

## COUNCIL ON REVENUES

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

May 28, 2013  
2:00 p.m.

### **PRESENT:**

#### Council Members:

Richard F. Kahle, Jr. (Chair), Jack P. Suyderhoud (Vice-Chair), Avery Aoki,  
Carl S. Bonham, 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, Gregg Hirohata-Goto,  
Keith Shimada and, Donovan Chun

#### Others:

Wayne Yoshioka, KHPR  
Susan Hirai, Senate Ways and Means  
Calvin Azama, Senate Ways and Means  
Lowell Kalapa, Tax Foundation of Hawaii  
Sharon Kotaka, Budget and Finance  
Marc Takei, House Minority  
Nandana Kalupahana, House Finance  
Titin Sakata, Department of Taxation

### **ABSENT:**

#### Council Member:

Christopher Grandy

### **CALL TO ORDER:**

Chair Kahle called the meeting to order at 2 p.m. with a quorum present.

### **COMMUNICATIONS TO THE COUNCIL:**

Dr. Rousslang said that there were two communications to the Council. The first is House Resolution 93, HD1 requesting that the Department of Taxation convene a working group to evaluate the feasibility of imposing a sales tax on non-essential food items and that the Council be a member. Chair Kahle said the Department of Taxation spoke with the person who introduced the resolution and found out they were going to handle it a different way.

Dr. Suyderhoud asked if the Council had to do anything about the resolution. Chair Kahle said no. Dr. Suyderhoud asked if a motion is needed. Chair Kahle said no and asked for the next communication. Dr. Rousslang said that pursuant to Executive Order No. 1302, the Department of Budget and Finance is forming a "Sequestration Impact Response Team" to provide advice and recommendations on the post-sequestration impacts to Hawaii's economy in governmental services and programs. He said they are asking the Council to submit relevant information.

Chair Kahle asked whether anyone wanted to serve on the response team. Dr. Suyderhoud asked if they wanted information or people. Chair Kahle said the Council 'may appoint a designee'.

Dr. Suyderhoud noted that the letter was written to Chair Kahle. Chair Kahle said yes, and asked for a volunteer. Receiving none, he said he would appoint Dr. Grandy.

Chair Kahle asked the Department of Taxation to prepare the appropriate letter and to inform Dr. Grandy of his appointment. Chair Kahle noted that the Council did not spend money on any programs, but instead had resources furnished to it. He asked Dr. Rousslang to follow-up with the appropriate information.

#### **MINUTES OF THE MEETING OF MARCH 13, 2013:**

Chair Kahle asked the members for comments on the minutes of the March 13<sup>th</sup> meeting. There were no comments. Chair Kahle asked for a motion to accept the minutes.

**It was moved by Ms. Niwao and seconded by Ms. Maynard that the minutes of the March 13, 2013 meeting be accepted. 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>Absent</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

#### **GENERAL FUND REVENUE FORECAST:**

Chair Kahle asked Dr. Suyderhoud to lead off on the discussion of the general fund forecast.

Dr. Suyderhoud said he was surprised by the results of the model. He said his above-the-line result was 7.9% growth. He said the Council had decided on 9.2% above-the-line growth at its last meeting. He said his below-the-line result was for growth of 5.4%. And, at the last meeting they had discussed the issue of the delay in refunds and asked if Dr. Rousslang could bring the Council up-to-date on the issue. Chair Kahle asked if the Department had caught up with processing.

Dr. Rousslang said the Department processed 513,000 individual income tax returns from January to April this year, versus 532,000 for the same period last year. The number of returns processed

with refunds during that period last year was 412,000, versus 400,000 this year. The dollar amount of refunds processed during that period last year was \$270 million, versus \$294 million this year.

Dr. Bonham said that the problem is there are multiple things going on. There is the delay in processing of the refunds at the beginning of the year, there's the attempt to catch up, and then there's everything else (some people filing earlier, some filing later, some not receiving refunds). He asked if the figures referred to the total number of returns, or just those with refunds. Dr. Rousslang said the total number of returns with refunds were the first set of figures that he gave (532,000 processed in 2012 versus 513,000 in 2013). The returns with refunds was 412,000 in 2012 and 400,000 in 2013, where all figures referred to the period from January 1 through April 30.

Ms. Maynard asked if we've got more refunds processing fewer returns. Dr. Rousslang said yes. Chair Kahle asked that the dollar figures be repeated. Dr. Rousslang said \$270 million in 2012 and \$294 million in 2013. He noted that the figures he had given in his email to the members were fiscal year-to-date, which were \$336 million this year and \$345 million last year.

Dr. Bonham said in his opinion it's not an issue anymore, that there was not enough information to conclude that refunds were behind last year. Ms. Niwao asked for clarification that we had fewer returns with refunds processed this year, and yet we had more refunds being given. She noted that the members had expected to have more refunds this year because of the photovoltaic (PV) credits.

