

COUNCIL ON REVENUES

General Fund Meeting Minutes Thursday, January 6, 2022

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

Thursday, January 6, 2022
2:00 p.m.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Director Isaac Choy, Seth Colby, Yvonne Chow,
Dongliang Wu, and Roderick Tuliao
Department of Budget and Finance (B&F): Donovan Chun

CALL TO ORDER:

The Chair called the meeting to order at 2:00 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 were no communications to the Council and no public comment.

APPROVED MINUTES OF THE MEETING OF NOVEMBER 2, 2021:

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

It was moved by Ms. Maynard and seconded by Vice-Chair Niwao that the minutes of the November 2nd 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
Kristi L. Maynard	Yes

Scott W. Hayashi **Yes**

Wendell K. Lee **Yes**

PRESENTATION BY DIRECTOR CHOY ON REVENUE ENHANCMENT INITIATIVES

Director Choy clarified with the Commission the term revenue enhancement and proceeded to provide a brief report to the Commission regarding the increase in revenues which included:

1. Stimulus programs (number one reason for revenue increase)
2. Vacation rentals
3. Voluntary compliance
4. Mechanical processes (which allows DOTAX to contact taxpayers regarding errors)
5. Bigger audits which come from multi-state tax commission
6. Lines of communication to help with voluntary compliance

Mr. Hayashi asked Director Choy if there were any initiatives or thoughts about remote workers and trying to identify those individuals to require them or their companies to pay employment taxes or income taxes here in the State.

Director Choy responded currently there is no initiative to identify remote workers, however the State does have a physical presence test.

Mr. Kawafuchi asked Director Choy to provide input regarding improving the process and staff training on multi state taxation.

Director Choy responded that by having office auditors doing multi-state taxation allocation of income and imputing income via expenses it allows DOTAX to be more sophisticated and competent enough to enforce the state's laws.

Ms. Niwao asked Director Choy if the understaffing and delay in processing of Federal returns by the IRS has any impact in the State's ability to record the proper amount of taxes.

Director Choy explained that DOTAX does not rely on data from the IRS due to it being outdated but said that DOTAX does have another avenue to get current data through with modernized e-filing.

PRESENTATION BY DR. SETH COLBY, TAX RESEARCH & PLANNING OFFICER ON REVIEW OF RECENT LEGISLATION:

Dr. Colby presented the current status of General Fund revenue collections.

Dr. Colby presented data from the Preliminary Comparative Statement of State General Fund Tax Revenues for the month of December that showed General Fund collections were up 27.6% year to date.

Dr. Colby presented data of GET being up 37.7%.

Dr. Colby presented data showing individual income tax collections as flat year to date but explained that it was due to the delayed tax payment in 2020 of \$282 million. If the delayed

tax payment was eliminated, adjusted individual income tax revenues would be up 23.0% for the year to date.

[\[PRESENTATION AVAILABLE ON COR WEBSITE\]](#)

DISCUSSION AND VOTE ON THE GENERAL FUND TAX REVENUE FORECAST FOR FISCAL YEAR 2022:

Dr. Bonham started the discussion for the General Fund Forecast of FY2022 by providing context to the Council regarding visitor arrivals.

Dr. Bonham stated that he does not see any evidence of declining bookings or cancellations due the omicron variant.

Ms. Niwao expressed her concerns regarding the shortage of workers and asked Dr. Bonham if the shortage of workers in Hawaii has had an impact on his revenue forecasts.

Dr. Bonham acknowledge that the omicron variant had a big impact this year with regards to worker shortages.

Dr. Bonham stated that although there is a worker shortage the labor force is growing due to businesses adjusting in the way they work which is resulting in a higher productivity with a smaller workforce.

Dr. Bonham said that the labor workforce is already built into the Council's forecast and stated that previous forecast provided scenarios with no growth in the labor force.

Ms. Niwao is concerned that due to the shortage of workers businesses will not be able to recover.

Dr. Suyderhoud shared with the Council the driving factors for his forecast of 25% FY2022 was his assumption of a 20% decline in visitor arrivals relative to 2019 for the rest of the fiscal year which equals to about 8.1 million visitors and the bumping up of his inflation forecast.

Dr. Bonham said that Dr. Suyderhoud's forecast is consistent with the table that Dr. Colby provided based on visitor arrivals.

Mr. Kawafuchi asked Dr. Suyderhoud if the General Fund was going to grow by 25%.

Dr. Suyderhoud responded yes, based on his assumptions in model 1.

Dr. Suyderhoud explained that year-to-date General Fund revenues are up 27%. However, he does not think this will be sustained.

Dr. Bonham said that before the meeting he was working on updating the short run visitor forecast basically assuming that January, February, and March are going to look similar to what happened with the Delta variant in terms of slowdown in arrivals.

Dr. Bonham stated that the bookings have been inconsistent and for that reason he has been more pessimistic about bookings and when forecasting he gets fiscal year arrivals of 7.9 million.

Ms. Niwao asked Dr. Colby how much of the taxation of PPP funds fell into the current fiscal year versus the prior.

Dr. Colby responded that the DOTAX does not have the data to sufficiently answer that question.

