

COUNCIL ON REVENUES

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

Thursday, May 21, 2015
2 p.m.

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,
Christopher Grandy, Elizabeth P. Cambra, Jack P. Suyderhoud and,
Kristi L. Maynard

Staff Members:

Department of Taxation (DOTAX): Donald Rousslang

Department of Budget and Finance (B&F): Terri Ohta, Gregg Hirohata-Goto,
Donovan Chun and, Neal Miyahira

Others:

Sharon Kotaka, Budget & Finance
Karen Matsunaga, Budget & Finance
Claudia Miranda, Budget & Finance
Ron Akana, Budget & Finance
Calvin Azama, Senate Ways and Means
Chris Ty, Senate Ways and Means
Sabrina Nasir, Senate Ways and Means
Jason Ubay, Pacific Business News

CALL TO ORDER:

Chair Kawafuchi called the meeting to order at 2pm. A quorum was present.

PUBLIC COMMENTS OR COMMUNICATIONS TO THE COUNCIL:

Chair Kawafuchi asked if there were any public comments or communications to the Council.
There were none.

MINUTES OF THE MEETING OF MARCH 12, 2015:

Chair Kawafuchi called for a motion to approve the minutes for the meeting of March 12. Dr. Suyderhoud moved to approve the minutes and Ms. Niwao seconded the motion.

It was moved by Dr. Suyderhoud and seconded by Ms. Niwao that the minutes of March 12th 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
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Yes

UPDATE RE: REFUND FRAUD:

Dr. Rousslang introduced DOTax Director Maria Zielinski and Deputy Director Joseph Kim to the Council. Director Zielinski referred the Council to hand-outs that had been distributed previously. She said the first one had data on individual income tax refunds that had been sent to the members in an email, but that she also had some additional tables. By way of background, she noted that newspaper stories had mentioned that refund processing has been delayed because of the extra steps needed to identify fraudulent returns. She said that such steps have been necessary in the last several years and that the Department has been investigating patterns for certain tax preparers. She said the Department has added screening checks to the returns that were not used last year and that has slowed processing of the tax returns. She said the Department originally expected to process returns within 6 to 8 weeks, but that as shown on our website, the lag can now be as long as 16 weeks, so refunds are being delayed. She said that the Department staff has been working hard on the problem, but that they did not have a fraud unit. The Department has folks that screen for fraud, but not a special fraud unit as some other states. She said it was something that would need to consider in the future, because the scammers are getting more sophisticated. She said the Department has developed an ad hoc group taken from different areas, including field audit and office audit, but also others with knowledge of the issue, to investigate fraudulent claims. She said there was a need for the Department to plan proactively.

She then directed the members to the first page of the hand out, which showed actual refunds of the individual income tax for FY's 2013 and 2014 and thus far for FY 2015. She noted that refunds in April were low (\$38.4 million). She said that based on Tax Research and Planning projections, about \$495 million of refunds would be claimed in FY2015 if there were no delays in refund processing, whereas the cumulative total for refunds as of the end of April was only \$221.4 million. She said she anticipated that another \$170 million would be paid out in May and June for a total of about \$391.4 million to be paid out in FY 2015. (She said that the Department was currently holding about \$143 million dollars in returns that were being handled right now.) She said that according to TRP's (Tax Research & Planning) estimate, that left an additional \$103.6 million in refunds for FY 2015 that might be processed in the next fiscal year. She then presented three scenarios. Scenario 1 growth rates are based on the assumption that there are no refund delays next year, so that we catch up in 2016, including the \$104 million that we moved to FY 2016 from FY 2015. Dr. Suyderhoud asked for clarification. He asked if the projected growth rate of 7.4% for the scenario reflected the expected refund delays. Director Zielinski said yes.

Director Zielinski then continued with scenario 2, which she said was based on the assumption that refund delays in FY 2016 and later years would resemble those for FY 2015. Finally, she said that scenario 3 assumed that half of the refund delays are caught up, so that \$52 million of refund claims in FY 2016 and later would be processed in the next fiscal year. She said she believed scenario 3 was the most likely.

