

COUNCIL ON REVENUES

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

Tuesday, May 29, 2012  
10:00 a.m.

**PRESENT:**

Council Members:

Richard F. Kahle, Jr. (Chair), Jack P. Suyderhoud (Vice-Chair), Avery K. Aoki,  
Carl S. Bonham, Christopher Grandy and, Marilyn M. Niwao

Staff Members:

Department of Taxation (DOTax): Donald Rousslang, Hamid Jahanmir and  
Jacquelyn Guitguiten  
Department of Budget and Finance (B&F): Terri Ohta, Keith Shimada and  
Gregg Hirohata-Goto

Others:

Ross Tsukenjo, Senator Shan Tsutsui's Office  
Anthony Valdez, Senate Ways and Means  
Lowell Kalapa, Tax Foundation of Hawaii  
Sharon Kotaka, Budget and Finance  
Maurice Morita, LECET  
Gladys Marrone, BIA  
Titin Sakata, Department of Taxation  
Mallory Fujitani, Department of Taxation  
Laurel Johnston, UH Business Processing Council (BPC)  
Senator Sam Slom, Senate  
Tu Pham, Pham & Associates  
Roderick Becker, Senate Ways and Means  
Susan Hirai, Senate Ways and Means  
Michelle Scala, Senate Ways and Means

**ABSENT:**

Ronald K. Migita, Council Member

**CALL TO ORDER:**

Chair Kahle called the meeting to order at 10:00 a.m. with a quorum present.

He asked the Council to first discuss tourism and the hotel industries. Mr. Aoki told the Council that, as indicated by the media, it looks like it will be a strong year for tourism, with strong demand for air travel and favorable exchange rates. Chair Kahle said that he saw in the paper that tourism is setting records this year. Mr. Aoki said tourism has been strong and that the first quarter has been good, but the rest of the year is hard to forecast.

**COMMUNICATIONS TO THE COUNCIL:**

Chair Kahle asked if there was any communications to the Council. Dr. Rousslang mentioned that some of the below-the-line adjustments are subject to question and that when FY 2013 becomes the front-year, the Council may want to revisit two below-the-line adjustments. The first is the \$156 million estimate for the revenue gain from Act 105. Originally, the Tax Department estimated the gain would be \$216 million, but the Council dropped it down to \$156 million. He said that so far this year, his best estimate is that it is bringing in about \$50 million, in line with what the Council had adopted. He added that the Department of Taxation has revised its estimate for FY 2013 down by \$70 million. However, the estimate of \$156 million in the below-the-line adjustments was not changed, because the Council had adopted \$156 million explicitly.

Dr. Rousslang also suggested that the Council may want to take into account that the renewable solar energy tax credit appears to be growing very fast and that the adjustment in the model only incorporates modest increases. He said if the credit is growing much faster than the rest of the economy, the below-the-line adjustment for the energy credit will be too small. To show how this might affect the estimates, the workbook includes a scenario for what would happen if the adjustment for Act 105 came in at \$60 million in 2012 and, \$70 million in 2013 above the amount accounted for by the model.

Chair Kahle said the requirement that new homes have renewable solar energy could skew the figures the Council has based on past installations.

Dr. Suyderhoud asked at what point it will reach the HECO technical operational limits which are supposed to be some proportion of the total electricity capacity. He added that the limits are applied by neighborhood, but that the limit appears to be relatively arbitrary.

Chair Kahle asked the Council to postpone the discussion of this issue.

**MINUTES OF THE MEETING OF MARCH 7, 2012:**

Chair Kahle asked the members for comments to the minutes of the March 7th meeting. There were no comments. Chair Kahle asked for a motion to accept the minutes.

**It was moved by Ms. Niwao and Dr. Bonham and seconded by Mr. Aoki that the minutes of the March 7, 2012 meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:**

**Richard F. Kahle, Jr. Yes**

**Jack P. Suyderhoud Yes**

<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Absent</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST:**

Next, the Council discussed the General Fund revenue forecast for the remainder of FY 2012. Chair Kahle asked the Council if it wanted to continue the discussion on solar energy, or to discuss something else.

Dr. Rousslang referred the Council to Table 6A in the workbook, which gives the forecast from the regular model. He explained that Table 6A Alternative has the forecast with the new below-the-line adjustments for Act 105 and for the growth in the renewable energy tax credit, which drops the growth rate from 7.2% to 5.3% for FY 2013. He pointed out that the unexpected surge in the renewable solar energy tax credit may be one of the reasons the model is over-predicting. He added that before any changes in the below-the-line adjustments, the model was predicting 16.3% revenue growth for FY 2012, but it was clear that was not going happen. He said that DBEDT (Department of Business & Economic Development and Tourism) had been invited to make a presentation on the solar tax credits to the Council: They had agreed, but asked to postpone their presentation until the Council's next General Fund meeting.

