

## COUNCIL ON REVENUES

### Meeting Minutes, May 28, 2020

Microsoft Team Meeting  
Due to Covid-19 Stay at Home Ordinance  
Meeting was held virtually.

Thursday, May 28, 2020  
2:00 p.m.

#### **PRESENT:**

##### Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,  
Jack Suyderhoud, Kristi L. Maynard, Jessica Gluck, Scott Hayashi

##### Staff Members:

Department of Taxation (DOTAX): Seth Colby, Baybars Karacaovali,  
Department of Budget and Finance (B&F): Donovan Chun

#### **CALL TO ORDER:**

Chair Kawafuchi called the meeting to order at 2:15 p.m. A quorum was present.

#### **ROLL CALL**

<b>Kurt Kawafuchi,</b>	<b>Present</b>
<b>Ms. Marilyn Niwao</b>	<b>Present</b>
<b>Dr. Carl Bonham</b>	<b>Present</b>
<b>Dr. Jack Suyderhoud</b>	<b>Present</b>
<b>Ms. Kristi Maynard</b>	<b>Present</b>
<b>Ms. Jessica Gluck</b>	<b>Present</b>
<b>Mr. Scott Hayashi</b>	<b>Present</b>

#### **COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:**

The Grassroot Institute of Hawaii submitted written public comment.

#### **APPROVED MINUTES OF THE MEETING OF MARCH 11, 2020**

There was no discussion about the minutes of the meeting.

**It was moved by Dr. Jack Suyderhoud and seconded by Ms. Kristi Maynard that the minutes of the March 11, 2020 be approved. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Jessica Gluck</b>	<b>Yes</b>
<b>Scott Hayashi</b>	<b>Yes</b>

**PRESENTATION BY DR. SETH COLBY, TAX RESEARCH & PLANNING OFFICER  
ON CURRENT STATE OF GENERAL FUND REVENUES.**

Dr. Colby delivered a power point presentation on the current state of General Fund revenues, Hawaii economy, and the implications of fiscal and monetary stimulus.

Dr. Bonham commented on the \$1.2 billion in stimulus checks and said most of this hasn't been spent because of the shelter at home ruling. Savings rates have increased, particularly for higher income households, and the money will be spent later. Some of the PPP loans taken by local businesses are for liquidity purposes. The only PPP loans that will be forgiven are those being used for payroll expenses.

Vice Chair Niwao also added that a lot of the PPP loans were made to aid the businesses. The loans were for payroll so that they didn't have to lay off their employees.

Dr. Bonham said that the \$600 increase in Unemployment Insurance will end at the end of July. The PPP loans were designed to cover eight weeks of payroll expenses. The businesses that are not using PPP for payroll will not need to pay back the loans for quite some time.

Chairman Kawafuchi asked a question about the delay in the tax filing deadline from April until July. Dr. Colby answered that the Hawaii Department of Taxation followed the IRS guidance in deferral of the delay of filing of 2019 income tax, but it did not follow the IRS in terms of the delay of the estimated tax payments. The IRS has eliminated the need to pay estimated taxes in April and June, so there may be some confusion regarding what needs to be paid at the federal level and what needs to be paid at the state level.

Vice Chair Niwao added that the estimated taxes for the first and second quarter were not deferred until July 15, 2020. Some of her clients paid the taxes. The issue was that some of them were supposed to get refunds in filing of returns and those overpayments of the refund would not be applied to the estimated tax until the return was filed. There may be more refunds for taxes in April and June. Dr. Colby requested that the discussion on the impact of delay in the filing date be delayed until after the presentation. He had prepared additional materials to aid the Council in that matter. Vice Chair Niwao agreed.

Dr. Colby ended the presentation with several issues that could have material implications the economy and tax collections. What happens to the economy when the stimulus spending runs out? What is the duration of the economic downturn? The longer the crisis continues the more structural damages will occur in the economy. When and how tourism will return? Will there be a large contraction in state and local government spending? Will there be instability in the global financial system? Dr Colby advised the Council to look at the revenue projections and then work back to calculate the changes in terms of percentages.

Dr. Colby shared additional material on the potential impacts of the delayed filing tax date from April 20 to July 20 for individual, trust, and estates, corporate and non-corporate filers. Hawaii did not follow the IRS in cessation of the estimated tax payment for April 2020 to June 2020. There are two estimated tax payments that are due at the state level not due at the federal

level. He said that 1.5%- 3.2% of annual growth will be transferred from FY 20 to FY21 due to the shift in filing period.