Chair Kawafuchi asked Director Zielinski how large fraudulent refunds were as a percentage of the collections and the dollar amount that has been uncovered so far. Director Zielinski said she did not have a total amount for fraudulent refunds that she was sufficiently comfortable with to provide. Dr. Grandy asked if she had a sense of how much of the time and resources that are put into the exercise of combating fraudulent returns might form a base that will not have to be reconstructed in future years. Director Zielinski said the Department has set up an internal system of screening, but that every year the people filing fraudulent returns become more sophisticated. She said some of the Tax Department staff recently went to a conference in Seattle where states discussed various strategies. Dr. Grandy asked if the Tax Department had done such an effort two years ago and maintained it, whether the refund delays this year would be as big as they are. Director Zielinski said perhaps not. She said if anything, the Department might have opted this year for too much screening, trying to reach a standard of perfection that was too high.

Dr. Bonham noted that greater fraud detection leads to greater fraud discovery, which might lead to greater efforts to limit fraud. Director Zielinski agreed. Ms. Niwao said that she is currently president of the National Society of Accountants, and that tax practitioners have noted that people have stolen the identification numbers from preparers and have filed tax returns asking for refundable tax credits. She said fraud was being extended to deductions and the refundable credits. Director Zielinski agreed the problem was becoming more pervasive. Ms. Niwao said she had thought about proposing a new Hawaii tax preparer registration law through the Hawaii Association of Public Accountants.

Dr. Suyderhoud asked to follow up on Chair Kawafuchi's question. He asked if the extent which the response to fraud delays the revenues as well as the refunds. He said he understood that Director Zielinski did not want to be specific in terms of the amount of fraud, but he noted that the amount of fraud that people are getting away with affects the revenue forecast, so he wanted to know from Director Zielinski if she could say if the problem was on the order of \$100 million or \$10 million. Director Zielinski said it was more the latter, but she also noted that no one could be certain about the actual amount of fraudulent refunds, because if they were known they would not have been paid out in the first place. However, analytics, such as historical comparisons of the average amount per return, indicate that the problem is quite small relative to total collections, probably less than 1%.

Chair Kawafuchi said that as an outsider who has been in the position of Tax Director, that the Department might be missing a lot of staff with experience. He said when he was in the position, the Department had people like Steve Hironaka and others in the tax processing unit with a lot of experience to screen out potential fraudulent returns and he thought the Department was currently missing that kind of experience. Director Zielinski said she couldn't speak for the past and that she had only been in her current position for about six months, but that based on her experience in the private sector and in State government she was favorably impressed with the Department's staff. Chair Kawafuchi agreed, but noted that in the past the Department had people with a lot of experience, 30 years plus, in handling fraudulent returns and in processing returns. Director Zielinski agreed that institutional knowledge was good, but pointed out that the Department currently had a lot of new and upcoming folks with strong analytical capabilities and IT background. She said the Department's biggest problem in that regard is the number of vacancies, which is being addressed aggressively. Chair Kawafuchi asked about the estimated refunds to be paid out in May and June. Specifically, he wanted to know whether that would

affect the general fund directly, if the refunds were going to be only processed by the Department or transferred to DAGS (Department of Accounting & General Services) for issuing. Director Zielinski said the figure of \$170 million will be a direct reduction in the general fund total for FY 2015. Chair Kawafuchi said if he recalled correctly, the big push is in the first week in July, because that's when the Department was trying to get the vouchers out to DAGS so they don't have to pay any interest (it's a 90-day period that ends in the middle of July). Director Zielinski said yes, July 20th. Chair Kawafuchi said there used to be a big push in the first week of July. Director Zielinski said they had been meeting on that question to minimize the amount of interest that we pay, and the numbers were manageably low.

Dr. Bonham asked if the delay in refunds was affecting the time it takes to cash checks. Director Zielinski said no. Dr. Bonham noted that it took a month for his payment to clear the bank, which he thought was a little bit longer than normal. Chair Kawafuchi said he came from a HSCPA luncheon where Tom Yamachika spoke and there were numerous comments about the delay not only in refunds but also in processing of checks. Director Zielinski gave the example of her mother who is 88 and sent a payment in February that was due April 20th and said a month afterward, "I don't know what happened - my check didn't clear." But she said she and Joe Kim (the Deputy at DOTax) were actively looking at different options, because such delays were not an unacceptable thing. Deputy Director Kim said they were addressing how long it takes to process a check and how to get into the revenue screen quicker and so we are looking at the two main options. One involved using the scanners at First Hawaiian Bank, in which a test run has already been done. Chair Kawafuchi said the counties seem to have it down pretty good. Deputy Joe Kim said the volume is much lower on the neighbor islands and he thought their processing time was running about a week. Chair Kawafuchi mentioned Honolulu's real property tax, which is paid twice a year. Dr. Bonham said the thing that matters is whether we are processing slower than last year.

