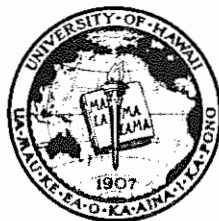


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TERRITORIAL AND COUNTY EXPENDITURES



REPORT NO. 5 -- 1952

**LEGISLATIVE REFERENCE BUREAU
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TERRITORIAL AND COUNTY EXPENDITURES

by

Robert M. Kamins
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REPORT NO. 5, 1952

--Request No. 2132--

Legislative Reference Bureau
University of Hawaii
Norman Meller, Director

TERRITORIAL AND COUNTY EXPENDITURES

Cost payments of the territorial government amounted to almost \$77 million in the fiscal year 1952. The four counties together spent more than \$55 million, bringing total cost payments of government in Hawaii to \$132 million, an average of \$284 for each civilian.

Education and community welfare--the latter including expenditures for public and publicly subsidized hospitals, as well as operations of the Departments of Public Welfare and Institutions--require approximately half of the territorial expenditure dollar. Largest county functions are school construction and maintenance, health services, upkeep of streets and highways, and protection of persons and property.

Considering both levels of government, in the last fiscal year more than one-quarter of each cost dollar was spent for education, almost one-fifth for community welfare services, approximately one-seventh for streets and highways. Another seventh went for police and fire protection and for general government--including costs of the legislature, boards of supervisors, the courts, finance offices, etc. No other single function required as much as 10 per cent of government cost payments.

During the past 12 years territorial and county cost payments almost quadrupled, rising from \$34 to \$132 million. About half of this increase may be traceable to the growth of Hawaii's population and to inflation, which requires larger expenditures to render the same governmental services. Other factors contributing to the budget expansion are: (1) provision of additional public services; (2) the consequent growth of the number of public employees; (3) receipts of larger federal grants to be expended by the Territory; and (4) an expansion of school, highway, and other public works programs, including projects postponed during World War II.

Hawaii's pattern of government expenditures is close to the mainland's. The level of expenditures, however, is about one-third above the national average when expressed on a per capita basis for the civilian population. Hawaii's large military population and a relatively high price index may partially account for the difference.

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TERRITORIAL AND COUNTY EXPENDITURES

For what purposes does the Territory and its counties spend public funds? At what rate have governmental outlays in Hawaii increased since World War II? What factors have caused this increase? Which governmental functions have expanded most rapidly? How does the level and the pattern of governmental expenditures in Hawaii compare with averages of the entire nation?

Answers to these questions are sought in this report. They furnish data necessary for an appraisal of the overall fiscal position of the Territory today. Examination of trends established over the past 12 years provides a factual background against which to consider the future budgetary needs of government in Hawaii.

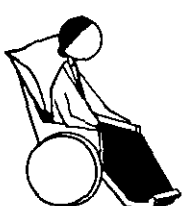
This study is concerned solely with the expenditures, technically referred to as government cost payments, which are made by the Territory and the four counties in the course of providing services to the public. Expenditure data were obtained primarily from territorial and county auditor reports, analyzed to eliminate double counting and expanded to include certain omitted cost payments.

Direct expenditures by the federal government are of course excluded from this report. However, all money spent by Hawaii's governments, whether derived from federal grants or from local taxes, fines, fees, or borrowing, are counted in "government cost payments."

¹Excluded from the data presented are transfers of funds between agencies within the territorial or county governments, or between these two levels of government, since they reflect merely a movement of public money among public accounts, rather than actual costs to the taxpayers. Also omitted are repayments of public debts: to include both the spending of funds raised from the sale of government bonds and the repayment of those bonds would be to show the same expenditure twice. Money paid out for investments or to increase inventories of supplies are excluded for the same reason--to avoid double counting. (See Appendix V for a definition of "government cost payments" and a description of the steps necessary to compute them from territorial and county reports.)

CHART I
TERRITORIAL GOVERNMENT COST \$76,758,000
IN FISCAL YEAR ENDING JUNE 30, 1952

28%  **EDUCATION**
(INCLUDING LIBRARIES) \$21,745,000

25%  **COMMUNITY WELFARE**
(INCLUDING HOSPITALS,
INSTITUTIONS FOR
HANDICAPPED, \$19,481,000
CORRECTION, AND
PUBLIC ASSISTANCE)

17%  **HIGHWAYS \$12,873,000**

11%  **GENERAL GOVERN-**
MENT AND \$8,519,000
PROTECTION

18%  **ALL OTHER \$14,140,000**

(SEE APPENDIX I)

I. THE PRESENT PATTERN OF GOVERNMENT COST PAYMENTS

A. For what does the Territory spend its money?

The Territory, in most recent years, has expended approximately two-thirds of government cost payments in Hawaii. In the fiscal year June 30, 1952, however, county expenditures were unusually high because of a large school building program. During this last year the two score departments of the territorial government spent almost \$77 million and the four counties expended more than \$55 million, bringing total cost payments of government in Hawaii to \$132 million.

Two major functions dominate the territorial budget--education and community welfare. (Included in "education" with the program of the Department of Public Instruction are those of the University of Hawaii and the Library of Hawaii. "Community welfare" costs include expenditures of the Department of Health for hospitals, and territorial grants to "county" and quasi-public hospitals, as well as outlays of the Departments of Institutions and Public Welfare.) Chart 1 shows that in the fiscal year 1952 slightly more than half of territorial cost payments were incurred for education, for hospitals, institutional and correctional care, and assistance to the needy.

Construction and maintenance of territorial highways took about 17 cents of the territorial cost dollar in the past year, with the federal government providing about one-third of the funds expended. Public service enterprises, including harbor and airport facilities maintained by the Board of Harbor Commissioners and the Hawaiian Aeronautics Commission, accounted for slightly less than 5 cents of the expenditure dollar. Costs of protection--largely consisting of expenditures of the territorial National Guard--and general government (cost of the legisla-

ture, governor's office, law courts, elections, etc.), together comprised approximately 11 cents of each dollar of territorial cost payments.

Protection of natural resources by the Board of Agriculture and Forestry required expenditure of 2 per cent of total cost payments, while outlays for recreation and for interest on debt took less than one penny of each dollar spent by the Territory of Hawaii. Health and sanitation services, other than those included in community welfare, required 3 cents of that dollar. Miscellaneous territorial expenditures, largely consisting of pensions and the Territory's share of current payments by the Territorial Employees' Retirement System (but not repayment of contributions originally made by public employees) comprised about 7 per cent of aggregate costs. (Dollar expenditures and more exact percentages are shown in Appendix I.)

