

COUNCIL ON REVENUES

Office on Aging Conference Room
No. 1 Capitol District Building
250 S. Hotel Street
Fourth Floor, Room 410
Honolulu, HI 96813

Wednesday, December 29, 2010
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

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

Others:

Charles H. Carole, Honolulu League of Women Voters
Paul Smith, Senator Sam Slom's Office
Glenn Okimoto, University of Hawaii
Keith Shimada, Budget & Finance
Sharon Kotaka, Budget & Finance
Lowell Kalapa, Tax Foundation of Hawaii
Keoki Kerr, KITV4 News
Roderick Becker, Senate Ways and Means
Nanea Kalani, Honolulu Civil Beat
Nandana Kalupahana, House Finance
Frederick Pablo, Department of Taxation

ABSENT:

Council Member:

Albert Yamada
Pearl Iboshi

CALL TO ORDER:

The Chair called the meeting to order at 2:06 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

The Chair announced to the Council the receipt of a letter of resignation from Council Member, Dean Hirata effective December 6, 2010.

The Chair reiterated the discussion from the last meeting on the topic of line-item details, which are not actually reflective of what the Council forecasts. The line-item details are received from the staff of the Department of Taxation--Tax Research & Planning Office (DOTAX--TR&P). At the last meeting, the Chair suggested to the Council that the line-item detail that is discussed and submitted to the Council be presented and reported the same way Budget and Finance (B&F) presents it. He also suggested that the Council make a decision with some consistency. This topic will be discussed further in the latter part of this meeting.

With that, the Chair moved on to the minutes of the last meeting.

MINUTES OF THE MEETING OF NOVEMBER 3, 2010:

The Chair asked the Council for any comments regarding the minutes of November 3, 2010 meeting. There were none, therefore the Chair called for a motion to approve the minutes.

It was moved by Mr. Kahle, and seconded by Dr. Suyderhoud that the minutes of the November 3, 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
Pearl Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

GENERAL FUND REVENUE FORECAST:

Next, the Council discussed their general fund forecasts for FY 2011. The Chair stated to the Council that his individual forecast had high numbers but, not for next year. There was a noise element this year as a starting point -- the delay in the pay out of refunds.

A few of the Council Members provided their individual forecast for the out years. The Chair mentioned 7s and 5s. Dr. Suyderhoud added 6%, 7%, 6%, 5% and, 5%. Dr. Bonham's numbers were: 2.4% for this year; 5.5%; 4.25%, 5%, 5.75%, 5.9% (an average of about 5-5.25% for the out years).

The Chair asked Dr. Bonham as to why he did not get a higher single-digit or even double-digit for the next 6 months on the visitor counts and, asked whether he was comparing to the pre-lift period for year-over-year. Dr. Bonham suggested taking a look at the different quarters which is 10.5%; 10.5%; almost 8% (down in the 1st quarter); 4.5% so that's end of 2010 beginning in

2011. Basically, there seems to be about 6 months to a year lag between visitor's spending or, nominal income takes off and the tax revenues kick in. The room rates are sluggish and still relatively low -- the spending takes time for it to work its way through the economy to create the jobs, etc. The room rates are a pretty good story. In terms of visitor upturn you get the peak at tax revenues -- they turn simultaneously but, the maximum kick in tax revenues tends to happen with a level consistent to what we're finding -- getting a number like 10% or 11% for the next year.

The Council also discussed their ratios for the out years to coincide with a slide presentation by Ms. Chow.

Dr. Suyderhoud asked the Council what they were looking at in terms of the forecast made for FY 2011/FY 2012. The Council's forecast at the last meeting was 2% for FY2011 and 10% for FY 2012. The Chair thought that this year should be higher -- at least 2%.

Dr. Suyderhoud stated that if you're bumping up FY 2011, some of that is going to come out of FY 2012 for two reasons: 1) it's basically an acceleration of economic activity that has moved up from FY 2012 to FY 2011; and, 2) if you're increasing 2011, you're increasing the base. In response, the Chair said that he genuinely has more in both years--just more of everything. Dr. Suyderhoud went on to say that in order to get 2% this year we need a 5.50% growth for the rest of the fiscal years. It was mentioned by Ms. Chow that November was -5.50% (5.8% if you back out the refunds that were paid in the fiscal year). One Council member noted from April 2010 through July 2010 (month-to-month), the growth rates were negative. And, from August 2010 through October (month-to-month), the growth rates were positive (October was 22% higher than September).

