

COUNCIL ON REVENUES

Princess Ruth Keelikolani Building
DLIR Conference Rooms Third Floor
Room 310-313
Honolulu, HI 96813

Tuesday, October 30, 2012
1:00 P.M.

PRESENT:

Council Members:

Richard F. Kahle, Jr. (Chair), Jack P. Suyderhoud (Vice-Chair), Christopher Grandy, Kristi L. Maynard 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 and Gregg Hirohata-Goto

Others:

Paul Harleman, Senate Minority Research Office
Marc Takai, House Minority Research Office
Lowell Kalapa, Tax Foundation of Hawaii
Ross Tsukenjo, Senate
Anthony Valdez, Senate Ways and Means
Nandana Kalupahana, House Finance
Mark Duda, Hawaii Dev. Coalition
Sharon Kotaka, Budget and Finance
Roderick Becker, Senate Ways and Means
Laurel Johnston, UH System
Peter Fritz
Titin Sakata, Department of Taxation

ABSENT:

Council Members:

Carl Bonham and Avery Aoki

CALL TO ORDER:

Chair Kahle called the meeting to order at 1:11 p.m. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

None.

LETTER FROM SENATOR DAVID IGE REQUESTING COPIES OF THE WORKBOOK PREPARED FOR THE COUNCIL

Chair Kahle announced the receipt of a letter from Senator David Ige requesting copies of the Council's workbook, Forecast of General Fund Tax Revenues. He said we have asked the Office of Information Practices (OIP) for an Opinion. He said over the past years we have had some informal opinions, therefore we need to settle this once and for all. He said there is no further discussion of this today unless somebody has a question.

Dr. Suyderhoud asked if at the present time, the Council keeps the workbook confidential. The Chair said yes; until we receive a formal opinion from OIP.

MINUTES OF THE MEETING OF SEPTEMBER 6, 2012:

The Chair called for a motion to approve the minutes.

It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the September 6th 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
Avery A. Aoki	Absent
Carl S. Bonham	Absent
Christopher Grandy	Yes
Kristi L. Maynard	Yes
Marilyn M. Niwao	Absent

TOTAL PERSONAL INCOME FORECAST:

The Council then turned to the forecast for the growth rate of total personal income. Chair Kahle asked Dr. Suyderhoud if he wanted to start the discussion.

Dr. Suyderhoud asked what the present forecast was. Dr. Rousslang said table 4 on page 6 shows the forecast from the August 12 meeting, the current forecast of DoTax models, and the forecast from DBEDT (Department of Business, Economic Development & Tourism) and, UHERO (University of Hawaii Economic Research Organization).

Dr. Suyderhoud asked if the numbers are nominal. Dr. Rousslang said yes, and indicated that the latest data for 2012 personal income are presented on page 4.

(Ms. Niwao arrives at the meeting.)

Dr. Suyderhoud said that from table 4 on page 6, it looks like the Council's forecasts are marginally lower than both DBEDT and UHERO's forecast from this summer. Dr. Rousslang confirmed that.

Dr. Suyderhoud said the forecasts are above the actual figures for the first half of 2012. He asked if anybody expects revisions to the 2012 numbers.

Mr. Jahanmir said not until next year since BEA just revised the data. He pointed out that the quarterly and annual data for 2009 and 2010 were revised downward but the 2011 data were revised upward.

Dr. Grandy said there is a fairly long revision after 2009. He said he feels the current forecast is reasonable. He said it could be increased a couple of tenths of a percentage point for both 2012 and 2013. He thought economic activity would continue to improve slowly. He said he did not see growth in 2013 as high as 5%, but he would agree with the current forecast or something slightly higher. He also thought that 2013 will be stronger than 2012.

Chair Kahle asked Dr. Suyderhoud for his opinion. Dr. Suyderhoud said he agreed with Dr. Grandy's assessment, but there was a lot of uncertainty in the forecast. He agreed that the forecast for 2012 could be increased slightly, but that the first half of 2012, which is running at a little over 3% growth, means the second half of 2012 needs to be above 5% in order to reach the forecasts of DBEDT and UHERO. He asked if anybody was expecting a strong second half growth rate.

Ms. Niwao said she was not sure if the next two quarters would have growth rates of 6% or 7%. Dr. Grandy said last year's growth rate was above 5% for all four quarters. He said the quarterly growth rates were 6.2%, 5.9%, 5.2%, and 5.5% in 2011. Ms. Maynard asked why it was so slow for the first half of 2012. Dr. Grandy said that was a very good question. Chair Kahle said particularly considering tourism. Ms. Maynard said yes; all of our numbers from the bank look really good. Dr. Suyderhoud said the visitors sector looked really good but that has not spread much to the other sectors. Ms. Maynard agreed.

Ms. Niwao agreed that other sectors are not looking as good.

Dr. Suyderhoud asked if the members wanted his first assessment for the forecast. The Chair said to go ahead. Dr. Suyderhoud said 4.5% for 2012 and 4.85 % for 2013. Ms. Niwao asked in order to get to the 4.5 for 2012, what growth is needed for the rest of the year. Dr. Suyderhoud said the first half is 3.1, to get 4.5 we need 5.5 or better for the remainder of the year.

Ms. Niwao asked why the growth rate dropped so much in the first half of the year. Dr. Grandy said there are frequently fairly large revisions in the personal income numbers, and that we may find some of the numbers will be raised next year. He said he noticed a fairly substantial revision to the quarterly numbers by BEA this last year. He said that, as Mr. Jahanmir just pointed out, they revised the data all the way back to first quarter of 2009.