Mr. Kawafuchi asked Dr. Colby if he was able to put a revenue estimate on that provision.

Dr. Colby said that the deduction aspect was the expected loss which was \$253 million in total. For FY2022, the expected loss in revenues is \$86 million.

Mr. Kawafuchi asked Dr. Bonham if his growth rate was 12.8%.

Dr. Bonham said yes, his growth rate was 12.8%, but in the Council's model from his assumptions it generates 23.8%.

Ms. Niwao asked Dr. Bonham if that model included the tax adjustments.

Dr. Bonham said no it does not include tax adjustments for below the line stuff.

Mr. Kawafuchi asked the Council if there was further discussion regarding Dr. Bonham's growth rate of 12.8%.

Dr. Colby reminded the Council that they are predicting the below-the-line adjustment and if the Council was to follow the mean of the model it would be a growth rate of 16.4%.

Dr. Bonham stated that when looking at the Council's inputs, he thinks that the income input is too low due to the revisions given from BEA which included third quarter of 2021.

Dr. Bonham also added that the visitor arrivals forecast is too low and noted that visitor spending has grown faster than arrivals.

Ms. Maynard asked Dr. Bonham if all of that was considered for his model forecast.

Dr. Bonham said yes.

Mr. Kawafuchi asked Dr. Bonham what his estimate for inflation was.

Dr. Bonham responded with 5.4% for fiscal year.

Mr. Hayashi agreed with Dr. Bonham visitor arrivals and visitor spending being too low and thinks that 14% growth rate is a little low but 15%-16% makes sense.

Mr. Lee said that when looking at the Council's mean of 16.4% growth rate and with higher inflation it makes sense that the Council can go higher in terms of growth rate.

Mr. Lee also said that he would be comfortable with a 16.4% growth rate.

Ms. Maynard commented that the numbers have been incredibly strong which is good news and would feel comfortable with an average number for growth rate between the Council's forecast and Dr. Bonham's forecast.

Mr. Kawafuchi asked if the average numbers for growth rate would be 12.8% and 16.4%.

Ms. Maynard said yes.

Dr. Suyderhoud said that the excel table provided from Dr. Colby came in around 15.5%-16%. He reminded the Council it assumes 20% growth for the next couple of months and then a significant slowdown for the last three months. Using these assumptions, the growth rate still comes up to more than 15%.

Ms. Niwao said that her main concern is that the State may not be able to repeat April 2020 collections which was quite high.

Dr. Bonham said that the only data the Council has for this fiscal year for total income is for the third quarter which shows a 13% growth over the previous year and stated that the income that we have so far for this fiscal year is growing at more than 10%.

Mr. Hayashi asked Dr. Colby if 2020 unemployment earnings were not taxable and if unemployment earnings for 2021 are taxable was correct.

Dr. Colby responded that unemployment earnings have always been taxable.

Mr. Kawafuchi called for a motion.

It was moved by Ms. Maynard and seconded by Vice-Chair Niwao that the General Fund growth rate forecast be 15.0% FY2022. 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	No
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	No

DISCUSSION AND VOTE FOR THE GENERAL FUND TAX REVENUE FORECAST FOR FY2023:

Mr. Kawafuchi asked Dr. Colby for the Council's model forecast.
Dr. Colby said that the model forecast for FY2023 is 6.9%.
Dr. Suyderhoud motioned for 6.9%.
Mr. Kawafuchi asked Dr. Suyderhoud what his inflation rate for FY2023 was.
Dr. Suyderhoud said that he assumed 4.0%.
Dr. Bonham said he would be comfortable with 6.9%
Ms. Maynard said that her forecast is a little higher than 6.9%.
Ms. Niwao shared her forecast of 5.5%.
Mr. Lee said he is comfortable with 6.9%
Mr. Hayashi also agrees with 6.9%.
Mr. Kawafuchi called for a vote of 6.9%.

Discussion followed regarding the Federal raising of interest rates and whether this could lead to a recession. In addition, the Council discussed geopolitical concerns, effects of climate change, and possible cyber attacks. However, these were not factored into the Council's forecasts.

It was moved by Dr. Suyderhoud and seconded by Mr. Lee that the General Fund revenue growth rate forecast be 6.9% for FY2023. 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
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

DISCUSSION AND VOTE FOR ON THE GENERAL FUND TAX REVENUE FORECAST FOR FY2024 THROUGH FY2028:

The Council was comfortable with their forecast of 4.0% growth rate for FY2024 through FY2028 and no discussion was needed.

Mr. Kawafuchi called for a motion.

It was moved by Ms. Maynard and seconded by Dr. Bonham that the General Fund revenue growth rate forecast be 4.0% for FY2024 through FY2028. 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
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

**REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES
BY MR. DONOVAN CHUN:**

Mr. Donovan Chun provided a report of revised projections General Fund non-tax revenues non-General Fund tax and non-tax revenues since the September 7th meeting. He provided a written report summary of significant changes due to the sunset of act 229.

It was moved by Mr. Hayashi and seconded by Vice-Chair Niwao to adopt Budget & Finance Report. 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
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, March 10, 2022 at 2 p.m.

ADJOURNMENT:

The meeting adjourned at 3:35 p.m.