

## COUNCIL ON REVENUES

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

Tuesday, January 6, 2015  
2 p.m.

### **PRESENT:**

#### Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham, Christopher Grandy, 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, Gregg Hirohata-Goto, Neal Miyahira, Donovan Chun, and Keith Shimada

#### Others:

Tim Sutton, Senate Minority Office  
Paul Harleman, Senate Minority Office  
Maria Calderon, Senate Minority Office  
Paul Young, HAH  
Dan Purcell, Member of the Public  
Titin Sakata, Department of Taxation  
Maria Zielinski, Department of Taxation  
Cory Lum, Honolulu Civil Beat  
Puna Na'auao, University of Hawaii  
Diana Arakaki, HART  
Mike McGrane, HART  
Nandana Kalupahana, House Finance  
BJ Reyes, Star-Advertiser  
Richard Borreca, Star-Advertiser  
Randy Hiyoto, Finance  
Kate Stanley, Office of Senator Jill Tokuda  
Angely Andrade Vallorta, Senate Ways and Means  
Vanessa Patterson, Senate Ways and Means  
Nicolas Ayabe, Senate Ways and Means

### **CALL TO ORDER:**

Chair Kawafuchi called the meeting to order at 2:02pm. A quorum was present.

**COMMUNICATIONS TO THE COUNCIL:**

Chair Kawafuchi asked if there were any public comments or communications to the Council. There were none.

**MINUTES OF THE MEETING OF NOVEMBER 3, 2014:**

Chair Kawafuchi called for a motion to approve the minutes. The votes were 5 to 2 (Dr. Bonham and Ms. Niwao, who were absent at the last meeting, abstained).

**It was moved by Ms. Maynard and seconded by Dr. Suyderhoud that the minutes of the November 3<sup>rd</sup> meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Abstain</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Abstain</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST:**

Next, the Council discussed the general fund revenue forecast for the current fiscal year 2015. Chair Kawafuchi noted that the forecast was 3.5% as of the last meeting. Dr. Suyderhoud asked for a reference point in the hand-out material. Dr. Rousslang suggested table 1, page 1 of the workbook. Chair Kawafuchi noted that the forecasts were 3.5% for the current fiscal year and 5.5% for each of the out years. He asked Dr. Rousslang to tell the members what the models showed. Dr. Rousslang said that model 1 predicted growth of 4.9% for 2015 and 6.2% for 2016, that the UCLA model predicted 5.3% for 2015 and 6.7% for 2016, and that the single equation model predicted 3.7% for 2015 and 6.5% for 2016. Chair Kawafuchi asked for the cause of differences in the models. Dr. Rousslang said that the original model has a separate equation for every tax type, whereas the UCLA model has separate equations only for the corporate income tax, the individual income tax and the GET, and the single equation model has only one equation for all tax types. Chair Kawafuchi asked for clarification about the single equation model. Dr. Rousslang said the model had only one equation to predict general fund tax revenues and did not break out the separate tax types.

Dr. Bonham asked for the specifications of the models and Dr. Rousslang agreed to provide them.

Chair Kawafuchi asked why the single equation predicted lower growth for 2015, 3.7% vs. 4.9% for model 1 and 5.3% for the UCLA model. Dr. Suyderhoud asked if the single equation model had auto-regressive properties. Dr. Rousslang said yes, and that all of the models were run with EViews.

Chair Kawafuchi asked if the single equation model incorporated the most recent general fund numbers. Dr. Rousslang said yes. Dr. Bonham asked if some of the models used only fiscal year data, or whether some of them used quarterly data. Dr. Rousslang said all of the models used only fiscal year data.

Dr. Bonham said then the models can't incorporate the most recent data. Dr. Rousslang agreed.