B. For what do the counties spend their money?


Education costs incurred by the counties in the construction and maintenance of public school buildings and grounds were at an all-time high last year, comprising one-fourth of total county expenditures. Prior to 1951 protection of health and maintenance of streets and highways were the largest county functions, measured by cost payments. However, outlays for these purposes, while continuing to increase, have been exceeded in the past two years by school expenditures.

The provision of police and fire protection and the maintenance of other law-enforcing, law-making, and central administrative facilities, together grouped as general government, require the second largest county expenditures. Protection and general government, the core of local governmental activities, accounted for a fifth of all county expenditures in 1952--almost double the portion of territorial outlays for these purposes.

CHART 2

COUNTY GOVERNMENTS COST \$55,411,000
IN FISCAL YEAR ENDING JUNE 30, 1952

25%  **SCHOOLS AND LIBRARIES** \$13,886,000


20%  **GENERAL GOVERNMENT AND PROTECTION** \$11,302,000

13%  **HEALTH AND SANITATION** \$6,965,000

12%  **STREETS AND HIGHWAYS** \$6,495,000

10%  **PUBLIC ENTERPRISES** \$5,359,000

9%  **COMMUNITY WELFARE** \$5,086,000

11%  **ALL OTHER** \$6,320,000

(SEE APPENDIX 1)

Streets and highways in most recent years have also taken a larger portion of the counties budgets than that of the Territory's, but in 1952 only 12 per cent of the county expenditure dollar went for road construction and maintenance, compared with 17 per cent for the territorial government. It may be noted that the Territory's highway program in 1952 was by far the largest of the entire period since 1940.

The fraction of the county expenditure dollar going for public service enterprises (10 cents in 1952) is greater than in the case of the territorial government (5 cents). Most of these expenditures are incurred by the county water systems, which are largely self-supporting and not financed by taxation.

Recreation is primarily a county function. Care of the beaches, parks, and playgrounds takes more than 5 per cent of local expenditures, as contrasted with less than 1 per cent of territorial outlays. The counties, on the other hand, make no expenditures for conserving agricultural lands, fisheries, and other natural resources, this function being performed entirely by the Territory.

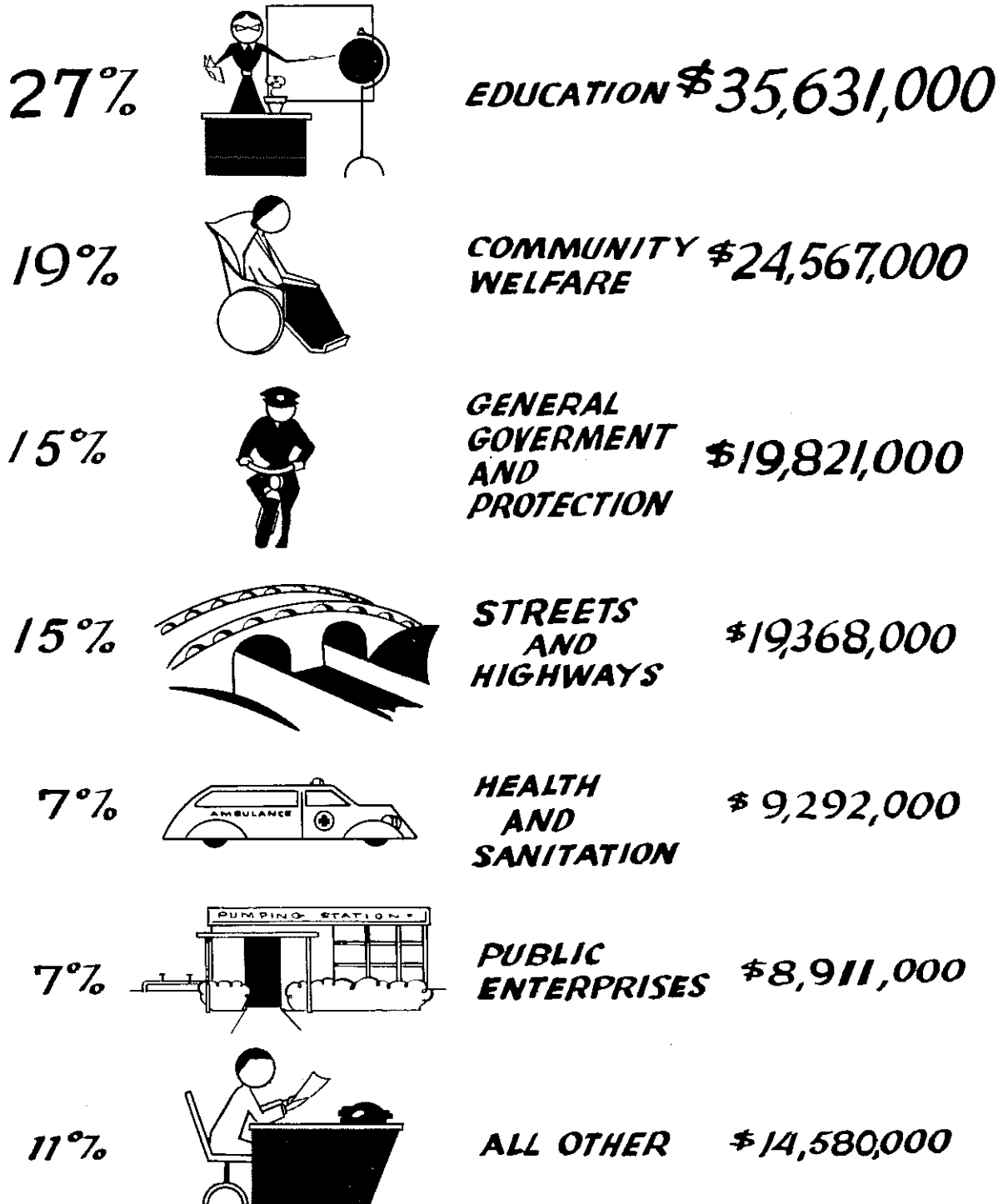
County interest payments, while not large--comprising about 2 cents of each expenditure dollar--took twice as much of the county budget than of the territorial budget in 1952. This gap may close, however, if the Territory continues to undertake expenditures from loan funds which formerly were undertaken by the counties, without requiring repayment by the counties, as under Act 321 of the 1951 legislative session which, among other things, appropriated territorial bond funds for construction and equipment of schools.