Director Zielinski said she could not answer that question, but that the Department was aware of the situation and working to get it resolved. Ms. Niwao said processing was slow last year, too. Ms. Maynard asked whether the amount of fraud is more like \$10 million rather than \$100 million. Director Zielinski said yes. Ms. Maynard said then the issue is the refund situation that is making this year higher; next year lower. She asked if the new processing measures would have the opposite effect on the other side, and how big the effect would be. Dr. Suyderhoud asked if Ms. Maynard was talking about the check cashing. Ms. Maynard said yes. Director Zielinski said when we get either the lock box or a remote deposit done it would basically produce 4 to 6 weeks worth of revenue immediately. Dr. Suyderhoud said it wouldn't have that much effect on fiscal year collections because of the due dates – income taxes are due April 20. Dr. Bonham said they were talking about one month of income tax collections. Ms. Maynard asked about the timing of the new system. Director Zielinski said the cash lock box would require a change to the form itself, which would require another year to implement. She said the other option could also be implemented next tax season. Chair Kawafuchi asked if the new systems being mentioned were just to process the cash, or whether they referred to the whole computer system. Deputy Director Kim said the new tax modernization system would be installed in phases. Chair Kawafuchi asked what phases would be in effect next year. Director Zielinski said the change in the hardware, the scanning were priorities.

Ms. Niwao asked if it was mainly for the individual tax not the GET. Director Zielinski said ultimately it would be used for everything. Ms. Niwao said it seemed like we kind of caught up about two years ago with faster deposits, and then it started taking longer. She said maybe we

had negative 1.8% growth because we had a slowing of the deposits into the system and that would reverse when the new system is implemented.

Ms. Maynard said she remembered being told at one time that the deposits had been speeded up, because the returns with checks in them were processed first and then refunds were processed after that. Ms. Niwao said the policy or procedure was later changed and then it became slower again. Dr. Bonham said most of the taxes are paid in the period from March to May, the payments with returns in June and July are less than \$10 million dollars (\$4 or \$5 million dollars). So, if you gain one month, it's not enough to matter, because it's a fraction of 1% in income taxes. And that's looking at total income tax, not just those paid electronically. Ms. Maynard said it was still a good thing to do. Director Zielinski agreed.

Chair Kawafuchi asked if there were further questions for the Director or the Deputy Director. Dr. Bonham said he had a few comments on the materials Dr. Rousslang prepared. He said he had built a small model and that he used to forecast what refunds would be this fiscal year and came up with an estimate of \$486 million. He said he was reasonably comfortable with saying that we would speed things up a little next year, but did not think we would catch up entirely. He said he thought the problem would grow in future years. So maybe the half caught up is a good assumption.

Dr. Suyderhoud said that would be scenario 3. Dr. Bonham said yes. Ms. Maynard asked if scenario 1 was complete catch up. Dr. Suyderhoud said yes.

Dr. Grandy said he spent time running some regressions as well just trying to determine if he could identify the effect of income tax refunds on general fund revenue. He said the simple regression showed refunds to be statistically significant and negative, but when he put in a dummy variable for FY2010/FY2011 (because of the policy decision to hold back refunds) the refund variable is no longer statistically significant, although the dummy is significant. He said an additional dummy for the recent refunds (a dummy from October 2014 through April) was not statistically significant. Dr. Suyderhoud asked if he was using quarterly data. Dr. Grandy said he used monthly data. Dr. Bonham said that was similar to what he found when he estimated a model of refunds and then forecast it forward - the difference between the forecast and actual was not statistically significantly different from zero. He thought the result came, because the errors in the regressions are so large. Dr. Grandy agreed.

Dr. Bonham asked if the slowing of refunds started at the beginning of the fiscal year. Dr. Suyderhoud noted that refunds through December there are less than they were the year before. Ms. Maynard noted that \$100 million was a big number. Dr. Bonham agreed that it would affect the forecast this year.

