

COUNCIL ON REVENUES

No. 1 Capitol District Building
250 S. Hotel Street, Fourth Floor
Diamond Head Conference Room 436
Honolulu, HI 96813

Thursday, July 9, 2009
2:00 P.M.

PRESENT:

Council Members:

Paul Brewbaker (Chair), Jack Suyderhoud (Vice Chair), Carl Bonham, and Pearl Imada Iboshi

Staff Members:

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

Department of Budget and Finance: Keith Shimada and Terri Ohta

Others:

Lowell Kalapa, Tax Foundation of Hawaii

ABSENT:

Council Members:

Dean Hirata, Richard F. Kahle, Jr., and Albert Yamada

CALL TO ORDER:

The Chair called the meeting to order at 2:08 P.M. with a quorum present. The Council noted the Department of Taxation's recently released report, "Preliminary Comparative Statement of State General Fund Tax Revenues – June 2009," which reflected a -9.4% decline in State General Fund tax revenues for FY 2009. The Chair commented that it would be interesting to look at the Council's past forecasts to try to understand what happened and to see where they erred so that they can think about correcting it the next time. He noted that Dr. Leroy Laney did that about 15 years ago.

COMMUNICATIONS TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF MAY 28, 2009, AND THE WORKSHOP OF JUNE 25, 2009:

The Chair asked if there were any questions or comments regarding the minutes of the Council's meeting on May 28, 2009, the Council's Workshop on June 25, 2009. There were none, so the Chair called for a motion to approve the minutes.

It was moved by Dr. Suyderhoud, and seconded by Dr. Imada Iboshi, that the minutes of the meeting on May 28, 2009, and the minutes of the workshop on June 25, 2009, 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.	Absent
Albert Yamada	Absent

TOTAL PERSONAL INCOME (TPI) FORECAST:

The Council considered its forecast of nominal TPI growth for calendar year (CY) 2009 and CY 2010.

The Chair noted that the countercyclical injection of transfer payments has kept personal income from declining as much as employment though, as Dr. Suyderhoud pointed out, that hasn't propped up consumption. The Chair stated that the personal savings rate has risen to 6.9%. Measures to reduce savings and increase consumption should have some effect next year; the large drops in consumption and retail sales are affecting both businesses and unemployment. Despite an anticipated unemployment rate of about 7.7%, 92.3% of the people are still working, and it is unclear as to the impact of all this on the pace of personal income growth.

Based on the Council's economic assumptions for the May 28, 2009, General Fund tax revenue forecast, the average of the members' nominal TPI forecasts is 0.95% for CY 2009 and 1.80% for CY 2010.

The Chair suggested that they stipulate to their May economic assumptions for now since they will soon reconsider this when they meet prior to their next TPI reporting deadline, which is November 5, 2009. Dr. Bonham's initial thought was that these numbers were too high; it would be a surprise if CY 2010 is above zero since they anticipate first quarter job losses to be 3% and his inflation rate is about 0.5%. The Council noted that there is disinflation in both the energy (despite the recent rise in energy prices) and housing sectors.

Though generally reluctant to consider the impact of the council's forecasts in making a decision, the Chair was inclined to make an exception and not lower the TPI growth rates derived from the Council's May economic assumptions at this time. After August's inflation number is released and the second quarter TPI number is published, the Council will have more information and can revise the forecasts at the next TPI forecast meeting.

Dr. Bonham agreed, noting that the second quarter income numbers should be better due to more transfer payments from the federal American Recovery and Reinvestment Act (ARRA). In response to a question from Dr. Imada Iboshi, Dr. Bonham stated that there had been a 13.4% year-over-year growth in transfer payments in the first quarter of 2009. He also pointed out an anomalous 4% increase in State and local income during the first quarter, adding that State and local jobs increased 3% cumulatively through April 2009. Dr. Imada Iboshi and Dr. Suyderhoud concurred.

The Chair asked Dr. Pham if any of the model's iterations were notable. Dr. Pham stated that one of the lowest results, 0.47% for CY 2009 and -1.65% for CY 2010, resulted from a model based on the Council's May construction expenditure and visitor arrival assumptions. The Chair noted that he may be more optimistic about visitor arrivals than some, but that he wasn't about construction; he noted that Maui currently has about 4,000 construction jobs, but that he calculates that it will be down to 2,000 next year.

Dr. Suyderhoud asked if the State was in jeopardy of hitting the spending limit. Mr. Kalapa said that he didn't think so, in part because so much of what used to be General Fund spending no longer is. He cited the example of the Department of Commerce and Consumer Affairs, which was 100% General Fund financed but is now 100% special fund financed.

Dr. Bonham recalled the role of transfers in their post-9/11 forecast in which the Council over forecast how bad it was going to be for income and under forecast how bad it was going to be for jobs. Once again, Hawaii is seeing a large increase in transfers from the federal government. The Council also anticipates that job growth would be slow coming out of this cycle as it was during the last two cycles.

The Chair asked if there was any risk that they be surprised by higher growth. Dr. Bonham pointed out that it was 1.8% in the first quarter, and that the second quarter could be stronger due to the ARRA. The Council expects the spending part of the ARRA to show up between now and next June.

After further discussion, the Chair called for a motion on the CY 2009 and CY 2010 TPI forecasts.

It was moved by Dr. Suyderhoud, and seconded by Dr. Imada Iboshi, that the Council's forecast of nominal total personal income growth for CY 2009 and CY 2010 be 0.95% and 1.80%, 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 Kahle, Jr.	Absent
Albert Yamada	Absent

NEXT MEETING:

The next meeting will be held on Thursday, August 27, 2009, to meet the September 10, 2009, General Fund forecast reporting deadline. The meeting will be held at 8:30 A.M. in the Office on Aging Conference Room.

ADJOURNMENT:

The meeting adjourned at 2:35 P.M.