

COUNCIL ON REVENUES

Meeting Minutes, September 9, 2020

Virtual Zoom Meeting
Due to Covid-19 Stay at Home Ordinance
Meeting was held virtually
[Video Recording](#)

Wednesday, September 9, 2020
10:00 a.m.

PRESENT:

Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,
Jack Suyderhoud, Kristi L. Maynard, Jessica Gluck, Scott Hayashi

Staff Members:

Department of Taxation (DOTAX): Seth Colby, Baybars Karacaovali,
Department of Budget and Finance (B&F): Donovan Chun

CALL TO ORDER:

Chair Kawafuchi called the meeting to order at 10:15 a.m. A quorum was present.

ROLL CALL

Kurt Kawafuchi,	Present
Ms. Marilyn Niwao	Present
Dr. Carl Bonham	Present
Dr. Jack Suyderhoud	Present
Ms. Kristi Maynard	Present
Ms. Jessica Gluck	Present
Mr. Scott Hayashi	Present

COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:

None

APPROVED MINUTES OF THE MEETING OF JULY 30, 2020

There was no discussion about the minutes of the meeting.

It was moved by Dr. Jack Suyderhoud and seconded by Ms. Kristi Maynard that the minutes of the July 30, 2020 be approved. 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
Kristi L. Maynard	Yes
Jessica Gluck	Yes
Scott Hayashi	Yes

**PRESENTATION BY DR. SETH COLBY, TAX RESEARCH & PLANNING OFFICER
ON LEGISLATION PASSED IN THE 2020 LEGISLATIVE SESSION**

Dr. Colby discussed SB 2920, the Tax Conformity Law and SB 2820, which amends the Renewable Energy Technologies Income Tax Credit to disallow utility scale solar projects approved after December 31, 2019 from receiving the credit. Both bills are expected to have no material impact on General Fund revenues.

**PRESENTATION BY DR. SETH COLBY, TAX RESEARCH & PLANNING OFFICER
ON THE CURRENT STATUS OF COLLECTIONS**

Dr. Colby presented on the collections impact of shift in the filing deadline from April 2020 to July 2020 for tax year 2019. The shift in filing deadline shifted approximately \$308M (4.3% of FY20 revenue) from FY 2020 to FY 2021. There was a shift of \$281.6M for individual income taxes and a shift of \$26.7M for corporate income tax.

Dr. Colby presented data that showed that General Fund collections were up 5.6% for the first two months of FY 2021 relative to the same period last fiscal year. If collections were adjusted for the \$308M due to the deadline shift, the General Fund collections would be down 20.7% relative to the same period in the previous fiscal year. Dr. Colby presented data on the year on year trends of GET collections, withholding taxes, and Hawaii collections relative to the other states.

DISCUSSION OF GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2021

Dr. Bonham made the comment that given the fall in last year's revenues, it is difficult to arrive at the -12.0% forecast for FY 2021, even if it is assumed that revenues will continue to be down by 20% on a monthly basis for from October until March. The poor collections that occurred in April-June in 2020 provide a very low baseline.

Dr. Suyderhoud asked Dr. Bonham about his assumptions on tourism. Dr. Bonham said he believes that the lower end forecast is in the realm of negative 20%, in line with the adjusted collections for July and August with no tourists. Dr. Bonham assumed that tourism begins again in November with very low numbers, in the range of several thousand a day. He estimated that total arrivals for FY 2021 would be 1.8 million. That implied being at 40-50% of tourist arrivals

by the end of fiscal year. He pointed out that his belief that -12.0% is too low comes from the arithmetic of collections. Even if collections are down 20-25% in the second and third quarters of the fiscal year, it is hard to arrive at a figure of -12.0%. He is assuming that the widespread use of a vaccine will be distributed in the middle of CY 2021.

Ms. Niwao worried about the lapse of fiscal stimulus funds once the CARES Act money is used up. She also expressed concerns that demand from tourists for Hawaii will be lower than before. She said that a lot of the tourism infrastructure has gone away diminishing the experience for tourists.