Dr. Bonham asked about the difference in refunds. Dr. Rousslang said refunds this year were higher by \$24 million for the period January through April, but that fiscal year-to-date we were \$9 million less than last year. Ms. Niwao asked if April returns would be processed in May or June. Ms. Maynard asked if the State first processes those returns that have checks in them vs. refunds. Dr. Rousslang said no, the checks are taken out and cashed and that processing of returns was a separate issue. But before the refunds can be given, the return must be processed, which is why there is a delay in refunds.

Dr. Suyderhoud clarified that the question was how much refunds would differ this year from last year. Dr. Rousslang noted that if the refunds came in about where they did last year, then it wouldn't be an issue. He said he thought the difference in refunds of \$24 million for January through April of this year as compared with last year would be a reasonable estimate for the effect of the renewable energy.

Dr. Suyderhoud asked where we were so far this year in terms of the monthly collections. Chair Kahle said 8.4% above last year. Dr. Bonham asked if the TAT (Transient Accommodations Tax) has already started going into the general fund. Dr. Rousslang said yes, as it did last year. Ms. Niwao noted that people were filing their taxes later this year because the computer software was not up and running for tax practitioners owing to the change in the tax laws on January 1st. Therefore, there was a delay this year for a lot of people.

Dr. Bonham noted that there were numerous issues affecting refunds this year, but that most of the effects should already have shown up in the data and he didn't think the members had enough information to adjust their estimate based on further possible delays in refund processing.

Ms. Maynard asked if the \$90 million adjustment for the energy credit was still considered to be a good estimate. Dr. Rousslang said he deferred to DBEDT (Department of Business, Economic Development & Tourism). He said we don't know how much of the credit has been claimed in FY 2013. Dr. Bonham said he thought it was about the best estimate available. He asked how we would get to 6.7% growth for the year. Ms. Niwao said there would be more refunds in May and June, unless there was some offsetting factor. Dr. Bonham said he filed in March and got his refund in April. He noted that people with a tax credit had an incentive to file early. He said there was that incentive, versus people filing on the deadline or even filing with extensions. Ms. Niwao noted that many people filed in April this year. She asked if there were any other below-the-line adjustments, such as the Transient Accommodations Tax adjustments. Ms. Maynard asked if the 8.4% growth accounted for the \$24 million in extra refunds this year. Dr. Suyderhoud said yes. Dr. Suyderhoud said that figure should be compared with the Council's forecast of 6.7%. He asked if anybody wanted to change the forecast. Ms. Niwao suggested 7%.

Dr. Bonham asked Dr. Rousslang if he had done calculations on what revenue growth would need to be to get 6.7% growth. Dr. Rousslang said yes, we would need \$475 million a month for the last two months. He said last year was \$478 million per month for the last two months.

Dr. Suyderhoud noted that current collections were coming in at 8.4 % growth. Ms. Maynard asked if she had understood correctly that the amount collected in the last two months would need to match that in the last two months of last year to reach 6.7% growth. Dr. Rousslang said yes, and noted that the trajectory of collections last year was not typical. Dr. Suyderhoud asked what happened last year. Dr. Rousslang said collections were relatively slow, but then really spiked in the last two months. Dr. Suyderhoud said yes, the May/June surprise. Chair Kahle asked if part of the surprise wasn't due to estimated taxes being filed late. He said that Ms. Niwao walked through some things that she was worried about, and one of them was higher estimated taxes being paid.

Ms. Niwao said people with very high income actually triggered their capital gains last year due to anticipated tax increases in 2013. She thought that April 15 would already reflect taxes paid for those additional gains. She said there are also refunds for the photovoltaic systems that were installed at the end of the year. She stated that some taxpayers could pay zero tax and yet get the refund from the tax credits because of the State tax laws.

Dr. Suyderhoud did not think that changing the forecast from 6.7% to 7.0% would be worth the effort. Dr. Bonham did not think that there are any real reasons for the Council to change the forecast at all. He did not think that the Council had more information since the last forecast to justify the change. Mr. Aoki agreed.

Chair Kahle asked Dr. Suyderhoud if he wanted to make a motion. Dr. Suyderhoud said yes and moved to keep the forecast for 2013 the same.

**Dr. Suyderhoud made a motion that the general fund tax revenues growth rate remains the same at 6.7% for FY 2013. Mr. Aoki seconded. 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>Absent</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

Dr. Suyderhoud asked if anybody wanted to discuss the forecasts for FYs 2014 and 2015. Ms. Niwao asked if the below-the-line adjustments to the forecasts account for the tax law changes that recently passed by the Legislature. Chair Kahle said no. Dr. Rousslang said they would not be included until they are enacted.

Dr. Bonham said he would be inclined to raise the 2014 forecast to 8%. Mr. Aoki said 2014 would be construction-driven.