Ms. Niwao said a lot of the companies are installing photovoltaic solar panels on their commercial buildings to save on electricity costs.

Dr. Suyderhoud said that part of the problem is how the credit should be interpreted, because theoretically you could install multiple systems at one location and qualify for multiple credits. He wondered if it was part of the issue.

Chair Kahle said that question is being discussed within the Department of Taxation. Ms. Niwao added that the Tax Department had issued the rulings, which have cut-down the number of credits. She did not believe there was a limit on the number of systems installed.

Chair Kahle asked Ms. Niwao to explain a graph she had prepared on total General Fund tax revenues collected from January through April 2012.

Ms. Niwao told the Council that for April 2012, individual tax collections increased by 6.8%; GET increased by 8.2%; and, overall tax collections increased by 2.5%. She said it appeared that much of the individual tax increases were collected in January 2012. She reminded the Council that at the last meeting they had looked at the tax collection efforts in April 2011, and that the Tax Department changed their policy on depositing refund payments which resulted in permanent deferral. She said looking at the estimated taxes for January 2012 and comparing them to January 2011, she said it looks like people paid their taxes early so as to receive the deduction for federal tax purposes.

Dr. Bonham said the reason the income tax collections in April were low is because withholding was down significantly. The change in the estimated tax for January was actually a fairly small number.

Dr. Suyderhoud said the forecast for 2012 is 12% and tax collections were coming in at 12.9% as of two months ago. Ms. Niwao said the last three months is showing a drop of almost 2%.

Dr. Suyderhoud asked Ms. Niwao if she thought collections were going to reach 12%. Ms. Niwao said she thought there is a good possibility it might be less than 12%.

Dr. Grandy suggested doing a year-over-year comparison. He said the Council looked at the rate of growth over 12 months. He said the last three months the growth in General Fund revenues is 12.83% (growth was 13.9% for February and 11.6% for March and April), so he was not particularly uncomfortable with the current forecast. Ms. Niwao asked how the months of April and May looked for the hotel industry. Mr. Aoki said the month of May looked strong. He said April was low compared to May. He added that April is typically the low month of the year. He said June and July are probably going to be very good. Dr. Bonham said the April passenger count is up 8% over a year earlier so, on a year-over-year basis there was still growth in the number of people arriving in Hawaii. He said he did not yet have the data for visitors' spending.

Ms. Niwao said she thought the problem (lower tax collection) is due to construction and also the federal money that is coming to Hawaii. She said she has not been able to get the information with respect to federal funds and thought that military information (the change in military spending) would be classified. She said she had a discussion with Karen Nakamura of the BIA (Building Industry Association) and she indicated that although the total number of building permits increased quite a bit, the value of the permits decreased from \$1.99 billion down to \$1.56 billion. She said Ms. Nakamura said that construction jobs right now are flat. Dr. Bonham asked if it that would be true for the next three years. Ms. Niwao said yes, that Ms. Nakamura said that's because the money takes about 5 years to get into the system. Dr. Bonham disagreed.

Dr. Grandy said contracting pays GET, which has been rising for the last several months.

Ms. Niwao said yes, but noted that part of the increase was from inflation. Dr. Grandy asked if Ms. Nakamura was talking about the real growth. Ms. Niwao said yes. Dr. Bonham said he thought Ms. Nakamura was talking about government, not total construction. Ms. Niwao agreed. Dr. Bonham said total permits for the first quarter of the year were up 37% in dollar terms, which greatly exceeds inflation. He said that is the first quarter with a year-over-year increase. He said it was 30% lower than the forecast, but still positive.

Dr. Suyderhoud said there are two months left in 2012. Dr. Bonham asked if the question was whether the Council wanted to change the forecast of 12% growth in General Fund collections for 2012. Mr. Aoki said the 12% sounded good to him. Dr. Suyderhoud said it sounded good to him too, with some margin for error.

Dr. Bonham said the Council had to have information on which to change the forecast. He said if Dr. Rousslang told them that the solar tax credits would take \$300 million out of this year then, yes the Council would change its forecast. He asked Dr. Rousslang what was going to happen with the tax credits. Dr. Rousslang said as far as 2012 goes, whatever that was going to happen has already

happened. Dr. Suyderhoud said for 2012 he moves to keep the 12% growth forecast. Dr. Grandy said he would second that.