Dr. Suyderhoud asked Mr. Jahanmir whether they were revised upward or downward. Mr. Jahanmir said all revisions were downward in 2009 and 2010, but upward in 2011. Dr. Suyderhoud said the 2011 increase was significant. Dr. Grandy said a full percentage point annually. Dr. Suyderhoud said the 2009 and 2010 figures got a significant bump down. He said he expected a combination of inflation and underlying growth in the economy stronger than the first half of the year.

Ms. Niwao asked whether personal income includes pension income. Dr. Suyderhoud said personal income includes transfer payments. Ms. Maynard said it does not include capital gains. Ms. Niwao asked if it made a difference when people sell something. Ms. Maynard said not in the personal income numbers. Ms. Niwao said that is the kind of income tax you would expect to see in this year's income; capital gains. She said she was uncertain about things like the fiscal cliff. Dr. Suyderhoud said he would not be surprised if the second half of the year (2012) started to reflect the stronger economy. Ms. Maynard said dividends, interest and rent seem to be components that had the biggest change.

Dr. Grandy offered slightly more conservative numbers than those offered by Dr. Suyderhoud: 4.4% and 4.6% rather than Dr. Suyderhoud's 4.5% and 4.85%. He said they were discussing numbers to be used to set the expenditure ceiling and noted that we have not been close to the expenditure ceiling for some time.

Dr. Suyderhoud said the models are showing growth of from 3% to 5%. He asked Dr. Rousslang what was assumed with regard to rail in the model with construction expenditure. Dr. Rousslang said the model includes no explicit adjustment for rail. Mr. Jahanmir pointed out that the construction expenditure forecast is based on the Council's forecast from the General Fund meeting. Dr. Suyderhoud asked if that is the input the Council members provide. Mr. Jahanmir said yes. Dr. Suyderhoud said he was unsure if the General Fund forecasts include rail, because he does not provide a construction forecast. Dr. Grandy said he did not explicitly adjust for rail in his forecast. Mr. Jahanmir said he thought Dr. Bonham included rail in his forecast.

Dr. Suyderhoud asked Dr. Grandy about his numbers. The Chair pointed to the differences between the forecasts offered by Dr. Suyderhoud and by Dr. Grandy. He asked if they could come together.

Ms. Niwao said she prefers the lower number. She said last year's upward trend for the third and fourth quarters turned down this year for the first two quarters.

Dr. Suyderhoud noted that the contributions for government social insurance jump up and down a lot historically. He asked Mr. Jahanmir if that is basically the social security contributions. Mr. Jahanmir said yes they are the employer and employee social security contributions.

Dr. Suyderhoud said that is not the benefits paid, it is the amount that is paid by people towards social security. Mr. Jahanmir said yes and their employer contributions.

Dr. Suyderhoud asked why the employer contributions went down. Ms. Niwao said the employer contributions is the same but the employee contributions went down and it is expected.

Dr. Suyderhoud said the contributions were low for 2012. Dr. Grandy said yes, but look at the absolute size, it is only about \$4.3 billion, and he noted that the biggest effects come from wages and salaries. Dr. Suyderhoud said those looked pretty robust. Dr. Suyderhoud asked Dr. Rousslang who estimated the numbers for 2012, 2013 in Table 8.

Dr. Rousslang asked Mr. Jahanmir if he constructed the personal income components forecast based on the forecast the Department receives from Anderson Consulting. Mr. Jahanmir said he uses those forecasts for the U.S. to get the forecast for Hawaii.

Dr. Suyderhoud said he is happy to accept Dr. Grandy's number of 4.4% for the first year (2012) but suggested 4.7% for the second year. Dr. Grandy agreed.

Dr. Grandy moved that the growth rates of personal income be 4.4% for CY 2012 and 4.7% for CY2013. The Chair asked for further discussion. There were none.

The Chair asked if someone would second the motion. Ms. Maynard seconded the motion.

The Chair asked if all in favor.

It was moved by Dr. Grandy and seconded by Ms. Maynard that the Total Personal Income forecast for CY2012 be 4.4% and CY2013 be 4.7%. The Chair called for the vote, and the motion passed with the following votes:

Richard F. Kahle, Jr.	Yes
Jack P. Suyderhoud	Yes
Avery A. Aoki	Absent
Carl S. Bonham	Absent
Christopher Grandy	Yes
Kristi L. Maynard	Yes
Marilyn M. Niwao	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, January 3, 2013 at 10am; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

Ms. Niwao asked about the letter from Senator Ige. Chair Kahle said it is tabled. Dr. Grandy said the Council is getting an opinion from the Office of Information Practices.

The Chair asked for a motion to adjourn. Ms. Maynard made a motion to adjourn. Dr. Grandy seconded it.

Ms. Maynard made a motion to adjourn the meeting, seconded by Dr. Grandy. The Chair called for the vote and the motion passed with the following votes:

Richard F. Kahle, Jr.	Yes
Jack P. Suyderhoud	Yes
Avery A. Aoki	Absent
Carl S. Bonham	Absent
Christopher Grandy	Yes
Kristi L. Maynard	Yes
Marilyn M. Niwao	Yes

ADJOURNMENT:

The meeting adjourned at 1:37 p.m.