

COUNCIL ON REVENUES
Office On Aging Conference Room
May 30, 2006

PRESENT:

Council Members:

Carl Bonham, Paul Brewbaker, Michael Hirai, Pearl Imada
Iboshi, Jack Suyderhoud and Eric Yeaman

Staff Members:

Department of Taxation: Tu Duc Pham, Yvonne Chow, and Donald
Rousslang

Department of Budget and Finance: Shirl Fujihara, Sharon Kotaka, Keith
Shimada, and Huong Bassford

Others:

Terrence Aratani, Senate Ways and Means Committee
Randall Hiyoto, Senate Ways and Means Committee
Kurt Kawafuchi, Department of Taxation
Titin Liem, Department of Taxation
Nandana Kalupahana, House Finance Committee
Lowell Kalapa, Tax Foundation of Hawaii

CALL TO ORDER:

Dr. Brewbaker (chairman) called the meeting to order at 3:00 p.m.

COMMUNICATION TO THE COUNCIL:

None.

MINUTES OF THE MEETING OF MARCH 6, 2006:

Mr. Yeaman noted that the minutes showed him present at the March 6 meeting, whereas he was absent. Dr. Brewbaker called for a motion to approve the minutes of the March 6, 2006, meeting, subject to the correction noted by Mr. Yeaman. Dr. Iboshi made the motion and Dr. Bonham seconded it. The minutes were approved.

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

Ms. Fujihara presented the report.

Report General Fund Non-Tax Revenues: Ms. Fujihara reported that there were only a couple of significant changes. One, in Charges for Current Services, there was an increase in FY 06 of \$7.4 M and for each of the outyears 07-12 to reflect higher than projected actual fees for the Department of Health's ambulance and emergency medical services. The other large change was in Non-Revenue Receipts. FY 06 increase of \$17.6 M for the Department of Budget and Finance reflects premiums from sale of general obligation bonds.

Special Fund Tax Revenues: Ms. Fujihara reported the only major change in the transfer of transient accommodations tax, which reflect the Council's most recent projections. There was a \$2 M increase in FY 06, then increases of about \$500 K per year to a \$4.5 M increase in FY 12.

Special Fund Non-Tax Revenues: B&F reported that there were a few categories with significant changes. For Federal Grants, increases for FYs 06-12 for the Department of Health reflect adjustments for Medicare. \$3 M in FY 06, then \$6 M per year in each of the outyears. In Other Agencies, for Department of Health, again, decreases for FYs 06 and 07 of \$7 M and \$10 M in each FY 08-12 reflect adjustments for projected tobacco settlement revenues according to the current master settlement agreement. For Charges for Current Services – Utilities, about \$3 M per year increase for FYs 08-12 for the Department of Transportation – Airports reflect anticipated increases in the landing fee system support charge revenues due to increases in debt service requirements. Lastly, for Charges for Current Services – Others, higher than projected actual revenue for FY 05 and increases of about \$13 M in FY 06 to \$40 M in FY 12 for Department of Health reflect expected increases in Quest, Medicaid, Hawaii Medical Services Association, Kaiser Permanente and other third party payments, and general hospital revenues due to anticipated increase in patient days.

Other than Special Fund Non-Tax Revenues: Ms. Fujihara reported on 2 categories with significant changes. Federal grants had 2 departments with large grant activity: Department of Human Services increases for FYs 06-12 due to revised projected claims for the Federal Medical Assistance Program, and the Department of Land and Natural Resources had decreases of \$2 M for FY 06, \$5 M for FY 07 and \$6 M per year for FYs 08-12 due to reduction of Workforce Investment Act funding. The other category, Non-Revenue Receipts, had adjustments for FYs 06-12 for the Department of Budget and Finance to reflect updated impact of the March 1, 2006 implementation of the Hawaii State Teachers' Association Voluntary Employees' Beneficiary Association health and benefit plans. Decreases of \$25 M in FY 06, and fluctuating decreases in each subsequent year.

After the presentation by the Department of Budget and Finance, Dr. Brewbaker asked if there was a motion to accept the report. Mr. Yeaman made the motion and Dr. Iboshi seconded it. The motion carried.

DISCUSSION OF THE COUNCIL'S FORECAST:

Dr. Pham reported that the current forecast in table 1 of the Department of Taxation's General Fund forecasting report (hereafter the DOTAX report) was adjusted to incorporate a new "below-the-line" adjustment for recent legislative changes to the individual income tax law. The standard deduction was increased and the tax brackets were expanded. (The changes were given in table 1.1, which was handed out at the meeting.) (The below-the-line entries are technical adjustments to the forecast to account for such factors as a difference in the number of collection dates in the month, changes to the tax law, or other changes not incorporated into the forecasting equations.) Dr. Pham reported that the changes would reduce collections by about \$30 million in FY2007 and \$60 million per year thereafter.