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2015:

Chair Kawafuchi asked Dr. Rousslang to go through the results of the models for the general fund revenue forecast. Dr. Rousslang said the models were quite close, 5% growth for 2015 by model 1, 5.1% by model 2 (the UCLA model) and 4.7% by the single equation model. Dr. Suyderhoud said that based on our prior discussion about the refund lag, we should add 1.9 or 2% for that lag effect. Ms. Niwao said she understood that the US GDP (Gross Domestic Products) estimates dropped quite a bit the first three months. Dr. Suyderhoud said yes, it was only 1.1% for the first quarter. Dr. Bonham said he thought it was 2% but would be negative

when they revise it, just like last year. Ms. Maynard asked why the revisions were uniformly downward. Dr. Bonham said there was a heated debate among the federal reserve, the Bureau of Economic Analysis and others about how much of this is bad seasonal adjustment. He said several people in the regional feds are arguing that a lot of it is bad seasonal adjustment and that when you take that into account, you'd actually have a relatively modest growth of less than 2% for the first quarter. He said that there were a number of factors influencing that number – the port slowdown, the horrible weather, and also real factors like the exchange rates and the slowdown in investment driven by lack of oil and gas drilling. He said people are waiting for consumers to start spending their gas dividend, (from cheaper gas), but that hasn't shown up yet. He said optimists are looking for a stronger second quarter, but the monthly data haven't yet shown that. As for how that affects Hawaii, he said we're on track for the first half of this year to have very strong visitor growth, because airlift is being added. Ms. Niwao said she thought Hawaiian Air was cutting back. Dr. Bonham said they were cutting back to Japan. Ms. Cambra said they were cutting back on unoccupied seats. Ms. Maynard said the economy is up and the spending growth is very modest. Dr. Bonham said the spending was weak in the first quarter (actually negative) which is not too surprising given the currency movements. Chair Kawafuchi said he noticed more vacant seats going back and forth than he saw a year ago. Dr. Bonham said adding 10% or 15% on airline seats might create some vacant seats. Dr. Suyderhoud asked Ms. Cambra about visitor numbers. Ms. Cambra said they were not very different from the Council's last meeting, that things were slightly down. She said expectations were for visitor arrivals to exceed last year and that the airlines have adjusted their price points a little bit - this summer the airfare price is down about 8%, which was healthy because it would help fill more seats. She said visitor arrivals from Japan and China, Australia remained a little bit off, but Australia is not negative at this point, even after many years of positive growth. Dr. Suyderhoud asked if China was negative. Ms. Cambra said slightly, but that other markets were absorbing the slack. Dr. Bonham asked if Ms. Cambra's remarks were limited to Oahu. Ms. Cambra said she was predominantly talking about Oahu. Dr. Bonham said the Japanese data were bizarre, with visitors to the neighbor islands dropping dramatically at the end of last year. Chair Kawafuchi asked how much things were up – whether it was 1% or more like 5%. Ms. Maynard asked if the trend was flat or down. Ms. Cambra said it depends on the market, but net growth was 2% to 3%, after many years of positive growth. Dr. Bonham asked for clarification, whether Ms. Cambra was referring to revenues. Ms. Cambra said yes, revenues.

Chair Kawafuchi asked Carl about spending. Dr. Bonham said aggregate spending declined in the first quarter. Ms. Maynard said January and February the visitor count was down, but that March was a good month. Ms. Cambra said that even though we consider ourselves expensive to the international traveler, it's a great value, that both food and shopping still considered a value, though not so much for domestic travelers. Dr. Suyderhoud asked what Ms. Cambra saw in the way of Chinese visitors. Ms. Cambra said the Chinese visitor numbers were not growing at the pace that it was anticipated – they were growing, but very slowly. She said the tourism industry needs to get ready with things like signage, menus, language skills, and hospitality skills. Dr. Suyderhoud asked if visas were an issue. Ms. Cambra said yes. Chair Kawafuchi said he made a recruiting trip to Beijing and was surprised there wasn't as much awareness of Hawaii as he had assumed. Dr. Bonham said that with the added airlift and lower fuel prices, the question of how strong the year is depends importantly on whether the US visitors fill up some of the planes and spend their gas dividend in Hawaii this summer. He said the main question was whether they increase their spending enough to off-set the weakness in Japan.