Chairperson Kawafuchi asked Dr. Colby for any closing comments. Dr. Colby gave the members the output of a revenue forecasting model along with the underlying assumptions for three different economic scenarios. Chairperson Kawafuchi thanked Dr. Colby for his hard work on presentation.

### **GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2020:**

Chair Kawafuchi opened on the discussion for the General Fund forecast for fiscal year 2020.

Dr. Bonham liked Dr. Suyderhoud's number of -6.5% for current fiscal year. Anything from -6.0% to -7.0% range is reasonable. He added that all unemployment benefits are taxable and the median income earner in Hawaii is receiving more from unemployment benefits than when they were from working. This applies to individuals earning up to \$60,000 to 70,000 a year.

Vice Chair Niwao added GET rental income for June 2020 will not be normal due to the deferral in rental.

Ms. Gluck responded to the issue of rental income. For the larger taxpayer operating on an accrual basis, they will still owe GET even if they are not collecting rent. She does not expect a big dip in tax revenue of rental income for the larger businesses.

Ms. Maynard said that she is very concerned about collection like everyone, and she is very comfortable with the -7.0% range.

Mr. Hayashi agreed with everything that has been said so far and the huge uncertainty makes forecasting difficult. He agrees with a projection of around -7.0%.

Vice Chair Niwao asked Dr. Colby about the -7.7% figure that he came up with by using the bottom up forecasting model.

Dr. Colby wanted to clarify that he did not make a forecast or give ideas/suggestions on what the revenues ought to be. The models provided are meant to aid the members with their forecasts.

Vice Chair Niwao mentioned that Hawaii is losing a lot of rental income from the hotels and vacation rental as there are no tourists coming to stay at the hotels and vacation rentals.

Dr. Bonham used the actual growth rate for May and assumed the same thing for June to come up with a FY2020 estimate of -6.0%.

Dr. Suyderhoud added that he was working with the actual numbers and not the growth rate. Since tourism is already at zero, it can't go lower than then the actual numbers. He came up with the estimate in the range of -6.0% to -7.0% assuming zero tourism revenue. The forecast had gone from a 4.0% to -6.0%, a 10.0% swing. A 10.0% swing is \$750 million which is a huge impact. It is unprecedented, and he is comfortable with the -6.0% to -7.0% for Fiscal year 2020. The action in 2020 is basically over and nothing is going to happen in tourism.

Dr. Bonham moved to have a -6.0% for Fiscal year 2020. Dr. Suyderhoud suggested that Dr. Bonham amend his motion from -6.0% to -7.0% and he would second it. Dr. Bonham amended his motion to -7.0% and Dr. Suyderhoud seconded the motion. Ms. Maynard agreed and she is comfortable with it. Chairperson Kawafuchi asked if there was any discussion. Vice Chair Niwao said it was a little low for her but she is fine with it. Ms. Gluck agreed with discussion. Mr. Hayashi agreed with the consensus.

**It was moved by Dr. Carl Bonham that the General Fund tax revenues growth rate would**

**be -7.0% for FY 2020. Dr. Jack Suyderhoud seconded. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Jessica Gluck</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Scott Hayashi</b>	<b>Yes</b>

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2021 THROUGH 2026:**

Ms. Maynard suggested that they translate the forecast into a dollar amount to discuss the fiscal year 2021 since using percentage can be confusing.

Chairperson Kawafuchi opened the floor for discussion for fiscal year 2021.

The Council discussed the possibility of having the quarantine being lifted for interisland travel and when tourism will return to the islands. Dr. Bonham said there is nothing wrong with economy except from the spillover effect of the shutdown. If the virus can be under control, the economy will come back to some degree.

Vice Chair Niwao said that she has been following the disease closely. She does not think that there is going to be a vaccine for another year or so at the earliest. People will have to adjust or change their behavior, i.e. wearing face masks and social distancing in order to enjoy as much as they can. The visitor market has been affected by the disease. She said that the tourism market will be very limited going forward.

Dr. Jack Suyderhoud's said his forecast was -10.7% and his DoTax model was -9.4%. Ms. Maynard's forecast was more pessimistic -14.0%. Vice Chair Niwao was also -14.0%. Ms. Maynard asked if the Council should do a year by year forecast? Vice Chair Niwao agreed that the Council should do it year by year.