Chair Kawafuchi asked what Dr. Bonham was saying. Dr. Bonham answered that the models are based on fiscal year data, so if more recent quarterly data are available, they would not be included in the model, which uses only annual data. Dr. Suyderhoud added that the latest fiscal year data are for the 2014. Chair Kawafuchi said he had asked whether the models incorporated the latest general fund numbers. Dr. Rousslang said that it depended on how one interpreted the question. He said he interpreted it to mean whether the latest general fund data for the fiscal year which closed out, that is, fiscal year 2014, were included. He said the collections for the months of fiscal year 2015 are not included in any of the equations. Chair Kawafuchi asked if that meant the 7.1% recent general fund growth rate for the current fiscal year is not in any of the models. Dr. Suyderhoud and Dr. Rousslang said it was not.

Dr. Suyderhoud said monthly data were available through November. Dr. Rousslang said that he had given them a guess for December. Chair Kawafuchi asked if all the models included only data through the end of June of last year. Dr. Suyderhoud and Dr. Rousslang said yes.

Chair Kawafuchi said we ended last year at negative 1.8% general fund growth. Dr. Rousslang said yes. Ms. Maynard noted that the forecast from the single equation was very close to the forecast from the last meeting. Chair Kawafuchi asked what the actual collections were at the time of the last meeting. Dr. Bonham noted that at that time, we had only collections as of the end of July. Dr. Rousslang said the year-over-year growth in collections at that time was over 13%. Dr. Bonham agreed. Chair Kawafuchi said yes, that it was even more than 13%, but that there was some kind of lag involved. Dr. Rousslang said a lot of things were going on and that there is a lot of noise in the monthly data. He pointed out that a chart he had communicated to the members showed month-over-month growth varying from minus 2% to plus 13.8%. He added that the month of July had the effect of \$16 million in delayed County surcharge allocations, which is small for the annual general fund total but for one month it can be large. He added that if you take that out, the growth in the first month drops from over 13% to only 9.5%. He also pointed out that the months of October and November were both almost 14% above the same month in the prior year, but that September was actually down a little bit from last year and December looks like it's going to be flat. Dr. Bonham said that the average of the models looked pretty reasonable. Dr. Grandy pointed out that the average was given on page 11 of the workbook, on the bottom of the page.

Dr. Suyderhoud asked if those were all below-the-line numbers. Dr. Rousslang said yes. Dr. Bonham noted that he had been looking at his personal forecast results, which might explain why they looked reasonable to him. Dr. Grandy noted that it was based on his forecast, so that's why he liked it. Chair Kawafuchi asked Dr. Bonham if he was willing to share his forecast. Dr. Bonham said the results of his model, which was also a single equation model, but uses quarterly data, is 7%. Dr. Grandy asked if that was the forecast for 2015. Dr. Bonham said it was. Ms. Maynard noted that was a high forecast. Dr. Bonham said it was basically the same as it was at

the last meeting, or perhaps a bit lower. He added that one of the biggest concerns in the data that we have so far is that in the first two months of the fiscal year the contracting tax base was down substantially. He noted that the year-over-year effect from the tax rule changes should have gone away in August. Chair Kawafuchi asked if he was referring to the effects of Act 105. Dr. Bonham said yes. Chair Kawafuchi asked if the actual general excise tax collections for contracting was included in Dr. Bonham's contracting base. Dr. Bonham said that was part of it. Dr. Suyderhoud asked if that base was the tax collections divided by 4%. Dr. Rousslang said it was. Dr. Bonham noted that the figure for August was down 23% and for September it was down 7.5%. He said maybe someone paid a really big tax bill. Chair Kawafuchi said that didn't seem to comport with what was going on, that there seems to be a lot of construction. Dr. Bonham noted that the activity hasn't shown up in the tax base for a couple of years and that their estimates of contracting jobs for this year are quite low, or even negative. Chair Kawafuchi asked why the contracting revenue base was down. Dr. Bonham noted that they had only two months of data and that the series was very volatile. Dr. Suyderhoud noted that it can also have considerable lags. Chair Kawafuchi asked about permitting. Dr. Bonham noted that private permitting year-to-date is up 20%, although residential was down quite a bit. He noted that the last time he looked there weren't any residential permits pulled, for example, for the symphony towers, even though they're building residential units. He noted that total private permits are up in the 20% range, but government contracts were significantly off through year-to-date and also, he thought, for the first quarter of this fiscal year.

