

COUNCIL ON REVENUES

Meeting Minutes, Thursday, September 6, 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, Christopher Grandy, Jack P. Suyderhoud, and Kristi L. Maynard

Staff Members:

Department of Taxation (DOTax): Seth Colby, Baybars Karacaovali, and J. Guitguiten

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

Others:

Wayne Yoshioka, KHPR
Sharon Kotaka, Budget and Finance
Dane Wicker, Senate Ways and Means
Damien Elefante, Deputy Director of Taxation

CALL TO ORDER:

Vice-Chair Niwao called the meeting to order at 2:08 p.m. She announced that Chair Kawafuchi appointed her to chair for this meeting since he is out of the State. Chair Kawafuchi was in attendance and participating as Member in the COR deliberations via Skype. 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 JULY 26, 2018:

Vice-Chair Niwao asked if there was any discussion on any item in the minutes. There were none mentioned. Vice-Chair Niwao called for a motion to approve the minutes for the meeting of July 26, 2018.

It was moved by Dr. Grandy and seconded by Ms. Maynard that the minutes of the July 26th meeting be approved. The Vice-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	Yes
Kristi L. Maynard	Yes

REVIEW OF RECENT LEGISLATION

Vice-Chair Niwao asked Dr. Colby to provide the Council with how the tax law changes are expected to impact the general fund growth rate. Dr. Colby referred to Table 2, page 2 in the workbook. He said a number of laws have passed this year that have material budgetary effects to the general fund.

Dr. Colby said the Conformity Law starts off relatively small and then grows over time. The Hawaii State Legislature opted to not conform to most of the provisions to individual income tax and conformed to most of the provisions related to deductions for corporate income tax. The Legislature opted to not conform to the pass-through deduction and changes to the Estate Tax. He said there were no adjustments made to the rates or the exemptions for the individual income tax.

Dr. Colby said the Legislature did conform to the parts of the federal corporate income tax law that modified the net interest deduction and net operating losses, which are expected to have material fiscal impacts.

Vice-Chair Niwao said basically it's the net interest deduction, depreciation and the net-operating loss restrictions. Dr. Colby agreed, and noted that Hawaii does not conform to the portion of the IRS tax code related to bonus depreciation.

Act 39, SLH 2018 increases the aggregate amount of GET cost exemption for developing affordable rental properties from \$7 million to \$30 million--\$7 million is already the cap, and increases for the next couple of years. The estimated impact is \$23 million on the general fund. Dr. Colby said sometimes the State does not always hit the cap in terms of affordable housing.

Act 41, SLH 2018 passed in anticipation of the South Dakota vs. Quill that allows the Hawaii State Legislature to tax Internet companies without Nexus in Hawaii, which is roughly between \$7 and \$8 million dollars per year. One Member thought that seemed surprisingly low. Dr. Colby agreed with Chair Kawafuchi when he said that the additional taxable base is a little over \$150 million producing about \$6.8 million in general fund per year. Vice-Chair Niwao asked what kind of action the State Tax Office is taking to try to enforce this new tax law. Dr. Colby said the department sent out tax announcements that companies are under obligation to this new tax law.

Act 86, SLH 2018. The law changes the allocations from the TAT, reduces allocations to the special funds particularly with the Convention Center and the Tours and Special Fund. This reduces those special funds by \$13 million, which increases allocations to the general fund by \$13 million.

Act 122, SLH 2018 increases the withholding amount realized for the Disposition of Hawaii Real Property by non-residents (HARPTA) from 5% to 7.25%. The estimate reflects the withholding of estimated tax for 1 year and then its return to taxpayers once they've demonstrated they paid all their taxes.

Act 211, SLH 2018 imposes the TAT on Transient Accommodations Brokers, Travel Agencies and Tour Packagers—referring to the Expedia case several years ago saying that this is the law in response to that. It creates a legal mandate for the department to be able to impose the TAT. How it works: access online to get a hotel in Waikiki for \$200 (Expedia has already negotiated that rate for \$150 for the hotel). Previously, TAT was only levied on the \$150 charged to the hotel. Under this legislation, it would be levied on the entire \$200.

Chair Kawafuchi referred to Act 39 SLH 2018 with the revenue estimate of \$23 million a year increasing to \$30 million. He said the language of the Bill seems to indicate that the eligible cost increased from \$7 million to \$30 million. Chair Kawafuchi reference HB 2748 (part II, section 3) 'allowable general excise tax and use tax cost shall apply to contracting only and shall not exceed \$30 million per year.' Dr. Colby said the department can go back and look at that again. Chair Kawafuchi said the amount would actually be 4% on the difference. Dr. Colby agreed. Dr. Suyderhoud said he thought it was the definition of the cost that the legislature is talking about-- the tax cost and not the construction cost or the cost of doing business. Dr. Bonham said it's a cap on the excise tax exemption of how much can be exempted. He said he would move that the Tax department take one more look at this and confirm that they got it right in the first place and then we move on.