C. What is the overall pattern of governmental expenditures?

If territorial and county cost payments are combined, as in Chart 3,

CHART 3

**TERRITORIAL AND COUNTY GOVERNMENTS
TOGETHER COST \$132,169,000
IN FISCAL YEAR ENDING JUNE 30, 1952**



(SEE APPENDIX I)

the overall pattern of government expenditures in Hawaii emerges. Approximately one-quarter (last year, 27 per cent) of the total is spent for education, including public libraries. Almost one-fifth (19 per cent) goes for community welfare services. One-seventh (15 per cent) goes for streets and highways and another seventh for protection and general government.

These activities account for 75 cents of each dollar spent by the Territory and its counties. No other single function takes as much as 10 per cent of governmental costs. Closest to this level are expenditures for health and sanitation and outlays of public service enterprises, each of which comprised approximately 7 per cent of the total in 1952. Pensions, government's share of the costs of the public employees retirement system, and other miscellaneous charges amounted to 6 per cent. Each of the remaining classes of outlays--for recreation, protection of natural resources, and payment of interest on the public debt--respectively took no more than 3 cents of each dollar spent by the governments of Hawaii.

II. TRENDS IN GOVERNMENTAL EXPENDITURES: 1940-52

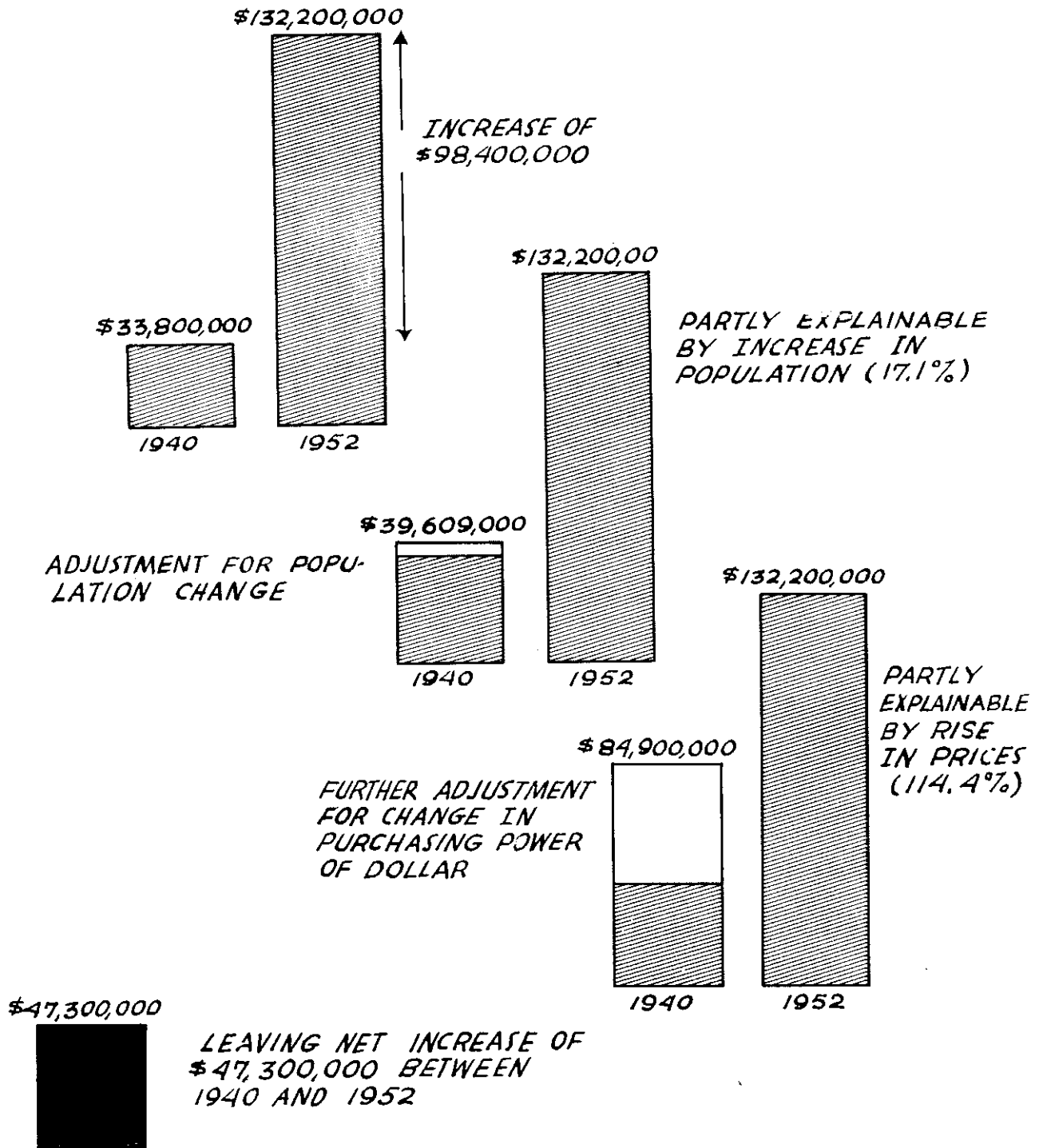
A. How much have government outlays risen?

The fiscal year ended June 30, 1940 offers a convenient benchmark against which to measure the size of current costs of running territorial and county governments. That year was the last "normal" year before the defense program and war effort successively brought a larger population, peak employment, and inflation to these islands.

In the year 1939-40 government cost payments in Hawaii aggregated \$34 million--more than \$18 million having been spent by the Territory and more than \$15 million by the counties. This total briefly fell off in the following two years, as war-time scarcities of men and materials

CHART 4

HOW MUCH DID TERRITORIAL AND COUNTY EXPENDITURES INCREASE BETWEEN 1940 AND 1952?



(SEE APPENDIX II)

cut into the programs of local government, but by 1943 expenditures had exceeded the pre-war level and by 1945 approached \$50 million.

Expansion in the post-war period was even more rapid: \$58 million in 1946, \$67 million the following year, \$86 million in 1948. In the fiscal year ended in 1949 the line of government expenditures in Hawaii reached the \$100 million mark, then continued to rise to \$121 million in the fiscal year 1950-51, and then to \$132 million last year.

The increase in governmental costs since 1940 has been almost four-fold, probably the largest expansion in such a period of time in the history of the Territory. Two factors immediately suggest themselves as possible explanations of this upward trend in public expenditures. The first is the need for more government services caused by the increase in Hawaii's population; the second is the fall in the purchasing power of the dollar, which inflates public as well as private spending.

