

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 27, 2010
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Johnnel Nakamura, Titin Sakata,
and Jacquelyn Guitguiten
Department of Budget and Finance: Karen Matsunaga, Terri Ohta
and Sheila Kanemaru

Others:

Wayne Yoshioka, Hawaii Public Radio News
Charles H. Carole, Honolulu League of Women Voters
Cathy Peterman, University of Hawaii
Sharon Kotaka, Budget & Finance
Gene Park, Honolulu Star-Bulletin
Debbie Hiranaka, Senator Donna Mercado Kim's Office
Roderick Becker, Senate Ways and Means
Anthony Valdez, Senate Ways and Means
Nandana Kalupahana, House Finance
Georgette Deemer, House Majority Office
Derrick DePledge, The Advertiser
Maurice Morita, Hawaii LECET
Daryl Huff, KITV4 News
Gina Mangiarie, KHON2 News
Bob Cramer, KHON2 News
Ken Kakesako, State Senate
Jermel Quillopo, KGMB9 News
Ronald Randall, Department of Taxation
Joan Bolte, Department of Taxation
Darcie Mayeshiro, Department of Taxation

ABSENT:

Council Members:

Dean Hirata

Albert Yamada

CALL TO ORDER:

The Chair called the meeting to order at 2:02 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF MARCH 11, 2010:

The Chair asked the Council for any comments regarding the minutes of March 11, 2010 meeting. There were none, therefore 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 11, 2010 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 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 to the March 2010 report, as indicated on the consolidated multi-year revenue report, were generally reflected in the following revenue categories:

General Fund Non-Tax Revenue estimates for FYs 2012 -16 reflect increases due to the redistribution of tobacco settlement special funds pursuant to Act 119, SLH 2009 (Department of Health). The Department of Health previously only reflected two years (FY10 and FY11).

Special Fund Tax Revenue estimates for FY 2010 reflect a decrease in the employer's unemployment compensation rates pursuant to Act 2, 2010 (Department of Labor and Industrial Relations (DLIR)).

Special Fund Non Tax Revenue estimates for FYs 2011-16 reflect adjustments due to decreases in the Department of Transportation (DOT) Airports Division's terminal and landing fees projections, and increases due to the increase in workers compensation insurance levy rate from 4% to 7% (DLIR).

Other than Special Fund Non Tax Revenue estimates for FYs 2010-16 reflect increases for the University of Hawaii research and training federal grants; and increases due bond issues to provide affordable housing and construction or rehabilitation of affordable rental housing projects (Department of Business, Economic Development and Tourism). There were only slight increases for Federal American Reinvestment and Recovery Act funds.

In a response to a request made by the Chair, Ms. Matsunaga responded that historical non-tax and special tax revenue projections could be compiled and reported at a future Council meeting.

The Chair called for a motion to accept the report.

It was moved by Dr. Iboshi, and seconded by Dr. Bonham 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 Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

GENERAL FUND REVENUE FORECAST:

Before the Council began the economic discussion, the Chair asked the Department of Taxation for an update on the refund timing issues and what has changed since the Council met in March.

Ms. Sakata provided the Council with an update for tax collections for FY 2010 until April. The growth rate of cumulative money, the actual money in the bank compared to the last fiscal year, was reported at 4.8%. According to Ms. Sakata, if adjustments were made to the refunds that were not being paid out, the growth rate would be -2.9%.

Changes in some tax laws in 2009 have impacted FY2010 collections. In answer to a question as to why adjustments were made to tax data for existing laws, Ms. Sakata said that as a suggestion, adjustments were made to see the true economic activities without Act 196 SLH 2009, as well as

the change in income tax rates which added two more rates of 9% and 10% with higher brackets. This was estimated to bring in extra money to the state general fund.

The Council Members had a lengthy discussion as to whether to include the refunds paid out to taxpayers that filed in January/February and part of March, which totaled \$125 million in the forecast. One option was to do a forecast without the refunds and then add the refund back in the forecast. Although, the Council was concerned that adding the refund back in the forecast may be problematic

Mr. Randall was called upon by the Council to provide a timetable for the refund payouts. He stated that up until this Friday (May 28th), the payout will be \$125 million.

Dr. Suyderhoud suggested to the Council a 0.5% as the basic forecast and given the likely refund payments as described, a +4.1% forecast for FY2010.

Dr. Bonham added that the Council's forecast for the general fund (assuming that they will pay out all the refunds that they should have) would be 0.5%. And, then if they do not manage to do that (instead they do the payout schedule they have already described), ending up with 4% growth rate in the general fund revenue.

The Chair asked for a motion to forecast the general fund tax revenues at 4% for FY2010.

It was moved by Dr. Bonham, and seconded by Mr. Kahle, that the General Fund forecast for FY2010 at 0.5% as the basic economic forecast and given the likely refund payments as described to the Council, the net forecast would be 4.0%. 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	Absent
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

Next, the Council discussed the forecast of general fund tax revenue for FY2011 to FY2016.

Dr. Iboshi indicated that the Council's past forecast was 6%. Dr. Bonham said he is good with that forecast.

The Council used the \$4.202 billion general fund revenue from FY2009, increased it by 4.0%; then increased it by 8%; and, subtracted \$150 million. This is about 4.6% estimated growth rate for FY2011.

Dr. Suyderhoud suggested a motion of 4.6% for FY2011 with the understanding that it reflects the assumption that \$150 million refund will be paid off and the refund delay is not going to be re-implemented.

Dr. Iboshi agreed with the Chair that the economic recovery, showing up in the revenue stream in the fiscal year that runs from July 2010 through June 2011, will be settling into a steady state growth rate.

Mr. Kahle made a motion of 4.6% for FY2011 after appropriate adjustments are made. The Chair asked the Council if there was any further discussion

In response to a question asked by a Council Member, the Chair stated that his report to the Governor will include elaboration about why the revenue numbers do not entirely capture the economic assumptions that underlie them because of the refund timing.

There was no further discussion made by the Council. The Chair asked for a motion of 4.6% growth rate in the general fund tax revenue for FY2011.

Mr. Kahle made the motion of 4.6% for the growth rate of general fund tax revenue in FY2011. The motion was seconded by Dr. Iboshi. 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 Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

The Chair asked the Council to make a motion for the out years with the same growth rates.

Mr. Kahle made the motion that the future growth rates remain the same at 6.0% in FY2012 through FY2014, and 5.0% in FY2015 and FY2016. The motion was seconded by Dr. Iboshi. 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 Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

Dr. Iboshi reminded the Council that the tax laws that were just passed by the Legislature were not taken into account since some take effect on July 1st.

After some discussion about the effects of new tax laws that will take effect after July 1st, the Chair stated that the Council is required to make a new motion to amend the earlier decision to reflect the effect of these tax law changes.

Mr. Kahle made the motion to amend the earlier decision to reflect the tax law changes. The future growth rates for FY 2011 (6.2%); FY2012 (5.8%); FY2013 (5.7%); FY2014 (6%); FY2015 (5%); and, FY2016 (4.8%). The motion was seconded by Dr. Iboshi. 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 Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

NEXT MEETING:

The Council tentatively agreed to meet on Tuesday, August 3, 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 3:43pm.