Chair Kahle asked if there was further discussion and then asked for all in favor. Dr. Suyderhoud said he thought the Council might have more discussion about that number, but it was fine with him. Chair Kahle asked the Council members if there was any more discussion.

Ms. Niwao wondered how much more revenue would be generated by TAT in the next two months compared with last year. Dr. Rousslang said it could be as much as \$20 million per month if the TAT comes in at the rate it has been. Dr. Bonham said the Council should raise its forecast, then. Dr. Suyderhoud said that was about 1%. Dr. Bonham said he feels a lot more comfortable with the 12% forecast now. Dr. Suyderhoud asked if that is included in the below-the-line adjustments. Dr. Rousslang said yes.

Dr. Bonham suggested that the Council leave this fiscal year growth at 12% and asked if there was any more discussion. Ms. Niwao said she thought they were close to the number. Dr. Bonham asked Ms. Niwao if she agrees with the 12% growth forecast. Ms. Niwao said she preferred 11.5% as a more conservative number. Dr. Grandy said 12% sounded reasonable to him. He said there were only two months left in this fiscal year and that the members should leave time to discuss the next fiscal year. Chair Kahle asked if there were any further questions. There was none. Chair Kahle asked for an all in favor of the original motion made by Dr. Suyderhoud and seconded by Dr. Grandy to leave the growth forecast for FY 2012 at 12.0%. Chair Kahle asked Ms. Niwao if she agreed. Ms. Niwao said it was okay.

**Dr. Suyderhoud moved to keep the current forecast of the general fund tax revenues growth rate for FY2012 at 12%. Dr. Grandy seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Absent</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

Next, the Council discussed the forecasts for FYs 2013 through 2018. Chair Kahle said we have 7.5% forecast for the next fiscal year. Dr. Suyderhoud asked what the models indicated.

Dr. Rousslang referred the members to the workbook. He said Table 6A (Alternative) was constructed to show what would happen if Act 105 came in at \$70 million and the energy tax credit was \$70 million more than we thought. Dr. Grandy asked if that was the original Tax Department estimate for Act 105. Dr. Rousslang said the original estimate was \$216 million. Dr. Suyderhoud said the Council dropped the estimate by \$50 million.

Dr. Rousslang said Table 6A (Alternative) included an additional \$156 million in below-the-line adjustments that changed the total collections from \$5,394 million to \$5,238 million, which is a drop of about 1.9%. Ms. Niwao said she guessed the Table did not account for what will happen after the January 1<sup>st</sup> tax increases and federal spending cuts. Dr. Bonham said when they are doing their forecast they put those effects into the model.

Ms. Niwao asked if the model for the GET takes into account probabilities and expectations. Dr. Bonham said the model is not mathematically perfect, but it tries to take into account of what may happen.

Dr. Suyderhoud said the Council always mentions uncertainty related to events that are difficult to predict. Dr. Bonham said things like the probability that Israel would bomb Iran and what the outcome would be are hard to predict. Ms. Niwao said the whole economy would have problems if we had such a war. Dr. Bonham said the question is how to incorporate that into the analysis. Ms. Niwao said generally you weigh the possible outcomes by their probabilities. Dr. Bonham said the uncertainty was enormous. Dr. Grandy said that kind of procedure made sense if the event has either already happened or there is good reason to expect it to happen. He said that, for example, it made sense to explicitly consider the effects of the tsunami after it had occurred. He said that in general, the way he approached the forecast is by looking at the time-series and thinking about what is going on; then making subjective adjustments based on his understanding of current events, what the Legislature is doing, what the Governor is proposing, and similar things. He said the likelihood of war with Iran, or the likelihood of some other large event is general background that he incorporates into the forecasts of economic variables he provides to the Department of Taxation.

Dr. Suyderhoud said that there were two issues for FY 2013: what is the underlying revenue forecast based on the macro-economic condition, and what are the appropriate below-the-line adjustments to the forecast? Dr. Bonham said the Council usually talks about how the overall economy is doing. He said 5.5% made sense to him for overall nominal economic growth and growth in tax revenue. Dr. Suyderhoud asked if that is in spite of the current forecast for 7.5% revenue growth. Dr. Bonham said his model gave him a forecast of 8% for tax revenue growth in FY 2013, but that he thinks the growth in the overall economy will be 5.5%. Dr. Suyderhoud asked if he was happy with the forecast of 7.5% growth for FY 2013. Dr. Bonham said yes, but that there were several percentage points of uncertainty to the forecast, more than usual, because the Council did not know what the tax credits were going to be. Dr. Suyderhoud agreed and asked if they should say that the forecast is 7.5%, but it could be as low as 5 percent and give the reasons. Ms. Niwao pointed out that the Council was forecasting tax revenue growth and not just the economic growth. She said the effects of tax law changes should be considered directly. Dr. Suyderhoud agreed.

