a realistic base for the FY 2010 forecast.

Several of the Council members noted an apparent tendency of the State's model to generate more optimistic forecasts than the forecasts produced by the members' own models using the same inputs. Over time, not only had the forecast error not closed, but it had widened.

The impact of swine flu on Japanese tourism was reflected in lower May visitor counts, which should have a disproportionately larger negative impact on visitor spending. Adding to the general pessimism about the underlying economy were the job counts; through April, Dr. Bonham noted that the only sectors that were adding jobs were government and health care, and that other sectors were falling faster than expected.

The Council was inclined to forecast a significantly lower growth rate for FY 2009, and was not inclined to change its previously forecasted growth rate for FYs 2011–2015 though they noted that the actual revenue levels for those years would be lower because those growth rates would be imposed on a lower revenue base.

The general consensus was that the first half of FY 2010 would continue to decline relative to the same period in FY 2009, but that there would be a gradual upturn in the second half of the fiscal year. Dr. Bonham thought that revenue growth for the fiscal year would continue to be negative, about -2.5%, while the Chair thought that the decline in the first half of the fiscal year would slow and that the gradual growth in the second half of the fiscal year would, by June 2010, bring revenues back to where FY 2009 had ended (i.e., 0.0% growth for FY 2010). Dr. Bonham noted that the net result of the Chair's -10.0% and 0.0% revenue growth estimates for FY 2009 and FY 2010, respectively, and his -8.0% and -2.5% estimates for the same two years were roughly the same over the two-year period.

After further discussion, a consensus was reached and the Chair called for a motion on the General Fund forecast.

It was moved by Dr. Bonham, and seconded by Dr. Suyderhoud, that the below-the-line growth rates for FY 2011 through FY 2015 be 5.6%, 5.2%, 6.0%, 6.1%, and 4.9%, respectively.

Since consensus had also been reached for FY 2009 and FY 2010, the motion was amended to also include those years.

It was moved by Dr. Bonham, and seconded by Dr. Suyderhoud, that the below-the-line growth rates for FY 2009 through FY 2015 be -9.0%, 0.0%, 5.6%, 5.2%, 6.0%, 6.1%, and 4.9%, 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

Dr. Pham asked if, following the release of the final General Fund tax collection data for FY 2009, the Council would allow him to revise the table on which the General Fund tax revenue forecasts are summarized to replace the forecasted FY 2009 revenues with actual collection amounts, and to adjust the forecasted revenue levels for FYs 2010–2015 using the revenue growth rates the Council just voted on.

After further discussion, the Chair called for a motion on Dr. Pham's request.

It was moved by Dr. Bonham, and seconded by Dr. Suyderhoud, that the Council direct Dr. Pham to revise the Council's General Fund tax revenue forecast after the final tax collection data for FY 2009 become available to reflect actual, rather than forecasted, collections for FY 2009, and to revise the tax revenue levels for FY 2010 through FY 2015 by applying the revenue growth rates passed earlier in this meeting 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	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

Dr. Pham said that he'll prepare letters for the Chair's signature when the final data for FY 2009 becomes available.

The Council briefly discussed the members' concern about various parties referring to the model's revenue projections for specific tax types, especially the transient accommodations tax, as if the Council had discussed and forecasted the revenues for each tax rather than merely stipulating to the numbers produced by the Tax Research and Planning Office model. The Chair asked if something could be added on their website, perhaps based on a letter sent on behalf of the Council to Honolulu Mayor Mufi Hannemann regarding general excise tax forecasts, and Dr. Pham stated that it could.

NEXT MEETING:

Dr. Pham stated that Dr. Jerry Nickelsburg of UCLA Anderson Forecast, the vendor selected for the forecasting model improvement project, would be in Hawaii sometime during the week of June 22, and would be available to give a presentation on the new model to the Council. The Council agreed to hold an informational workshop; the exact date—June 24, June 25, or June 26—would be confirmed later via e-mail.

The Council's next deadline is August 5, 2009, to report its total personal income forecast. According to Dr. Bonham, the Bureau of Economic Analysis total personal income report for May will be released on June 18, 2009, such that the Council could schedule the next meeting well in advance of the reporting deadline if needed.

The Council tentatively agreed to meet on Thursday, July 9, 2009, at 2:00 PM; however, this date, too, will be confirmed by e-mail. The Council staff will try to secure the Office on Aging Conference Room for the meeting.

SELECTION OF NEW COUNCIL CHAIR AND VICE CHAIR:

Dr. Brewbaker, Mr. Hirata, Mr. Kahle, and Mr. Yamada were reappointed to the Council for new two-year terms. The four-year terms of Dr. Bonham, Dr. Imada Iboshi, and Dr. Suyderhoud will end on June 30, 2011.

Because none of the other members in attendance wanted to serve as Chair or Vice Chair, the current Chair and Vice Chair agreed to serve in those capacities for another year.

It was moved by Dr. Imada Iboshi, and seconded by Mr. Kahle, that the Council affirm Dr. Brewbaker and Dr. Suyderhoud as Chair and Vice Chair, respectively, for the next year. The motion passed by acclamation.

ADJOURNMENT:

The meeting adjourned at 3:20 P.M.