Dr. Grandy asked whether Dr. Bonham and Dr. Suyderhoud thought construction would be leading growth, or whether that would be delayed. Dr. Suyderhoud said that the construction people he spoke to said it would be delayed a little bit, that the nature of what was happening is different from what it was before. Dr. Bonham agreed. Dr. Suyderhoud said there was more concrete and less lumber. Dr. Bonham agreed that the cycle this time is going to be very different, because right now they were building only rail and high rises, whereas the last cycle was dominated by the neighbor islands and the vast majority of the construction was single-family residential. He said they were trying to do a better job of explaining the tax base and jobs by disentangling the differences. He said his interpretation is that the bottom of the construction cycle was deeper and later than we thought, because it was disguised by the solar bubble. He said we had a policy-induced surge in permitting activity and in the tax base which made it look like the cycle was turning and that another wrinkle was the tax law changes. He said that last year the tax base went down, which he attributed partly to the decline in solar and partly to the change in the tax laws.

Dr. Grandy noted that cumulatively, the contracting tax base is still falling. Dr. Bonham agreed, but said he thought it was mostly due to tax law changes. In calendar year 2014 we got rid of the exemption from Act 105 that made sub-contractors to pay the tax, which would have shown up as higher contracting tax collections in earlier years, then when that went away we should have expected the tax base to be weaker in 2014. Dr. Bonham said that in six months we should be able to get a better handle on the reason the tax base was down, because the overall level of activity in permits and in jobs don't suggest negative numbers for the tax base.

Dr. Grandy noted, though, that the overall rate of growth of total employment has been falling until the last several months, when it stabilized around 1.2%. Dr. Bonham said that they did a sort of real time benchmarking where they try to estimate what the BLS (Bureau of Labor

Statistics) is going to do when they benchmark the data. He said they were coming up with closer to 1.9% employment growth after the benchmark.

Ms. Maynard asked if that was total employment, not just construction. Dr. Grandy said yes, it was total employment. Dr. Bonham said he thought that was too high, that it was probably closer to 1.5% employment growth and that Dr. Grandy was right, that from 2013/2014 employment growth has been slowing. Ms. Niwao noted that construction on Maui is getting better and that there was better cash flow in the community. She also noted, however, that even with all the new construction for commercial property, the older shopping centers are now losing their tenants. She said Target was coming in, but that the restaurants and other retail stores on Maui seem to be having a lot of problems. She said she had remarked before how Costco and the grocery stores seem to be doing better and thought that it may be tied to the transient vacation rentals on Maui. People were shopping at Costco and the big box retailers, getting supplies and staying in units where they can cook and not go out to restaurants. She noted that the hotels are now more expensive and charging for parking at higher rates. They are now charging more for various things that used to be much less expensive, which are adding to the cost of the hotel stay. She also said she didn't think that the GET (general excise tax) and TAT (transient accommodations tax) were being fully captured on the vacation rentals. She said in many instances, the owners were not local and didn't know Hawaii's tax laws. She said a lot of her CPA business consists of preparing prior year returns that were not filed by nonresident owners who find out about their tax liabilities only when they try to sell their property. At that time, they discover they need to file and pay GET and TAT liabilities they had incurred in previous years before they can get back part of the withholding (HARPTA-Hawaii Real Property Tax Act) on real estate sales. Sometimes, they forego the HARPTA withholding amount, rather than pay the back taxes (including accrued interest and penalties).

Dr. Bonham asked about the status of the lawsuits against Expedia and the other online travel companies. Dr. Rousslang said there has not yet been any final resolution. Dr. Bonham asked if there was a date. Chair Kawafuchi asked if a hearing has been scheduled. Dr. Rousslang said he didn't know. Dr. Bonham noted that money was paid into a trust fund. Chair Kawafuchi clarified that it was the litigated claims fund. Dr. Bonham asked about the size of the payments. Dr. Rousslang said it was over \$200 million. Ms. Niwao said it was \$250 million or so. Chair Kawafuchi said that was only the GET and not the TAT. Dr. Rousslang said that was right.