Dr. Suyderhoud suggested focusing on the natural forecast, before taking account of the 1.9% growth caused by refund delays. He asked if the current forecast of 5.5% implicitly included the refund delay. Dr. Bonham asked why the 5.5% forecast would include the refund delay. Dr. Suyderhoud said it was part of the discussion. Dr. Bonham said the forecast was based on the assumption the Department would catch up with refunds by the end of the fiscal year. Dr. Suyderhoud said he had discounted some of that. Dr. Grandy said year-to-date, over the last 12 months general fund revenue growth was about 6.35%. Dr. Suyderhoud asked if that included the delayed refunds. Dr. Grandy said yes, so he thought FY 2015 might show growth of 7%. Dr. Bonham asked if that figure was consistent with the number we're getting on the year-to-date growth from the Tax Department. Dr. Suyderhoud asked for the Department's figure for year-to-date growth. Dr. Rousslang said it was 9.5%. Dr. Grandy said his figure was for the period from April 2014 to April 2015. Dr. Bonham asked if the end of the prior fiscal year showed slow growth and that from his quarterly single-equation regression was predicting growth of 8%. Dr. Suyderhoud asked if Dr. Bonham's estimate reflected the refund delays. Dr. Bonham said it was an unadjusted quarterly result. Dr. Grandy said he thought the refunds delays were built into his number.

Ms. Niwao asked if other members thought the fact that GDP for the first three months was down was a temporary phenomenon, or whether the rest of the year would reflect some downturn caused by the change in the dollar exchange rate. Dr. Bonham said many of the currencies actually reversed themselves over the last month or so, reflecting the notion that the Federal Reserve would go slower in raising interest rates. Dr. Suyderhoud said the first quarter GDP reflected the stronger dollar - imports are up and exports are down. Ms. Niwao asked whether the effects of the stronger dollar would continue for the rest of the year. Dr. Suyderhoud said yes, but that it would not slow growth to 1% for the entire year. Dr. Bonham said he did not expect recession. He pointed out that first quarter growth has been weak several times.

Dr. Grandy said we've been growing at real rates of slightly greater than 2% and that's continuing, even including the recent first quarter estimate. He said the trend has been flat since 2010 - growth has been flat at 2%. Dr. Bonham said people expect growth to increase, but it has not happened. Dr. Suyderhoud said the interesting thing is that the source of growth has changed - fiscal policy, investment, or consumer spending. He asked for a below-the-line forecast for FY 2015. He asked if anybody believed growth would be 5% for fiscal year 2015? Dr. Bonham asked for growth year-to-date. Dr. Rousslang said it was 9.5%. Dr. Bonham moved to adopt 7.5% for FY 2015. Dr. Suyderhoud seconded the motion. Ms. Maynard said 7.5% seemed a bit high. Ms. Niwao agreed. Chair Kawafuchi asked for a vote. The motion carried.

Dr. Bonham made a motion that the general fund tax revenues growth rate be at 7.5% for FY 2015 (below-the-line). Dr. Suyderhoud seconded. The Chair called for the vote, and the motion passed with the following votes (4 to 3):

Kurt Kawafuchi	No
Marilyn Niwao	No
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	No

GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2016 THROUGH 2021:

Chair Kawafuchi moved the discussion to the forecast for the out years (FY 2016 through 2021). Dr. Suyderhoud noted that the model was predicting below-the-line growth of 6.5%, but that refund delays would reduce the estimate. He asked what the underlying revenue forecast would be for FY 2016 without the effect of refund delays. He noted that table 6AA showed a forecast below-the-line at 6.6%. Chair Kawafuchi asked whether scenario 3 assumed that we would fully catch up with the current fiscal year's refund delay. Dr. Suyderhoud said no. Dr. Rousslang said the scenario assumed half of the effect of the refund delay was eliminated in FY 2016. Dr. Bonham said the numbers in scenario 3 assumed that the refund delay would add about 2% to revenue growth for FY 2015. Chair Kawafuchi questioned if there was any double counting of the effect of the refund delay. He was concerned whether it might have been part of the original 5.5% forecast and then added to get to 7.5% growth. Dr. Suyderhoud pointed out that the members had already voted on the forecast for FY 2015, but that he was not averse to revisiting the vote.

