

COUNCIL ON REVENUES

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

Thursday, July 30, 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 and,
Donovan Chun

Others:

Sharon Kotaka, Budget and Finance
Maria Zielinski, Department of Taxation
Joseph Kim, Department of Taxation
Kevin Dayton, Star-Advertiser
Mallory Fujitani, Department of Taxation
Calvin Azama, Senate Ways and Means
Titin Sakata, Department of Taxation

CALL TO ORDER:

The Chair called the meeting to order at 2 p.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 MAY 21, 2015:

Chair Kawafuchi called for a motion to approve the minutes.

It was moved by Ms. Maynard and seconded by Dr. Grandy and Ms. Cambra that the minutes of the May 21st 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	Yes
Elizabeth P. Cambra	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2015:

Chair Kawafuchi asked Dr. Rousslang to present the results of the model forecasts for Total Personal Income (TPI). Dr. Rousslang said last year's forecast was on page 5 of the workbook and the forecasts for this year were presented on page 6. Ms. Maynard asked if the calendar year forecasts were before any inflation adjustment. Dr. Grandy said yes. Chair Kawafuchi asked if 3.9% was the average growth forecast for CY 2015. Dr. Suyderhoud asked if the Council accepts the average forecasts of 3.9% growth for CY 2015 and 4.3% for CY 2016.

Dr. Suyderhoud said that in the May 2015 meeting, the members were forecasting TPI growth of between 4.2% and 4.45%. Ms. Maynard asked why the forecasts were higher than the average from the models. Dr. Bonham said that for the first quarter of 2015, year-over-year growth was up slightly, with jobs forecast to grow over 1.50%. He said very few sectors of the economy were growing at a nominal rate of less than 4%. He said the main reason income growth was not stronger than that was the decline in federal government income and in state government income. He said the former governor put a spending freeze in place in the middle of 2014 and then the current governor put another spending freeze in place after the last tax data came out. Ms. Niwao said she thought federal spending would continue to decline because of the deficit, including places like the military and the IRS. Dr. Bonham said the deficit has been falling and that the pressure for additional cuts has diminished. He said he had already included the effects of Schofield and Fort Shafter personnel losses in his forecasts and that the number of jobs in the federal sector has continued to decline. But he said there is a core of services and that essentially we have just cut back from an elevated level of spending that went in place with the recovery act and were now back down to number of federal employees pre-recession. He found no reason to expect continued declines. He said spending plans in place now involve incremental spending increases. He said he did not expect total spending by the federal government to decline for the next 20 years and he did not expect that Hawaii to suffer from further federal budget cuts.

Ms. Niwao said entitlements might be cut and that the aging population meant more taxpayers and perhaps a drop in income tax revenues. Ms. Maynard said given the 4.1% first quarter growth, she was more optimistic because it seemed like tourism was doing better in the second quarter. She asked Ms. Cambra for confirmation. Dr. Bonham and Ms. Niwao agreed the first

quarter was good. Chair Kawafuchi asked Ms. Cambra how the summer was doing. He said he saw a lot of empty airplane seats. Dr. Suyderhoud noted that seat capacity has been added and that the arrival numbers looked decent so far this year. He said he thought the first half of 2015 has been strong. Dr. Bonham saw strength in all sectors. Ms. Niwao said she thought retailing might be weak on Maui. Ms. Cambra said tourism has been strong so far this year, but the fourth quarter remains a question mark. She said last year the fourth quarter was exceptionally strong. Dr. Bonham said his forecast gets weak the second half of the year, mostly fourth quarter, because of the year-over-year comparison. He said the first quarter wasn't that strong but second quarter was very strong. He said the year may set new records in visitor arrivals, visitor days, rev par, and nominal spending. Ms. Niwao agreed. Dr. Bonham noted that retail trade jobs were at record levels. Ms. Niwao mentioned the possible adverse effects of a bubble in the Chinese stock market. Dr. Suyderhoud asked how many arrivals came from China. Ms. Cambra said she thought it was in the low 300 thousands. Dr. Bonham said he thought it was about fifty to sixty thousand a quarter. Dr. Suyderhoud asked about the annual increase in visitors. Dr. Grandy said the increase from last year was about three hundred thousand. Ms. Niwao pointed to a possible slowing of Chinese investment in Hawaii. Dr. Suyderhoud thought that result was unlikely. Ms. Maynard expressed concern about the strong fourth quarter last year and the effect on the year-over-year comparison.

Dr. Bonham brought up construction. He said data on permits are not the leading indicator anymore, at least for high rises. He said the permits aren't getting issued until after the project has started. He said that in the first quarter there was something like a five-fold increase in residential permits and that tax collections in the contracting tax base have finally started to show positive growth. Through the first half of the year, construction jobs are up about 2.5% statewide. Dr. Grandy added that on a 12-month average, the contracting tax base is still down. Dr. Bonham said he thought that was the effect of the change in the tax laws on solar power installations.

