

COUNCIL ON REVENUES

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

Thursday, July 31, 2014
2:00 p.m.

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,
Elizabeth P. Cambra, Jack P. Suyderhoud and, Kristi L. Maynard

Staff Members:

Department of Taxation (DOTAX): Donald Rousslang and J Guitguiten

Department of Budget and Finance (B&F): Terri Ohta, Neal Miyahira and
Keith Shimada

Others:

Sharon Kotaka, Budget and Finance
Laurel Johnston, University of Hawaii
Nandana Kalupahana, House Finance
Puna Chai, University of Hawaii
Dan Purcell, Member of the Public
Val Kunitomo, Attorney General Office (AG)
Marc Takei, House Minority
Eugene Tian, DBEDT-READ

ABSENT:

Council Member:
Christopher Grandy

CALL TO ORDER:

The Chair called the meeting to order at 2:05 p.m. A quorum was present.

COMMUNICATIONS TO THE COUNCIL:

Chair Kawafuchi asked if there was any communication to the Council. Dr. Rousslang said there was none. Mr. Purcell asked if the public comments were part of the Communications to the Council. Chair Kawafuchi asked Dr. Rousslang if communications to the Council need to be in

Minutes of the Council on Revenues Meeting

Thursday, July 31, 2014

Page 2

writing. Dr. Rousslang introduced the AG representative, Ms. Val Kunimoto and referred the question to her. Ms. Kunimoto said that this was the first (Council) meeting she had attended and she was not sure what the Council had taken in the past, but the Chair could take public comments at that time on any items on the agenda or he could postpone them to another time. Chair Kawafuchi asked if there were any public comments, but he said that if they go on too long, they will be postponed.

Mr. Purcell said his comments were very brief. He said he wanted to extend his sincere apologies to the Outrigger representative who apparently made some correct revenue forecasts. He said something had "gone amok" on Maui and that made her forecast look bad. He said he understood that something is at the Attorney General's Office on the miscalculation of tourism figures for Maui. He said it was absolutely horrific in an election year, where an overstatement of visitor numbers would help the incumbent and an understatement would hurt the incumbent. He said it is absolutely unspeakable that they would be off so far.

Chair Kawafuchi asked who provided the data. Mr. Purcell said he was hoping someone would address that. Dr. Bonham asked if he was talking about the revision of the visitor statistics. Mr. Purcell said that was right. Dr. Bonham said that is the Hawaii Tourism Authority (HTA) data. Mr. Purcell said that was right. Dr. Bonham agreed that the revision was significant. Mr. Purcell said he was not blaming it on the members, just making them aware of it. Dr. Bonham said they had revised out much of the decline that happened last fall, which might have led the Council to forecast even more revenues and to be even more wrong. Chair Kawafuchi said the actual was lower than the forecast. Dr. Bonham asked Dr. Tian if they actually revised the figures up last year. Dr. Tian said no. He said there were revisions. One was the reduction for the visitors count for 2013. He said the reason was that when United and Continental Airlines were combined, the new person included transient visitors (those who only stayed at the airport and then continued on to international destinations), in the visitors count. Chair Kawafuchi said the bottom line is that it over-forecast the actual visitors in 2013. Dr. Tian said yes, but that it reduced the 2014 figure. Chair Kawafuchi asked what the discrepancy was. Dr. Rousslang said it was 8,003,000 instead of 8,064,000. Chair Kawafuchi said, so it was about 1% for the year. Dr. Rousslang said yes. Dr. Tian said another problem was that HTA hired a contractor to do the visitor survey on Maui, but this person did not actually go to the field to do the survey for several months, so then HTA is correcting these numbers. Chair Kawafuchi asked how long that had been going on. Dr. Tian said about 10 months. Chair Kawafuchi asked if it was during the 10 months of 2013. Dr. Tian said half of the months were in 2013 and half in 2014. Chair Kawafuchi asked how much they were off in terms of visitors on Maui as well as their spending. He asked if it was too early to know at this point. Dr. Tian said he did not know the breakdown between what was due to the 2013 revision from United Airlines and what was due to the faulty survey.

Dr. Suyderhoud asked if what they are publishing now is the corrected data. Dr. Tian said yes. Chair Kawafuchi asked from what point is it was corrected. Dr. Tian said from 2013. Ms. Maynard asked if the mistake was approximately \$100 million. She said that was in the news release. Chair Kawafuchi said yes, it was about \$100 million too low and he wondered how that

Minutes of the Council on Revenues Meeting

Thursday, July 31, 2014

Page 3

translated into general fund revenues. Dr. Suyderhoud asked if the Council used visitor expenditures in any of its formulas. He said they use visitor arrivals not expenditures. Dr. Rousslang said some of the equations might. Mr. Purcell thanked the Council for addressing the issue.

Chair Kawafuchi asked if there were any other communication to the Council. Ms. Niwao asked with respect to the statistics, how could they retroactively resurvey. She said when people are setting up these statistics and extrapolating numbers, they have to have some kind of a statistical guideline. She wondered if the sampling was set up properly.