Dr. Suyderhoud asked Dr. Bonham if he proposed changing the below-the-line forecast from 7.3% to 8.0% in 2014 and from 6.8% to 7.0% in 2015, and the reason for the changes. Dr. Bonham said he thought that the Council's forecast for construction was too low. He said in calendar 2012, private building permits grew almost 40%, which is about \$700 million more in private building permits than in the previous year. He said their forecast for this year would show private building permits up another 30%, and for calendar year 2013, almost doubled what it was in calendar year 2011.

Ms. Niwao asked how much of the activities were for photovoltaic installations. Dr. Bonham said a lot. Ms. Maynard asked about the dollar amount. Dr. Bonham said these are dollar figures, but in real terms (deflated dollars) for 2013. The Council's forecast was \$4.2 billion, of which about \$1.2 billion was probably PV. For 2014, the Council forecast another 20% growth to \$5 billion in real terms. He said that included government contracts plus all the private activities.

Ms. Niwao said the Council's current construction forecast is 14.6% for FY 2013 and 11.5% for FY 2014.

The Council discussed the visitor industry and the potential impact of a lower yen value on visitor spending from Japan.

Dr. Suyderhoud said we are still deciding on what to do with the 2014 forecast. He said he was good with the 7% below-the-line forecast. Ms. Niwao said that she would like to see 7% below-the-line without the pending tax bills that were passed. She said the Council had no idea about their impacts on revenue. Dr. Bonham said they do not know which bills would be signed and that the Council's policy has always been not to include the effects of bills until they were signed into law.

Dr. Suyderhoud asked Dr. Rousslang about the Transient Accommodation Tax distributions.

Dr. Rousslang said the annual cap to the tourism special fund had been raised to \$82 million from \$71 million and made permanent and that the county caps were kept and made permanent if the legislation is signed.

Dr. Suyderhoud said the forecast was at 5.6% below-the-line for 2014 and they were suggesting 8.0%. Dr. Bonham asked about the out years and that he was not inclined to change the out years.

Dr. Rousslang said some of the TAT adjustment is above-the-line and some is below-the-line. He said the caps are below-the-line and the adjustment for the additional TAT (at 9.25% instead of 7.25%) is above-the-line. Dr. Bonham said he was not inclined to change the forecasts for out years until they have more information about the tax law changes.

Dr. Suyderhoud asked when the Council is supposed to meet again. Ms. Guitguiten said the total personal income reporting deadline is August 5 and the next general fund meeting reporting deadline is September 10. Dr. Suyderhoud said they have plenty of time to decide on the forecast for the out years.

Dr. Bonham moved that the Council change the below-the-line forecast for 2014 to 8%, and for 2015 to 7%. Dr. Suyderhoud asked if the Council wanted to leave the out years as they are. Dr. Bonham said yes. Dr. Suyderhoud seconded the motion.

**Dr. Bonham moved that the general fund tax revenues growth rate be 8% for FY 2014 and 7% for FY 2015 (below-the-line). Dr. Suyderhoud 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>Absent</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

Dr. Suyderhoud moved that for 2016 and beyond, the above-the-line forecasts from the Council's March 13, 2013 meeting be maintained. Chair Kahle clarified that the forecasts were 3.7%, 4.8%, 4.8%, and 4.5%. Mr. Aoki seconded the motion. Chair Kahle asked if there were any further discussion. There was none.

**Dr. Suyderhoud made a motion that the (above-the-line) general fund tax revenues growth rates for the out years remain the same: FY 2016 (3.7%); FY 2017 (4.8%); FY 2018 (4.8%); and, FY 2019 (4.5%). Mr. Aoki 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>Absent</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

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

Mr. Hirohata-Goto provided the Council with revenue updates for Budget & Finance.

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

**Significant Changes from March 2013 Report**

**General Fund Non-Tax Revenues**

There were no significant changes.

**Special Tax Revenues**

**Environmental Response Tax** - the decreases in FYs 14-19 are reflective of the 2013 Legislature not passing a proposed measure to increase the barrel tax (Department of Business, Economic Development and Tourism).

**Special Fund Non-Tax Revenues**

**Non-Revenue Receipts** - the increases in FYs 13-19 reflect the Tobacco Master Settlement Agreement transfers for the State Children's Health Insurance Program (Department of Human Services (DHS)) which were previously not being reported.

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

**Federal Grants** - the increases in FYs 13 and 14 reflect increases in federal funding for the new Medical Eligibility System in the General Support for Health Care Payments Program (DHS).

Chair Kahle asked that the Council move to accept the B&F report. The Council voted an all in favor to accept the B&F report as submitted.

**Ms. Niwao moved to accept the B&F report as submitted and, Ms. Maynard 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>Absent</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Marilyn M. Niwao</b>	<b>Yes</b>

**NEXT MEETING:**

The Council's next meeting is tentatively scheduled for Thursday, August 1, 2013 at 2:00 pm, but the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310/313 for the meeting.

**ADJOURNMENT:**

The meeting adjourned at 2:42 p.m.