Chair Kawafuchi moved the discussion to FY 2016 and the remaining out years of the forecast. He said he was not clear on what was meant by the statement that half of the refund delay would be caught up in FY 2016. Dr. Rousslang said it meant that \$52 million would be moved from FY 2016 into FY 2017, and each year thereafter, so there would be no effect on net collections in FY 2017 and later. Chair Kawafuchi asked if the scenario was assuming future refund fraud of half the present amount. Dr. Suyderhoud said it was not the effects of refund fraud, but of the refund delay. Chair Kawafuchi asked if the estimate of \$495 million in refund claims made in FY 2015 was for bona fide refunds, or the total refund amount being claimed. Dr. Rousslang said it was the amount of refunds that would be processed absent any refund delays. Chair Kawafuchi asked how the amount of fraudulent claims affected the refund estimate. Dr. Suyderhoud said that the members had accepted an estimate of fraudulent claims of \$10 million. Dr. Rousslang said the estimate includes any fraudulent refunds that go out. Chair Kawafuchi asked if the \$170 million in additional refunds for FY 2015 would be reduced by stopped fraudulent claims. Dr. Rousslang said no, the estimate of \$170 is what we expect to pay out. Chair Kawafuchi asked if the refund estimates were all bona fide refunds. Dr. Rousslang said they were estimates of refunds that would be made, including any fraudulent refunds that are actually paid out.

Chair Kawafuchi asked about fraud in future years. Dr. Suyderhoud said it was important not to confound the refund fraud with the refund delay. Chair Kawafuchi asked if the assumption was that refunds would be caught up. Dr. Suyderhoud and Ms. Maynard said the assumption was that half of the refunds would be caught up next fiscal year. (The members discussed the effects of the assumptions on refund delays on the pattern of net collections in FY 2016 and later.) Dr. Bonham suggested starting with the baseline forecast and then deciding on the adjustment for the effect of the refund delays. (The members questioned the calculations in the various scenarios regarding the pattern of future refund delays and asked for further clarification.)

Dr. Suyderhoud suggested proceeding in a two-step process, first setting the underlying growth forecast and then adjusting for the effect of refund delays. He said there was \$100 million in delayed refunds to take account of, but first he wanted to make the baseline forecast for FY 2016, before accounting for the refund overhang. Ms. Maynard asked if it would be easier to forecast a dollar amount. Dr. Grandy said no, that the nice thing about using growth rates to forecast is that they were relatively stable over time in the sense that there was no trend taking us

up or down indefinitely. Ms. Maynard said she understood, but that they had an artificially high forecast for this year and they had to forecast a lower number for next year taking that into account. Dr. Suyderhoud agreed that the high number for fiscal 2015 needed to be part of the discussion for the growth rate for 2016. He said 5.5% is pretty close to the average growth in tax revenues. He said the forecast he submitted for the Council's previous meeting was for US nominal GDP growth of 4.5%, whereas his latest forecast was for growth of 3.2%. He said his visitor spending number has been reduced by ½% - arrivals went up a little bit, but spending went down. He said his estimate for Hawaii GDP growth rate was cut by ½%. He said the model predicted growth of 5.75% for FY 2016 based on his inputs, down from what he had before. Dr. Suyderhoud said the Council forecasts based on the model ranged from 5.9% to 7.5% for FY 2016, with the average being 6.5%. Ms. Maynard said that estimate seemed high. Chair Kawafuchi asked what the cumulative refund delays as of the end of April. Dr. Rousslang said they were down by \$177 million compared with last year. He said that taking out the refunds, growth this year through April was 5.2%.

Dr. Bonham said he was not averse to using the 5.5% growth for FY 2016 before accounting for the effect of delayed refunds. Dr. Suyderhoud asked if that growth rate was to be applied to the higher base for FY 2015 caused by the refund delays. Dr. Bonham suggested finishing the out years before coming back to the question of the adjustments for the refund delays. Dr. Suyderhoud said 5.5% growth is an average year for State's revenue. Ms. Niwao asked Ms. Maynard if she was comfortable with 5.5% baseline growth for 2016. Ms. Maynard said yes. Dr. Grandy said he was comfortable with 5.5% for the next fiscal year for the baseline forecast.