Dr. Tian said there is no way they could go back and redo the survey. Ms. Niwao asked how they could say the faulty survey was \$100 million short. Dr. Bonham said by using assumptions. Dr. Tian said there was no way to do it accurately, but that they were using the months for 2013. Chair Kawafuchi said going back and correcting is not as good as if they had done it correctly the first time. Ms. Niwao agreed. She said extrapolating from the prior year is not a good method. Dr. Tian said it was not from the prior year, but the first 5 months of the same year. Ms. Niwao said the weather and other things changed. Dr. Tian said there were some adjustments for the hotels for the first 5 months. He said they made adjustments for the hotel room rates since they are different during the last 7 months of the year. Chair Kawafuchi asked how much visitor spending was in the whole year for the State--the effect of miscounting \$100 million. Dr. Bonham said the total was about \$14.3 billion. Chair Kawafuchi said if it was less than 1% the impact on the general fund would be even smaller and therefore not be material.

Chair Kawafuchi asked for any other communications. There were none.

MINUTES OF THE MEETING OF MAY 29, 2014:

Chair Kawafuchi called for a motion to approve the minutes.

It was moved by Ms. Niwao and seconded by Ms. Cambra that the minutes of the May 29th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Christopher Grandy	Absent
Elizabeth P. Cambra	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

Thursday, July 31, 2014

Page 4

ADJUSTMENT OF GENERAL FUND FORECASTS TO REFLECT ACTUAL COLLECTIONS FOR FY2014:

Chair Kawafuchi asked Dr. Rousslang why the "adjustment to the general fund forecast to reflect the actual collections for 2014" was on the agenda in the present meeting and not the next general fund meeting. Dr. Rousslang said it is because the Council's growth forecast is based on percentages and the actual 2014 general fund revenue came in lower than the Council anticipated. He said the under forecast would not affect the forecast for 2015 through 2020, but in the past the Council had decided, in some cases, to rebase the forecast to adjust all the future estimates. He said in other cases the Council decided not to rebase. Chair Kawafuchi said his question was why they were doing it at a personal income forecast meeting a week or so before an election, as opposed to the next general fund meeting. Dr. Rousslang said they had a request from B&F (Budget & Finance). Dr. Bonham said the same thing happened last year. Chair Kawafuchi asked how they responded. Dr. Bonham said last year the Council said they were not going to rebase. He said they waited until their next general fund meeting. Dr. Suyderhoud asked when they rebased the forecast, did they rebase it at the general fund meeting or at a personal income meeting. Dr. Rousslang said he believed it was at a personal income meeting.

Chair Kawafuchi said the present meeting is titled the personal income forecast meeting. Dr. Rousslang said it is a decision made by the Council and is not directly related to the personal income forecast. Dr. Suyderhoud said his preference was to leave the question of rebasing until the general fund forecast. Chair Kawafuchi agreed, but asked if there was any further discussion. Ms. Maynard said her concern was that in every meeting they had to revise the forecast downward and that it really surprised her that tax revenues were significantly down from their forecast. Chair Kawafuchi said the general fund was down 1.8 based on the preliminary report. Dr. Suyderhoud said he preferred to defer the discussion until they do the general fund forecast to deal with the issue of whether to rebase the forecast. Ms. Maynard asked if there was any consequence of doing it as opposed to waiting. Chair Kawafuchi said he did not know. Ms. Maynard asked if there was any impact on other decision-making that was going on. Ms. Niwao said it was just a budget matter. Dr. Bonham said it was budget planning. Ms. Maynard asked if the budget would be prepared differently if they rebased the forecast. Ms. Niwao said she thought so. Dr. Bonham said if they do not rebase, the planners would take the higher numbers for future years. Dr. Suyderhoud suggested asking a representative from B&F, who requested the rebasing. Chair Kawafuchi asked Mr. Miyahira from B&F why it was important to rebase now rather than at the next general fund meeting. Mr. Miyahira said right now they were doing two things: 1) they were doing the policies for budget execution for fiscal year 2015; and, 2) they were preparing their budget. He said they were waiting for the Council's September numbers for budget execution. Chair Kawafuchi asked why there was not a formal request made to rebase as opposed to just putting it on the agenda. He asked why the request came in the form of a suggestion as opposed to a formal request if B&F needed the data to sell bonds. Ms. Niwao said she thought they did it last year. Chair Kawafuchi said he had not seen a letter. Dr. Rousslang said this was not a request to rebase, but a request for a decision on whether or not they wanted to rebase. Chair Kawafuchi said he thought it was unusual to have to do it now when they were going to have a general fund meeting within 5 weeks. Dr. Bonham said the easy way to approach this was to simply vote on it. He said they needed a motion. Dr. Suyderhoud

Minutes of the Council on Revenues Meeting

Thursday, July 31, 2014

Page 5

said he would like to make a motion that they defer the decision to rebase the future forecasts to their September general fund meeting. Dr. Bonham seconded the motion. Chair Kawafuchi asked for a vote. They all agreed. Chair Kawafuchi asked Mr. Purcell if he had a comment. Mr. Purcell asked if there was any more discussion on the issue or if they had already voted on it. Chair Kawafuchi said they had decided to postpone making any changes to the general fund forecasts. Mr. Purcell said he thought the present meeting was a revenue forecasting meeting. He said even one of their members thought she was here to discuss revenues. He said he made the comment at the last meeting that the agenda is so vague and they leave out action items and that people really do not know what to expect. He said he did not see anything in the agenda that said the purpose of the meeting. He said the published agenda did not really tell you it was on some item other than what you would normally cover.