The Chair asked for a motion to forecast the general fund tax revenues at 3% for FY 2011.

Mr. Kahle made a motion to forecast the general fund tax revenues at 3% for FY2011. Dr. Bonham seconded the motion. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Pearl Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

Next the Council briefly discussed their individual general fund forecast for FY 2012. With the Council members having an 11, 12-ish percentage, the decision was made to keep the general fund tax revenues forecast at 10% for FY 2012.

The Chair asked for a motion to forecast the general fund tax revenues at 10% for FY 2012.

Dr. Bonham made a motion to keep the general fund tax revenues forecast at 10% for FY 2012. Mr. Kahle seconded the motion. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Pearl Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

Dr. Bonham said when the Council does its long range forecast, essentially kind of converging to what the Council thinks of (with some kind of equilibrium) but, effectively leaving out these events that happen because we don't know when they're going to happen again. But when it does, they're going to lower our equilibrium growth rates. He suggested the Council be a little more cautious on how high the growth rates get in the out years with stability of 5.50%. It is about 50 basis points off of what we think is the equilibrium. It might not happen in 2015, 2016, 2017, it might happen in 2018 and it'll pull the average down over a long period of time.

The Chair was asked a question as to what he thought was the steady-state growth for Hawaii's real income. The Chair responded with a 2.50%. Dr. Bonham said that we haven't hit a 2.50% growth in 20 years, steady-state (real income). The Council's benchmarks for what we call steady-state are too high. Dr. Bonham believes if the concept is that per capita income growth one on one, 5% is just plain wrong.

The Council had a brief discussion on the housing inflation, construction and visitor counts.

Dr. Bonham noted that we've had two years over 6% in the last decade and both associated with housing growths. It's a mixture of the cruise ship, tourism boom and housing happening at the same time and produced two years of +10% revenue growth, because it looks like 4% or 5%.

The Chair mentioned that the basic difference in the Members' views is the construction turnaround. And, added that the housing market is in better balance now so it doesn't have to wait until 2018. He suggested the Council spend another 6 months thinking about what that cycle is going to look like and leave it at 6%.

The Council members discussed which is more likely, the above average or the below average for the next 5 years.

Dr. Bonham agreed with 6% for FY 2013 and thought it ought to be headed for 5% over the out years as a steady-state. He proposed FY 2014 at 5.75%; FY 2015 at 5.5%; FY 2016 at 5.25%; and, FY 2017 at 5%. That still gets you 2% real growth. Dr. Suyderhoud proposed 6% for FY 2013; FY 2014 at 5.5%; FY 2015 at 5.5%; FY 2016 at 5%; and, FY 2017 at 5%.

There was a motion made by Dr. Bonham to forecast the out years at 6% for FY 2013; FY 2014 at 5.75%; FY 2015 at 5.5%; FY 2016 at 5.25%; and, FY 2017 at 5%. Dr. Suyderhoud seconded the motion. Both the Chair and Mr. Kahle was not in favor of that motion.

There was a motion made by Mr. Kahle to forecast the out years at 6% from FY 2013 through FY 2017. The Chair seconded the motion. Both Dr. Bonham and Dr. Suyderhoud was not in favor of that motion.

Dr. Suyderhoud mentioned that the overall elasticity story is slightly above 1%; nominal personal income growth is 5% over this time period. What's that say about revenues? To get to 6% you need an elasticity of 1.2. The Chair said its more than 1 but, he wasn't sure if it was 1.2. And, 6% may be on the high side looking at the elasticity standpoint; but, on the other hand if you think life is going to be good in the out years because the investment cycle will accelerate it's not implausible. Dr. Bonham said that he's got a construction cycle and a housing pricing cycle in his forecast model, which gets him back to 6% by 2017 but, not in the middle during the early 20-teens. The overall out-year revenue growth rate is 50 basis points too high.