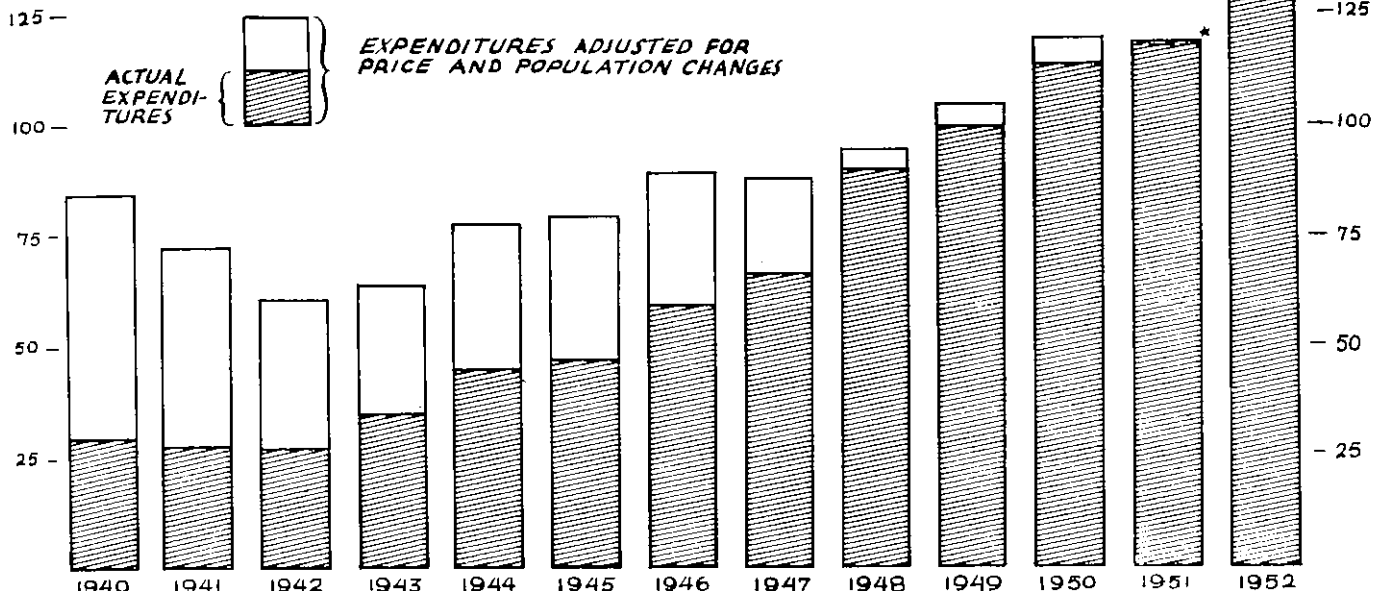
Better to compare the level of expenditures by Hawaii's governments in 1940 and 1952, Chart 4 translates 1940 conditions into those of the last fiscal year by taking into account both the factor of increased population and the factor of decreased purchasing power. Expressing 1940 outlays in 1952 dollars (which bought for government agencies about 47 per cent of what the 1940 dollar could) gives a closer idea of what government services just before World War II would have cost at current prices. By expanding 1940 expenditures further to account for the (17 per cent) increase in civilian population which occurred in the succeeding 12 years, it is possible to express government cost payments as if the population were as great then as in 1952.

CHART 5

EFFECT OF PRICE AND POPULATION CHANGES ON TERRITORIAL AND COUNTY EXPENDITURES FISCAL YEARS 1940 - 52

MILLIONS
OF DOLLARS

MILLIONS
OF DOLLARS



(SEE APPENDIX II)

* UNADJUSTED TOTAL \$120,800,000
ADJUSTED TOTAL \$119,800,000

These adjustments indicate that governmental expenditures in Hawaii during the fiscal year 1940 would have amounted to approximately \$85 million in 1952 terms, rather than the \$34 million actually spent. In other words, approximately \$51 million of the \$98 million increase in government cost payments over the 12 year period may be explained as due to inflation and population gains. Unexplained by these factors is \$47 million--slightly less than half of the \$98 million gap.

B. What has caused this rise?

Part of the absolute increase in governmental costs, shown for the period 1940-52 in Chart 5, is traceable to rises in the level of salaries of territorial and county employees, connected in turn with the reduced purchasing power of the dollar--and more directly with boosts in the wage rates paid in Hawaii by the federal government, which competes with the Territory for many classes of personnel. Territorial and county

civil services received across-the-board salary raises during World War II,² and again in 1947, when the legislature enacted "cost-of-living" bonuses. The bonuses were successively incorporated into the regular compensation schedules by the 1947 and 1951 legislatures.³ In addition to these general salary increases, pay raises have been given to particular groups of county employees—teachers, firemen, and elected officials—under other statutes.⁴

Expansion and normal maturing of the civil service employee force, perhaps augmented by rapid promotion and up-grading of personnel in times of "tight" labor markets, such as occurred during World War II, has also made for larger governmental payrolls. For every year of satisfactory service employees receive increments in salary, up to a maximum of four at any grade, annually placing more and more civil servants in the top pay bracket of each classification level. During the biennium 1951-53 annual increments accruing to territorial employees out of the general fund (but held in abeyance pending completion of a salary standardization survey) aggregated \$390,000.

The number of public employees in Hawaii expanded over the period studied. This growth is indicated in the rise in territorial civil service employees from 2,806 at the close of 1941 to 5,405 in 1951. Over the same span of years the number of teachers employed by the Department of Public Instruction increased from 3,199 to 4,051⁵. The budgetary significance of an enlarged working force becomes clear upon examination of the

²Originally under Hawaii Defense Act rules, then extended by Act 13, Session Laws of Hawaii 1945.

³Except for the 1947 bonus with respect to salaries of the faculty of the University of Hawaii.

⁴For a comparative study of salaries paid in the Territory, see Governmental Salaries in Hawaii, Legislative Reference Bureau, Report No. 3, 1952.

⁵Including principals, librarians, dental hygienists, and other school staff personnel, but excluding custodial employees.

categories of territorial expenditures. During the biennium 1951-53 approximately 64 per cent of payments out of the general fund for territorial operating expenses is going for wages and salaries.

An overall expansion of the number of public employees may reflect an increase in government services, decreased "output" per employee, or both. In the absence of comparative studies of governmental workers to determine their output, there is no reliable evidence as to whether territorial and county employees in Hawaii have become more or less efficient over the past several years.

