

COUNCIL ON REVENUES

General Fund Meeting Minutes Tuesday, September 6, 2022

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

Tuesday, September 6, 2022
2:00 p.m.

PRESENT:

Council Members:

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

Staff Members:

Department of Taxation: Director Isaac Choy, Seth Colby, Yvonne Chow,
Baybars Karacaovali, Dongliang Wu, and Roderick Tuliao
Department of Budget and Finance (B&F): Donovan Chun

CALL TO ORDER:

The Chair called the meeting to order at 2:03 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). There were no communications to the Council and no public comment.

APPROVED MINUTES OF THE MEETING OF AUGUST 2, 2022:

Chair Kawafuchi called for a motion to approve the minutes. Ms. Maynard moved to approve the minutes. Vice-Chair Niwao seconded.

It was moved by Ms. Maynard and seconded by Vice-Chair Niwao that the minutes of the August 2nd meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes

Scott W. Hayashi	Yes
Wendell K. Lee	Yes

REVIEW OF RECENT LEGISLATION BY DR. SETH COLBY, TAX RESEARCH & PLANNING OFFICER:

Dr. Colby began the review of recent legislation by giving the Council a quick debrief of where the State stands with its year-to-date revenues.

Dr. Colby said that for the month of July GET (General Excise Tax) and TAT (Transient Accommodations Tax) are pretty strong while income tax is essentially flat.

Mr. Kawafuchi asked Dr. Colby about the State's end of August revenues.

Dr. Colby shared all the revenue collected as of September 5, 2022 and noted to the Council that the numbers collected shows month-over-month and explained that due to needing more accounting statements he is unable to provide a final preliminary report which is cumulative.

Dr. Colby next informed the Council about legislation that has passed for 2022.

Dr. Colby said that there were three major pieces of legislation that has passed in the 2022 legislative season that will affect ongoing revenues:

1. Act 80, SLH 2022 – Clarifies the amounts received or accrued for stevedoring services, wharfage, and demurrage services are exempt under the GET law within section 237-24.3, HRS. The Act became effective on June 27, 2022.
2. Act 114, SLH 2022 – Makes the state earned income tax credit (EITC) refundable and permanent. The State EITC becomes refundable beginning with the 2023 tax year. All carryforwards of nonrefundable EITC expire at the end of the 2024 tax year. Act 114 also adds new incremental increases to both minimum wages and tip credits beginning on October 1, 2022 and increasing through January 1, 2028. The Act became effective on June 27, 2022.
3. Act 216, SLH 2022 – Reinstates the Renewable Fuels Production Tax Credit (RFPTC), which was previously codified at section 235-110.31, HRS, before its duly scheduled repeal on December 31, 2021. Act 216 also allows the RFPTC to be refunded under certain conditions. The Act became effective on June 27, 2022 and applies to taxable years beginning after December 31, 2021.

Mr. Kawafuchi asked Dr. Colby to explain Act 216.

Dr. Colby said that Act 216 there is a bunch of new renewable energy activities that are accessible for this credit that are outside the solar and wind credits that currently exist in the renewable energy income tax credit.

Dr. Bonham asked if Act 216 is a cap and if the credit would need to be claimed in order to use the 20 million or up to that amount.

Dr. Colby said yes Act 216 is a cap.

Dr. Colby moved on to Table 8, Impact of Economic Parameter for FY2023 of Model 1.

Dr. Colby then shared the Council's forecast of current forecast of 5.0% and 3.5% going forward.

[\[PRESENTATION AVAILABLE ON COR WEBSITE\]](#)

DISCUSSION AND VOTE ON THE GENERAL FUND TAX REVENUE FORECAST FOR FISCAL YEAR 2023:

Dr. Colby's presentation transitioned the Council into the discussion for FY2023.

Dr. Bonham started off the discussion by sharing the revenue for construction completed which in his opinion government contracts has gone through the roof and that revenue would be spread out over the next three or four years.

Ms. Niwao shared her concerns of labor shortage.

Ms. Niwao also expressed her concerns regarding the significant drop in the value of the yen and in her opinion looking forward the State may not see the Japanese tourists impact Hawaii's economy as it did before.

Ms. Maynard agreed with Ms. Niwao regarding her concerns with the Japanese spending but noted that the U.S. consumers due to inflation are making up for the foreign travelers.

Ms. Maynard also agreed with Ms. Niwao regarding labor shortages but expressed her concern of productivity due to that shortage.

Dr. Bonham responded that since the start of the year the labor force in Hawaii has grown by 4,000 people and that the numbers from bureau of labor statistics suggest that the labor shortage in Hawaii is no worse than it was in 2018 or 2019.

