

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, December 17, 2009
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Betty Lam, Yvonne Chow, Hamid Jahanmir, and
Donald Rousslang
Department of Budget and Finance: Neal Miyahira, Keith Shimada,
Karen Matsunaga, and Terri Ohta

Others:

Wayne Yoshioka, Hawaii Public Radio News
Herbert A. Souple, Associated Press
Charles H. Carole, Honolulu League of Women Voters
Georgette Deemer, House Majority Office
Maurice Morita, Hawaii LECET
Ross Tsukenjo, Ways and Means
Leslie Campaniano, Office of Senator Hanabusa
Rod Tanonaka, Office of Senator Hanabusa
Roderick Becker, Senate Ways and Means
Brian Hallett, Senate Ways and Means
Kyle Kagihara, Senate Ways and Means
Cathy Peterman, University of Hawaii
Huong Bassford, Budget & Finance
Lowell Kalapa, Tax Foundation of Hawaii
B.J. Reyes, The Star Bulletin
Nandana Kalupahana, House Finance
Tony Valdez, Senate Ways and Means
Daryl Huff, KITV4 News
Dan Charma, KITV4 News
Kurt Kawafuchi, Department of Taxation
Stanley Shiraki, Department of Taxation

CALL TO ORDER:

The Vice Chair called the meeting to order at 2:03 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF OCTOBER 21, 2009:

The Vice-Chair asked if there were any comments regarding the minutes of the October 21, 2009, meeting. There were none, therefore the Vice-Chair called for a motion to approve the minutes.

It was moved by Mr. Kahle, and seconded by Dr. Iboshi that the minutes of the October 21, 2009, meeting be accepted. The Vice 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 Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

Dr. Brewbaker was present and resumed as the Chair.

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:

Ms. Matsunaga reported that the significant changes to the August 2009 report were generally reflected in the following revenue categories.

Federal Funds: significant decreases in FYs 11-16 were attributed to lower federal funds in various departments, particularly in the Department of Human Services. Decreases were lower due to various reasons such as the shift from fee-for-service to managed care and lower federal grants available.

Federal-American Reinvestment & Recovery Act (ARRA): projected revenues for ARRA funds decreased by approximately \$38 million over FYs 09-12. Total revised ARRA funds for FYs 09-12 is approximately \$983 million.

Repayment of Loans and Advances: significant increases in FYs 12-14 were attributed to interim loan repayments to the Department of Business and Economic Development and Tourism, Hawaii Housing Finance and Development Corporation special funds.

The Chair called for a motion to accept the report.

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

ACKNOWLEDGEMENT BY THE CHAIR:

The Chair acknowledged Ms. Yvonne Chow and Ms. Betty Lam's presence on behalf of the Department of Taxation.

GENERAL FUND REVENUE FORECAST:

The Chair asked the Council if anyone had any large changes, changes in assumptions or new forecasts that they would like to discuss.

Ms. Chow offered a description of the different forecasting models used by the Department of Taxation (DoTax). She presented a table with the general fund forecast generated by the current model and a table with the forecast generated by the UCLA model.

The Chair asked the members about what has happened the second half of the calendar year. He said it seems as if the Oahu housing market is a little firmer than they thought it was going to be. He mentioned that the personal income numbers for the 3rd Quarter were released that morning and that he is not getting anything that it is alot more negative than it already was, and he was hopeful that the Council might have been very close to the right set of assumptions when it made its last forecast. The flipside, he said, is that the visitor count is not growing and visitor spending may be stabilizing. He also thought that they will get a better notion of retail sales in a couple of months, but he did not think those figures will be rebounding strongly.

Dr. Suyderhoud questioned the visitor numbers for the last couple of months. The Council members discussed the visitor numbers, which were slightly positive over the past couple of months.

Council members agreed that the growth rate of visitor spending remains a challenge.

Dr. Bonham noted that there is a slight upward-trend to the visitor numbers, but not much, and that spending has improved by a small amount in the last couple of months. The Chair commented that this is because the room rates stopped falling. The Chair asked what the Waikiki Hotels were saying. Dr. Iboshi responded that the hotels are saying that their numbers are basically good but they are not able to raise room rates.

Dr. Bonham mentioned if you look at the daily passenger counts for November and December, it looks like the same pattern of slow recovery in the visitor industry. Dr. Iboshi agreed that it's a very slow recovery.

The Chair asked the Council members for their individual forecasts for FY2010. After the members provided their forecasts, the Chair said that he wanted to get an idea about the dispersion and skewness of the forecasts. Dr. Bonham asked whether the UCLA Model predicted what happened last year. He also mentioned that they have no evidence on the usefulness of the UCLA model. He added that they have a sense of how the existing model has behaved. Dr. Suyderhoud said he thought that the UCLA model was reasonable, and that the model caught the downturn faster than the model they normally use. The Chair added that it is helpful to have the alternative input.

Dr. Suyderhoud asked the Council if they were coming to an agreement on a revenue growth forecast for FY2010. The Chair said they are already in the neighborhood of -2.5% for revenue growth, but the question is if it is more likely to be -2.7% as Dr. Bonham forecasted. The Chair asked the Council members if they wanted to go with -2.5%. Dr. Suyderhoud asked, how about -3.1%?