Dr. Bonham stated that his assumption is that 20% of tourist arrivals compared to last year is a very pessimistic assumption. He said that there is a 40% room booking rate in January 2021. He said that there is evidence of demand especially from higher income households less affected by this recession (compared to lower income households).

Ms. Maynard said it will be hard to get to 20% for the year given how bad the first half of the year has been.

Mr. Hayashi asked Dr. Bonham if his assumption that the 20% in arrivals assumes 40% occupancy rates for the second half of the year. Dr. Bonham said he does not have a lot of confidence in the booking numbers for the last half of the fiscal year since it is too far away. He said that there is evidence of demand for Hawaii tourism during the holiday season. He requested that Dr. Colby run the numbers, assuming that revenues are down 25% for the second and third quarters of the fiscal year. Dr. Bonham said his calculations predict FY 2021 growth rates will be down 8.0% under those assumptions. Dr. Bonham said his models include a lower per day visitor spending assumption.

Ms. Niwao said it will take a while to rebuild the tourism infrastructure and return to high level of tourism spending.

Ms. Maynard said that her assumptions are more pessimistic. Dr. Bonham said that DOTAX models are too pessimistic. Dr. Bonham said that the last quarter of FY2020 collections were already reduced, so it is easy to have positive percentage growth over FY 2020 Q4.

Dr. Bonham asked Dr. Colby to calculate the annual percentage change with the assumption that revenues are down 25% from October until March 2021. Dr. Colby plugged in the following assumptions into the model: down 25% for October until March and up 20% for April to June. The increase in 20% takes into account the payment of CY2020 income taxes that was not present in the previous year. His calculations suggested that revenues would be down 10.2% for FY 2021.

Dr. Bonham said that a 12.0% forecast implies that things will get worse from the current conditions.

Chairman Kawafuchi pointed out that the economy is currently benefitting from the fiscal stimulus, so things could in fact get worse.

Dr. Bonham said that according to UHERO's survey 10-15% of small businesses do not expect to reopen. If the State can reopen tourism, he does not believe economic condition will get worse. Both Dr. Bonham and Dr. Suyderhoud assumed 1.8M tourist arrivals in FY2021 in their forecasts.

Ms. Niwao pointed out that estimated taxes are just estimates, so they are based on prior year tax. It may be the case that the current year income will be lower than 2019 income.

Dr. Bonham proposed a motion for minus 11.0%. Dr. Suyderhoud seconded the motion.

Ms. Niwao had a question about retail sales. She is worried that it is down significantly. She believes that the revenue will come in around 12% or 12.3%.

Chairman Kawafuchi is looking at other countries and believes further lockdowns are likely.

Dr. Bonham says that these are real risks, but mass testing and the vaccine are likely on the horizon.

Ms. Gluck thought that minus 11.0% was a reasonable forecast. Mr. Hayashi agreed.

It was moved by Dr. Carl Bonham that the General Fund tax revenues growth rate would be -11.0% for FY 2021. Dr. Jack Suyderhoud 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
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	Yes

DISCUSSION OF GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2022

Dr. Bonham said that 12% may be too optimistic given the collection bump that occurred in July 2020 which boosts up the denominator.

Dr. Suyderhoud said that 2021 will be a low collections year, so it will be an easier base to grow from.

Ms. Gluck said it would require a 9.8% growth to get back to \$6.5 billion.

Dr. Suyderhoud said that his assumption for tourism arrivals will double in FY 2022.

Ms. Niwao said that virus will still likely be here in the summer of 2021. The virus will likely be with us for several years.

Dr. Bonham pointed out that forecast implies that revenues will not return to FY2019 levels until 2025, so these are not optimistic revenues.

Ms. Maynard mentioned that there will not be two income payments, so they should expect around 4.0% less than normal. Or you could subtract the \$308M from the expected revenues.

Ms. Niwao said that it does not appear there will be substantial additional CARES Act funding or the doubling up of income tax payments made with tax returns filed in the same fiscal year, as will be the case for the fiscal year ended June 30, 2021. The doubling up of income tax payments will occur because the original due date for 2019 Hawaii income tax returns was extended from April 15, 2020 to July 15, 2020 due to the pandemic.

