

COUNCIL ON REVENUES

General Fund Meeting Minutes Thursday, January 5, 2023

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

Thursday, January 5, 2023
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 Gary Suganuma, Deputy Kristen Sakamoto,
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 2:00 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). There were no communications to the Council and no public comment.

APPROVED MINUTES OF THE MEETING OF OCTOBER 27, 2022:

Chair Kawafuchi called for a motion to approve the minutes. Ms. Maynard moved to approve the minutes. Mr. Hayashi seconded.

It was moved by Ms. Maynard and seconded by Mr. Hayashi that the minutes of the October 27th 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 REVENUES AND CONSTITUTIONAL TAX REFUND BY DR. SETH COLBY, TAX RESEARCH & PLANNING OFFICER:

Dr. Colby began the review of revenues by giving the Council a quick debrief regarding the Constitutional Refund that was not mentioned in the September 2022 General Fund meeting.

Dr. Colby stated that the Constitutional Refund needed to go through the tax system which would have impacted the revenues.

Dr. Colby explained that preliminary statements have been lower than expected due to the Constitutional Refund.

Mr. Kawafuchi asked Dr. Colby to explain how the refund was administered.

Dr. Colby said that to be eligible for the Constitutional refund you would had to have filed a 2021 tax return or amend your return by the end of 2021 to ensure that you received the tax credit.

Dr. Colby next provided the Council and unofficial Preliminary Comparative Statement of State General Fund Tax Revenues for December 2022.

Dr. Colby highlighted a few items for the Council to show the adjustments with and without the Constitutional Refund.

Dr. Colby said the GET (General Excise Tax) continues to be going pretty strongly noting that it is up 13.5% on the year.

Dr. Colby said that overall, with the Constitutional refund the State would be up 2.1% as of December for the first six months of the year and without it the State would be up 9.6%.

Ms. Niwao asked Dr. Colby if the collections by DOTAX and other departments are from audits.

Dr. Colby said no and explained that collections from audits would go back to the original tax type, while collections by DOTAX are things like tobacco tax, environmental tax, and a bunch of other really small tax types that is not listed in the preliminary. As for collections from other departments that would consist of items such as conveyance tax and the insurance premium tax which is not administered by DOTAX.

Dr. Colby continued by sharing with the Council a graph of Monthly General Fund Collections which showed what months the Constitutional Refund had the biggest impact on individual income tax collection.

Dr. Colby then provided the Council Chart 3: Results of Model 1 using mean forecast with and without Constitutional Refund which showed the Council's forecast.

Dr. Colby ended his presentation and asked to introduce the Department of Taxation's new Director.

Director Suganuma gave a brief introduction to the Council.

Mr. Kawafuchi proceeded with the next item on the agenda.

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

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

Dr. Bonham started off the discussion by referencing Dr. Colby's presentation and the single point data that was presented to the Council regarding the Constitutional Refund.

Dr. Bonham highlighted table one in the COR (Council on Revenues) booklet on page one regarding the input of the forecast that the Council provided which he assumes has gotten stronger because of the it is forecast without the Constitutional Refunds.

Dr. Bonham continued by sharing his thoughts on visitor expenditure and construction forecast.

Dr. Bonham then expressed to the Council that he is still in favor of the previous forecast that was released during the Council's last meeting.

Mr. Kawafuchi asked Dr. Bonham to confirm the previous forecast of 6.5% for FY2023.

Dr. Bonham confirmed the 6.5% forecast and noted that it is a little high but would be a good starting point for discussion.

Ms. Niwao started off by expressing her comments on the following issues:

1. Expectation by many, if not most, U.S. economists of a recession in 2023 due to layoffs and the Feds continuing to raise interest rates.
2. Japanese visitor arrivals will likely not recover to past levels soon because of the significantly weaker yen to the U.S. dollar compared to three years ago.

Ms. Niwao stated that another thing that is concerning, in her opinion, is that a lot of businesses don't have sufficient employees, which is causing businesses to close or cut back on business opening hours. She indicated that she has observed this problem throughout Hawaii.

Dr. Bonham addressed Ms. Niwao's concern, stating that according to the labor force data it is back within 1.5% of where it was pre-pandemic and job counts has risen very sharply throughout the summer.