Dr. Bonham asked Ms. Niwao if something in her observations had changed that would affect forecasting going forward, or if the things she mentioned had been going on for years. Ms. Niwao said it's been increasing. For example, the variables for visitor arrivals might not translate into the same volume in terms of spending and tax revenues. Dr. Bonham said he agreed, but asked whether there has been a marked change from recent years. He said the data and equations will reflect changes that have been in effect for several years.

Ms. Niwao noted that, after talking to visitors and clients in various industries and observing Costco and other grocery businesses, more people were cooking for themselves and eating in their condos, timeshares, or homes instead of going out to eat at restaurants. Ms. Maynard asked if that was a change in behavior. Ms. Niwao said yes, that although Maui has had more visitors, many restaurants were going out of business because they say they didn't have enough customers. This included some long time restaurants on Maui. Dr. Bonham said that story is

one that we've been talking about for the State as a whole. He said that visitor spending is growing and that on Maui it was up by 9% as of September. He said hotel rooms were only up 3.5% through September. He said the general story for the last several years has been that the hoteliers were capturing a lot of the increase in spending through higher room rates and some of the retail establishments were hurting. But he said the money was still in the economy, if visitor spending grew at 9%, it grew at 9%. Ms. Niwao asked if it could be that the money was spent at places like Costco, where less of it is captured in the local economy. Chair Kawafuchi said there is the labor component as well, like the labor to provide the cooking and service at restaurants, whereas those who shop at Costco, did those things for themselves. Dr. Suyderhoud noted that Costco has employees, too. Dr. Bonham said it would not be dramatically different if people spent money at Costco compared with other places. Ms. Niwao noted that restaurants pay GET on their sales and they pay rent to landlords who pay GET on the rental income.

Dr. Suyderhoud said that they had started by looking at the average of the forecasts and he thought that Dr. Bonham found the average of the models on page 11 reasonable. Dr. Bonham said it seemed more reasonable than the current forecast. He said the average forecast for the members is 5% for 2015 and that his was 5.4%.

Ms. Niwao asked about the possible negative effects of changes in oil prices in places like Texas and North Dakota. (Chair Kawafuchi mentioned Russia as well.) Dr. Bonham said the net effect of a 50% decline in oil prices was positive for the US economy. Dr. Suyderhoud said it is good news. Dr. Bonham noted that the United States is a net importer of oil, so the decline in oil prices is a good thing for Hawaii consumers. Dr. Bonham asked what business in Hawaii would be hurt directly by declining oil prices?

Ms. Niwao noted that changes in foreign currency exchange rates could have negative effects, such as the rapid devaluation of Canada's currency relative to the US dollar, because it is an oil producing country. Dr. Suyderhoud said that Hawaii doesn't have a lot of oil producers. Chair Kawafuchi said we have a couple of refineries. Dr. Bonham said they would benefit from lower costs. Chair Kawafuchi said there would be more profit-margin with higher prices. Dr. Bonham said the issue was really simple for Hawaii and that the local economy would benefit from falling oil prices. He said gasoline prices were down about a dollar from 6 months ago and that his models predict gasoline prices will go down another 15 or 20 cents even if oil prices stay at 50 dollars a barrel. He said that will amount to half a billion dollars in savings for the consumer, or about one-half percent of retail benefits. Chair Kawafuchi said he did not disagree that the overall benefits were good, but that some people would get hurt. Dr. Bonham said that was true for the US economy and even more true for Hawaii.

Ms. Maynard asked about the general excise tax on gasoline. Chair Kawafuchi said the base would be smaller. Dr. Suyderhoud said people would spend the money on other things. Dr. Bonham said one possibility is that people would drive more, so there were off-setting effects. Dr. Rousslang noted that fuel taxes would go up if the quantity goes up. Dr. Suyderhoud said part of the tax on gasoline is fuel taxes and part is GET. Chair Kawafuchi noted that the GET is based on price. Ms. Maynard said let's pretend that nobody drives more. Dr. Bonham said that then GET on gasoline would go down. Ms. Maynard asked by how much. Dr. Bonham said by 4% of the dollar on about 300,000 gallons a month times 12. Dr. Suyderhoud said it was about \$20 million. Dr. Bonham said the point was that the consumers would spend more on the rest of

the economy. The interesting thing is some of the research on the effects of fuel price movements for the US economy as a whole, show that you actually get much bigger responses in consumption to fuel price movements and the biggest effects are in consumer durables.