Chair Kahle asked for a forecast for FY 2013. Dr. Bonham said he is comfortable with the 5.3% growth that is coming from the tax model. Ms. Niwao said she wanted something that would be close to the actual number. Dr. Suyderhoud agreed. Dr. Bonham clarified that he was referring to Table 6A, and the alternative table with the new adjustments. Dr. Suyderhoud asked if anybody felt the need to change the underlying forecast. Dr. Grandy, Dr. Bonham and Mr. Aoki said no. Dr. Bonham said he did not think that the economy is worse than at the Council's last meeting. If anything, he thought it was better. He said the question is how to handle the below-the-line

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adjustments. Ms. Niwao said the forecast should be 5.3% or 5.5%. Dr. Bonham asked if that assessment was based on adjustments for the tax law. Ms. Niwao said they have to account for that.

Dr. Bonham said the problem was the Council had no idea how much of an adjustment to make for below-the-line items. He said the members had one estimate and one guess about how much to lower the current revenue growth forecast of 7.5% growth for 2013. He asked Dr. Rousslang if there is any current renewable energy tax credit information. Dr. Rousslang said the last good data were for tax year 2009. He said based on some very preliminary calculations using incomplete data for the May-to-May period, it looks like the credit may have doubled between FYs 2011 and 2012. Dr. Bonham asked if that meant the dollar amount doubled. Mr. Aoki asked what the actual numbers were. Dr. Rousslang said the numbers were low, because they were incomplete and not comparable to the official data on the credit, but that they showed roughly \$35 million for 2011 and \$66 million for 2012, and that by those same numbers the credit was \$24 million for 2010. Dr. Bonham noted that the below-the-line adjustments for the credit were increased by \$60 million for FY 2012 and by \$70 million for FY 2013. Dr. Rousslang said yes, and that the adjustments were provided just to give the members a baseline, because unfortunately DBEDT was not able to make their presentation yet. He also said he just got the results of the preliminary calculations this morning and that if he had them earlier, he would have increased the below-the-line adjustment for FY 2013 by \$60 million instead of \$70 million.

Dr. Suyderhoud said he still thought the issue was how to present the information. Dr. Bonham asked if DBEDT's presentation would be based on their involvement in the approval of the PV Systems, or on the permitting. Dr. Rousslang said he thought the analysis would be based on the growth in capacity. Dr. Suyderhoud asked why not talk to people at HECO, who really know what is going on? Dr. Bonham asked if the Legislature passed any bills this session that would modify any of tax credits. Ms. Niwao said there were no tax increases.

Dr. Suyderhoud asked Dr. Rousslang if the Tax Department is changing its interpretation of the regulations allowing multiple systems per household or per facility.

Dr. Rousslang referred the question to Mallory Fujitani of the Tax Department. Dr. Suyderhoud asked Ms. Fujitani whether there has been a change in the Tax Department's interpretation of the law with regard to multiple systems per filer or per installation. Ms. Fujitani said two Tax Information Releases (TIRs) were issued in 2010. Dr. Bonham asked Ms. Fujitani whether taxpayers had been waiting for the TIRs before claiming the credit. Ms. Fujitani said the TIRs made it easier to claim multiple credits. Dr. Bonham and Ms. Niwao said they had thought that the TIRs had the opposite effect. Ms. Fujitani said that it is hard because the Tax Department only looks at the historical data and not expecting to see some of the activities until 2011 tax returns are completed and submitted this current filing year. Ms. Fujitani said that nothing has happened that would make it more difficult for taxpayers to claim credits for multiple systems. She also said that the Tax Department would have to revise the Administrative rulings if it wanted to make it more difficult to claim multiple credits. Dr. Suyderhoud said he thought that explains partly why the credit grew and that he didn't see anything that would reduce its rate of growth. Ms. Fujitani said the TIRs issued in 2010 tried to clarify the definition of what constitutes a system.

Dr. Grandy asked if anyone thought an adjustment would be made to make it harder to claim

the credit. Dr. Suyderhoud said one might think the Legislature would have done that this year. Dr. Bonham said one of the bills introduced would have limited the number of systems. Dr. Suyderhoud noted that companies have the incentive to maximize the number of systems its customers choose to install.

