

COUNCIL ON REVENUES

Total Personal Income Meeting Minutes **Thursday, July 30, 2020- (2pm)**

Microsoft Teams Meeting
Meeting was held virtually and video [recorded](#).

Thursday, July 30, 2020
2:00 p.m.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation (the Department): Seth Colby and Baybars Karacaovali

CALL TO ORDER:

The Chair called the meeting to order at 2:20 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 was none.

APPROVED MINUTES OF THE MEETING OF MAY 28, 2020:

Chair Kawafuchi called for a motion to approve the minutes. Ms. Maynard moved to approve the minutes. Ms. Niwao seconded.

It was moved by Ms. Maynard and seconded by Ms. Niwao that the minutes of the May 28th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2020:

Chairman Kawafuchi asked Dr. Colby about the revenues for FY 2020. Dr. Colby responded that General Fund revenue was down 6.2% in FY 2020 which was close to the Council's May forecast. Dr. Bonham pointed out that this information will not influence this meeting's decision, which has to do with Total Personal Income.

Dr. Colby highlighted some issues in the COR Total Personal Income (TPI) workbook. He discussed the differences in the forecasting models. He noted that the forecasting models work well during normal times, but it is not very sensitive in volatile conditions like the current economic crisis. He pointed out that some of the income forecasting models increased the forecast numbers, which was due to an increase in transfer receipts. The increase in transfer receipts was due to the fiscal stimulus coming from the CARES Act. Dr. Colby explained why the TPI forecast models stayed the same or increased when we would expect that TPI would decrease in a time of economic contraction.

Dr. Bonham asked where the data point of a decrease in tourist arrivals of 24% for the calendar year came from. Dr. Colby responded that it came from the May 2020 surveys provided by the individual Council members. Dr. Bonham said that these numbers were probably too high.

Ms. Niwao mentioned that income from rents are likely to come down.

Mr. Maynard asked if the Council should be forecasting the calendar year or the fiscal year. Dr. Colby responded that the Council's TPI forecast is for the calendar year. The Council forecasts TPI because the State Constitution says that Non-Federal Appropriations from the General Fund cannot increase any faster than the increase in TPI. In 2019, the appropriation ceiling was \$8.01B according to B&F.

Dr. Bonham suggested that Council anchor their forecast discussion between the DBEDT and UHERO TPI forecasts. The UHERO baseline forecast is -5.0%, which Dr. Bonham believes is too optimistic, and the DBEDT forecast was -10.0%. UHERO predicts almost no income increase in CY 2021 because there will be no fiscal stimulus in CY 2021.

Ms. Maynard asked if the UHERO baseline forecast assumed that tourism would resume at the end of July. Dr. Bonham said yes. The pessimistic forecast assumed that tourism would resume at the end of September. Ms. Maynard had concerns about the labor force and the number of people dropping out. This implies that the unemployment number of 13% probably understates underemployment.

Dr. Bonham said that there was an increase in employment in June, but he expects that trend to reverse in July.

Ms. Maynard noted that the Federal Unemployment Benefits are running out in late July. However, there may be more fiscal stimulus in the pipeline.

Dr. Bonham said that UHERO's pessimistic income forecast was down 6.5%. He would be comfortable with -7.0% TPI for CY 2020.

Ms. Maynard agreed that somewhere between the two numbers seemed reasonable.

Dr. Bonham mentioned the budgetary constraint can be relaxed through emergency proclamation.

Dr. Suyderhoud asked if the UHERO model was based on a bottom up analysis. Dr. Bonham responded that it is a bottom up analysis. Dr. Suyderhoud said -7.0% seems like a reasonable forecast number.

Ms. Niwao said that all the uncertainty surrounding the shutdowns means that some businesses will be lost, which will impact income in the State.

Dr. Bonham said that most of the Council members agree with her perspective. Dr. Bonham said the last UHERO report had labor earnings down 14.0% and dividends, interest, and rents component down 9.0%, but it had transfer payments up 25.0%. Transfer payments represent about 30.0% of total income. Dr. Bonham made the point that CARES Act spending is showing up in TPI through different avenues.

Ms. Niwao asked if government spending would show up in transfer payments. Dr. Bonham said that this would not show up in transfer payments but in normal income.

Dr. Suyderhoud asked about the assumptions about tourism reopening.

Ms. Maynard said that she does not expect tourism to resume in full even if the quarantine restrictions are relaxed.

Dr. Bonham said tourism won't resume to previous levels but it will go up. He does not know what the probability is of tourism opening in September. He said the fact there is no announced plan for tourism is hugely problematic for businesses operating in the hospitality sector.

Ms. Maynard said Hawaii already missed the peak season of summer.

Dr. Bonham said that losing the summer of tourism decreased income by 1.0%. He said the biggest case for optimism may be mass COVID tests. He is reasonably optimistic about opening tourism in September or October. He said Hawaii needs to get its own outbreak under control before tourism can open.

Chairman Kawafuchi said that even countries that have dealt well with the virus like Hong Kong and China are still having trouble with new outbreaks.

Ms. Niwao said in Maui, the tourism infrastructure is greatly diminished, negatively affecting the tourism experience.

Ms. Gluck said something in the -7.0% or -8.0% seems appropriate given the offset from Federal stimulus.

Mr. Hayashi agreed with everything that was said and stated the uncertainties surrounding this forecast.

Dr. Bonham shared payroll data for Hawaii by sector. The payroll data decreased by 10% overall, with the accommodations and food services being the most affected.

Chairman Kawafuchi asked about the airline industry, noting that they may have to make layoffs in September.

It was moved by Dr. Bonham and seconded by Dr. Suyderhoud that the Total Personal Income forecast be -7.0% for CY 2020. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

TOTAL PERSONAL INCOME FORECAST FOR CY 2021:

DBEDT has 2.6% for CY 2021 and UHERO has 0.0%. These are low numbers due to the loss of the transfer payments. Ms. Niwao reiterated that the visitor experience will be different from the past, so some tourists may not come back.

Dr. Suyderhoud said that they are incorporating that outlook into the forecast.

Dr. Bonham said there is uncertainty to the upside for tourism as well.

Ms. Niwao asked about the impact on the State budget.

Dr. Colby said that there is flexibility for the Governor and the Legislature given the state of emergency proclamation. He also suggested that the Council focus on the accuracy of the forecast rather than the impacts.

It was moved by Ms. Maynard and seconded by Ms Gluck for a Total Personal Income forecast of 0.0% for CY 2021. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes

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Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Wednesday, September 9, 2020 at 10 a.m.

ADJOURNMENT:

The meeting adjourned at 3:25 p.m.