Ms. Niwao said she expected to see the US economy going up but the international visitors going down because of changes in currency exchange rates. Chair Kawafuchi said it was more expensive for the Japanese visitors. Dr. Bonham said the movement in the exchange rate over the last 3 or 4 months is a concern for spending, but not necessarily for visitor arrivals. Japanese visitors make up about 15% of the spending right now, the rest of Asia makes up about 15% of the spending, Canada is about 5% or a little more and the rest is mostly US visitors.

Dr. Grandy asked Ms. Cambra about visitor projections. Ms. Cambra said they are not seeing any large shifts. She said they were more concerned about Japan than about Canada. Canada is slightly above normal pace. There was a slight shift for Japan, but it's been minor so far. Dr. Suyderhoud asked for clarification that in spite of the move in the exchange rates, it's been a minimal effect for Japan. Ms. Cambra said that was right. Japan is down slightly, but not anything significant - less than 3%.

Dr. Bonham said the official data on Japanese arrivals indicated the neighbor islands got 'hammered' in the 2<sup>nd</sup> half of last year. Ms. Cambra asked if anybody knew about a promotion with Hawaiian airlines that allowed you to fly from Japan to a neighbor island for the day for free. She said she could not confirm if or when it ended. She wondered if that could explain the drop in arrivals noted by Dr. Bonham. Chair Kawafuchi said Japan had the new increase in the sales tax last year and they postponed the second stage of it. He wondered if that had an impact on the decline in Japanese tourists. Dr. Grandy said overall it seems that the long-term trends in visitor arrivals are slightly up from roughly a zero level the last few months and spending roughly the same. He asked if that growth was expected to continue. Ms. Cambra said she thought there would be subtle growth this year, but that compared to the growth we've had for the past few years that was not a bad thing. Dr. Suyderhoud asked if 'subtle' meant less than 2%. Ms. Cambra said it depends on who you talk to, but she thought it would be 5% or less. Dr. Suyderhoud said there was a big difference between 1.5% and 4.5%. Ms. Cambra agreed.

Dr. Bonham said their annual forecast for growth in visitor arrivals doesn't reach 2% in the foreseeable future. Chair Kawafuchi asked Dr. Suyderhoud for his forecast. Dr. Suyderhoud said he was forecasting growth in visitor arrivals of 1.5% in fiscal 2015, 2% in fiscal 2016, and 1.5% after that. Chair Kawafuchi asked Dr. Grandy for his forecast. Dr. Grandy said he had growth of 2% for 2015 and 3% to 3.25% in later years. Dr. Bonham said he had 2.5% for 2015, 1.2% for 2016 and 1% thereafter.

Dr. Suyderhoud said he would like to take the conversation back to the general fund forecast. Ms. Niwao said she had a question. She noted a lot of the economies in other countries were experiencing slower growth or stagnation and that the US economy was the only one that appeared to be doing well. So her question was how would that affect the US economy going forward? Dr. Suyderhoud said the US may serve as an engine of growth for the rest of the world. Ms. Niwao said that was the question, because she read that the economies of many of the European countries and Russia were about to collapse. Dr. Bonham said this was nothing new. Europe went through a slight growth spurt and Japan hasn't done much of anything in a

