COUNCIL ON REVENUES

Office on Aging Conference Room
No. 1 Capitol District Building
250 S. Hotel Street
Fourth Floor, Room 410
Honolulu, HI 96813

Wednesday, March 12, 2008
2:00 P.M.

PRESENT:

Council Members:
Paul Brewbaker (Chair), Jack Suyderhoud (Vice-Chair), Carl Bonham, Dean Hirata, Richard F. Kahle, Jr., and Albert Yamada

Staff Members:
Department of Taxation: Tu Duc Pham, Yvonne Chow, and Cathleen Tokishi
Department of Budget and Finance: Keith Shimada, Karen Matsunaga, and Terri Ohta

Others:
Gordon Arakaki, Senate Committee on Ways and Means
Huong Bassford, Department of Budget and Finance
Charles Carole, Oahu Metropolitan Planning Office (Citizen Advisory Committee)
Anthony Davis, House Minority Research Office
Derrick DePledge, Honolulu Advertiser
Denby Fawcett, KITV
Lowell Kalapa, Tax Foundation of Hawaii
Kurt Kawafuchi, Department of Taxation
Nandana Kalupahana, House Committee on Finance
Michael Ng, House Committee on Finance
B. J. Reyes, Honolulu Star-Bulletin
Titin Sakata, Department of Taxation
Wayne Yoshioka, Hawaii Public Radio News
Bert Yoshishige

ABSENT:

Council Members:
Pearl Imada Iboshi

CALL TO ORDER:

The Chair called the meeting to order at 2:08 P.M. with a quorum present.

COMMUNICATIONS TO THE COUNCIL:

The Chair acknowledged the receipt of a letter dated February 7, 2008, from Governor Lingle thanking the Council for its January 2008 report.

MINUTES OF THE MEETING OF JANUARY 9, 2008:

The Chair asked if there were any corrections to or comments about the minutes of the January 9, 2008, meeting.

Ms. Tokishi noted corrections of typographical errors. Dr. Suyderhoud asked that "fiscal" be added where appropriate to distinguish references to fiscal years from calendar years. There were no other changes, so the Chair called for a vote.

It was moved by Mr. Kahle, and seconded by Mr. Yamada, that the minutes of the January 9, 2008, meeting be accepted with the changes previously noted. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES

Ms. Matsunaga reported the significant changes from the January 2008, report.

General Fund Non-Tax Revenues: Significant changes in FYs 2008–2014 were attributed to projected decreases in the reimbursement of the county surcharge on the general excise tax (based on the Council's January 2008 overall projections—as noted by the Chair, the Council does not do line-item forecasts), offset by increases due to transfers from non-general funds for pension accumulation, social security reimbursements, workers compensation, and unemployment compensation; and transfers from the Antitrust Trust Fund and the Public Utilities Special Fund.

Special Fund Tax Revenues: Significant changes in FYs 2008–2014 were attributed to Act 316, Session Laws of Hawaii (SLH) 2006, as amended by Act 102, SLH 2007, which designates part of the cigarette tax (0.25 cents per cigarette in FY 2008) for the Department of Health’s (DOH) Trauma System Special Fund, and an equal amount for the Emergency Medical Services Special Fund. This was partially offset by decreased transient accommodation taxes based on the Council’s January 2008 overall General Fund revenue growth forecasts.

Special Fund Non-Tax Revenues: Significant changes in FY 2007 were due to adjustments relating to the reporting of Hawaii Health System’s Corporation’s (HHSC) actual revenues. As requested at the January 2008 meeting, the Department of Budget & Finance (B&F) explained that HHSC is not subject to the Department of Accounting and General Services (DAGS) reporting requirements in the State’s accounting system and its actual FY 2007 revenues were understated. This problem was addressed by basing HHSC's revenues on its unaudited financial statements.

Significant changes in FYs 2008–2014 were due to net increased projections by the Department of Transportation under the categories Use of Money and Property, Federal Grants, and Charges for Current Services — Utilities and Other Enterprises (based on amended signatory airline lease extension agreements); increased University of Hawaii undergraduate tuition fees resulting from the growth of the new West Oahu campus; Department of Hawaiian Home Lands increases to correct general lease projections; DOH increases due to a correction in the reporting of revenues for Medicaid eligible reimbursements previously recorded as Other Than Special Fund revenues; and net HHSC decreases based on lower than projected FY 2007 revenues and delays in the phasing of the new cardiovascular program at Maui Memorial Medical Center.