Dr. Jack Suyderhoud said the recession is an understatement, and the Council's forecast depend on the trajectory of the virus and the response of political leadership. The future is very uncertain, and we are just guessing. Everything is dependent on the return of tourism and finding a vaccine. He is happy to have something reasonably low for fiscal year 2021 and move the discussion to the outyears.

Dr. Bonham said that UHERO forecasts assume the US economy would start to recover by the end of calendar year 2021. Europe and the other Asia ex China that were not doing so well before the pandemic, but they have done a much better job controlling the disease. In terms of the tourism market, a return does not require a vaccine. It requires that people are comfortable about traveling. He feels that they are going to see people getting tested before they board the airplane and the State will institute some contact tracing strategy. Tourism will bounce back, but it will not be the old normal.

Dr. Suyderhoud motioned to have the forecast be -12.0% and Dr. Bonham second his motion.

Mr. Hayashi added there may be a second wave of infection but the goal of the quarantine and all the measures that were in place was to flatten the curve. If the government can adequately treat the infected population, the economy will begin to recover. A goal of zero new cases is just not realistic. A prolonged shutdown will devastate the economy.

Ms. Maynard agreed that there are too many unknowns, and she is comfortable with the -12.0% motioned by Dr. Bonham.

Ms. Gluck added that it is not necessary to know when the fourteen-day quarantine is going to be lifted since the Council is looking at the full year and not a month to month. She is comfortable with the -12.0%.

Mr. Hayashi agrees that the -12.0% makes a lot of sense.

Chairperson Kawafuchi called for a vote.

Vice Chair Niwao said she will vote for the motion with the assumption that trans-pacific tourism will return at the end of July.

**A motion was made by Dr. Jack Suyderhoud to have the General Fund revenue for fiscal year 2021 to be at -12.0%. Dr. Carl Bonham second the motion. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Jessica Gluck</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Scott Hayashi</b>	<b>Yes</b>

Chairperson Kawafuchi opened the discussion for Fiscal Year 2022.

Dr. Suyderhoud's forecast was a bounce back of 13.0% for Fiscal Year 2022.

Dr. Bonham's forecast was higher at about 14.0% to 17.0%. When there is big drop in the economy, the bounce back will be higher in order return to normalcy.

Ms. Maynard's estimation was at 10.0% for fiscal year 2022 and 3.0% to 4.0% for the outyears. It is not going to be a quick recovery.

Vice Chair Niwao agreed that they cannot use past historical economic reference as this is very different. Ms. Niwao could not see any other industry in Hawaii that will overtake the tourism industry. It is not going to be a fast recovery. People are still going to be afraid to fly.

Ms. Gluck agreed that her forecast of 10.0% is conservative and that there is going to be some bounce back but no lower than 10.0%.

Mr. Hayashi said that his initial forecast was too optimistic, but he agrees with the discussion that the range should be around 10.0% to 12.0%.

Dr. Bonham added that a 10.0% to 14.0% is good as there are too many unknowns. Nobody knows what is going to happen in 12 months. Ms. Maynard made a motion for 12.0% and Dr. Bonham seconded. Ms. Maynard said that the Council will be able to revisit and adjust the forecast in the future. Ms. Gluck was also comfortable with 12%.

Vice Chair Niwao would like to have it noted in the forecast of 12%, her estimate comes with the assumption that there is a vaccine for future reference.

Chairperson Kawafuchi called for a vote.

**A motion was made by Ms. Kristi Maynard to have the General Fund revenue for Fiscal Year 2022 to be 12.0%. Dr. Carl Bonham seconded. The Chair called for the vote, and the**

**motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Jessica Gluck</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Scott Hayashi</b>	<b>Yes</b>

Chairperson Kawafuchi opened the discussion for the outyears and Dr. Bonham moved to have the remaining years to be at 3.0% and Ms. Maynard second the motion. Other members of the council agreed.

**Dr Carl Bonham moved to have the remaining out years to be as follows : 3.0% (2023), 3.0% (2024), 3.0% (2025), 3.0% (2026). Ms. Kristi Maynard seconded. The Chair called to the vote, and the motion passes with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Jessica Gluck</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Scott Hayashi</b>	<b>Yes</b>

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

**Significant Changes from March 2020 Report**

Mr. Donovan Chun provided the Council with a report of revised projections of General Fund non-tax revenues, non-General Fund tax and non-tax revenues since the March 11, 2020 meeting. The reporting summary includes significant changes. Normally he would highlight on the changes. But he would like to limit his remarks to general comments about the report. A written report on the significant changes was submitted to the Council.