It is clear, however, that government in Hawaii now provides a larger number of services for a larger population. This is evidenced by the following partial list of territorial agencies created since 1940:

- Bureau of Sight Conservation (1941; separate department since 1945)
- Legislative Reference Bureau (1943)
- Council on Veterans' Affairs (1945)
- Soil Conservation Committee (1947)
- Bureau of Civil Identification (1947)
- Hawaii Aeronautics Commission (1947)
- Commission on Children and Youth (1949)
- Industrial Research Advisory Council (1949)
- Subversive Activities Commission (1949)
- Territorial Loyalty Board (1951)
- Civil Defense Agency (1951; from Disaster Relief Agency, 1949)

Further expansion has occurred with the growth of "old-line" territorial departments as they have taken on new duties and functions. The recent history of one major agency, the Department of Health, may be cited to illustrate this growth. Since 1940 the following bureaus have been added to the Department, to initiate or enlarge public health services:

Cancer control
Dental health
Industrial hygiene
Health statistics
Hospital planning (since 1951, Advisory Commission)
Housing regulation
Nutrition
Pure food and drugs

Services of pre-existing bureaus have also been expanded. Since World War II, to select a few examples of this expansion, again in the Health Department, operation of mobile X-ray units has been undertaken by the tuberculosis bureau, cerebral palsy clinics have been established by the bureaus of maternal and child health and of crippled children, a program of preparation and distribution of materials in health practices is being carried on by the office of health education.

Grants-in-aid provided by the federal government, typically on a matching basis, have stimulated the growth of some of these public health programs, as well as the activities of the Board of Agriculture and Forestry, Board of Harbor Commissioners, Department of Institutions, Department of Labor and Industrial Relations, Department of Public Instruction, Department of Public Lands, Department of Public Welfare, Department of Public Works, the Hawaii National Guard, and the University of Hawaii. Total aids received from the federal government, which for the most part enter into territorial rather than county expenditures, have recently approximated \$15 million annually--about one-eighth of Hawaii's government cost payments.⁶

Through use of the grant-in-aid device, expenditures which might otherwise be undertaken directly by the federal government appear as territo-

⁶"Fiscal Control of Federal Payments to Hawaii," typewritten research memorandum of the Legislative Reference Bureau, (Request No. 2098), November 1951.

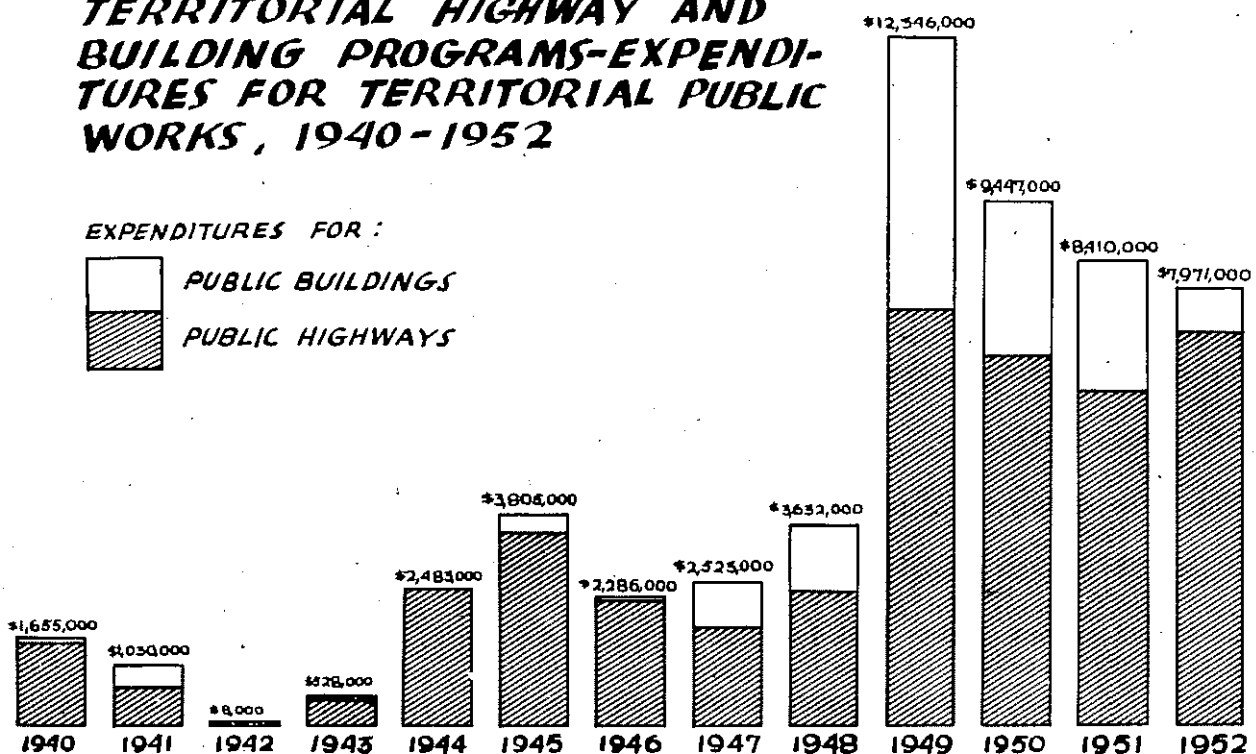
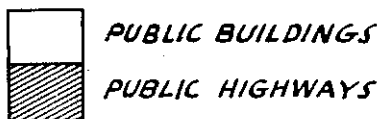
rial outlays. This transfer effect is illustrated by the recent history of the employment service in the Department of Labor and Industrial Relations. During the war years, the program of job placement for unemployed persons was taken over by the federal government. With the return of the employment service to the Territory in 1946, territorial expenditures for the employment service resumed, financed by annual grants from the United States government. What was shown as a federal outlay between 1942 and 1946 is now a cost payment of the Territory of Hawaii.

Another factor underlying the trend of government cost payments during the past several years is the timing of public works projects. World War II and post-war shortages caused the postponement of construction of highways, schools, and other public buildings. In 1949 the Territory sharply expanded its capital improvements program to reduce the backlog of construction as well as to undertake projects dating from the post-war period. Since 1949, as Chart 6 shows, capital outlays for public works by the territorial government have markedly declined, though by

CHART 6

TERRITORIAL HIGHWAY AND BUILDING PROGRAMS-EXPENDITURES FOR TERRITORIAL PUBLIC WORKS, 1940-1952

EXPENDITURES FOR :



(SEE APPENDIX III)

no means to pre-war levels.

County expenditures for school buildings, however, have risen rapidly during the same period, from less than \$2 million in 1949 to more than \$10 million in 1952. (See Appendix IV.) These outlays may be expected to expand with an increasing school population, particularly if territorial financial assistance continues to be granted to the counties for their school needs.

C. Which governmental expenditures have risen most rapidly?

The rate of increase in government expenditures in Hawaii over the war years and post-war period, viewed by functions, has been by no means uniform. Outlays for community welfare showed the most rapid rate of expansion, 1952 expenditures for this function amounting to more than six times the 1942 level. Federal grants have been of particular importance in financing the growth of public welfare activities of the territorial government.