Other Than Special Fund Non-Tax Revenues: Net FYs 2007–2014 decreases were due to changes in projected federal funds, cost allocation assessments for risk management (DAGS), employee health plan contributions paid by the employer and the employee, and sales activities for the Department of Public Safety's correctional industries program. Also contributing to the net decreases were the correction of reporting errors for the Department of Business, Economic Development and Tourism’s public facilities development dedication fees, and the correction of DOH revenues from the reimbursement for Medicaid eligible services, which should be more appropriately recorded as Special Fund Non-Tax revenues.

The Chair called for a motion to approve the report.

It was moved by Mr. Hirata, and seconded by Mr. Kahle, that the report of the Department of Budget and Finance be accepted. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

DISCUSSION OF DRAFT SINGLE-TABLE FORMAT FOR BUDGET & FINANCE REVENUE DATA PRESENTATION

Ms. Matsunaga distributed a draft of the table requested by the Council that consolidates the four tables that B&F currently provides to the Council. A major problem, how to reflect transfers between funds, was resolved by identifying such transfers as adjustments. The next step is to create a common format for the current worksheets, after which they should be able to consolidate them into a single table.

Ms. Matsunaga asked if the Council would prefer to see the previous report's entries lined-out when changed (as is currently done) or whether they would prefer to just see the net bottom line changes. The Council agreed that line outs were helpful, but recognized the difficulty in doing that. The Chair stated that, for this report, net adjustments were sufficient, but that it would be helpful to highlight the big movers. A future improvement would be to identify changes that resulted from changes in the Council's overall forecast.

In response to a question from Dr. Suyderhoud, Ms. Matsunaga explained that the table has only a single line for "Revenues—Tax" because the detail is contained in a single worksheet. More detail is provided under "Revenues—Other Than Tax" because that section consolidates the other three worksheets.

The Chair recognized the difficulty of this task and expressed the Council's appreciation for the effort being made by the B&F staff.

GENERAL FUND REVENUE FORECAST:

The Council began with a discussion of how the economic forecast is changing. Mr. Hirata stated that his revised forecast showed Hawaii Real Gross Domestic Product (GDP) growth down slightly, moving to the more sustainable levels of 3 to 4 years ago—2.8% for FY 2008 and 2.7% for FY 2009—and then trending up to 3.1% in FY 2014.

Dr. Bonham noted that his actual Total Personal Income (TPI) forecast should have been half that of the Council's mean and his visitor forecast was negative.[1] A revised forecast based on yesterday's jobs data is even lower.

The Chair stated that U.S. GDP grew at only 0.6% for the last quarter, but some believe it will return to the 2.5% potential U.S. GDP growth rate. Hawaii's potential GDP will be below the U.S. potential, 1.8% to 2.0%, through the end of the decade due to various constraints, and actual growth will not exceed the potential. In the near term, the negative impacts on the national economy will not affect Hawaii's economy to the same extent. However, when the U.S. emerges from the current housing and associated consumption slump and accelerates, it will have a higher steady-state rate of growth for the next few years than Hawaii can achieve.

Dr. Bonham's projections indicate that Hawaii's real income growth will not approach its potential, around 2.0%, until FY 2011. Last year, the Council forecast 1.7% job growth, and the jobs data remained strong through all of calendar year (CY) 2007. However, the revised data showed that only January had job growth over 2.0%; the actual annual growth rate was only about 1.1% (1.059% non-farm) compared to almost 2.0% in the un-revised data.

The Chair distributed a handout showing a deceleration in jobs growth based on the revised jobs data that are worse than the risk he had previously calculated with respect to the un-revised data. This hard braking of Hawaii's economy in the last half of last year is more consistent with the General Fund data through February 2008 than the un-revised employment growth rate.

Dr. Bonham pointed out that the Quarterly Census of Employment and Wages (ES-202) January report on CY 2007 jobs in the professional business services (management and administrative services) category showed a growth rate of 5.4%; yesterday's report lowered the CY 2007 growth rate to -0.9%.