Dr. Suyderhoud returned to the figure of 4.2% nominal growth for CY 2015 from the members' forecasts for the May general fund meeting, after adjusting for fiscal and calendar year differences. Chair Kawafuchi asked about the effect of pending interest rate increases. Dr. Bonham agreed that we are likely to get an interest rate hike this year owing to favorable employment statistics and GDP (Gross Domestic Products) growth numbers (the first quarter growth was raised to plus 0.6% from minus 0.2% and the second quarter came in at 2.4% or so). Ms. Maynard said it was 2.6% growth. She said that last year second quarter growth was something like 4.6%. Ms. Maynard said she thought the average growth over the two quarters would be lower than last year. She said the actual second quarter growth was slightly below the consensus. Dr. Bonham said low oil prices have cut investment and the rising dollar has slowed growth. He said he expects the interest rate environment to stay positive. He said if it does not, it would be because the economy is doing really well.

Ms. Niwao said she expected the dollar exchange rate to affect the economy. Chair Kawafuchi agreed. Dr's. Bonham, Suyderhoud and Grandy said it already has. Dr. Bonham said we've already seen 20% to 30% declines in foreign currencies relative to the dollar.

Dr. Suyderhoud asked if a growth forecast for 2015 of 4.2% was too high. Dr. Bonham said he thought it was too high. Dr. Grandy suggested 4%. Ms. Niwao asked Dr. Bonham for his forecast. Dr. Bonham said 4. Dr. Suyderhoud moved to accept the growth rate forecast of 4%. Ms. Maynard seconded the motion. Chair Kawafuchi asked for a vote. The vote was unanimous.

A motion was made by Dr. Suyderhoud and seconded by Ms. Maynard that the Total Personal Income forecast for CY2015 be 4.0%. 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	Yes
Elizabeth P. Cambra	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2016:

Chair Kawafuchi moved the discussion to the forecast for TPI growth in 2016. Dr. Grandy suggested 4%, which he said was a long run growth level. Dr. Suyderhoud said he thought the consensus for real GDP growth was 2.7%. Ms. Maynard said she thought the consensus was higher. Dr. Grandy said he didn't see anything on the horizon for 2016 that would significantly alter that outcome.

Chair Kawafuchi asked if there was going to be more inflationary in 2016. Dr. Bonham said yes. He said he thought 2016 would be better than 2015, because we would see the end of the state and local and federal government austerity measures. He said federal government jobs were declining from 2012 to 2015, but that there was no reason to think that would continue. He said the drop in labor income was almost 2% for the federal government and somewhat less for the state. He said he expected the effects of the construction spending to be felt. He said the labor market was tightening and the broad measure of unemployment has continued to come down. He said the household survey showed employment gains of about 1.9% and labor force growth of about 1.5%. He said the recovery is broadening, the labor market is tightening, and he expected upper pressure on wages and more inflation. He said public employee contract negotiations were coming up this year. Ms. Niwao mentioned the unfunded liabilities in state and federal government. Dr. Bonham asked how that related to 2016 income. Ms. Niwao said she was wondering about Dr. Bonham's expectation that state and federal spending and employment cuts would stop and perhaps reverse. Dr. Suyderhoud said fiscal pressures will come from the fact that they have to fund the Hawaii Health System benefits for retirees. Dr. Bonham noted that the health care sector was a leader in job growth and income growth statewide. Dr. Bonham said the announced job cuts so far have been small, not on Kauai and the Big Island, but statewide.

Ms. Maynard asked if the unfunded liabilities would affect employment of state and local government workers. She said setting aside \$500 million a year for these unfunded liabilities might put pressure on future state hiring. Dr. Bonham agreed that was a question. He said his forecast was that state employment would stabilize, particularly with 6.8% tax revenue growth for last year. He said revenues are rising and deficits are shrinking rapidly. He said the unfunded liabilities have been there for a long time and they didn't stop hiring and pay raises during the last cycle. Ms. Niwao said she thought something like 40% of state employees are eligible to retire. She said the retirement of the baby boomers would reduce income and spending. Dr. Bonham pointed out that year-over-year federal government labor income grew in the first quarter by .14%.

Chair Kawafuchi said a growth forecast of 4% had been suggested (by Dr. Grandy) and asked for comments. Ms. Maynard asked for the consequences if the forecast were in error. Dr. Suyderhoud said there were none.

Chair Kawafuchi asked for a second to the motion. Ms. Niwao seconded. Chair Kawafuchi asked if there was any further discussion. Dr. Bonham said he thought growth would be higher, about 4.6%, but he did not want to introduce a new motion. Chair Kawafuchi asked for a vote on the motion. The vote was unanimous.

A motion was made by Dr. Grandy and seconded by Ms. Niwao that the Total Personal Income forecast for CY2016 be 4.0%. 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	Yes
Elizabeth P. Cambra	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, September 3, 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 2:34 p.m.