Recreation expanded almost as rapidly. The volume of spending for beaches, parks, and playgrounds--mostly by the counties--is still only a minor part of the total cost of government, but it has exceeded the average rate of growth of all expenditures during the past dozen years. At the beginning of the period it was the least expensive of local functions. Now recreation expenditures approximate the "general" costs of county government (see Appendix I), and exceed both interest payments and miscellaneous outlays.

The sole category of government costs to decline in the period since World War II is the annual interest payment on territorial and county debt. Outstanding debt was reduced during the war, as tax revenues increased and capital improvements remained limited by material and man-

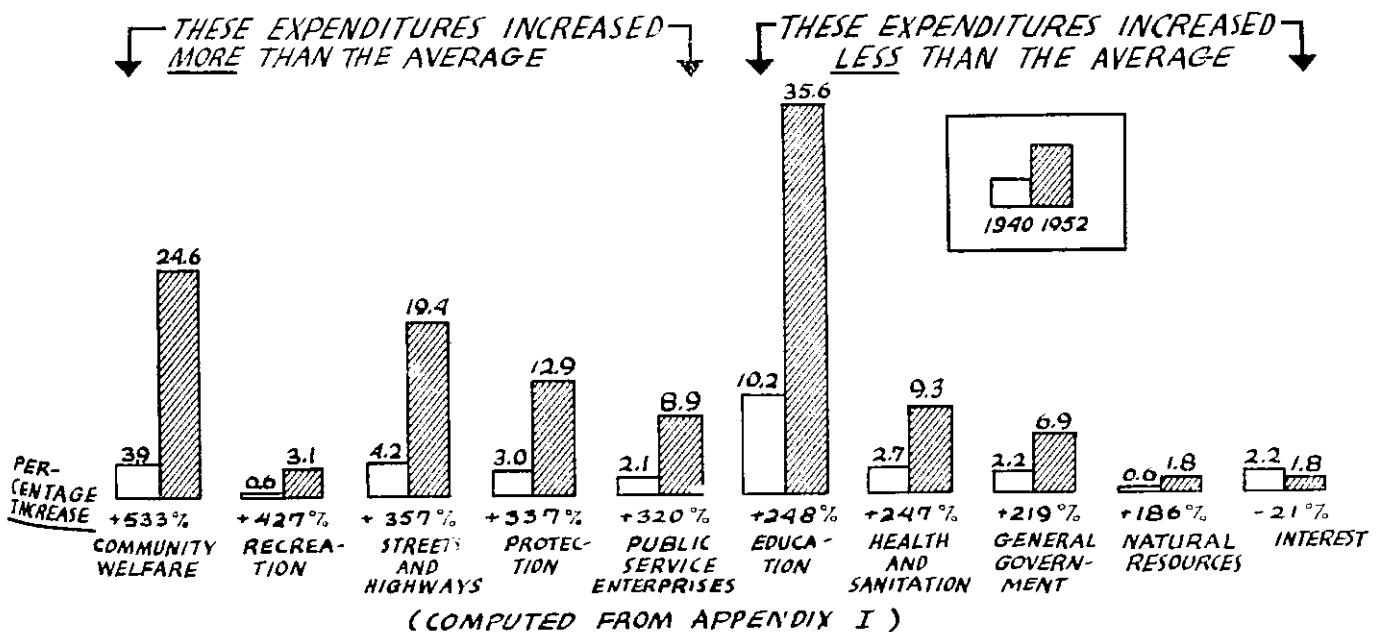
power shortages. Since the close of the war, however, Hawaii's public debt has again risen; interest payments have consequently increased in each fiscal period since 1948 and within a few years will exceed the 1940 level.

Chart 7 graphs the changes in costs of major government programs between 1940 and 1952. Omitted from the chart are miscellaneous outlays. This category increased at a rate virtually identical with that of the overall cost of territorial and county government over the period—approximately 291 per cent.

D. Which level of government has expanded most?

At the beginning of the last decade, the Territory's expenditures exceeded those of the counties by only a small amount: in 1940 the ratio of outlays of the two levels of government was 55-45. By 1951, the territorial share of total government cost payments in Hawaii had risen to

CHART 7
HOW GOVERNMENTAL EXPENDITURES CHANGED FROM 1940 TO 1952
 (AMOUNTS IN MILLIONS OF DOLLARS)
TOTAL TERRITORIAL AND COUNTY EXPENDITURES
INCREASED BY AN AVERAGE OF 291%



65 per cent, that of the counties had fallen to 35 per cent.⁷ Last year county expenditures, swelled by an unusually large outlay for schools, comprised almost 42 per cent of aggregate expenditures, as shown in Chart 8. Aside from this upsurge in local education costs, however, there appears to be a marked trend toward concentrating a larger fraction of public expenditure in territorial agencies.

