

COUNCIL ON REVENUES

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

Monday, November 2, 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): Yvonne Chow, Tu Duc Pham and,
J. Guitguiten

Department of Budget and Finance (B&F): Terri Ohta, Gregg Hirohata-Goto and,
Donovan Chun

Others:

Sharon Kotaka, Budget and Finance
Joseph Kim, Department of Taxation
Mike McGrane, City & County of Honolulu
Titin Sakata, Department of Taxation
Mallory Fujitani, Department of Taxation
Nandana Kalupahana, House Finance
Ashley Bunda, Senate President Kouchi's Office
Rich Silva, Senate President Kouchi's Office

CALL TO ORDER:

The Chair called the meeting to order at 2:03 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 SEPTEMBER 3, 2015:

Chair Kawafuchi called for a motion to approve the minutes.

It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the September 3rd 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 Ms. Chow to provide a summary of the technical report given to Council members. Referred to table 4 on page 6 of the handout, Ms. Chow indicated that the Council's July 2015 forecast of total personal income (TPI) growth rate is 4% for calendar 2015 and also 4% for calendar 2016. Forecasts from the models are about the same as those in the last July 2015 meeting: 3.5% for calendar 2015 and 3.6% for calendar 2016. Currently, the average of all known independent forecasts is 3.9% growth for 2015 and 4.2% growth for 2016.

Chair Kawafuchi said at the last TPI meeting in July the Council had estimated 4% growth rate for 2015 and 4% for 2016, slightly less than Council estimates in September 2015. Dr. Suyderhoud and Dr. Grandy clarified that these growth rates were provided by Council members because TPI is one of the key factors impacting the general fund tax revenues. Replied to a question posed by Chair Kawafuchi, Dr. Grandy agreed that these growth rates are the averages of the forecasts for TPI that the members had submitted for the Council's General Fund meeting of September 3, 2015.

Chair Kawafuchi noticed that DBEDT (Department of Business, Economic Development and Tourism) current forecasts are 4.3% and 4.6% for 2015 and 2016, respectively. However, UHERO's (University of Hawaii Economic Research Organization) forecast is only 3.5% for 2015. Dr. Bonham was not sure why the last UHERO forecast was that low. And he indicated that the one UHERO has not been published yet is the 4.2% TPI growth rate for both 2015 and 2016.

Dr. Suyderhoud proposed that the Council could discuss the forecast in real terms first and then add an inflation component to that. Chair Kawafuchi agreed. Dr. Suyderhoud said his real TPI forecast is in the neighborhood of 2.5%. Dr. Bonham said that last year's real income growth was roughly 3.2% in 2014. And, his real TPI forecast for 2015 is 3.6%. So far, the TPI nominal growth has been 4.6% in the first quarter of 2015 and 3.8% in the second quarter. Dr. Suyderhoud and Dr. Bonham both indicated that inflation rate is about 1% for the first half of the year.

Dr. Bonham said his inflation rate forecast for the whole year is now revised to 0.6% mainly because of low oil prices. Dr. Suyderhoud asked when the housing component starts impacting the overall consumer price index. Dr. Bonham said that the shelter component rose 3% in the first half of the year. Responding to a question from Ms. Maynard, Dr. Bonham confirmed that the inflation rate of 0.6% that he was discussing is for 2015. Dr. Suyderhoud and Dr. Bonham both agreed that the 2015 inflation rate is less than 1%. Ms. Maynard indicated Dr. Bonham has a 3% forecast for real TPI. Dr. Suyderhoud said that if we add one percent inflation to the 3% real TPI, the nominal TPI growth rate would be 4%. Dr. Bonham said that the 4% number looks good and thought there was no reason to change. Dr. Grandy agreed.

Responding to a question from Chair Kawafuchi, Dr. Bonham said there was no basis to change the 2015 forecast and that it looks like a good number. Chair Kawafuchi commented that Dr. Bonham continued to predict the 4% growth rate for TPI. Dr. Bonham said that the growth rate for next year might be a little higher if the inflation numbers are going to come in higher in 2016. Dr. Suyderhoud indicated that the real growth rate of the economy might be slower due to slower visitor and construction growth.

Ms. Maynard asked Ms. Cambra about the tourism industry outlook for next year. Ms. Cambra said there is really no change in the outlook since the last time the Council met. It remains steady -- the growth is not as strong but it's not a reduction (air seats are good; air seat prices are good). Dr. Bonham said that air seat actually was surprisingly strong and he was surprised to see year-over-year growth of 4 to 4.5% in the fourth quarter for the domestic market. Dr. Suyderhoud added that there's a new airline moving in.

Ms. Niwao mentioned that when she traveled to the West Coast, for example, the prices for hotels were quite high (\$300 to \$500 dollars a night). Ms. Cambra said that the room rate is about \$325 in DC on a normal week. Dr. Bonham said the average for Maui in the second quarter is \$315. Ms. Niwao said that we're high relative to what we were before but when she travels to the mainland, it seems the prices for the hotel room rates has really increased.

