

COUNCIL ON REVENUES

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

Monday, November 3, 2014
10 a.m.

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Christopher Grandy, 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, Gregg Hirohata-Goto,
Donovan Chun and, Keith Shimada

Others:

Dan Purcell, Member of the Public
Nandana Kalupahana, House Finance
Marc Takei, House Minority
Sharon Kotaka, Budget and Finance

ABSENT:

Council Members:

Carl S. Bonham
Elizabeth P. Cambra
Marilyn Niwao

CALL TO ORDER:

The Chair called the meeting to order at 10 a.m. A quorum was present.

COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:

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

MINUTES OF THE MEETING OF SEPTEMBER 4, 2014:

Chair Kawafuchi called for a motion to approve the minutes.

It was moved by Ms. Maynard and seconded by Dr. Grandy that the minutes of the September 4th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

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

DISCUSSION AND VOTE ON PROCEDURES FOR ADJUSTING THE COUNCIL'S GENERAL FUND REVENUE FORECAST WHEN THE ACTUAL REVENUE COLLECTIONS FOR THE CURRENT FISCAL YEAR BECOME AVAILABLE AT THE CLOSE OF THE FISCAL YEAR:

Chair Kawafuchi said that Dr. Grandy would provide language on the procedures for adjusting the Council's General Fund (GF) forecast when the actual collections became available after the Council's last GF meeting for the fiscal year. Dr. Grandy said the language was sent to the members in advance. He said the idea is to give a forecast based on actual collections for entities that need it before the Council meets again. He said the members could alter the forecast at the next regular meeting to forecast GF revenues.

Chair Kawafuchi asked if the procedure would work automatically, instead of having the Council adjust the GF forecast at a meeting to forecast Total Personal Income (TPI). Dr. Grandy said yes. The procedure would provide a calculation to apply the growth rates that the members had approved in their most recent meeting to the actual GF level. Chair Kawafuchi asked if there was any discussion over the proposed language. Ms. Maynard said the question is whether the procedure would be more accurate than using the Council's dollar forecast from its last GF meeting. She said it would depend on why the forecast was off. She said if a one-time big adjustment happened in June that was reversed in July, perhaps the dollar forecast would be more accurate. Dr. Suyderhoud said the exposure time was from the July TPI meeting until the September GF meeting, a period of at most 6 weeks. Chair Kawafuchi asked for the reporting dates. Ms. Guitguiten provided the Chair with the list of reporting dates, August 5 for TPI and September 10 for GF. Ms. Maynard asked when the actual GF numbers came out. Dr. Rousslang said it varied, because some of the numbers come from other agencies and that a final number might not come until September, sometimes later. He said requests for an updated GF forecast after the Council's last meeting for the fiscal year came from Budget and Finance (B&F). Chair Kawafuchi noted that they needed it to present their financial plan when issuing bonds and other things. He said he was a little bit reluctant to adjust the GF forecast at the last TPI meeting, because there were political considerations. Dr. Grandy said the issue seems to come up regularly. Ms. Maynard agreed. Dr. Grandy said the Council sometimes anticipated and approved the adjustment at its TPI meeting, and sometimes not. He said it seemed better to

come up with an agreed method rather than having to make the decision each year. Chair Kawafuchi noted that no consistent policy was followed in the past. He said the proposed new method would provide a standing policy, but one that could be changed if, as Ms. Maynard mentioned, there was a big adjustment that would flip in the next year. Dr. Grandy agreed. Dr. Suyderhoud moved to accept the proposed language. Ms. Maynard seconded the motion. Chair Kawafuchi asked for a vote. The vote was unanimous.

'The Council on Revenues (COR) expresses its General Fund (GF) tax revenue forecast for each fiscal year in the budget period by applying a forecast annual growth rate to the level (expressed in dollars) of total GF tax revenue in the previous fiscal year. The Council specifies that whenever the actual amount of the GF tax revenues for a fiscal year differs from the forecast amount for that year, that the forecast for the ensuing years in the budget period be calculated by applying the most recent Council's growth rate forecasts to the actual level of the GF tax revenues for the fiscal year and the corresponding implied levels of ensuing years. The GF forecast derived in this fashion may be used as the official Council on Revenues forecast until such time as the Council on Revenues revises its forecast.'

A motion was made by Dr. Suyderhoud and seconded by Ms. Maynard to approve Dr. Grandy's language (in quotes above). The Chair called for the vote, and the motion passed with the following votes:

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

Mr. Purcell asked for (and received) a copy of the proposed language. Chair Kawafuchi said the next item on the agenda is discussion and vote on personal income forecast for calendar year 2014.

TOTAL PERSONAL INCOME FORECAST:

Next, the Council discussed the TPI forecast.

Dr. Suyderhoud said the TPI forecast was in nominal dollars for the calendar year. He noted that for the first half of the calendar year, TPI growth was about 3.7%, which includes the effects of inflation.

Chair Kawafuchi noted that there had been a dramatic drop in oil prices. Dr. Suyderhoud agreed, but said he did not think it would have an adverse on personal income, although he noted that it might reduce inflation. He said his forecasts for inflation were 1.5% for calendar year (CY)

2014 and 2% for CY 2015. He said the number was positively influenced by property rents and that it was just a matter of time before CPI (Consumer Price Index) would pick up the effects of increased rents. He said his forecast for TPI growth was 4.1% for CY 2014 and 4.5% for CY 2015. Ms. Maynard said she thought that forecast was optimistic. Dr. Suyderhoud said he saw internal momentum in the economy, with construction picking up. Ms. Maynard asked how the extremely weak yen would affect TPI. Chair Kawafuchi said there were also some dramatic changes in Japanese tax policies.

