

COUNCIL ON REVENUES

Meeting Minutes, Tuesday, March 12, 2019 (2pm)

State Office Tower
235 South Beretania Street
Fourth Floor, Room 405
Honolulu, HI 96813

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham, Christopher Grandy, Jack 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, Kenneth Shirokane and, Neal Miyahira

Others:

Dane Wicker, Senate Ways and Means
Erin Conner, Senate Ways and Means
Yurie Hoshino, Senate Ways and Means
Linda Chu Takayama, Director of Taxation
Damien Elefante, Deputy Director of Taxation

CALL TO ORDER:

Chair Kawafuchi called the meeting to order at 2:00 p.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 JANUARY 9, 2019:

Chair Kawafuchi asked if there was any discussion on any item in the minutes. There were none mentioned. Chair Kawafuchi called for a motion to approve the minutes for the meeting of January 9, 2019.

It was moved by Ms. Maynard and seconded by Dr. Grandy that the minutes of the January 9th meeting be approved. The Chair called for the vote, and the motion passed with the following votes:

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|-----------------------|------------|
| Kurt Kawafuchi | Yes |
| Marilyn Niwao | Yes |

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|---------------------------|----------------|
| Jack P. Snyderhoud | Abstain |
| Carl S. Bonham | Yes |
| Christopher Grandy | Yes |
| Kristi L. Maynard | Yes |

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2019:

Next, the Council discussed the general fund revenue forecast for FY 2019. Dr. Colby referred to Charts prepared by the Tax Research & Planning Office staff: GF Tax Revenue Month-over-Month Growth Rate 12-Month Moving Average February 2017 through February 2019 and the 12-Month Moving Average June 2017 through February 2019.

Dr. Colby said the preliminary report puts the general fund revenue growth rate at 2.1% from the beginning of the fiscal year until February 2018.

Ms. Niwao said there are a lot of changes with the new tax law that affected Hawaii because there are many with entertainment costs, etc. Ms. Niwao said she thought more transactions were made before December 2017, which normally would not have happened, causing more economic activity.

Dr. Bonham said arrivals were slightly up, particularly with the increased Southwest Airlines lift. He said the jobs data was dramatically over-stating how much growth we had last year—the revision to the jobs data shows statewide jobs grew by half of 1% last year; preliminary data showed 1.7% growth; revision of the unemployment rate; and some big changes to suggest last year was very weak. Ms. Niwao said the stock market declined at 3.4% of the US household net worth at the end of the year and has recovered since then.

The Council also discussed that Southwest Airlines announced they will begin an airlift service with cheaper flights to Maui beginning in April. Wage growth has been pretty solid according to the last couple of reports from the US labor market.

Chair Kawafuchi asked Director Takayama whether the new income tax system has impacted revenues at all. Director Takayama said Roll-out 4 which went live in November 2018 for individual income tax; corporate tax and GET. The department is currently working on fuel, tobacco, and liquor taxes. Dr. Snyderhoud asked if it has any impact on the collection pattern. Director Takayama said it's difficult to tell because the deadline for filing taxes for the individual side is not until April 22nd.

Dr. Snyderhoud asked Dr. Colby whether he noticed the individual tax withholding is relatively strong and whether that is due to this transfer that's going on. Dr. Colby said the withholding is weaker than normal and if adjusted it would be decreased from 10% and to 3%. The Withholding tax collection has already been part of a previous TSM Roll-out.

The Members briefly discussed the 12-month moving average at 4.4% as of February. Ms. Niwao said the number for April 2018 came in at a higher number relative to the prior years and it seems like it would be hard to beat in 2019. April 2018 might have been excessive since it incorporated all of the activity that happened in 2017 with a lot of economic transactions (REITs,

passage of the federal tax law, etc.)

Ms. Maynard said general fund revenues would have to grow by 8.4% year-over-year increase in the final four months of the year to get to a 4.2%. She said it seems excessive because she thought the economy is slowing. Dr. Bonham said the economy has already slowed, it already happened. He said there was acceleration in the 4th quarter of last year. The jobs data was very weak through October and then it turned up pretty sharply in the 4th quarter of the year, as it happened for visitor arrivals.

Dr. Grandy said the US GDP (Gross Domestic Products) growth is still fairly strong in the 4th quarter, the quarterly year-over-year rose from the 3rd quarter to 3.08% and his 12-quarter moving average also rose in the 4th quarter up to 2.88%. He said the trend still seems to be upward. Ms. Maynard said the markets are projecting more of a probability of a rate cut by the end of this year. She said the probability of a rate increase was 1% and a rate cut probability was 31%.

Ms. Niwao mentioned the federal shutdown and she thought that may have played a role in what has happened in the last couple of months. She said she thought we ought to be at 2.8%. Ms. Maynard said if we grew at 4% for the rest of the year (4 months), the average would be 2.73% for the year. And, if the general fund grew at 5% each month, the year-end rate would get up to 3.1%.

Dr. Bonham said the data is incredibly volatile and the 4th quarter of last fiscal year was weak. Ms. Niwao said it was actually very high. Ms. Maynard said we ended up with a strong number. Dr. Bonham said he's not talking about tax collections, he's talking about the economy—maybe tax collections were high or maybe that was from the tax law changes.

Ms. Niwao said as baby boomers retire, we're going to see an overall trend of less tax revenues—not so much about the economy but simply because of the taxes.