Both Dr. Bonham and the Chair noted that the household employment survey showed growth through June 2007 followed by negative growth every month beginning in July, such that the year ended where it began with 0.0% year over year growth. The Chair observed that the peak in the economy usually does not become clear until 6 to 18 months after the peak occurs, and that the peak in unemployment generally occurs one year after peak in the economy.

Dr. Bonham pointed out that the ES-202 data are also used to revise the TPI data and that he therefore expects the TPI to be lower in April, and lower still after the annual re-benchmarking of TPI in September. According to the Bureau of Economic Analysis (BEA) and the Consumer Price Index (CPI), they are expecting 1.5% real growth this fiscal year, but it may very well be 0.0% growth.

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[1] Year-old data was mistakenly submitted and incorporated into the Council's mean forecast of key economic indicators.

The Council then discussed the CPI, which, given the Phillips Curve's inverse relationship of inflation to unemployment, should result in inflation coming down faster than expected as the economy slows and unemployment rises. However, the Council was off in FY 2007 in part because oil was $90 a barrel at a time when it had forecast $70 a barrel; in FY 2008, nobody forecast the current $110 a barrel. However, Dr. Bonham did not believe that inflation would accelerate, and that it would be 4.3%.

There was some discussion on the impact of various CPI components such as shelter, food, energy, apparel, etc., though for the current year energy costs and the weak dollar are the main drivers. The Chair observed that the inflation rate did not appear to be affecting general excise tax collections. Dr. Suyderhoud noted that the general excise tax growth is expressed in nominal terms; at about 4.0%, it is 0.0% in real terms, which is consistent with flat payrolls and flat real income.

In response to questions from the Council, Dr. Pham and Director Kawafuchi discussed Departmental factors such as budget cuts that would affect collection and other activities, increased processing speed of returns and payments, and the possible impact of the federal stimulus payments. The Chair stated that these special factors would wash out and that they should focus on the underlying economic factors. It was also noted that the slowing economy may result in more tax delinquencies and that it would also be more difficult to collect on those delinquencies.

In the remaining four months of the current fiscal year, revenues would have to grow at 3.0% to achieve a 3.5% revenue growth for FY 2008, at 6.0% to achieve a 4.6% revenue growth, and at about 6.9% to achieve the Council's January 2008 4.9% revenue growth forecast. The consensus was that reducing the Council's previous forecast by 1.0% would be consistent with Dr. Bonham's 1.0% decline in the jobs and TPI forecasts.

The Chair called for a motion on the General Fund forecast for FY 2008.

It was moved by Mr. Kahle, and seconded by Mr. Hirata, that the FY 2008 below the line growth rate be 3.9%. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

The Chair began the discussion of the forecast for FYs 2009–2014 by stating that he believed that the 1 percentage point drop discussed with respect to the FY 2008 forecast would have little effect on growth rates for the remaining years since they are starting from a lower base.

Dr. Bonham said that it in part depends on whether the possible U.S. recession is just for one quarter or whether it drags on for several years. The Chair indicated that he didn't think it would drag on, and that he was more concerned about core inflation than the risk of a recession.

Further discussion was held regarding the expected trough in private residential investment in 2010 and 2011 due to construction cost inflation, which will be partially offset by military residential construction, the non-inclusion of rail construction at this time, and government capital spending. The Chair also pointed out that the new president will in the coming years have Medicare/Medicaid, the federal deficit, the ongoing war in Iraq, and other major fiscal issues to deal with that will have macro-economic impact.

At this time, the Chair called for a motion on the FY 2009–2014 forecast.

It was moved by Dr. Suyderhoud, and seconded Mr. Kahle, that the below the line growth rates previously forecast for FYs 2009 through 2014, 4.1%, 4.9%, 4.7%, 5.0%, 6.2%, and 6.0%, respectively, be retained. The Chair called for the vote, and the motion passed with the following votes:

Paul Brewbaker	Yes
Jack Suyderhoud	Yes
Carl Bonham	Yes
Dean Hirata	Yes
Pearl Imada Iboshi	Absent
Richard F. Kahle, Jr.	Yes
Albert Yamada	Yes

NEXT MEETING:

The next reporting date is Sunday, June 1, 2008, regarding the General Fund Revenue forecast for the current fiscal year. The next meeting will be held on Thursday, May 29, 2008, at 2:00 P.M.; staff will try to again reserve the Office of Aging Conference Room.

ADJOURNMENT:

The meeting adjourned at 3:15 P.M.