

## 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, August 27, 2009  
8:30 A.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, Yvonne Chow, Hamid Jahanmir, Cathleen Tokishi and Jacquelyn Guitguiten

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

#### Others:

Roderick Becker, Senate Committee on Ways and Means

Wayne Yoshioka, HPR News

Tan Yan Chen, Governor Policy Office

Stacy Ogimi, Senate Committee on Ways and Means

Tony Valdez, Senate Ways and Means

Lowell Kalapa, Tax Foundation of Hawaii

Georgette Deemer, House Majority Office

Randy Hiyoto, House Committee on Finance

Michael Ng, House Finance

Mark Niese

Cathy Peterman, University of Hawaii

Kevin Mulligan, HGEA

Patrick Williams, City & County of Honolulu

Huong Bassford, Department of Budget and Finance

Gina Mangieri, KHON2 News

Steve Hogan

Kurt Kawafuchi, Department of Taxation

Stanley Shiraki, Department of Taxation

Titin Sakata, Department of Taxation

Brian Hallett, Department of Education

Richard Borreca, Honolulu Star-Bulletin

Charles Carole, Honolulu League of Women Voters

ABSENT:

Council Members:

Dean Hirata and Albert Yamada

CALL TO ORDER:

The Chair called the meeting to order at 8:36 A.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

None.

DISCUSSION OF NEW FORECASTING MODEL IMPROVEMENT PROJECT:

The Council's first discussion was about the new forecasting model developed by UCLA Anderson Forecast. The model is run in real terms and then the inflation is added back to the estimated values. Dr. Bonham indicated that there is nothing wrong with running the model in nominal terms, with prices on the right hand side of the regression.

ANNOUNCEMENT BY THE CHAIR:

The Chair acknowledged Ms. Tokishi for the help she has given over the last couple of years and welcomed Ms. Guitguiten in her new role.

MINUTES OF THE MEETING OF JULY 9, 2009:

The Chair asked if there were any comments regarding the minutes of the July 9, 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 July 9, 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:

Rather than going through the tables in the report, the Chair asked if the Department of Budget and Finance (B&F) could report the significant changes reflected on the consolidated report. Ms. Matsunaga reported the significant changes from the May 2009 report.

Federal American Reinvestment & Recovery Act (ARRA): Projected revenues for ARRA funds increased by \$225 million in FYs 2009–2012. Total ARRA funds for FYs 2009–2012 is approximately \$1.0 billion.

Federal Funds: Significant increases were attributed to additional federal funds in various departments. In particular, increases were due to additional unemployment compensation and extended unemployment compensation funds that were not previously being reported.

Charges for Current Services: Significant decreases in airport concession fees were attributed to current economic conditions. The decreases were offset by increases in other airport revenues.

Dr. Suyderhoud was concerned about gaining a better understanding of the timing of the movement of moneys into and out of various accounts.

Dr. Imada Iboshi mentioned that the Governor did say that a large amount of that money is encumbered but not spent. She also mentioned that the Department of Business, Economic Development & Tourism (DBEDT) is putting together a list of all the ARRA projects; the dollar amounts; contact people and the awards received, as well as putting out on a monthly basis what is actually spent.

The Chair pointed out the Special Revenue Fund Report lists tourism related items on page 2 of the booklet. Ms. Matsunaga stated that estimates are based on Council's economic growth rates. Dr. Pham confirmed that the Council's forecasts of key economic indicators are not currently available to the public on the Council's website. Dr. Bonham does not want the economic forecasts on the website, unless the Council spends time to evaluate these forecasts.

The Chair stated that the character of the tourism outlook is going to be changing now that there is some form of stabilization. He encouraged B&F to use the published DBEDT, University of Hawaii Economic Research Organization, and the Bank of Hawaii forecasts. He stressed that there is a need to be coherence in economic forecasting.

The Chair called for a motion to accept the report.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle to accept the B&F report. 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:

The Chair asked to review the modeling methodology only because Dr. Bonham was not able to attend the meeting to discuss the econometric forecasting model prepared by UCLA. The Chair was concerned about the assumption of unit elasticity of inflation.

Dr. Suyderhoud wanted to get some foundation as to how the process of developing these forecasts was used in Model 2 and how that works. Dr. Pham confirmed Dr. Suyderhoud's understanding that the UCLA model generates a forecast of real (inflation adjusted) revenues.