Chair Kawafuchi agreed asking for clarification. Vice-Chair Niwao asked if there was further discussion regarding the recent tax legislation. There was no further discussion.

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2019:

Vice-Chair Niwao said we'll have a discussion and vote on the general fund revenue forecast for FY 2019. Dr. Colby provided the Council with a recap of last year's general fund revenue. He said the general fund revenue was up 7.6% and the Council's forecast was close at 7.3%. The current forecast is at 5% FY 2019 and the department has only received one month of available data for the month of July. The GET came in at 3.1% which is generally in the range in what is expected given the amount of growth in the economy. The individual income tax is negative for corporate income tax; individual income is up 19%; the transient accommodations tax was raised by 10.1% from 9.25% to 10.25 (1% of the increase in revenue to the mass transit fund), which we should be expecting a high number at least for the first 6 months of the year.

Dr. Bonham said the estimated economic effects of Hurricane Lane are relatively minor, with limited impact on tourism.

The Members briefly discussed the slowdown in population; data on rents and the consistent outflow of population; and the labor. Ms. Maynard said that DBEDT reduced their forecast for GDP (Gross Domestic Products) for the State.

Dr. Suyderhoud said he thought in spite of everything that's been happening, tourism remains strong and remains an attractive market.

Vice-Chair Niwao said she wondered about the Council's models not including the federal funds flow—the tracking of the population and the number of military personnel). Dr. Bonham said the model that they (UHERO) have does reflect federal activity in the State because federal activity adds up as a component to GDP, the military dependents that hold jobs or those that are a part of the civilian employment.

Ms. Maynard said that DBEDT had projected Hawaii's economy growth for real GDP to be 1.5% for 2018; .4% below the growth forecast from last quarter; and, 1.6% for 2019.

Vice-Chair Niwao mentioned the demographic shifting for the baby boomers and their plans to travel sooner than later.

Dr. Grandy said it seems to him that at least in the short-term things are going really quite well with the mention of both arrivals and expenditures.

The Members discussed private permits & government contracts (total building authorizations) which are up almost 35%.

Chair Kawafuchi said he had no additional comments as to other than what the rest of the Members had stated so far, which he agrees.

Dr. Bonham moved to keep the current year forecast unchanged. Ms. Maynard seconded. Vice-Chair Niwao asked if there was any discussion. Dr. Grandy said he thought it was too low. He said he thought it should be more like 7% for general fund tax revenue growth for FY 2019 instead of 5%.

Dr. Bonham said he would be very surprised if we get to 7%. He said he's really comfortable with 5%. He said obviously tourism has been very, very strong and yet we haven't seen the income growth and the 1st quarter of the year data didn't really suggest that Hawaii has seen a turn.

Vice-Chair Niwao called for the vote.

It was moved by Dr. Bonham that the general fund tax revenues growth rate remain unchanged at 5.0% for FY 2019 (below-the-line). Ms. Maynard seconded. The Vice-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	No
Kristi L. Maynard	Yes

GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2020 THROUGH 2025:

Next, the Council discussed the general fund revenue forecast for FYs 2020 through 2025. Vice-Chair Niwao said currently we are at 4% for all remaining out years to FY 2024. Dr. Bonham moved to adopt 4% all the way to FY 2025. Dr. Suyderhoud seconded.

Vice-Chair Niwao said it's been moved and seconded that we keep the same forecast at 4% from FYs 2020 through 2024 to include FY 2025 at 4%. Vice-Chair Niwao called for discussion.

A motion was made by Dr. Bonham 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) and, to include FY 2025 at 4.0%. Dr. Suyderhoud seconded. The Vice-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	Yes
Kristi L. Maynard	Yes

**REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:
Significant Changes from May 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 May 24 meeting.

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

Other Than Special Fund Non-Tax Revenues

Federal Grants – the net increase in FY 18 primarily reflects update of actual revenues for the Medical Assistance Program in the Adult Protective and Community Care Services Program at the DHS. \$273,254,673

Transfers – the increase in FY 18 primarily reflects funds deposited per Act 39, SLH 2018, from general fund revenues into the Rental Housing Revolving Fund. \$200,000,000

Dr. Suyderhoud moved to accept the B&F report as submitted. Ms. Maynard seconded. The Vice-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	Yes
Kristi L. Maynard	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, November 1, 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.

Vice-Chair Niwao asked for a motion to adjourn the meeting. Dr. Grandy moved to adjourn and Ms. Maynard seconded. The vote was unanimous.

Dr. Grandy moved to adjourn the meeting. Ms. Maynard seconded. The Vice-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	Yes
Kristi L. Maynard	Yes

The Chair adjourned the meeting.

ADJOURNMENT:

The meeting adjourned at 3:15 p.m.