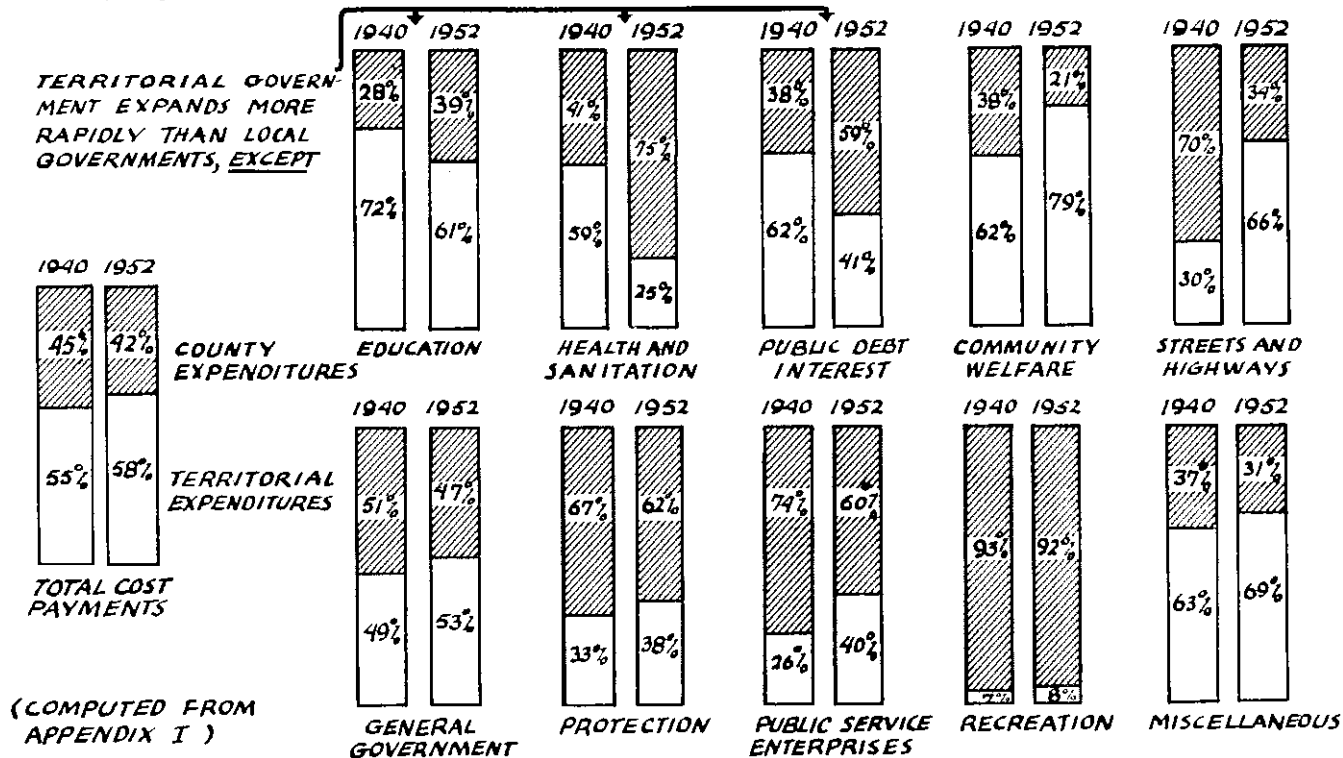
Three factors contributing to this basic change in the relative importance of central and local governments suggest themselves. One is a tendency for the Territory to take on functions formerly performed by the counties. This trend is illustrated by the recent history of the territorial highway system. Between 1940 and 1951 mileage maintained by the Public Works Department increased from 291 to 409 miles. Part of this expansion resulted from the transfer of county roads to the jurisdiction of the Territory, which is qualified (unlike the counties) to obtain federal grants for highway improvements. Chart 8 shows that over the past 12 years the Territory's share of highway expenditures more than doubled, increasing from 30 to 66 per cent.

The case of the public highways also illustrates a second factor making for a more rapid expansion of territorial cost payments--the growth of the system of federal grants. During the past decade federal payments to Hawaii have increased many times over: from about \$3 million to more than \$9 million between 1947 and 1950 alone. Expenditures of

⁷See territorial and county totals in Appendix I, part A. The long-run trend across the nation has been for state expenditures to increase relative to local outlays. In 1932 cost payments of state governments aggregated less than half those of all local governments. By 1940 this fraction had risen to about three-fourths and by 1949 state expenditures virtually equaled outlays of local units. (See Facts and Figures on Government Finance, 1950-51, The Tax Foundation, p. 52.) Preliminary data of the Government's Division, U.S. Bureau of the Census indicate, however, that 1951 state expenditures approximated \$13 billion, while local expenditures aggregated almost \$16 billion.

CHART 8

PORTION OF TOTAL EXPENDITURES MADE BY TERRITORY AND COUNTIES: 1940 AND 1952



these funds--largely for health programs, welfare assistance, education, as well as highways, as pointed out above--are made almost entirely by the territorial government.

Finally, the narrow limits placed on county powers by territorial law may act to check local expenditures. No taxes may be levied by the counties, which are entirely dependent on revenues made available or authorized by the territorial legislature. An expanded tax structure, more responsive to increases in the economic base of the Islands than the taxes supporting the county governments, has provided the means of enlarging the Territory's expenditures.⁸

⁸ The Territory relies most heavily on a turnover (general excise) tax, specific excises and a tax on wages, all of which have expanded rapidly with prices and employment. The counties' chief source of revenues is the property tax, whose yields are fixed by law. Shares of the general excise and gasoline taxes give a degree of flexibility to county tax revenues, but a degree much smaller than that enjoyed (in periods of prosperity) by the Territory.

There are two exceptions to the general rule that territorial expenditures have expanded more than county outlays. A rapid increase in the costs of sanitation and waste removal, of providing medical care for indigent persons, and of convalescent homes, particularly in the city-county of Honolulu, caused the portion of health and sanitation outlays paid by the counties to rise from 41 per cent in 1940 to 75 per cent in 1952. Under Act 129 of the 1951 legislature, costs of caring for persons who are completely indigent or without money for medical attention are to be paid for by the counties out of funds provided by the Territory.

The second exception lies in the fact that the relative amounts of bond interest due each year on territorial and county debt was completely interchanged over the war and post-war periods. In 1940 only 38 cents of each dollar of interest on public debt in Hawaii was paid by the counties, 62 cents by the Territory. In 1952, county debt accounted for 59 cents of the interest dollar, while the territorial government, which had reduced its outstanding debt at a more rapid rate than did the counties, paid only 41 cents of every dollar of interest on Hawaii's public debt. Recent increases in Hawaii's public debts, however, will be reflected in larger interest payments in the future, causing territorial debt charges to overtake those of the counties.⁹

⁹ Outstanding general obligation bonds of the territorial government rose from slightly under \$33 million on December 31, 1950, to \$37 million on December 31, 1951, to almost \$43 million on June 30, 1952. General obligation bonds of all counties aggregated \$18 million on December 31, 1950 and \$19 million on December 31, 1951; they were estimated at approximately \$26 million as of October 10, 1952.

