

COUNCIL ON REVENUES

Meeting Minutes, Thursday, May 24, 2018 (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), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,
Ed Case, Jack P. Suyderhoud, and Kristi L. Maynard

Staff Members:

Department of Taxation (DOTax): Seth Colby and J. Guitguiten
Department of Budget and Finance (B&F): Terri Ohta, Donovan Chun,
Gregg Hirohata-Goto and, Neal Miyahira

Others:

Linda Chu Takayama, Director of Taxation
Damien Elefante, Deputy Director of Taxation
Laurel Johnston, Director of Finance

Absent: Christopher Grandy, Member

CALL TO ORDER:

Chair Kawafuchi called the meeting to order at 2p.m. A quorum was present.

COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:

There was no communication to the Council and there was no public comment.

APPROVED MINUTES OF THE MEETING OF MARCH 13, 2018:

Chair Kawafuchi asked if there was any discussion on any item in the minutes. There were none. Chair Kawafuchi called for a motion to approve the minutes for the meeting of March 13, 2018. Dr. Suyderhoud abstained from the vote because he was not present at the meeting.

It was moved by Ms. Maynard and seconded by Mr. Case that the minutes of the March 13th meeting be approved. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Abstain

Carl S. Bonham	Yes
Christopher Grandy	Absent
Ed Case	Yes
Kristi L. Maynard	Yes

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2018:

Chair Kawafuchi asked Dr. Colby for any comments. Dr. Colby said currently we're at 8.3% in terms of the general fund. Dr Colby requested the opportunity to walk-thru with what's happened all year. A hand-out was provided to the Council.

Dr. Colby explained the preliminary growth numbers for fiscal year-to-date July through April. He said with the general fund, the start of the year was quite strong with an 11.8% growth, then dipping-out into November, and then gradually going up through April. Dr. Colby said the beginning of the year were high levels of collections but were slightly over-stated because there were transfers that had occurred in 2016. The base was lower than what we would've expected. And, starting after November there was an increase again with just the general fund. And, he thought that has to do with accelerated processing of tax payments due to the new modernization system. In the month of October and November is the time of year a lot of refunds are processed and we've seen growth since then. In April, there was a transfer of \$140 million out of the GET account and into a number of other tax types. The transfer did not affect revenues whatsoever--these are accounting adjustments. He said DOTAX moved \$140 million out of the GET--\$121 million went to personal income tax; \$15.2 million went into corporate income tax; and about another \$4 million went to other tax types.

Dr. Colby explained that GET has always been the first account for the deposit of funds and once the payment is processed, it is transferred out. He said in October two things occurred: 1) the department changed the reporting requirement for withholding tax from monthly to quarterly; and, 2) due to the new TSM (Technology System Modernization), taxpayers started sending in their withholding payments although it defaulted into the GET account. With the new modernization system DOTAX has resolved this problem, and GET is no longer the default fund for payments.

Dr. Colby said the mass transit fund is controlled by the State and the moneys are transferred out to HTA (Hawaii Tourism Authority) and the City and County of Honolulu. The Director of Budget & Finance, Ms. Laurel Johnston said as far as the rail funds, there was one distribution made. And, it was based on certification to control of which is the only way we're allowed to distribute the funds. She said and, the State agreed with the City of Honolulu that there would be quarterly disbursements. Chair Kawafuchi thanked Director Johnston for the clarification.

Dr. Suyderhoud said the general fund does not see all of the 6.9% growth associated with the TAT. Dr. Colby said in reality the growth is usually higher than 6.9%, everything except for the mass transit fund which is a fixed amount, it doesn't grow. Ms. Maynard suggested that the preliminary statement have a percentage change for the subtotal. Dr. Colby said he would do as Ms. Maynard suggested although only for the Council and would not commit to the method used for the preliminary collections report.

Dr. Colby said there's a fee associated with the county surcharge which had to do with the GET and not the TAT. Chair Kawafuchi said B&F Director Johnston would like to clarify. Director Johnston referred to Neal Miyahira to clarify further. Mr. Miyahira said formerly it was 10% and now it is 1%. The fee shows up as a non-tax.

Dr. Colby said the potential causes of the overall general fund driving the growth in the recent years was the State reinstating the higher income tax brackets on January 1st. He said we have higher estimated tax payments possibly due to the federal tax law changes. One of the concerns was the prepaying of taxes in January, but there was no precipitous decline overall of estimated taxes in April, and no large increase in refunds.

Dr. Colby said that another boost to tax revenues come from Hawaii's booking economy -- below the natural rate of unemployment and high levels of tourism spending. You would expect high levels of tax revenue under such conditions. The GET at 4.95% most closely resembling GDP (Gross Domestic Products), adding inflation plus the expected GDP growth it would be slightly less than 5% and that's where we are--most of the gains are in the personal income tax.

Next, the Members discussed several topics: last year May/June and whether the month of June was surprisingly strong; Amazon sales and the GET collections from those sales and DBEDT (Department of Business, Economic Development and Tourism) that came in with the expectation that Amazon sales for tax revenue would be \$15.7 million; the limitations to tax deductions due to SALT (State and Local Income Taxes) for 2018; as well as the concerns for the volcanic eruptions on the Big Island and how it will affect tourism. It was mentioned that the current data for passenger counts shows the eruption having no affect on tourism. Mr. Case said this (Kilauea) volcano has been going for 30 years. And, this is a pretty dramatic demonstration of it.