Mr. Lee shared his thoughts regarding the economy, but yet still remains optimistic and thinks that 6.5% might be low.

Dr. Suyderhoud asked Dr. Bonham to what extent is the surprising strength in the economy a function of the amount of money that has been poured into the economy due to Federal stimulus and money supply increases.

Dr. Bonham responded that the estimates of the excess savings that accumulated during the pandemic reached about \$2.6 trillion.

Dr. Suyderhoud asked the Council in terms of forecasting procedure will the forecast be considered with or without the Constitutional refund.

Dr. Suyderhoud suggested that the Council ignore the refund and back it out for the purpose of creating a forecast.

Ms. Maynard expressed her concern regarding the weakness in visitor arrivals in the last half of December.

Mr. Hayashi asked if the slowdown may have been caused by the weather issues that the airlines was having during winter.

Dr. Bonham said that the bookings for December as of Christmas was 6.0% lower than previous year.

Ms. Maynard offered a motion of 4.5% to the Council for FY2023, which was seconded by Ms. Niwao.

Dr. Suyderhoud said that his forecast comes in at 6.3% with the Constitutional refund.

Mr. Kawafuchi asked Mr. Hayashi his thoughts on the forecast for FY2023.

Mr. Hayashi thinks that 4.5% seems low in his opinion and agrees it will be higher just based upon where the Council forecast was before.

Mr. Hayashi said that he thinks the forecast would be closer to 5.0% to 5.8%.

Mr. Lee agrees with Mr. Hayashi based on what the Council had put independently in the model.

Mr. Kawafuchi asked the Council how they felt about splitting the difference to 5.5%.

Dr. Bonham and Dr. Suyderhoud both felt comfortable with 5.5% forecast for FY2023.

Mr. Lee was also ok with 5.5% forecast for FY2023.

Mr. Kawafuchi asked the Council for a motion of 5.5% for FY2023.

Ms. Maynard amended her motion of 4.5% to 5.5% for FY2023.

Ms. Niwao amended her second to the motion of 4.5% and seconded the motion of 5.5% growth rate for FY2023.

It was moved by Ms. Maynard and seconded by Ms. Niwao that the General Fund growth rate forecast be 5.5% 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. Bonham started the discussion by expressing concern about growth prospects in the second half of 2023 and into 2024.

Dr. Bonham made a motion to move to adopt 5.0% in FY2024 and leave the remaining fiscal years unchanged.

Mr. Hayashi asked Ms. Maynard how the long-term interest rates are behaving with the Financial Markets with regard to inflation.

Ms. Maynard responded that the Futures Market is anticipating that the Fed funds will continue to go up until mid-year and then start to come down.

Ms. Maynard then said that the forward yield curve is also showing that the expectation of rates decreasing.

Ms. Maynard is more concerned though with the inverted yield curve.

Mr. Kawafuchi asked the Council if there is any further discussion for FY2024.

The Council had no further discussion.

Ms. Maynard seconded Dr. Bonham's earlier motion for 5.0% growth rate for FY2024 and to leave the remaining fiscal years unchanged at 3.5%.

Mr. Kawafuchi asked the Council for clarification regarding the motion for FY2024 and asked that it be separated.

Ms. Maynard made a motion for a 5.0% growth rate for FY2024.

Dr. Suyderhoud seconded the motion for 5.0% growth rate for FY2024.

It was moved by Ms. Maynard and seconded by Dr. Suyderhoud that the General Fund revenue growth rate forecast be 5.0% 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 FY2029:

Mr. Kawafuchi asked if there was any discussion needed for the growth forecast of FY2025 to FY2029.

Dr. Suyderhoud motioned 3.5% growth rate for FY2025 through FY2029.

Mr. Lee seconded the 3.5% growth rate for FY2025 through FY2029.

It was moved by Dr. Suyderhoud and seconded by Mr. Lee that the General Fund revenue growth rate forecast be 3.5% for FY2025 through FY2029. 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 September 6th meeting. He provided a written report summary of significant changes due non-revenue transfers and federal funds.

**It was moved by Mr. Lee 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 Tuesday, March 7, 2023, at 2 p.m.

ADJOURNMENT:

The meeting adjourned at 3:38 p.m.