Dr. Grandy suggested forecasts of 5.3% growth for 2013, 4.0% for 2014, 6.2% for 2015, 4.0% for 2016, 5.0% for 2017 and 5.0% for 2018. He said he is adopting the model's suggestion for below-the-line adjustments for 2013, and for 2014 through 2018 he was adopting the rates of growth from the Council's March forecast. Dr. Suyderhoud asked if Dr. Grandy was making a motion or offering a point for discussion. Dr. Grandy said he was offering a point for discussion. Dr. Suyderhoud said he does not disagree with the numbers, but he thought the Council ought to present its forecast in a more nuanced way. Dr. Grandy agreed. Dr. Suyderhoud said he did not believe that there was any underlying change in the economic conditions that would warrant changing the forecast, but that there was a lot of uncertainty associated with the effects of Act 105 and with the solar energy tax credits that would warrant reducing the forecast for 2013.

Dr. Grandy said basically the members were saying that there is uncertainty about the effects of legislative changes that will affect 2013 and that are likely to persist to some extent in subsequent years. He suggested changing the forecast for 2013 to 5.3% and keeping the current growth rate forecasts for years thereafter. He made a motion to lower the growth forecast for 2013 to 5.3% and to keep the growth rates from the Council's March forecast for 2014 through 2018. Dr. Suyderhoud asked if the Council could have a nuance motion. Chair Kahle said the nuance will be included in the letter to the Governor, but not in the motion. Dr. Suyderhoud agreed, but said somebody had to examine the tax credits. Dr. Bonham said that past Tax Review Commissions have done that. Chair Kahle asked if there was any more discussion. There was none.

**Dr. Grandy made a motion to forecast the growth rate of general fund tax revenues at 5.3% for FY 2013; adopting the same growth rates for FY 2014 at 4.0%; FY 2015 at 6.2%; FY 2016 at 4.0%; and FYs 2017 and 2018 at 5.0%. Ms. Niwao seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Absent</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

Next, the Council heard the report by Budget and Finance.

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

Ms. Ohta reported the changes for the General Fund Non-Tax Revenues and for Special Tax Revenues since the March 2012 meeting.



It is noted that the Department of Budget and Finance's report to the Council on Revenues for their March 2012 meeting contained inadvertent errors in the federal grants category in FYs 11-13. Since these amounts are also included in the Consolidated table, attached are the revised March 2012 Tables 1 (consolidated) and 4 (special fund from sources other than tax).

### **Significant Changes from March 2012 Report**

#### **General Fund Non-Tax Revenues**

There are no significant changes to the general fund non-tax revenue estimates.

#### **Special Tax Revenues**

**Unemployment Compensation Tax** - decreases in FYs 13 and 14 reflect delays in a scheduled increase in the unemployment insurance tax for one year pursuant to Act 6, SLH 2012 (Department of Labor and Industrial Relations).

#### **Special Fund Non-Tax Revenues**

**Revenues from Other Agencies** - the changes in FYs 12 and 13 reflect revisions to the University of Hawaii's (UH) Kapolei land sale strategy.

#### **Other than Special Fund Non-Tax Revenues**

**Charges for Current Services** - the net decreases in FYs 11-18 reflect decreases in revenue collections for drug rebates, premium shares, third party liabilities, and estates and probates in the Health Care Payments program (DHS).

**Non-Revenue Receipts** - the decrease in FY 12 and increase in FY 13 is attributed to a delay in the project bond issuances for several projects under development for affordable rental housing (Hawaii Housing Finance and Development Corporation).

**It was moved by Dr. Suyderhoud and, seconded by Dr. Grandy to accept the B&F report as submitted. The Chair called for the vote, and the motion passed with the following votes:**

<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Absent</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

The Department of Taxation's Tax Research & Planning Office will prepare a Table with detailed line-item estimates for the Governor, along with the Council's forecast as submitted.

**NEXT MEETING:**

The Council's next meeting is tentatively scheduled for Thursday, August 2, 2012 at 10:00 am, but the date and time will be confirmed by e-mail. The Council staff will attempt to secure the Office on Aging Conference Room 410 for the meeting.

The Chair asked for a motion to adjourn.

**Ms. Niwao made a motion to adjourn the meeting, seconded by Mr. Aoki. The Chair called for the vote and the motion passed with the following votes:**

<b>Richard F. Kahle, Jr.</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Avery A. Aoki</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Ronald K. Migita</b>	<b>Absent</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

**ADJOURNMENT:**

The meeting adjourned at 11:27 a.m.