Dr. Suyderhoud said he had talked to people in the Hawaii Tourism Authority and they said that the exchange rate doesn't affect the arrivals as much as it does visitor spending. But he added that most of the members were not forecasting much growth from visitor spending anyway. Chair Kawafuchi asked if capacity constraints were limiting growth. Dr. Suyderhoud said it was a combination of capacity limitations, airfares, and the strong dollar vs. the yen, the Canadian dollar and the Aussie dollar. Dr. Grandy noted that growth rates in visitor expenditures for the last several months have been on the order of 1% to 1.5%. Chair Kawafuchi asked about growth in Chinese tourists. Dr. Suyderhoud said Chinese tourism was a growth market, but that it was only about one-tenth of Japanese tourism -- about 1.3 million Japanese tourists versus about 130 thousand to 150 thousand Chinese tourists. Chair Kawafuchi noted that they had to get a visa, but that it seems like we mistakenly assume that everyone knows about Hawaii, whereas that is not true in parts of China, particularly in Beijing and Shanghai. Dr. Suyderhoud asked if they had seen (the television show) 5-0? Chair Kawafuchi said no, but that he thought that if Hawaii had a great hit movie, it would be good for bringing in Chinese tourists. He said something like that happened with Chinese tourism to Mauritius.

Dr. Suyderhoud noted that the visitor count was weak in the first half of 2014, but has gotten stronger in the second half of 2014. Chair Kawafuchi asked where the strength was coming from. Dr. Suyderhoud said mostly from domestic (U.S.) tourists from the West and East coasts. Ms. Maynard asked again about the effect of the weak yen. Dr. Suyderhoud said there was some inelasticity in tourism demand.

Dr. Grandy noted that the recent BEA (US Bureau of Economic Analysis) revision to the TPI series dropped the recent growth rates from what they were for the year ending with the most recent quarter. He said growth in nominal income for the year ending with the second quarter of 2014 was 2.91%, whereas it was 2.59% in the quarter before that and 2.43% in the quarter before that. Dr. Suyderhoud noted that growth in the October/December quarter of 2013 was low. Chair Kawafuchi noted that the trend was upward. Dr. Grandy said the figures led him to conclude that TPI growth would be something like 3% for 2014. He said the growth in 2015 might be 3% as well.

Chair Kawafuchi asked Ms. Maynard for her opinion. He said Dr. Suyderhoud had 4.1% growth for the current calendar year and 4.5% for next year, whereas Dr. Grandy had growth of 3% in each year. Ms. Maynard said she leaned toward the 3% growth estimates. She said the strength of the US economy could have a favorable effect, because Hawaii relied strongly on tourism from mainland travelers especially from the West Coast. Dr. Suyderhoud said that construction is finally starting to accelerate. He said the data on construction were distorted in the past by the rise and fall of the Photovoltaic (PV) installations, but that effect has pretty much passed. He

asked what the other members thought about construction and how it would contribute to the economy. Chair Kawafuchi said there seemed to be a lot of projects in process. Dr. Suyderhoud said that media accounts and casual observation could sometimes be misleading. Ms. Maynard said she knew some architects who said a lot of general contractors are desperately seeking work, despite the big projects we are seeing and that there are a lot of people who are underemployed in the industry, which never recovered to its former peak. Dr. Suyderhoud agreed and said single family construction was harder to see. He asked about rail construction. He said he had heard about building the stations and increasing the labor force by 1,400 to 4,000 construction workers. Dr. Grandy agreed that at some point the effects of rail construction were bound to happen. Dr. Suyderhoud agreed, but said we have been waiting a long time for the effects. Dr. Grandy said the most recent contracting tax base available was for July and that for the year ending that month, construction was down by 6.9%. Chair Kawafuchi noted that the subcontractor deduction had been reinstated in July of 2013. Dr. Rousslang confirmed that the subcontractor deduction came back after the end of FY 2013. Chair Kawafuchi asked how much the tax base would shrink with the reinstatement of the sub-contract deduction. Dr. Rousslang said the size of the effect was very uncertain. Dr. Grandy said the construction base has been going down after the peak, which he attributed to PV installations. Dr. Suyderhoud agreed that PV installations were part of the story. Chair Kawafuchi asked if the effect of the PV installations was that great. Dr. Suyderhoud said the year-over-year growth rates got big boosts in 2012 and 2013, which he thought were largely due to PV construction, after which the growth rates drop off and then turn negative.

Dr. Grandy noted that the purpose of the meeting was to forecast TPI for the purpose of calculating the expenditure ceiling, but that the expenditure ceiling was so far above the current expenditures that the ceiling would not be hit. Dr. Suyderhoud and Chair Kawafuchi agreed.

Chair Kawafuchi asked if there was a consensus about the TPI growth rate forecast. Dr. Suyderhoud said he thought 3% was too low. Ms. Maynard said growth of 3.5% was possible. Dr. Suyderhoud asked if that growth rate forecast was for FY 2014 and FY 2015. Ms. Maynard said yes. Chair Kawafuchi asked for a motion. Ms. Maynard made the motion and Dr. Grandy seconded the motion.

Dr. Suyderhoud said the connection to the general fund forecasts seems to have disappeared.

A motion was made by Ms. Maynard and seconded by Dr. Grandy that the Total Personal Income forecast for CY2014 be 3.5%. The Chair called for the vote, and the motion passed with the following votes:

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

A motion was made by Ms. Maynard and seconded by Dr. Grandy that the Total Personal Income forecast for CY2015 be 3.5%. The Chair called for the vote, and the motion passed with the following votes:

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

NEXT MEETING:

The Council tentatively agreed to meet on Tuesday, January 6, 2015 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 10:28 a.m.