

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, March 10, 2011
2:00 P.M.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Donald Rousslang, Titin Sakata, Hamid Jahanmir and
Jacquelyn Guitguiten
Department of Budget and Finance: Karen Matsunaga, Terri Ohta,
Keith Shimada and Sheila Kanemaru

Others:

Wayne Yoshioka, KHPR News
Paul Smith
Greg Wiles, H. Reporter
Sharon Kotaka, Budget & Finance
James Delavon, HMIR
Andrew Pereira, KHON2 News
Arik Look, SMO-Hawaii State Legislature
Tu Duc Pham
Calvin Calkins
Roderick Becker, Senate Ways and Means
Maurice Morita, LECET
Ross Tsukenjo, Senate Ways and Means
Scott Ishikawa, Department of Transportation Services
Georgette Deemer, House of Representatives
Cathy Peterman, University of Hawaii
Paul Young, Healthcare Association of Hawaii
Nandana Kalupahana, House Finance

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 introduced the new member of the Council, Mr. Avery Aoki who was appointed on January 10, 2011 by House Speaker Calvin K.Y. Say due to the resignation of Mr. Dean Hirata. Mr. Aoki's term will expire on June 30, 2011.

The Chair asked if there was any other communication to be presented to the Council. Dr. Tu Duc Pham, the former Tax Research and Planning Officer, presented his views on the estimates of FY 2011 general fund tax collections. The Chair suggested that Dr. Pham's communication be discussed later during the meeting.

The Chair asked if there was any other communication to the Council. There was none.

The Chair then moved on to the minutes of the last meeting.

MINUTES OF THE MEETING OF DECEMBER 29, 2010:

The Chair asked the Council for any comments regarding the minutes of the meeting of December 29, 2010. There were none, so 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 December 29, 2010 meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

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

GENERAL FUND REVENUE FORECAST:

Next, the Council discussed the general fund forecasts for FY 2011. In response to a request made by the Chair, Dr. Rousslang provided the Council with a walk-through of the material prepared by the Department of Taxation's Tax Research & Planning staff (DOTAX-TR&P). He made note of the new material that was added along with presentations that provide forecasts for the rest of the current fiscal year, as well as the comparisons between this fiscal year and the same period last year, both with and without the refund delays.

The Council discussed the effects of the refund delays, pointing out that last year's February, March, April and May had very high revenues because refunds were not paid out.

Next, the Council briefly discussed the preliminary tax collections in February (which were \$343.9 million), as well as the underlying economic growth patterns for August through January.

Dr. Bonham thought that the economy could have been worse in the latter half of calendar year 2010 than the data indicated. He expects a downward revision in jobs data (the employment data are not yet available for the first quarter of calendar year 2011).

The Council members discussed making a downward revision in their last forecast, taking into account that in 2010, July tax figures were negative but were positive in February, March and April. Dr. Rousslang reminded the Council how the models supplied by Tax Research and Planning adjust for this refund delay.

The Chair said that if the model was correct and if the Council's assumptions were correct then the projected growth is 1.3% as opposed to the 3% they had forecast before with the first good quarter from August through October and, the second good quarter from November through January. The Chair thought that the trend is less positive than the model shows, and that it indicated growth would be between +1.5% and -2.0%.

Dr. Bonham mentioned the possibility that the economy simply was not as strong over that whole period as the original data was indicating, as an explanation for why the economy has appeared to slow down.

The Chair noted that the seasonally adjusted visitor counts showed a big move in the Spring and Summer. He stated that he did not change his economic forecast since December. After taking away the refund delay, he was not sure why the year-on-year figures should be weaker.

Dr. Bonham said that the negative forecast in his model has changed to 0% growth. He added that he changed his model since last time and quit using total income as one of the dependent variables. And, was concerned that transfer payments were holding income up.

He agreed with the Chair but he found it hard to believe that the slowdown that we have seen or the relatively slow year-over-year growth through September, October, and November really reflects what the next half of this fiscal year will look like.

The Council members discussed the tax collections from August through February. The Chair said he would not be surprised if collections averaged \$440 million for the remainder of the fiscal year. The members also discussed the visitor's expenditure data and the projections of visitor's spending for the whole year. The Chair added that one of the risks now is how long the \$100 a barrel of oil will last. Everybody was fine with \$85 a barrel before Valentine's Day, before political unrest moved from Tunisia to Egypt to Ethiopia.