long time. He said he understood Europe was in recession for at least one quarter and that for the 3<sup>rd</sup>, 4<sup>th</sup> quarter of last year they were probably in recession. Their inflation rate was zero or negative, while the US had the strongest growth in a decade in the 2<sup>nd</sup> half of last year. Ms. Niwao expressed concern that the US economy could be in a temporary strong position but might be dragged down later by what happens overseas. Dr. Bonham said it was more likely that we would be dragged down by our own policy mistakes. Ms. Niwao asked if he meant raising taxes to pay off debt. Dr. Bonham said that with both Houses controlled by Republicans, he didn't think that would happen. But he said they might cut spending to pay off the debt. He said something that might impact Hawaii would be military base closures in 2016 or 2017 (but not 2015). Ms. Niwao said the federal monies coming in have gone down substantially compared to what they were before. Dr. Bonham said we don't have data on how much is actually spent in Hawaii, but that we do know that federal civilian employment fell sharply last year, by roughly 6%. He said the decline has flattened out (the fall-off in federal civilian jobs has pretty much slowed down), but that military salaries and federal civilian salaries also fell sharply last year. Ms. Niwao asked if Dr. Bonham was worried about the federal cutbacks in military spending in Hawaii. Dr. Bonham said he was more concerned about that than about Europe being in recession. Chair Kawafuchi asked how much gasoline was sold in the State that's taxable. Dr. Bonham said it averages about 37 million gallons per month. Chair Kawafuchi asked if that was the total or what was taxable. Dr. Bonham said that was the base for the fuel tax. Chair Kawafuchi said it gave us an idea on the size of the GET base. Dr. Suyderhoud noted that transportation costs have come down, that Matson has lowered the fuel adjustment. Chair Kawafuchi said the decline was not as big as the decline in the price of fuel. Dr. Bonham said the question was whether the US visitors would spend more money here because they save on fuel, including oil and gas for heat. He also said the airlines could fly with lower occupancy rates or charge lower fares. Ms. Cambra asked if there had been a reduction in average fares. Dr. Bonham said yes, seats for December, January, February were up 4%. Ms. Niwao said the airlines probably bought their fuel at prices that were locked in several years ago. Dr. Bonham said he thought the lead time was shorter, perhaps 6 months.

Dr. Grandy noted that Dr. Bonham had said he liked the average general fund growth forecast from the models for FY2015, at 5%, but that was a little higher than he expected. He said he would expect something like 3.5%, but that he was willing to accept something slightly higher. Ms. Niwao said she thought there was a lot of uncertainty. Ms. Cambra asked if she thought uncertainty was more than normal. Ms. Niwao said yes. Dr. Suyderhoud said 5% was the low-end of what he found acceptable. Ms. Niwao said she was comfortable with 4.5% growth. Dr. Suyderhoud said he was comfortable with 5%. Dr. Bonham said he liked 7%. Ms. Maynard said she liked 3.5%. Dr. Suyderhoud said he had been saying from the beginning that this would be a better year. Ms. Niwao agreed. Dr. Grandy said 3.5% growth was better than last year. Dr. Bonham said that last year it was an anomaly, because he didn't think we have ever had a year where general fund tax revenues fell that didn't also have a decline in visitor arrivals or a decline in jobs. He said there was uncertainty coming from what was happening with contracting, but that he was bullish on the effects of oil prices. Dr. Suyderhoud asked if he agreed with a growth forecast of 7%. Dr. Bonham said that in the Tax Department's models his average forecast was 5.4%. Ms. Niwao said a problem she had was that although the economy is doing better, she thought a lot of the added revenue from economic growth was being siphoned-off by tax fraud. She said the IRS was losing billions of dollars now, because of Internet filing of returns and filing returns with refunds. Dr. Bonham said people who are stealing money might be spending