The Council then turned its attention to the subject of tax collections for the month of August. Director Kurt Kawafuchi provided the update to the Council. He said that it was difficult to ascertain any changes in tax revenue collections because the general excise tax deadline was advanced to the 20<sup>th</sup> day of the month following the close of the filing period instead of the last day of the following month.

Dr. Suyderhoud commented that the change will not have a large effect in the long run because it will eventually settle down with the normal collection pattern. Director Kawafuchi agreed that it is a one-time revenue gain for the fiscal year.

The Council then turned its discussion to real personal income for FY 2010 and FY 2011. The Chair stated that the Council should estimate negative revenue growth for this fiscal year more positive growth in FY 2011.

After the Council members provided their visitor arrivals forecasts for FY 2010, the Chair made note of the fact that the projected growth rate of tourism was closer to zero.

Next, the Council discussed the trend in construction activities. In a brief discussion, Dr. Bonham and the Chair both agreed that the permit numbers are dismal for the first half of 2009. Private building permit issuance is "falling off a cliff"; the decrease in commitments to build on the private side in this cycle is happening about three times as fast as in the 1990s. Basically down to where we were in the middle of the 1990s.

Regarding inflation, the Chair stated that members' inflation forecasts are about 1.5% to 2.0% next year and zero for this year. Dr. Bonham stated that there are downside risks on the inflation number. He thinks, it must come out of the housing. His forecast for FY 2010 was -0.1%, which is basically zero.

The Chair mentioned that, having decided on zero tax revenue growth rates in May for this fiscal year, we now expect to revise the growth rate of tax revenue between 0.0% and -2.0%.

Dr. Bonham said that he tried to get a sense of when tax revenue growth tends to turn relative to the overall economic cycle by looking at the relationship between jobs and the general fund tax revenue. He estimated that there was a six-month lag between when jobs started to grow and when tax revenues started to grow, based on historical data.

The Chair pointed out that there was a lot of uncertainty about construction and investment activity through the end of calendar year 2010.

Dr. Bonham stated that he would argue that there was that same uncertainty for the tourism sector. He noted the uncertainty of the potential for growth from the important California market due to that state's fiscal situation with the three- to four-day furloughs and IOUs in place of checks working through the California economy; the H1N1 situation adds to the uncertainty.

The Chair asked Dr. Imada Iboshi if the decline in visitor expenditure estimates were due to the reduction in daily room rates or due to other factors; Dr. Imada Iboshi said that decline was mostly due to the declining room rates.

The Chair commented that the year-over-year numbers turned positive although the seasonally adjusted domestic arrival figures have been trending up for about 9 to 12 months. The erosion over the last 12 months in pricing has come to an end as well.

Next, the Council discussed housing. Dr. Bonham said the increase in sales is temporary, since it is mostly the result of new homebuyers who are getting the \$8,000 federal tax credit. Also, a fair number of those sales are in foreclosed properties.

Dr. Suyderhoud asked if there would be some kind of a structural shift in consumption. Dr. Bonham indicated that a large portion of the change in consumption (70%) is health care.

After further discussion and review of tables in the handout, the Council decided to do its General Fund forecast for one year at a time for FY 2010 and FY 2011.

It was moved by Dr. Bonham, and seconded by Dr. Suyderhoud, that the General Fund forecast for FY 2010 be -1.5%. 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

It was moved by Dr. Bonham, and seconded by Mr. Kahle that the General Fund forecast for FY 2011 be 6.5%. 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

Following further discussion, the Chair proposed a motion for the General Fund forecast for FY 2012 to FY 2016 to be 6%, 6%, 6%, 5% and 5% respectively. It was agreed by the members.

It was moved by Dr. Bonham and seconded by Dr. Suyderhoud and Mr. Kahle that the General Fund forecast for FY 2012 to FY 2016 to be 6%, 6%, 6%, 5% and 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	Absent
Pearl Imada Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

NEXT MEETING:

The Council tentatively agreed to meet on Wednesday, October 28, 2009, at 2:00 pm; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the Office on Aging Conference Room for the meeting.

ADJOURNMENT:

The meeting adjourned at 10:10 am.