Dr. Bonham said the growth in passenger count for Maui for the month of May is over 10% (overall passenger counts were up 10% for the State). Ms. Maynard said her concern is there's a lot of volatility month-to-month; it may not be prudent to assume that the last two months are going to be a steady, average 5%. Dr. Bonham said the growth rate through the month of March was 6.5% fiscal year-to-date through March.

Ms. Niwao said she's comfortable with somewhere between 6% and 7% for the overall general fund. Dr. Suyderhoud said in order to get 6% or 7% for the overall general fund it would have to be a negative 2.1% to get to 6%.

The Members discussed their individual concerns of the high growth rate for the general fund for the year; a 2% employment rate with businesses looking for workers; construction is flat and slightly down. One Member did not feel that tourism could carry the State through an 8.3%. Another Member mentioned that there's too much fluctuations month-to-month and with the huge increase in April. The reservation cancellations on the Big Island were a concern for one Member. Another Member added that the cancellations are considered just a small part of tourism where there are other parts that off-set that.

Next the Members discussed the Tax department's processing of payments and the collections process. Tax Director Takayama said the department is doing better with the depositing of

payments, however, not substantially. Ms. Niwao thought that it may be the timing of the deposits with early processing and the collections process. Mr. Case said the tougher debate is the next fiscal year. Dr. Colby said he did the calculations in terms of GET growth of 10.2% without the adjustments—April collections were still an increase over the March collections. Ms. Niwao said she would agree there will be a higher number this year and a lower number next year because of uncertainties with a higher base.

Mr. Case moved 7.3% for the remainder of the year (May and June 2018). Dr. Bonham seconded. Chair Kawafuchi said it looks like overall the economy is doing pretty good and employment is strong.

Chair Kawafuchi said there was motion for 7.3% for the remainder of the current fiscal year. He said we'll take a vote on the motion.

It was moved by Mr. Case that the general fund tax revenues growth rate be 7.3% for FY 2018 (below-the-line). Dr. Bonham seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	No
Carl S. Bonham	Yes
Christopher Grandy	Absent
Ed Case	Yes
Kristi L. Maynard	Yes

GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2019 THROUGH 2024:

Next, the Council discussed the general fund revenue forecast for FY 2019. Dr. Colby said the total amount for the general fund tax revenue is \$6.6 billion. Ms. Maynard said in the past, the Council would forecast the dollar amount and now the Council is forecasting the percent change.

The Members discussed tourism and visitor spending projected at 10%. There are several proposed buildings in the Ala Moana area with the potential for resort development as well as a brief discussion on the uncertainty of the volcanic eruptions and tourism.

Mr. Case said he would stay at 4% for the out years. He thought 4% was a pretty reasonable number for those years.

Dr. Bonham said that basically he agrees with Mr. Case about the out years and that he's comfortable with leaving the 4% number which he thought is a reasonable number also and 5% for 2019. Two other Members also agreed.

Mr. Case moved 5% for fiscal 2019. Dr. Suyderhoud seconded. Chair Kawafuchi asked Ms. Niwao if she wanted to discuss further or, to vote no. Ms. Niwao mentioned her concerns with tourism and the affects from the volcanic eruptions, the uncertainties in the next year with the hurricanes and the on-going (North) Korea missile threat.

Dr. Suyderhoud asked if the vote would also include the 4% in the out years. Chair Kawafuchi said the motion is 5% for FY 2019 and 4% for the remaining years (2020-2024).

Chair Kawafuchi asked if there was any further discussion. There was no further discussion. The Council voted on FY 2019.

A motion was made by Mr. Case that the General Fund revenue for FY 2019 be at 5.0%. Dr. Suyderhoud seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	No
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Absent
Ed Case	Yes
Kristi L. Maynard	Yes

Next, the Council voted on the remaining out years (FY 2020 through FY 2024).

A motion was made by Ms. Maynard that the General Fund revenue for the remaining out years remain the same: 4.0% (2020); 4.0% (2021); 4.0% (2022); 4.0% (2023); and 4.0% (2024). Dr. Suyderhoud seconded. The Chair called for the vote, and the motion passed with the following votes:

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

**REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:
Significant Changes from March 2018 Report**

Mr. Donovan Chun provided the Council members with Budget & Finance's report of revised projections of General Fund non-tax revenues and non-General Fund tax and non-tax revenues since the March 13th meeting.

Mr. Chun said the report includes a brief summary of significant changes and that there are several significant changes highlighted:

Special Fund Non-Tax Revenues

Transfers – the increase in FY 18 primarily reflects funds deposited per Act 12, Session Laws of Hawaii 2018, from the tobacco master settlement agreement as a result of an arbitrated

settlement of a dispute, for the calendar years 2004 to 2017. FY18 \$56.7M

Other Than Special Fund Non-Tax Revenues

Charges for Current Services – the net increase in FY 18 reflects rebates on prescription drug plans and rate credits or experience gains from insurance carriers to the Hawaii Employer Union Trust Fund ((EUTF) (B&F)). FY18 \$48.0M

Dr. Suyderhoud moved to accept the B&F report as submitted. Ms. Maynard seconded. The Chair called for the vote, and the motion passed with the following votes:

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

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, July 26, 2018 at 2 p.m.; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310-314.

The Chair adjourned the meeting.

ADJOURNMENT:

The meeting adjourned at 3:33 p.m.