Chair Kawafuchi asked Dr. Rousslang why collections for last June were so low, because he recalled that May and June were historically strong. Dr. Rousslang said he did not know. Dr. Bonham proposed keeping the existing above-the-line growth forecasts for the out years. Ms. Maynard seconded the proposal. Ms. Niwao asked for clarification that what was being proposed was not the official forecast. Dr. Bonham and Dr. Suyderhoud said yes, it was not the official forecast. Dr. Bonham said the next question was the adjustment for the refund delays. Dr. Suyderhoud said the forecast was really a below-the-line forecast, but before accounting for the refund delays. Dr. Bonham agreed and amended his motion. Ms. Maynard seconded the amended motion. Chair Kawafuchi called for the vote. It was unanimous.

Dr. Bonham made a motion that the general fund revenue forecast for the remaining fiscal years, before adjusting for delayed refunds, be: 5.50% (2016); 5.50% (2017); 5.50% (2018); 5.0% (2019); 5.0% (2020); 5.0% (2021). Ms. Maynard seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Yes

Chair Kawafuchi said the next topic was the general fund number. Dr. Suyderhoud said he was most comfortable with the Tax Department's scenario 3. Dr. Bonham said he was more inclined to scenario 2. Chair Kawafuchi said he had confidence in the current Director of Taxation and

thought the Department would catch up, based on his experience. Dr. Bonham asked if he thought fraud would persist. Chair Kawafuchi said there would always be some fraud, but he thought the Department would get more efficient in identifying refund fraud, so the effect on refund delays would be reduced. Ms. Maynard said she thought the first year in combating refund fraud would be the most difficult and that with experience the refund delays would shrink, so she favored scenario 3. Dr. Suyderhoud moved that they adopt the growth rates set out in scenario 3. Ms. Cambra and Ms. Maynard seconded the motion. Chair Kawafuchi called for the vote. Dr. Grandy asked for clarification that the forecast was for scenario 3 for FY's 2016 through 2021. Chair Kawafuchi said the forecast was for 2.7% growth in 2016; 6.4% in 2017; 5.5% in 2018; 5% in 2019; 5% in 2020; and 5% in 2021. The vote was unanimous.

Dr. Suyderhoud made a motion that the official general fund revenue forecast for the remaining fiscal years growth rates be: 2.7% (2016); 6.4% (2017); 5.50% (2018); 5.0% (2019); 5.0% (2020); 5.0% (2021). Ms. Cambra and Ms. Maynard seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Yes

Mr. Chun from Budget & Finance provided the Council with the following revenue updates.

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

General Fund Non-Tax Revenues

Non-Revenue Receipts – the increase in FY 15 is due to the transfer of a litigation settlement with several national credit card companies. (+\$12,567,785 (15))

Special Fund Non-Tax Revenues

Federal Grants - the revised FYs 15-21 estimates are mainly due to the reduction of federal funds reimbursed to the State for unemployment benefits to federal employees and ex-servicemen, Department of Labor and Industrial Relations. (-\$20,000,000 (15-21))

Other than Special Fund Non-Tax Revenues

Federal Grants - the net increase in FY 15 reflects additional federal grants available for the federal medical assistance program, Department of Human Services. (+\$28,000,000 (15))

Non-Revenue Receipts - the net increase in FY 15 reflects the increased contributions for the Other Post-Employment Benefits Plan by the State, City and County of Honolulu, City and

County of Honolulu Board of Water Supply, County of Hawaii, Kauai County, Maui County, and Hawaii Department of Water to Hawaii Employer-Union Health Benefits Trust Fund (EUTF) (B&F) which are based on actual contributions received through April 2015 and estimated contributions through June 2015. (+\$89,000,000 (15-21))

Dr. Suyderhoud moved to accept the B&F report as submitted and, Ms. Maynard and Ms. Niwao seconded. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	Yes
Carl S. Bonham	Yes
Christopher Grandy	Yes
Elizabeth P. Cambra	Yes
Kristi L. Maynard	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, July 30, 2015 at 2pm; however, the date and time will be confirmed by e-mail. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

The Chair adjourned the meeting.

ADJOURNMENT:

The meeting adjourned at 3:53 p.m.