Dr. Suyderhoud asked, if they were to get an average revenue growth of -2.7% for the year, what would be the required growth for the rest of the fiscal year? He mentioned that through November, which is five months of the fiscal year, tax revenues are down by 6.5% for FY2010.

Dr. Bonham stated that he has -2.5% to -2.9% for the whole year. Dr. Iboshi asked whether it was likely that revenue growth would be -9.5% for the 2nd Quarter. Dr. Bonham said that would require a pretty bad December.

Dr. Iboshi mentioned that there was an extra weekend in December last year and, that last year we had a strong growth of 4.5% in December.

The Chair asked the Council whether anyone wanted to forecast revenue growth of less than (more negative than) -2.5%. No response was made by the Council Members.

It was moved by Dr. Suyderhoud, and seconded by Mr. Kahle, that the General Fund forecast for FY 2010 be -2.5%. 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	Yes
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The Council briefly discussed previous forecasts and their current assumptions.

Dr. Bonham asked the Council to discuss the inflation forecast for FY2011. He wondered why his results were different from those of the DoTax Model. Dr. Bonham stated that he still has the CPI growth negative in FY2010 and +1.8% in FY2011.

Dr. Bonham also said that the switch from negative CPI growth to positive growth from this fiscal year to the next gives him almost a 2% increase in his tax revenue growth forecast. The Chair said that is what he has too.

The Chair said he thought that we may not have a big recovery, because we do not have the recovery in manufacturing or the effect from inventory adjustments or capital goods orders that the rest of the country is getting. Therefore, the inflation rate for Hawaii will be below the national average for another year, before reverting to the 2% steady state.

The Chair asked Dr. Bonham if he was comfortable with that forecast. Dr. Bonham responded that he believes the forecast could be higher, give or take 2%, but that they were "in the ballpark". The Chair asked the rest of the Council Members for their thoughts.

Dr. Suyderhoud said that he agreed with the inflation forecasts.

Dr. Bonham said he thought that the recession is actually worse than reflected in current data on jobs and that he expected a correction in the jobs data. He added that the U.S. employment data are down 3.9% through the 3rd Quarter and that he expects a large revision in the Hawaii data. He thought job growth could end up at -3.9% or -4.0% for the year.

The Chair said if that is true, then why do they not revise the current fiscal year forecast downward by more? Dr. Bonham responded he is accepting the results of his model.

The Chair asked Mr. Kahle if December will contain a "weekend effect". Mr. Kahle responded that the weekend effect would be reduced somewhat by the schedules for collections in November and January. Mr. Kawafuchi said a lot of the large taxpayers pay by the 20th of the month.

Dr. Iboshi suggested that they leave the levels of the forecasts unchanged for FY2011 and beyond. Dr. Bonham clarified the suggestion saying that the revenue growth forecast for this fiscal year is down 2.5%, and that the forecasts for the levels of revenue collections would remain the same for the other fiscal years. Dr. Suyderhoud added that this means revenue growth is forecasted to go up by about 7.5% for FY2011.

Mr. Kawafuchi made the point that the baseline does not account for the new federal prohibition (signed by President Obama on Veteran's Day) against taxing wage income of nonresident military spouses, which is retroactive to January 1, 2009 and is estimated to reduce revenues by \$23 million in FY2010. This will affect refund claims as well as the withholding taxes. The revenue losses from the prohibition will show up sooner than April. Mr. Kawafuchi was sure that taxpayers are already claiming the exemption.

Mr. Kawafuchi agreed with the Chair that the full year impact is about \$23 million, (or a half percentage point of total revenue if it is round up) for FY2010.

Mr. Kawafuchi added that the prohibition will affect collections for 11-1/2 months, because it goes back to January 1, 2009.

Dr. Iboshi stated that she thought Mr. Kawafuchi was saying that the impact is going to be in FY2010 not FY2011. Mr. Kawafuchi responded that there will be an impact in FY2011 but it will be smaller. Dr. Bonham said the impact is primarily this fiscal year. Dr. Iboshi said she thought the estimate for the revenue loss is high. Mr. Kahle agreed with Dr. Iboshi.

The Chair suggested that the Council take the change under advisement.

Dr. Suyderhoud made the motion that the level forecast for FY 2011 to FY 2016 be kept the same (the dollar amounts: \$4.40 billion, \$4.67 billion, \$4.95 billion, etc.) Percentagewise, that means a bump-up in the growth forecast for FY2011, but everything else stays the same. The motion was seconded by Dr. Bonham. 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 Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The Chair summarized that the revenue growth forecast will be -2.5% for the current fiscal year and then somewhere in the neighborhood of +7.5% in the coming fiscal year.

The Chair announced that the Council will be asked to communicate its forecast to the Legislature at an Informational Briefing. It was communicated to the Council that the Informational Briefing will be held on Tuesday, January 5, 2010 sometime in the morning—the time was still being worked out.

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, March 11, 2010 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 3:10 pm.