Ms. Niwao asked whether the properties being built in Kaka'ako are going to be used for rentals. Dr. Suyderhoud said all of them. Dr. Bonham said that there's a combination of them -- Howard Hughes has one they wanted to convert to rentals but they were told they could not. And, he does not think there are any new rentals being constructed right now. Ms. Niwao asked whether they could be used as hotels. Dr. Suyderhoud said no. Dr. Bonham asked Ms. Niwao if she meant they can be used as B&Bs. Ms. Niwao said yes. Dr. Bonham said that it's on the rules of the home owners' association. Ms. Niwao said because no new hotel rooms to be added then all these new buildings could be used as transient accommodations. Dr. Bonham agreed that it's a concern. Dr. Suyderhoud asked if it is a concern on the upside or the down side. Dr. Bonham said that it depends on which sector of the industry you're in. Ms. Cambra said that it is not bad as long as the air capacity can take care of both industries—it's part of the business world now (our hospitality world) but that, plus the cruise lines take up the air seats. As long as those seats grow enough or remain we're good, depending on what the market may be.

Chair Kawafuchi asked the Council how they see inflation going out into 2016. Dr. Suyderhoud said inflation is picking up but not to the point where we're dealing with concern—a level of inflation that would be a concern to the monetary authorities. With housing picking up and the drop in energy prices is over, inflation will be slightly higher. Ms. Niwao said the cost of goods from overseas when we import is low because of the strong dollar. Dr. Bonham said that assuming the Federal Reserve Board starts to raise rates, there will be another hit to currency when that rate change happens. Inflation rate will increase from about 0.7% this year to about 1.8% next year. Dr. Bonham planned to make a motion that the Council adopts 4% and 4% for 2015 and 2016, respectively. However, Chair Kawafuchi wanted the Council to concentrate in estimating the 2015 TPI growth rate first. Dr. Bonham moved that the Council adopts no change in the forecast of 4% for 2015. Ms. Maynard seconded. Chair Kawafuchi said that the Council will vote that the TPI growth forecast will remain at 4% for 2015. Dr. Suyderhoud said which basically means that the second half of 2015 we are going to get less than 4% growth in personal income for the second half of this year. The Chair called for a vote. The vote was unanimous.

A motion was made by Dr. Bonham and seconded by Ms. Maynard that the Total Personal Income forecast remain at 4.0% for CY 2015. 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 asked Dr. Bonham if he was going to make the same motion for CY 2016. Dr. Bonham wanted Dr. Suyderhoud to make the motion. Dr. Suyderhoud said that he would propose to increase the TPI growth rate from 4% to 4.5% in 2016. Dr. Bonham agreed to that forecast. Dr. Suyderhoud then made a motion of 4.5% TPI growth rate for 2016.

Dr. Bonham indicated that the current level of unemployment rate will start pushing income up. Ms. Maynard agreed that inflation will be higher. Chair Kawafuchi said that, in his personal view, the two components, namely interest rate and energy prices, will be higher next year. Dr. Suyderhoud said and that was the same reason he forecast the rate of inflation will increase from one percent this year to two percent next year. He said he did make a motion for 4.5% but did not hear a second. Dr. Bonham seconded. Chair Kawafuchi requested a discussion for the motion. Responding to a question from Ms. Niwao regarding the relationship between the expected higher interest rate and inflation, Dr. Bonham indicated that inflation is not necessarily lower in the year the interest rates are raised. When the Federal Reserve Board starts to raise rates, probably in December or January, the increase in rates will be small. And, then there will

be a lag between when the Federal Reserve Board changes their policy and the new interest rates actually start to affect the economy. He also said that the reason that the Federal Reserve Board does not want to raise the interest rate right now is because of the current very low level of inflation. He said the time lag between the changes in interest rate and its impact on the economy is about one to two years.

Dr. Bonham said inflation rate will increase to 1.5% to 2.5% next year. Ms. Maynard agreed. Dr. Bonham commented that 2015 is the best year for the economy in this cycle. Following a question from Chair Kawafuchi, Dr. Bonham indicated that he's talking about the overall growth of the economy in real terms. Dr. Grandy commented that long run average of real personal income growth rates have already dropped slightly and thus Dr. Bonham's assessment of the economy is right. Ms. Niwao then asked whether the economy is trending downward after that-- she does not mean a recession. Dr. Bonham said that we will have one. Chair Kawafuchi agreed that it is inevitable that the economy will move up and down. Ms. Niwao commented that many people feel that the economy has not gotten out of the last recession. Ms. Maynard and Dr. Bonham said that is what people feel because they only recognize the economic growth right about the time it ends. Dr. Bonham indicated that in the past nobody believed that the economy was growing in 1997 and 1998. Chair Kawafuchi said key factors are current low unemployment, expectation of energy prices and interest rates as well as wage levels may go up. Dr. Suyderhoud added that construction activity is still strong and tourism is still growing. Chair Kawafuchi agreed. Dr. Suyderhoud indicated that overall 2016 is a good year for the economy.

Chair Kawafuchi commented that while the economy has been growing, wage levels have not been rising as rapidly as expected. Dr. Suyderhoud said that they have been slow to pick up but they are starting to. Ms. Maynard indicated that with the low level of unemployment rate, wages will start to increase. Chair Kawafuchi called for the vote. The vote was unanimous.

A motion was made by Dr. Suyderhoud and seconded by Dr. Bonham that the Total Personal Income forecast for CY2016 be 4.5%. 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

Minutes of the Council on Revenues Meeting

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NEXT MEETING:

The Council tentatively agreed to meet on Thursday, January 7, 2016 at 10 a.m. However, the date and time will be re-confirmed by email. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

ADJOURNMENT:

The meeting adjourned at 2:34 p.m.