it in the economy. Dr. Grandy said but not as reported income. Ms. Maynard said what we need to know is if they're spending it in Hawaii. Ms. Niwao said she had heard of instances where taxpayers had fraudulent returns filed for them with stolen ID, and fraudulent refunds were claimed prior to taxpayers filing their returns. Ms. Cambra asked if that was dramatically different year-over-year and if it would impact the forecast. Ms. Niwao said it was a recent phenomenon. Ms. Cambra asked what Ms. Niwao meant by recent. Ms. Niwao said she noticed it last year for the State of Hawaii (since it happened to her own returns), but that she read and heard that fraudulent activity has been rising dramatically over the last few years for the IRS and in other states. Dr. Bonham asked if it amounted to hundreds of millions of dollars. Ms. Niwao said she didn't think so, they take small amounts (several thousand) here and there for each taxpayer, but the IRS has reportedly lost billions. Dr. Bonham asked if it should be in the forecast. Ms. Niwao said this would need further study and that the states should already be on alert because people are stealing tax money. So even if the economy is doing better, there might be more leaks from tax fraud. Ms. Maynard asked Dr. Rousslang if he had any information on tax fraud from Hawaii's income tax. Chair Kawafuchi asked if he had any indication whether it was up this year in terms of the numbers and dollar amounts. Dr. Rousslang said no, that it was not something that he expected to materially affect the general fund revenues. Ms. Niwao noted that the IRS is not catching everybody and that electronic filing is allowing more tax fraud. She said the IRS is taking various measures, such as limiting the number of refunds to 3 per address. Dr. Bonham asked how one would adjust the forecast to take this information into account. Ms. Niwao said the problem is the fraud might be causing collections to grow more slowly than the economy. Dr. Bonham asked if the phenomenon would reduce the growth in collections from 5.4% to 5%. Ms. Niwao said possibly yes. Chair Kawafuchi asked Ms. Niwao if she accepted a growth forecast of 5%. Ms. Niwao said she might agree with 4.5%.

Dr. Suyderhoud said he'd like to make a motion that FY 2015 we forecast general fund tax revenue growth of 5% for fiscal year 2015. Dr. Bonham seconded the motion. Chair Kawafuchi said he would like to hear from Ms. Cambra first. Ms. Cambra said she was going to second the motion. Chair Kawafuchi asked for a vote. (votes for: Ms. Cambra, Dr. Suyderhoud and Dr. Bonham and votes against: Dr. Grandy, Ms. Niwao, Ms. Maynard and Chair Kawafuchi.) Chair Kawafuchi asked for further discussion. He said he didn't think the members were that far apart. Ms. Niwao said she would be happy with 4.5%. Dr. Grandy asked if that was a motion. Ms. Niwao said yes. Dr. Grandy seconded the motion. Chair Kawafuchi asked for a vote. The vote was unanimous.

**Ms. Niwao made a motion that the general fund tax revenues growth rate be at 4.5% for FY 2015 (below-the-line). Dr. Grandy seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

Dr. Suyderhoud asked about fiscal years 2016 through 2021. He said the average growth forecasts from the models was 6.2%, 5.3%, 5.6%, 5.0%, 4.5%, and 5.6% and that the current forecast is 5.5% for the out years. He said he was willing to keep the current forecast. Ms. Maynard asked if that was a motion. Dr. Suyderhoud said no. Ms. Niwao said she also would be happy to keep the current forecast. Dr. Grandy asked if that meant a forecast of 5.5% across the board. Ms. Niwao said yes. Ms. Maynard said that was close to her forecast also. Dr. Suyderhoud suggested that someone make a motion. Ms. Maynard made a motion to leave the forecast for 2016 and beyond at 5.5% growth in each year. Ms. Cambra seconded the motion. Chair Kawafuchi called for a vote on the motion. The vote was unanimous to approve.

**Ms. Maynard made a motion that the general fund revenue forecast for the remaining fiscal years be: 5.50% (2016); 5.50% (2017); 5.50% (2018); 5.50% (2019); 5.50% (2020); 5.50% (2021) below-the-line. Ms. Cambra seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

Mr. Chun from Budget & Finance provided the Council with the following revenue updates.

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

**Significant Changes from September 2014 Report**

**General Fund Non-Tax Revenues**

**Non-Revenue Receipts** - the increases in FY 15 reflect estimated revenues for premiums on bonds sold from the recent bond sale (Department of Budget and Finance (B&F)). \$87,672,890.

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

**Non-Revenue Receipts** - the increase in FY 15 is reflective of the issuance of bonds for the Green Energy Market Securitization program for the Environment and Energy Development at DBEDT. \$146,323,248.

The net decreases in FYs 16-21 reflect decreased issuances of bonds for construction of affordable single family rental housing projects by the Hawaii Housing and Finance Development Corporation (DBEDT). \$20,000,000/Yr.

**Dr. Suyderhoud 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>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Yes</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Thursday, March 12, 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.

The Chair adjourned the meeting.

**ADJOURNMENT:**

The meeting adjourned at 3:01 p.m.