Mr. Kahle made a motion to keep the general fund tax revenues forecast at 6% for FYs 2013 through 2017. Dr. Suyderhoud seconded the motion. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Pearl Iboshi	Absent
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 September 2010 report as indicated on the consolidated multi-year revenue report were generally reflected in the following revenue categories:

General Fund Non-Tax Revenues estimates – there are no significant changes to general fund non-tax revenues.

Special Tax Revenues estimates for FYs 11-17 reflect decreases in transfer of transient accommodation taxes for the Department of Business, Economic Development and Tourism (DBEDT); and changes in the unemployment compensation taxes to reflect revised employer contribution rates pursuant to Act 2, SLH 2010, for the Department of Labor and Industrial Relations (DLIR).

Special Fund Non-Tax Revenues estimates for FYs 11-17 reflect a correction for unemployment insurance benefits (DLIR), and partial increase based on actual FY11 collections;

and projected increases for the University of Hawaii's (UH) resident undergraduate tuition fees. It was noted that the correction was due to a keypunch error and the projected revenues should have been higher.

Other than Special Fund Non-Tax Revenues estimates for FYs 10-17 reflect significant adjustments in two categories. The increases in federal grants for FYs 10-17 are attributed to additional federal grants for educational improvements for the handicapped and teacher and principal training and recruitment (Department of Education (DOE)), public health emergency response (Department of Health (DOH)), medical assistance (Department of Human Services (DHS)), and disaster relief emergency assistance (Department of Defense). Changes for American Recovery and Reinvestment Act (ARRA) grants reflect updated timelines for the receipt of ARRA funds for the State energy program (DBEDT), energy efficiency and conservation block grant (DBEDT), individuals with disabilities education grant (DOE), and water pollution control (DOH). The total ARRA funds are slightly over \$1.1 million. The primary changes were from the medical assistance payments program (DHS).

In reference to the report on the transfers for the TAT, the Chair suggested B&F could increase a threshold for significant changes to \$50 million or more. He added it be this Council or the next to think about a common set of economic assumptions the Department of Business and Economic Development & Tourism (DBEDT) or the University of Hawaii Economic Research Organization (UHERO) can provide.

During Ms. Matsunaga's presentation, Dr. Bonham asked whether we received an infusion of federal money. Ms. Matsunaga indicated that those changes were reflected in the 'Other Than Special Fund' section of the report.

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
Pearl Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

The Chair discussed with the Council on the issue of how we report the general fund detailed table. The Chair was concerned that a lot of people rely on the detail but they misattribute the sources of the detailed line-items information as coming from the Council on Revenues. The Council focuses on the big picture number, which is the bottom-line in this table. The Council tried reporting without the detail and received a fair amount of feedback regarding that change.

What the Chair had proposed last time, which the Council tabled, is to report the detail with explanatory language in the transmittal that indicates the importance of the bottom-line forecast.

Dr. Bonham suggested that the detailed table be treated exactly the same way as with the B&F table. He suggested that the Council append it with the letter signed by Director of Taxation along with an attached table of line-item details, footnoted: "prepared by Department of Taxation--Tax Research & Planning Office". He recommended that the Council present the table with its general fund forecast in the letter that goes to the Governor, and that everything else be appended.

The Chair suggested that during the remainder of this fiscal year, with the current Council, a workshop be coordinated to discuss DOTAX's model. With that addition, the Chair would endorse Dr. Bonham's suggestion and vote for a motion along those lines.

It was moved by Dr. Bonham, and seconded by Mr. Kahle to treat the detailed table exactly the same way with the B&F table to the Governor. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Pearl Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

The Chair asked that Ms. Sakata and Ms. Chow to coordinate a workshop.

REPORT BY THE DEPARTMENT OF TAXATION

Ms. Chow presented the Council the report by the Department of Taxation -- Tax Research & Planning Office with a presentation slide. The Chair acknowledged that TR&P has stipulated to the reporting request and asked the Council for a motion to approve. He also requested a previous report that provides a comparison such as cross-outs or a lined-out report. The Council discussed the detailed line-items briefly, mentioning that at some time they should look at the big moving parts: general excise and payroll withholding taxes.

It was moved by Mr. Kahle, and seconded by Dr. Suyderhoud to accept the Department of Taxation -- Tax Research & Planning Office report. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Pearl Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Absent

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, March 10, 2011 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 3:23pm.