

COUNCIL ON REVENUES

General Fund Meeting Minutes **Monday, May 23, 2022**

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

Monday, May 23, 2022
2:00 p.m.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Director Isaac Choy, Seth Colby, Yvonne Chow,
Baybars Karacaovali, 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 2:02 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 MARCH 10, 2022:

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

It was moved by Ms. Maynard and seconded by Mr. Hayashi that the minutes of the March 10th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

Wendell K. Lee Yes

**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 for April 2022.

Dr. Colby highlighted that the declared estimated taxes is showing strong growth and that it will affect the June and September numbers.

Dr. Colby suggested that the Council consider the following when estimating for FY2022 and FY2023.

Mr. Kawafuchi asked Dr. Colby if the declaration includes the extension payments made on April 20th.

Dr. Colby responded no extension payments made on April 20th are included in tax payment with returns.

Ms. Niwao asked Dr. Colby if HARPTA withholdings would be categorized under declaration of estimated taxes.

Dr. Colby said he was not sure but will look into it and get that answer for Ms. Niwao.

Dr. Colby shared Table B with the Council which showed the growth rate of FY2022 General Fund Tax Revenues based on various growth rates for the last 2 months of the current fiscal year.

Dr. Colby also highlighted Table 8 which showed the impact of the parameters for FY2022 of Model One.

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

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

Dr. Colby's presentation transitioned the Council into the discussion for FY2022.

Ms. Niwao stated that from her perspective the sales of real estate and sales of stock may count for some of the movement in revenue aside from tourism.

Ms. Maynard noted that on page 2 from Dr. Colby's presentation shows that the TAT (Transient Accommodation Tax) is up from prior year to year to date which is certainly tourism related.

Dr. Colby stated that all of TAT now goes to the General Fund compared to previous years.

Ms. Niwao asked Dr. Colby if the TAT was taken from the counties.

Dr. Colby responded yes, by reducing the amount of allocations towards tourism fund along with reducing other special fund allocations.

Mr. Hayashi asked Dr. Colby if the General Excise line includes the county surcharge.

Dr. Colby said that it does not include the county surcharge.

Mr. Kawafuchi asked Dr. Colby if there was any acceleration in the payments due to more taxpayers having e-file e-pay.

Dr. Colby said that for the GET that has been the case for quite some time so there shouldn't be any discernible changes, but as for the individual it might be a little bit higher.

Mr. Lee asked if there was some kind of multiplier effect with inflation that is occurring on the GET side that could temper these numbers once inflation tamed a little.

Dr. Suyderhoud said that the multiplier effect does occur, but how much specifically he does not know.

Dr. Suyderhoud in his opinion thinks that what's going on is that there's just so much liquidity pumped into the economy by monetary policy and fiscal policy that there's so much money moving around it gets spent and becomes income which benefits our government but having the downside being there's an inflation component.

Dr. Suyderhoud asked Dr. Colby and the Council with regards to the last slide of Dr. Colby's presentation do they think for FY2022 will it be a spike or a shift up. Currently the forecast is showing a shift up because of the positive growth rates for FY2023 and FY2024 and so forth.

Ms. Maynard has the same concerns as Dr. Suyderhoud with regards to the spike noting that if there no federal stimulus being repeated or replaced it would cause a downturn.

Ms. Maynard also acknowledge her concern for potential inflation with the cure being a recession in the future which needs to be considered.

Dr. Colby shared his thoughts and how he views the Hawaii economy in three segments:

1. Local Spending
2. Domestic Visitors
3. Foreign Visitor

Ms. Niwao stated that because of inflation, taxes will be going up and, in her opinion, she believes tax revenues will go up not due to economic growth but mainly because of inflationary pressures.

Dr. Suyderhoud moved 28.0% for FY2022.

It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the General Fund growth rate forecast be 28.0% FY2022. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

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

Dr. Suyderhoud started off the discussion by stating that the State would not be getting new stimulus from Congress on the fiscal policy side, but on the other hand a lot of the old stimulus is still in the system which is money that hasn't been spent yet.

Ms. Niwao shared her concerns regarding the geopolitical events happening that might make people feel less comfortable to travel.

