

COUNCIL ON REVENUES

General Fund Meeting Minutes **Thursday, January 7, 2021**

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

Thursday, January 7, 2021
2:00 p.m.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Director Isaac Choy, Seth Colby, Yvonne Chow,
Baybars Karacaovali, and Roderick Tuliao

CALL TO ORDER:

The Chair called the meeting to order at 2:00 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). A letter to the Council on Revenues was submitted by Director Choy regarding the Council's treatment of Federal Stimulus dollars in the Council's forecasts. The Council responded to the letter with a general conversation.

APPROVED MINUTES OF THE MEETING OF OCTOBER 29, 2020:

Chair Kawafuchi called for a motion to approve the minutes. Dr. Suyderhoud moved to approve the minutes. Ms. Maynard seconded.

It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the October 29th meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes

Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

COUNCIL ON REVENUES DOTAX PRESENTATION BY DR. SETH COLBY:

Dr. Colby presented the amount of the federal stimulus directed to the State of Hawaii and the current state of revenue collections [PRESENTATION AVAILABLE ON COR WEBSITE].

DISCUSSION AND VOTE ON THE GENERAL FUND REVENUE FORECAST FOR FY 2021:

Dr. Colby presented a forecasting model in an excel spreadsheet that the Council members could use to formulate a forecast.

Dr. Bonham said that model implies that even under extremely pessimistic scenarios, it is very hard for revenues to reach the lows of the existing forecast. This is because the base numbers for the months of April, May, and June of 2020 are so low that there has to be some improvement relative to the same period last month. Short of a total lockdown for the rest of the year, it is hard to reach the revenue figures that exist in the forecast.

Ms. Gluck said that there were two factors that will boost month-over-month numbers. First, the fact that tax return payments will be paid on time in April 2021 rather than being deferred to July as they were last year. Second, the revenues are being compared to a low base from the start of the shutdowns in the last quarter of FY 2020.

Ms. Niwao stated that the West Coast is struggling with the virus and are in total lockdown. These areas of the United States represent the sources of the main visitor markets. She also noted that Hawaii has lost foreign visitors like those from Japan. She said that there is a disparity in the performance of the tourism market by island.

Dr. Bonham said that even if the State's recovery stays completely static, there is no way to arrive at the current forecast of -11.0%.

The Council discussed the appropriate assumptions for each month for the rest of FY 2021.

Ms. Niwao was concerned that there will be less taxable income which will diminish the payments that are usually associated with tax filings.

Dr. Suyderhoud stated that the amount of income will not be as high as the previous year due to business with substantial losses.

Dr. Bonham said there is a currently a complete disconnect between unemployment and income because of the federal income. He stated that UHERO's General Fund forecast model is -7.0%. He does not believe that the FY2021 forecast will improve to -2% or -3%.

Ms. Maynard felt comfortable with -7.0% and was surprise with the revenue for FY2021

Dr. Suyderhoud stated that he was comfortable with a -7.0% or 8.0% for FY2021.

Ms. Niwao expressed her concerns regarding PPP funds, deductions and C.A.R.E.S. provisions.

Ms. Gluck thought -7.0% was a reasonable after running through different scenarios.

Mr. Hayashi said -7.0% is a worst-case scenario in his opinion. He suggested -6.0% referencing the mean forecast.

Ms. Niwao said that she would be happy with -7.0% assuming that expenses from PPP loans are not allowed to be deducted.

It was moved by Dr. Bonham and seconded by Ms. Maynard that the General Fund Revenue forecast be -6.5% for FY 2021. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

DISCUSSION OF THE VOTE FOR GENERAL FUND REVENUE FORECAST FOR FY 2022:

Dr. Suyderhoud stated there's going to be a recovery and will be substantial because the state will be recovering from a low base. He believes it will be larger than 7%.

Dr. Bonham said that the Federal Fiscal stimulus will begin to wane in FY 2022, which will offset the gains from visitors and the return to work.

Ms. Niwao agrees that more businesses will have a harder time of meeting the requirements of PPP 2, and they will have a harder time to getting all of the Fiscal Stimulus.

Mr. Hayashi noted that there may be pent up demand deriving from all the Fiscal Stimulus money.

Dr. Bonham acknowledge Mr. Hayashi's take and noted that the type of bounce back. He said that economy will also depend on how much or if the State and Local governments reduce spending.

Ms. Maynard said that FY 2021 had two individual income tax payments, so that is a lot for FY 2022 to get over. If she assumes that monthly revenue increases by 10%, that would produce a FY2022 forecast of 4.6%.

Dr. Bonham said that UHERO expects a decent economic recovery by the end of the calendar year. He assumes that visitor arrivals will stay at 25% of previous year and continue that way until the end of the fiscal year. Visitor arrivals will increase and reach 70% by the end of the calendar year. That would be about 20,000 visitors a day by December 2021.

Ms. Niwao said that according to Dr. Fauci's comments, he said that the country would get back to normal in mid Fall.

Dr. Bonham said this assumption is incorporated into their forecast.

Ms. Niwao said that this forecast needs to explicitly state that they are not assuming another shutdown of travel.

Ms. Maynard suggested that 4.6% compared to FY 2021 would be the result if there was a month on month increase of 10% across the board.

Dr. Suyderhoud replied that 4.6% being is a bit low due to rebounds tending to be better.

Ms. Gluck said that since the 2021 forecast took the extra payment of \$308 million out, and so this money is not included in the base. That is why the calculations are so low.

It was moved by Dr. Bonham and Ms. Maynard seconded General Fund Revenue forecast of 6.0% for FY 2022. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

DISCUSSION AND VOTE ON THE GENERAL FUND REVENUE FORECAST FOR FY'S 2023-2027:

Dr. Colby stated that the Council's outyear mean forecast of 3% reflects a pessimistic long term forecast. Dr. Colby pointed out that tax collections grow faster than nominal GDP growth. This is because a large portion of General Fund revenues come from individual income tax, which increase by an average of 5% or 6% per year. The long-term time horizon for General Fund revenues historically went up around 4.8% a year. When the Council forecasts outyear General Fund growth of 3%, they are forecasting a scenario where economic growth is less than in the past.

Dr. Bonham said that the 3% forecast reflected a declining population and the end of a period of economic growth.

It was moved by Dr. Bonham and Dr. Suyderhoud seconded General Fund Revenue forecast of 6.0% for FY 2023 and 4.0% for FY's 2024-2027. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

REPORT BY THE DEPARTMENT OF BUDGET & FINANCE ON OTHER REVENUES BY MR. DONOVAN CHUN:

Mr. Donovan Chun provided a report of revised projections General Fund non-tax revenues non general fund tax and non-tax revenues since their September 9th meeting. Revenue updates was prepared by the departments in November and early parts of December base on the information made available at that time.

It was moved by Ms. Maynard and Mr. Hayashi seconded 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
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Jessica E. Gluck	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Monday, March 8, 2021 at 2 p.m.

ADJOURNMENT:

The meeting adjourned at 4:50 p.m.