Mr. Aoki pointed out that the performance for Hawaii hotels for the first quarter of calendar year 2011 will be pretty good compared to last year, but that April and May will be a slower period. For the industry, the longer term concern is with oil prices and the impact on airfares, which may cause leisure travelers to reduce their travel.

The Chair responded that other than those risks, he thinks calendar year 2011 will be better than calendar year 2010.

Dr. Bonham added that he has been working on the effects of higher oil prices and is not lowering the visitor's forecast yet. Right now, the national data are still coming in stronger than people expected, even with higher gas prices in California. People are still spending, but the question is whether they will still be able to do that in the Summer if gas prices are still at \$4 or \$4.50/gallon.

The Chair stated that a growth forecast of 3.0% was too high, but that a negative number is premature. Dr. Bonham said that he does not disagree that the outlook of the overall economy is still better for the rest of this fiscal year than they thought it was last year. He asked if we have information from early tax filings to indicate that people will be paying more income tax than last year.

The Council discussed different components of the general fund. Ms. Sakata said that there is no detailed data for the February returns and that processing of returns was slower this year for miscellaneous taxes (TAT, Franchise Tax, Public Service Company Tax). The Department is currently trying to support the integration of these taxes into its tax system, therefore we are slower in processing these types of returns.

After discussing hotel occupancy rates and transient accommodations tax collections, Dr. Bonham asked if the members could go back to the Chair's 0.5% growth rate suggestion.

The Chair asked for a motion to forecast the general fund tax revenues at 0.5% for FY 2011.

Mr. Yamada made a motion to forecast the general fund tax revenues at 0.5% 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
Avery Aoki	Yes
Carl Bonham	Yes
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The Council turned to the FY 2012 forecast. The members discussed the construction cycle, the strength of the economy and the models' forecasts, which were between 11.0 to 12.5% for growth in general fund revenue in FY 2012.

The Chair asked if there was any other discussion. There was no further discussion.

The Chair asked for a motion to forecast the general fund tax revenues at 11.0% for FY 2012.

Dr. Suyderhoud made a motion to forecast the general fund tax revenues at 11.0% for FY 2012. 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
Avery Aoki	Yes
Carl Bonham	Yes
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

Next, the Council discussed the forecast for the out years. The Chair indicated that he is reluctant to change the current forecast of 6.0%.

The members thought that the construction sector may not take off until 2014.

After further discussion about the economy and job market, the Chair asked for a motion to keep the forecast of general fund tax revenues at 6.0% for FYs 2013 through 2017.

Dr. Iboshi made a motion to keep the general fund tax revenues forecast at 6.0% for FYs 2013 through 2017. 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
Avery Aoki	Yes
Carl Bonham	Yes
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

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

Ms. Matsunaga reported the significant changes to the December 2010 report as indicated on the consolidated multi-year revenue report were generally reflected in the following revenue categories:

General Fund Tax Revenue estimates reflect an increase in FY11 due to the \$8.5 million settlement with the U.S. Navy for damages to the reef caused by the USS Port Royal in February 2009 (Department of the Attorney General).

There were no significant changes in the Special Fund Tax Revenues category.

Special Fund Non-Tax Revenues estimates reflect increases in FYs 11 and 12 to correct a reporting error.

Other than Special Fund Non-Tax Revenues for FYs 11-17 are attributed to: 1) additional federal grants for the Department of Education for educational improvements for the handicapped and teacher and principal training and recruitment; and the Department of Defense Army National Guard program; and 2) slight increases in ARRA (The American Recovery and Reinvestment Act of 2009) Funds for neighborhood stabilization for the Department of Business and Economic Development and Tourism.

Dr. Suyderhoud asked whether federal dollars for the Race to the Top program were included in the ARRA revenue projections. Ms. Matsunaga responded that the ARRA funds for Race to the Top have not yet been included in the non-tax revenue projections. However, those revenues will be included in the next revenue update.

The Chair called for a motion to accept the report.

It was moved by Mr. Kahle, and seconded by Dr. Iboshi 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
Avery Aoki	Yes
Carl Bonham	Yes
Pearl Iboshi	Yes
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

REPORT BY THE DEPARTMENT OF TAXATION

The Council acknowledges that the Department of Taxation's Tax Research & Planning Office will prepare and submit a detailed line-items Table to be submitted to the Governor, along with the Council's forecast, to fulfill a request.

It was moved by Dr. Bonham, and seconded by Mr. Kahle that the Council acknowledges Tax Research & Planning Office prepare and submit a detailed line-items Table. The Chair called for the vote, and the motion passed with the following votes:

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

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, May 26, 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 3:29pm.