Ms. Niwao believes that we have had probably the best year for tax collections but does not believe that the State is going to see that same performance for FY2023.

Dr. Colby asked Dr. Suyderhoud if he expects there to be negative revenue growth for FY2023.

Dr. Suyderhoud said that he does not know if it will be a negative revenue growth for FY2023 but noted that with all the varying effects going on at the same time the models that the Council uses becomes particularly useful.

Dr. Suyderhoud shared that for his forecast he put in a recession for FY2024, using the models his forecast was 27.0% for FY2022, 10.4% for FY2023, and 4.6% for FY2024.

Dr. Suyderhoud stated that even with all his assumptions he is still coming in with a positive.

Mr. Kawafuchi asked Dr. Suyderhoud what his thoughts were regarding the U.S. GDP (Gross domestic product) while stating that this year it has declined about 1.4%.

Dr. Suyderhoud explained that there are all sorts of problems going on right now such as weather patterns, supply chain interruptions, labor shortages, and higher interest rates which are taking its toll on the markets.

Ms. Maynard thinks that higher interest rates will slow down the real estate market and, due to real estate being a big factor in GDP, she thinks definitely the State revenues will have a slowdown.

Dr. Suyderhoud agreed with Ms. Maynard regarding the slowdown but questioned whether the slowdown would occur in FY2024 or FY2025.

Dr. Suyderhoud said that based on the Councils forecasts their inputs to the model are ranging from 5.7% to 16.5% with a mean of 9.8% according to the summary of model one.

Mr. Hayashi agreed that interest rates will have a huge impact on affordability from a real estate perspective but asked Ms. Maynard if from the supply side it will be offsetting because people will still be willing to pay due to demand.

Ms. Maynard said that inventory has been falling for the past two years but explained that even at a low level it is no longer going down and she thinks they are starting to see a turn.

Ms. Niwao asked Dr. Suyderhoud if he had any thoughts of how the interest rate hike that the people are facing now compared to previous experiences in the late 70's.

Dr. Suyderhoud responded in his opinion the Fed will have to move more aggressively than it has been in terms of cutting off inflation.

Ms. Maynard added that the last time inflation was over 8.0% the 10-year was over 10.0% and mortgages were 13.0%. With that being said, the market is showing that the fed is going to get this under control due to the 2.8% 10-year treasury. However, the market is not necessarily right and in fact is usually wrong.

Ms. Maynard asked Dr. Suyderhoud his thoughts on the growth rate for FY2023.

Dr. Suyderhoud responded that his model brings him in around 5.0% - 10.0%.

Ms. Niwao thinks that 4.0% is a good figure considering wages are going up around 3.8%.

Ms. Maynard asked the Council if they are willing to compromise at 5.0% growth rate for FY2023 with respects to both Dr. Suyderhoud and Ms. Niwao.

Mr. Lee said he would be good with 5.0% growth rate for FY2023.

Mr. Hayashi said that 5.0% growth rate for FY2023 feels much more comfortable.

It was moved by Ms. Maynard and seconded by Mr. Hayashi that the General Fund revenue growth rate forecast be 5.0% for FY2023. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	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:

Dr. Suyderhoud started the discussion by sharing that his model comes in at 4.6% growth rate for FY2024.

Dr. Suyderhoud asked the Council how they felt about maintaining the 4.0% for FY2024 and the 3.5% for the remaining FY2025 - FY2028.

Ms. Maynard suggested 3.5% for FY2024 through FY2028.

Mr. Hayashi and Mr. Lee agreed with 3.5% for FY2024 through FY2028.

It was moved by Vice-Chair Niwao and seconded by Ms. Maynard that the General Fund revenue growth rate forecast be 3.5% for FY2024 through FY2028. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	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 for General Fund non-tax revenues, non-General Fund tax, and non-tax revenues since the March 10th meeting. He provided a written report summary of significant changes due to other than special fund non-tax revenues.

It was moved by Dr. Suyderhoud and seconded by Ms. Maynard 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
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 Tuesday, August 2, 2022, at 2 p.m.

ADJOURNMENT:

The meeting adjourned at 3:40 p.m.