The departments had a difficult time doing their projections. The revenue estimate was completed in the month of May. It started in the beginning of April which was just the very beginning the shelter-in-place. The departments had a lot of uncertainty about what was coming. There are significant changes particularly for the Department of Transportations at the airports and harbors due to the decrease in passenger loads and stopping of travel.

The State received Federal COVID-19 awards of \$1.26 billion as of May 22, 2020. A supplemental document on the awards that were given to the State agencies and departments was included in the report to the Council. Approximately 84% or \$1.06 billion was included in numbers. There was a portion that was not included because they were still waiting for the actual award documentation.

The outyear projection were more difficult. Like the Council, they don't know what

direction the policies are going and how the social distancing policies will impact the out years revenues. Mr. Chun, would allow the Council to peruse the rest of the report.

Ms. Maynard asked Mr. Chun if the \$1.2 billion is all included in Fiscal 2020. Mr. Chun replied, no. There are various time frames for those funds. The biggest portion was the \$862 million that has a time frame of now through December 2020. Some departments also received monies through contracts that they already had with Federal agencies. Those may have a one to four-year time frame. A lot of those contracts are in the social services areas. The departments are trying to push those funds out to the people in need. It depends on the timeline and agreements with the Federal agencies. Ms. Maynard thanked Mr.

Mr. Kawafuchi asked if there were any questions.

Dr. Snyderhoud moved to approve the report. Vice Chair Niwao seconded.

### **General Fund Non-Tax Revenue**

**Use of Money and Property** – the net increases in FY 20 are attributed to an increase in investment pool account earnings due to a combination of higher investment yield and the disbursement of interest to the general fund for prior periods (Department of Budget and Finance (B&F))

**Charges for Current Services** – the net increases in FY 20 are attributed to an increase in federal reimbursements for prior year expenditures (Department of Human Services). The increase is offset by decreases in FY 20-26 for ambulance service fee (Department of Health (DOH)).

### **Special Tax Revenues**

**Transfer of General Excise Tax** – the net decreases in FYs 20-26 reflect revised estimates of general excise tax transfers to the Mass Transit Special Fund (B&F) based on the Council's forecast from the meeting held on March 11, 2020

**Conveyance Taxes** – the decreases in FYs 20-26 reflect projected reduction in conveyance revenues due to COVID-19 pandemic (Department of Business, Economic Development and Tourism (DBEDT)).

### **Special Fund Non-Tax Revenues**

Transfer of General Excise Tax

### **Other Than Special Fund Non-Tax Revenues**

**Use of Money and Property** – the net decreases in FY 20-26 reflect an anticipated reduction in cash balances and reduced forecasted interest earning (Department of Transportation (DOT) – Airports).

**Federal Grants** – the net increases in FYs 20-21 reflect increases in federal awards for airport improvements funded under a CARES Act federal grant (DOT – Airports). The increases are offset by reductions in Medicare Payments due to cessation of elective surgeries, lower

outpatient and emergency room visits as a result to COVID-19 (DOH – Hawaii Health Systems Corporation (HHSC)).

**Charge for Current Services** the net increase in FY 19 reflects higher uncompensated care payments, while net decreases in FYs 20-26 reflect projected losses from cessation of elective surgeries, lower outpatient and emergency room visits as a result of COVID-19 (HHSC), reduction of airport revenues due to a decrease in forecasted enplanements (DOT – Airports) and reduce revenue projection due to dormitory renovation (University of Hawaii (UH)).

**Charges for Current Services, Utilities** – the net decreases in FY 20-26 primarily reflect projected reduction of passenger fees (DOT – Harbors) and projected reduction of airport landing fees, concession revenues, passenger fees, and rental car fees (DOT – Airports) due to COVID-19.

**Non-Revenue Receipts** – the net decreases in FY 20-26s primarily reflect the shift to digital textbooks (UH).

**Other Than Special Fund Non-Tax Revenues**

Uses of Money and Property – the net decreases in FYs 20-26 reflect the estimated decreases in return on investment during the COVID-19 pandemic in the current fiscal year and subsequent years on Other Post-Employment Benefits contribution at the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) (B&F).

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

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Jessica Gluck</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>
<b>Scott Hayashi</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Thursday, July 30<sup>th</sup>, 2020 at 2:00 p.m. It will be a virtual meeting. The Chair adjourned the meeting.

**ADJOURNMENT:**

The meeting adjourned at 5:30 p.m.