Chair Kawafuchi asked Director Takayama whether the income tax system is operating and running at 100% efficiency. Director Takayama said the department is beyond the testing phase for the individual income taxes and is currently concentrating on the isolated tax categories. She said everything else should be running normally.

Chair Kawafuchi said estimated individual taxes are about 75% on a cumulative year-to-date basis (\$311 million in FY 2019 versus \$405 million in the same period in FY 2018). The estimated corporate taxes are up at a smaller percentage however.

Ms. Maynard said if the general fund grew at 4% it would be closer to Ms. Niwao's number at 2.7%, 2.8% and that's being very optimistic. Ms. Niwao agreed.

The Members briefly discussed 3.5% which Ms. Niwao and Ms. Maynard thought was too high and suggested 3% instead. Dr. Suyderhoud said 3% is too low and didn't think that the last 4 months of general fund revenue growth was going to be only at 4% and that it was going to be higher. He thought 4% is a modest number relative to the underlying economy.

Dr. Grandy moved 3.3% and Dr. Bonham seconded. Chair Kawafuchi asked if there was any further discussion. Ms. Maynard thought the number was too high just based on the fact that we have such a hard quarter to compare to for the rest of the year because of last year's high levels of growth.

Ms. Niwao said 3.3% is too high and that Maui and the mainland had been affected by bad weather, which may have affected some people from traveling. However, she said that next year may improve because of the new Maui Airport Tram System, rent-a-car, and more flights. She said she hasn't seen anything that says we're on an upward economic trend.

Chair Kawafuchi said they have to reach some kind of an agreement. Ms. Maynard suggested 2.9%. Ms. Niwao said she thought 2.9% is optimistic. Dr. Suyderhoud and Chair Kawafuchi both agreed to 3%. Ms. Maynard and Ms. Niwao said they are willing to compromise. Dr. Grandy said he's willing to withdraw his motion. Dr. Bonham withdrew his second. Ms. Niwao made a motion as a compromise at 3.0% growth rate for FY 2019. Ms. Maynard seconded. Chair Kawafuchi asked if there was any discussion. There was none. The vote was unanimous.

Ms. Niwao made a motion that the general fund tax revenues growth rate be 3.0% for FY 2019 (below-the-line). Ms. Maynard seconded. The Chair called for the vote, and the motion passed with the following votes:

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|---------------------------|------------|
| Kurt Kawafuchi | Yes |
| Marilyn Niwao | Yes |
| Jack P. Suyderhoud | Yes |
| Carl S. Bonham | Yes |
| Christopher Grandy | Yes |
| Kristi L. Maynard | Yes |

GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2020 THROUGH 2025:

Next, the Council discussed the general fund revenue forecast for fiscal years 2020 through 2025.

Dr. Grandy said the average growth in general fund revenue from 1997 is 4.4% and the average growth rate from 2010 (just after the great recession) is 5.5%. Ms. Niwao said it was a slow recovery but still there was growth.

Dr. Grandy said he thought next year is going to be stronger than this year and, it makes sense to him to have a path something like 5% (FY 2020) and 4% (FYs 2021 to 2025).

Dr. Bonham said his model generates a strong bounce back after a number weaker than what was just forecast. Dr. Suyderhoud asked what the long-term average was and whether it included a recession. Dr. Grandy said 4.4% nominal general fund revenues. Dr. Suyderhoud said including severe recession the average has been 4.4% from 1997.

Ms. Maynard made a motion to keep the same forecast for the out years at 4% for FYs 2020 through 2025. Dr. Suyderhoud seconded the motion. Chair Kawafuchi asked if there was any

discussion. There was none. The vote was unanimous.

A motion was made by Ms. Maynard that the General Fund revenue for the remaining out years to remain the same: 4.0% (2020); 4.0% (2021); 4.0% (2022); 4.0% (2023); and 4.0% (2024) and, FY 2025 at 4.0%. 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 | Yes |
| Kristi L. Maynard | Yes |

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES:

Significant Changes from January 2019 Report

Mr. Donovan Chun said we have provided you with our report of revised projections of general fund non-tax revenues, non-general fund tax and non-tax revenues since the January 9 meeting. He said although our report includes a summary of significant changes, there are several significant changes highlighted:

Other Than Special Fund Non-Tax Revenues

Charges for Current Services – the net increase in FY 19 reflects rebates on prescription drug plans and rate credits or experience gains from insurance carriers to the Hawaii Employer Union Health Benefits Trust Fund (EUTF), Department of Budget and Finance (B&F). +\$36.7 M

Non-Revenue Receipts – The net increases in FYs 20-25 reflect an increase in retiree premiums, effective January 2019, for Other Post Employment Benefits at the EUTF, B&F. +\$14.1 M

The net decrease in FY 19 reflects the update of planned bond issuances for the Housing Project Bond Special Fund Multifamily Fund for providing financing to construct affordable rental housing projects at the Hawai'i Housing Finance and Development Corporation, Department of Business, Economic Development and Tourism. -\$43.0 M

Dr. Suyderhoud moved to accept the B&F report as submitted. Ms. Niwao 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 | Yes |
| Kristi L. Maynard | Yes |

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NEXT MEETING:

The Council tentatively agreed to meet on Thursday, May 23, 2019 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 3:16 p.m.