Dr. Bonham shared his thoughts about tourism and said that the spending per person per day has gone up and looking at total real visitor spending the State is getting pretty close to its previous peak.

Mr. Kawafuchi asked both Dr. Bonham and Dr. Suyderhoud what they think about the Fed's rate hikes and its impact to the economy.

Dr. Bonham responded that it has already impacted the economy stating that mortgage rates have completely retraced.

Dr. Bonham said that the most immediate impact can be seen in housing nationally right now.

Dr. Suyderhoud said that his concern about the forecast for FY2023 was the mechanics of the revenues and its ups and downs.

Dr. Suyderhoud stated that in 2022 there was a 29.0% growth and questioned if that was a spike, if so, the State would expect some type of cut back and not just a smaller positive number but maybe even a negative number.

Dr. Suyderhoud said that the Council is on the record for 5.0% growth rate for FY2023.

Ms. Niwao is concerned that with April and May revenue being at such a high rate along with the two quarters of July and August which is not representative for the whole year may be misleading for what the growth rate would be for the remainder of the year.

Dr. Bonham responded that those two quarters was impacted by what was a recovery and in his opinion the Council should not extrapolate the growth rate for those quarters into FY2023.

Dr. Suyderhoud suggested to the Council 6.0% growth rate for FY2023.

Dr. Bonham said he would feel comfortable with a 6.0% or 6.5% growth rate for FY2023.

Dr. Bonham reiterated what was said earlier that he thinks the risk is to the downside because the construction and the return of international visitors puts the State in recovery mode which means there is still room for continued growth.

Ms. Maynard motioned for 6.5% growth rate for FY2023.

Mr. Hayashi seconded the motion for 6.5% growth rate for FY2023.

Mr. Kawafuchi asked the Council if there is any further discussion.

Ms. Niwao said that she is comfortable with 6.5% growth rate for FY2023.

Mr. Kawafuchi called for a vote.

It was moved by Ms. Maynard and seconded by Mr. Hayashi that the General Fund growth rate forecast be 6.5% FY2023. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

DISCUSSION AND VOTE FOR THE GENERAL FUND TAX REVENUE FORECAST FOR FY2024:

Dr. Suyderhoud started off the discussion by sharing the Council's model 1 mean forecast of 6.2% growth rate and that the Council is on record for 3.5% growth rate for FY2024.

Dr. Bonham thinks that 6.2% is too high and would fall more comfortable with about 4.0% growth rate.

Dr. Suyderhoud for the sake of discussion moved for 4.5% growth rate for FY2024.

Dr. Bonham gave his opinion regarding recession and thinks that because the State is still in recovery there's a reasonable chance that the State will continue to grow even if the U.S. economy slows fairly markedly.

Dr. Suyderhoud motioned for 4.5% growth rate for FY2024.

Mr. Lee seconded for 4.5% growth rate for FY2024.

Ms. Maynard said 4.5% growth rate is a little high for her, but she would feel comfortable if the out years was 3.5% growth rate.

Dr. Suyderhoud and Dr. Bonham agrees with Ms. Maynard.

Dr. Suyderhoud revised his motion for 4.5% to 4.0% growth rate for FY2024 if the seconded would accept it.

Mr. lee accepted the revised motion of 4.5% to 4.0% growth rate for FY2024.

It was moved by Dr. Suyderhoud and seconded by Mr. Lee that the General Fund revenue growth rate forecast be 4.0% for FY2024. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

DISCUSSION AND VOTE FOR ON THE GENERAL FUND TAX REVENUE FORECAST FOR FY2025 THROUGH FY2028:

Dr. Suyderhoud suggested that the Council leaves the at 3.5% growth rate for FY2025 through FY2028.

Ms. Maynard motioned for 3.5% growth rate for FY2025 through FY2028.

Ms. Niwao seconded for 3.5% growth rate for FY2025 through FY2028.

It was moved by Ms. Maynard and seconded by Vice-Chair Niwao that the General Fund revenue growth rate forecast be 3.5% for FY2025 through FY2028. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

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

Mr. Donovan Chun provided a report of revised projections for General Fund non-tax revenues, non-General Fund tax, and non-tax revenues since the May 23rd meeting. He provided a written report summary of significant changes due to charges for current services.

It was moved by Dr. Suyderhoud and seconded by Mr. Hayashi 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 Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Thursday, October 27, 2022, at 2 p.m.

ADJOURNMENT:

The meeting adjourned at 3:38 p.m.