Ms. Maynard motioned for a forecast rate of 8.5%. Dr. Bonham and Dr. Suyderhoud thought this was too low. Ms. Maynard said that this does not include the 4% from the second income tax payment.

Ms. Niwao seconded the motion of 8.5% because it does not appear that there will be substantial additional federal stimulus money such as that provided by CARES Act.

Ms. Maynard added that the recovery should be higher for FY 2023.

Dr. Bonham said that this rate returns FY collections of \$6.46B, \$80M less than the May forecast.

Ms. Gluck agrees that 8.5% is a reasonable number.

Mr. Hayashi thought the 8.5% rate is too low. He believes business travel will return as well.

Dr. Bonham said that he though 8.5% is too low, but given the uncertainty the difference between 8.5% and 11.0% is not that large.

A motion was made by Ms. Kristi Maynard to have the General Fund revenue for fiscal year 2022 to be at 8.5%. Ms. Marilyn Niwao seconded the motion. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Jack P. Suyderhoud	No
Carl S. Bonham	No
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	No

GENERAL FUND REVENUE FORECAST FOR FISCAL YEARS 2023 THROUGH 2027:

Ms. Maynard said she would support a more rapid growth for the out years. She suggested that 5.0% for FY 2023 would be more appropriate. She believes that the economy will eventually return to normal.

Dr. Bonham motioned to increase the forecast for FY 2023 to 6.0%, FY 2024 to 4.0% and 3.0% for the remaining outyears.

Ms. Maynard seconded that motion.

Ms. Niwao asked as to why they were thinking it would be 3.0%. She was concerned about the inflation factor in later years.

A motion was made by Dr. Carl Bonham to have the General Fund revenue for fiscal year 2023 to be at 6.0%, 2024 to be at 4.0%, and 3.0% for FY 2025-2027. Ms. Kristi Maynard seconded the motion. 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
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	Yes

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

Significant Changes from September 2020 Report

Mr. Donovan Chun presented the Department of Budget and Finance report of revised projections of General Fund non-tax revenues, non-General Fund tax and non-tax revenues since the May 23, 2020 meeting. Although our report includes a summary of significant changes, there are several significant changes:

General Fund Non-Tax Revenues

Charges for Current Services – the net decreases in FYs 20-27 are attributed to decreases in federal reimbursements of prior year expenditures in FY 20 (Department of Human Services), reimbursements of health premiums for non-general funded positions in FYs 20-27 (B&F), and reimbursements of prefunding for Other Post-Employment Benefits (OPEB) in FYs 21-25 due to the temporary suspension of prefunding payments due to the COVID-19 pandemic (B&F).

Other Than Special Fund Non-Tax Revenues

Federal Grants – the decrease in FY 20 primarily reflects the reclassification of federal funds awarded to the State of Hawai‘i to provide for coronavirus relief to a separate federal COVID-19 funds category and the updated FY 20 revenue estimates with actual amounts. The net increases in FYs 21-26 reflect: expected changes in timing of reimbursements to provide support for operation, maintenance, and repair costs for Army National Guard Facilities statewide and additional federal funds for the Hawai‘i National Guard Youth Challenge Academy at the Department of Defense; additional federal funding for comprehensive literacy State development at DOE; additional federal funding for substance abuse prevention and treatment services at the Alcohol and Drug Abuse Division and revised revenue estimates for the Family and Health Services program at DOH; revised projections of disaster relief supplemental funding received by the Office of Community Services at the Department of Labor and Industrial Relations; and additional grants for various research and training at UH.

Ms. Kristi Maynard moved to accept the B&F report as submitted. Vice Chair 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
Jessica Gluck	Yes
Kristi L. Maynard	Yes
Scott Hayashi	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, October 29th, 2020 at 3:00 p.m.
It will be a virtual meeting. The Chair adjourned the meeting.

ADJOURNMENT:

The meeting adjourned at 12:30 p.m.