In regard to the \$200 million below-the-line adjustment for the transient accommodations tax (TAT), Dr. Pham noted that most of the TAT revenues are dedicated to Special Funds and to the counties. Director Kawafuchi explained that only a small part of the TAT revenues, the excess of the TAT revenues over a target amount dedicated to other funds, flows into the General Fund. Dr. Iboshi noted that table 3.1 of the DOTAX report showed the amount of the TAT that remains in the General Fund.

Dr. Brewbaker asked about the below-the-line adjustments for tax credits. Dr. Pham explained that the adjustments for the credits decline after FY2006, owing mainly to changes in the law for the high-technology investment credit. The high-technology credit is set to expire after 2010. Dr. Iboshi asked when the Department of Taxation's study on tax credits would be released. Dr. Pham answered that the latest study, covering data for tax year 2003, would be out soon.

Dr. Brewbaker asked how far off the forecast was. Dr. Pham referred the Council members to tables 7A, 7B and 7C of the DOTAX report and said if growth continues at 5% for the last two months of the fiscal year, the forecast would be 1% too high, if growth occurs at 10%, the forecast would be right on target, and if growth occurs at 15%, the forecast would be 1 percent too low. Regarding the recent growth trend of tax revenues, Dr. Pham indicated that, because of the heavy rains (that occurred in February and March), growth had been flat for March and April. Director Kawafuchi said collections so far for May were \$392 million, with two days of collections remaining. Dr. Pham expected collections to be about \$20 million for May 30 and \$80 million for May 31 and that the total for May could reach \$500 million. He also said the increase is due mostly to higher estimated income tax payments and he noted that higher income tax liabilities in 2005 tend automatically to generate higher estimated income tax payments in 2006.

Dr. Bonham pointed out that according to BEA statistics, there was 3% job growth in the last quarter, but real income growth of only ½%. He felt the income growth will be revised upward. In regard to the growth in tourism for CY2006, Dr. Brewbaker, Dr.

Iboshi and Dr. Bonham provided forecasts that ranged from 2.8% to 3.5%. Dr. Pham noted that with price increases of 12% or 13% in room rents, dollar revenues can rise substantially even with no increase in the number of tourists.

Dr. Brewbaker asked if other Council members thought the changes to the income tax law warranted a forecast revision. Dr. Suyderhoud noted that the change accounted for about 50 or 60 basis points (0.5% to 0.6%) reduction in the growth rates for FY2007 and FY2008. Dr. Suyderhoud made the motion to retain the March 2006 forecast on record and Mr. Yeaman seconded the motion.

Before the motion was voted on, Dr. Brewbaker asked about the below-the-line adjustment for the Federal Economic Growth and Tax Relief Act. Dr. Pham said it was for the effective elimination of the estate and inheritance tax for people dying after December 31, 2004. Director Kawafuchi explained that estates could delay payments, so some payments of the tax are still coming in. Dr. Suyderhoud noted that the estate and inheritance tax could be deleted, both above and below the line.

Dr. Bonham asked if a single equation was used to forecast the General Fund revenues, or if separate forecasts were made for the individual taxes and then summed to get the General Fund forecast. Dr. Pham answered that separate forecasts were made for the individual taxes and then summed. He noted that other agencies, such as the Hawaii Tourism Authority, have found the separate forecasts for the various tax types useful. Dr. Bonham proposed a workshop to review the forecast methods, as well as the "below-the-line" adjustment items.

Chair Brewbaker agreed, and hoped that some of the "below-the-line" adjustments could be eliminated. Mr. Yeaman expected that these issues would be resolved during the Council's forthcoming workshop session.

Following the discussion, the Council adopted the motion to leave the forecasts of General Fund tax revenues unchanged.

NEXT MEETING:

The next meeting to forecast total personal income was scheduled for Tuesday, August 1 at 2:00 p.m. at the same location, to be followed immediately by the workshop at 3:00 p.m. The meeting to forecast the General Fund was scheduled for Wednesday, September 6 at 3:00 p.m. at the same location.

ADJOURNMENT:

Dr. Brewbaker asked for a motion to adjourn. Dr. Bonham made the motion and Mr. Hirai seconded it. The motion was approved and the meeting adjourned at 4:15 p.m.