

COUNCIL ON REVENUES

Minutes of the Meeting of Wednesday, October 25, 2017 (2pm)

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

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Christopher Grandy, Ed Case, Jack P. Suyderhoud
and, Kristi L. Maynard

Staff Members:

Department of Taxation (the Department): Seth Colby and, J. Guitguiten

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

Others:

Julie Yang, House Finance
Damien Elefante, Deputy Director of Taxation
Titin Sakata, Department of Taxation

ABSENT:

Marilyn M. Niwao, Member
Carl S. Bonham, Member

CALL TO ORDER:

The Chair called the meeting to order at 2:00 p.m. A quorum was present.

COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:

Chair Kawafuchi asked if there was any communication to the Council on Revenues (the Council). There were none.

APPROVAL OF THE MINUTES OF THE MEETING OF SEPTEMBER 7, 2017:

Chair Kawafuchi asked if there were any comments or discussion on the draft of the meeting minutes. Dr. Suyderhoud moved to approve the minutes. Ms. Maynard seconded.

Chair Kawafuchi suggested changes be made. He proposed the first page (top center) it be identified as the title, 'Meeting Minutes of September 7, 2017 (2pm)' followed by the meeting location. Chair Kawafuchi asked whether the current October 25th minutes included August 1st minutes as well. Other members provided the explanation that the order of the written minutes are according to the topics discussed in the current agenda. In further discussion, Chair Kawafuchi suggested the minutes be changed due to its confusing to him. Dr. Suyderhoud suggested then to add (to the heading) 'Approval' of the minutes of August 1, 2017. And, any draft version of the minutes the Council receives for review at each meeting, to indicate 'draft' after the title.

With those changes mentioned and to be in effect going forward, Chair Kawafuchi called for a motion to approve the minutes of September 7, 2017. The vote was unanimous.

It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the September 7, 2017 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
Ed Case	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2017:

Next, the Council discussed the total personal income forecast for calendar year (CY) 2017. The Council referred to the COR workbook. Dr. Colby agreed that the current 2.9% is lower than the Council's forecast. And, the first half at 4.4% of the calendar year is usually a higher growth than the second half at 3.3% of the year. Mr. Case asked if the Tax department had any indication of the first two months of this August fiscal year. Dr. Colby said he did not know.

The Council referred to page 11 and page 14 which Dr. Colby explained that the numbers were an extrapolation of the Council's forecasts. The Council discussed inflation, GDP (Gross Domestic Products) deflator at 2 for the 1st quarter and 1.6 for the 2nd quarter, Honolulu CPI (Consumer Price Index) 2.5 and, unusual factors in the first 6 months. Dr. Colby said there's some indication that high income earners have deferred their taking profits on the capital gains in anticipation of tax reform. And, capital gains do not show up in personal income.

Dr. Grandy said nominal personal income growth rates have been coming down from about 6% in early 2015 steadily and the latest year-over-year number at 2.97%. He agreed that 3.2% is a reasonable number for CY 2017. The Council briefly discussed positive employment growth at 1%, unemployment & social security benefits, transfer payments, etc. agreeing that there seemed

to be no trend. The Council reviewed the COR workbook for the historical data, discussing briefly the current forecast of 3.5% for the rest of the year.

Mr. Case said he didn't see 4% for the rest of the year. He said he came into the meeting wanting a reason to change the 3.5%--his range is about 3.2%. Dr. Suyderhoud said he's comfortable with 3.2% although he thought it's going to be higher. He said the economy and visitor counts have been a surprise, unemployment rates are down, wage rates increased in terms of hiring.

The Council also discussed whether there was any expected fall-out with personal income due to the recent natural disasters in Texas and Florida and any fall-offs in the hotel industry. Actual arrivals are still increasing and expenditures are increasing. The members briefly discussed their own forecast for CY 2017. Mr. Case said he didn't see the need to increase the forecast. Ms. Maynard said she's fine with 3.0%. Dr. Grandy also agreed with 3.0% for CY 2017.

Mr. Case asked how the Council will explain reducing the 3.5% from the last meeting, increasing the general fund by one-tenth of a percent. He was concerned about having increased the general fund for this fiscal year with decreasing the personal income forecast for the calendar year. He wondered if that would impact anyone. Dr. Suyderhoud said that's a really good question. Chair Kawafuchi said the base came in lower and the actual was stronger for the first couple of months. Dr. Colby said even if they account for the difference in the base from last year, it's still a healthy amount of revenues for the first three months of FY 2017.

Chair Kawafuchi said the proposal for calendar year 2017 is 3.0%. Mr. Case seconded. The vote was unanimous.

A motion was made by Ms. Maynard and seconded by Mr. Case that the Total Personal Income forecast be 3.0% for CY 2017. 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
Ed Case	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2018:

Next, Chair Kawafuchi asked the Council if there was any discussion or proposals for total personal income forecast for CY 2018. Ms. Maynard hoped there will be some growth in 2018. Dr. Suyderhoud said given the underlying economy with everything that's visible, he's having a really hard time with these low growth numbers given the inflation rates. He thought that maybe inflation is over-stated.

Dr. Grandy said visitors' spending is doing well. The year up to July over the same period a year earlier is 7.85% and that growth rate has been rising since May 2016. Dr. Suyderhoud said a couple of years ago the visitor arrivals were really robust but the expenditures weren't.

Ms. Maynard stated that according to UHERO's (UH Economics Research Organization) forecast for September, Hawaii's economy is decelerating. Ms. Maynard said she's fine with 3.5% for CY 2018. Chair Kawafuchi asked if there were any further discussion. Mr. Case moved 3.5% for CY 2018 and Ms. Maynard seconded. The vote was unanimous.

A motion was made by Mr. Case and seconded by Ms. Maynard that the Total Personal Income forecast be 3.5% for CY 2018. 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
Ed Case	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Monday, January 8, 2018 at 2 p.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 2:41 p.m.