Dr. Suyderhoud said throughout the year, the Council has 4 revenue forecasting meetings and 2 total personal income (TPI) forecasting meetings and that the present meeting was one of the latter. Dr. Bonham said item number V of the agenda says total personal income forecasting and general fund meetings would have the general fund forecasting on the agenda. Mr. Purcell said maybe the agenda could be a little more specific to give the average person reading it a better idea of the purpose of the meeting. Chair Kawafuchi asked Dr. Rousslang to put something in the title to indicate if it is a general fund forecast or personal income forecast.

A motion was made by Dr. Suyderhoud and seconded by Dr. Bonham that the request by Budget & Finance to rebase be deferred to the September general fund meeting. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Christopher Grandy	Absent
Elizabeth P. Cambra	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

TOTAL PERSONAL INCOME FORECAST:

Next, the Council discussed the total personal income forecast. Dr. Suyderhoud said the growth for the first quarter of 2014 was 3.9%. He said last October, when the Council forecast was 3.1%, it actually came out to be 2.9%. Ms. Maynard asked if the numbers were adjusted for inflation. Dr. Bonham said no, they are all nominal calendar year forecasts. Dr. Suyderhoud said at the present time according to their July meeting, the total personal income forecasts that they used in creating the model forecast for general fund revenues were at 3.8% and 4.75%. Dr. Rousslang said those were the averages of all independent forecasts from the last Council on Revenues general fund meeting in May 2014.

Minutes of the Council on Revenues Meeting

Thursday, July 31, 2014

Page 6

Dr. Bonham said he did not see any particular reason to change those numbers. Dr. Suyderhoud asked if he meant the 4.0% and the 4.7%. Dr. Bonham said that UHERO (UH Economic Research Organization) had revised its personal income forecast down mostly because the construction numbers were declining. He said buildings were going up, but the activity was not showing up in some of the data, particularly in the construction job count or the construction tax base. Chair Kawafuchi asked why that was. Dr. Bonham said he had several theories. He said some of it is related due to the decline in PV (Photovoltaic) installations, which is pulling down the construction job numbers. He said some of it is probably related to timing of projects. He said when big projects end, people from those jobs are not finding other jobs. He said the construction jobs data is quite a bit weaker than the construction income data for the 1st quarter. He said it was likely that the data will be revised up. He said the tax base data is similar to the story for solar. He said the permits data for last year still came in relatively strong and a part of the decline this year was due to the decline in solar permits. He said the permitting data for the first half of this year has been weak. He said they add up the private and the government contracts into what they call total building authorizations. He said in 2012 that number grew 50%, and in 2013 it grew 14.5%. He said their forecast for 2014 is going to be around the same number, but the contracting tax base grew 20% in 2012 and only 4.6% in 2013. Chair Kawafuchi asked what were the expectations for next year. Dr. Bonham said their (UHERO's) forecast is going to be around 4% for calendar year 2014, just because the year started off so poorly. The Chair asked about the next year. Dr. Bonham said they are looking at about 20% for the following year.

Dr. Suyderhoud said Dr. Bonham had said he was happy with forecasts of 4% and 4.7% for total personal income growth and asked if he saw any reason to change them.

Dr. Bonham said the purpose of the personal income forecast is different from a revenue forecast. He said the range of forecast errors is plus or minus a percent or so. Dr. Suyderhoud asked what the 2nd quarter of 2014 would be in terms of personal income. Dr. Bonham said the data is only through May. Dr. Bonham said they had one quarter of data showing income grew by 3.9% in the first quarter of the year, and the withholding tax collections are up 5.25%, partly because people are paying more taxes and not because they are earning more income. Ms. Niwao agreed. Dr. Suyderhoud said he was still happy with 4% and 4.7%. The Chair asked Ms. Niwao if she had a comment and if she was going to vote or abstain. Ms. Niwao said she knew that raises for government workers were nowhere at 4%, so she would vote for 4%. The Chair said it is unanimous then.

A motion was made by Dr. Suyderhoud and seconded by Ms. Maynard that the Total Personal Income forecast for CY2014 be 4.0% and CY2015 be 4.7%. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Christopher Grandy	Absent

Minutes of the Council on Revenues Meeting

Thursday, July 31, 2014

Page 7

Elizabeth P. Cambra	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, September 4, 2014 at 2pm; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

ADJOURNMENT:

The meeting adjourned at 2:58 p.m.