III. COMPARISON OF GOVERNMENT EXPENDITURES IN HAWAII WITH MAINLAND STATES

A. Is the pattern of government cost payments in Hawaii an unusual one?

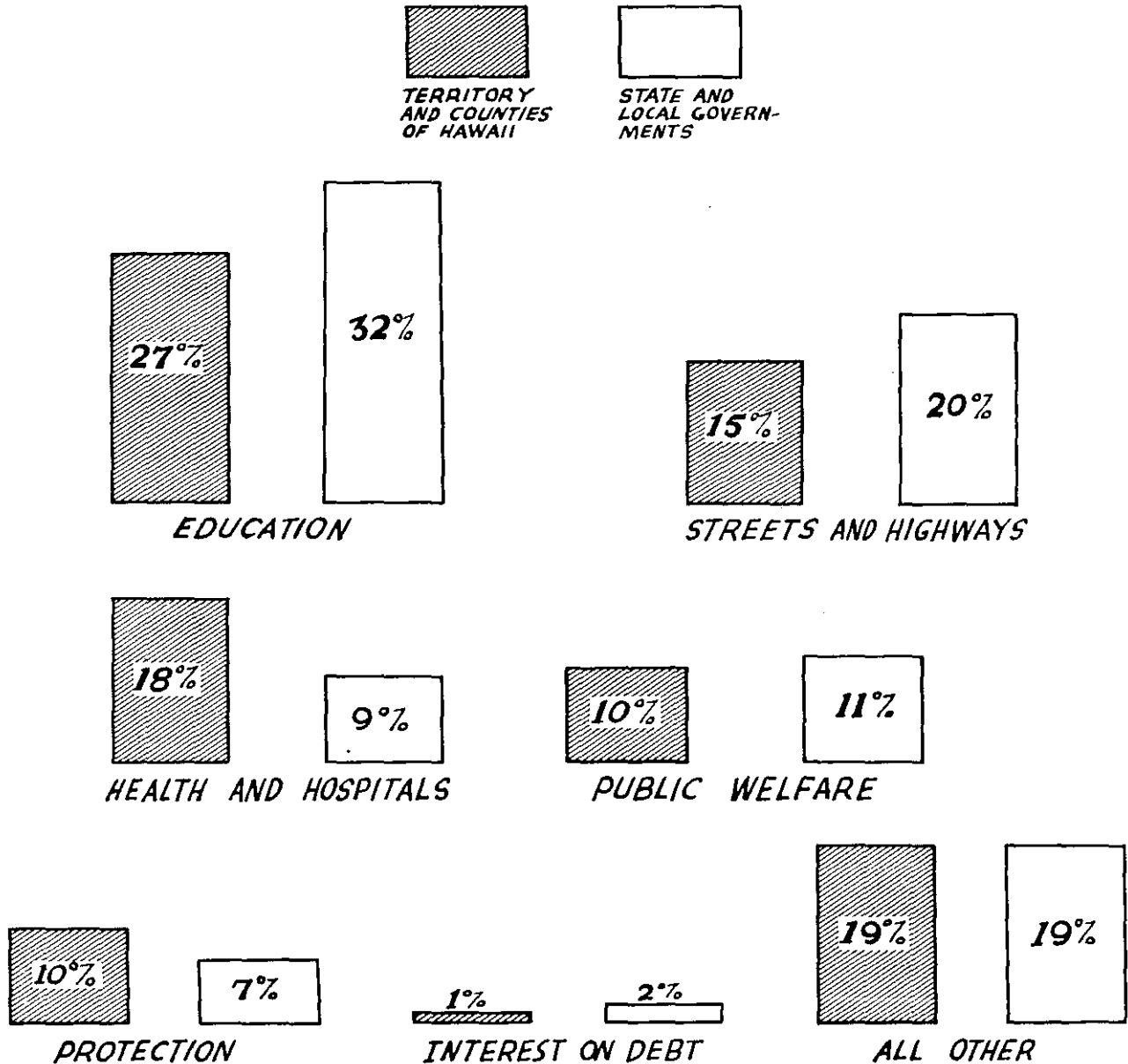
Persons concerned with the level of government cost payments will want to know if Hawaii spends a relatively large fraction of public funds for some functions while others receive a disproportionately small amount of each expenditure dollar. A useful yardstick by which to judge whether certain programs are unusually large or small is the distribution of expenditures, by functions, among the states of the mainland.

To be meaningful, however, it is not satisfactory to compare territorial expenditures with the pattern of state expenditures alone. The centralization of Hawaii's government, which places in the territorial government functions more frequently performed by local governments in the rest of the United States, rules out this territory-state comparison. It would be misleading, for example, to compare educational costs borne by the territorial government with those paid by state governments, since in most of the states the larger part of school moneys is spent by local units.

The better comparison is territorial-plus-county against state-plus-local cost payments; this is attempted in Chart 9. Estimated data for mainland local governments are available for the fiscal year 1951. Since authoritative expenditure data for mainland local governments--for any year since 1942--are not broken down into as many classifications as those used for Hawaii in the preceding portions of this report, comparison can be made for only six major functions. Two of them, it will be noted, required a regrouping of Hawaii's cost payments into "health and hospitals" and "public welfare", instead of "community welfare" and "health and sanitation", as before.

CHART 9

**PATTERNS OF PUBLIC EXPENDITURES:
PORTION OF EXPENDITURES GOING FOR MAJOR
FUNCTIONS IN HAWAII COMPARED WITH AVERAGE
OF ENTIRE U.S. - 1951***



*EXCLUDES PUBLIC SERVICE ENTERPRISES AND EMPLOYEE RETIREMENT SYSTEM COSTS.

SOURCES HAWAII DATA OF APPENDIX I, REGROUPED;
NATIONAL AVERAGES FROM PRELIMINARY
ESTIMATES OF U.S. CENSUS BUREAU.

In 1951, to refer to Chart 9, there was close similarity between the pattern of governmental expenditures in Hawaii and in the rest of the United States. In Hawaii, as in the mainland, education was the most costly function of government--and it took 5 per cent more of the state-local budgets than of Hawaii's. The relative portions of the expenditure dollar going for public welfare and for protection (police, fire, militia) were within three percentage points. Hawaii spent double the mainland average, percentagewise, for health and hospitals, but its necessarily limited road mileage kept outlays for streets and highways five points below the national average.

Comparisons made for 1932 and 1942, years of the last two censuses of government, also showed a close similarity between the pattern of expenditures in Hawaii and throughout the United States. In 1932 the range of variation was 6 per cent--that is, cost payments for the various functions of government in Hawaii in no case were more than 6 per cent larger or smaller than the proportion of state and local expenditures for the United States as a whole. In 1942 this range was only 3 per cent. During these earlier years, as in 1951, health and hospitals took a relatively larger share of total expenditures in Hawaii, while highway costs were a relatively smaller fraction. The proportion of Hawaii's budget going for education was above the national average in 1942, but below the average in 1932, as again in 1951.

B. Are government outlays above average in Hawaii?

While the distribution of public expenditures among the various major functions of government in Hawaii appears to strikingly similar to that of the mainland states, including their local subdivisions, the level of expenditures in the Territory is well above the national average.

A comparison of government cost payments in Hawaii per head of population (excluding military personnel) with outlays of state and local government for the continental United States is made in Table 1, following. The table indicates that even just prior to America's entrance in World War II, Hawaii spent more for governmental services, per capita, than the average state. The excess was relatively small, and early in the war (1942) was reduced to approximately \$7 for each civilian.

During the post-war period, however, Hawaii's per capita government cost payments have continued to outrun the average for mainland jurisdictions. By 1950, the table shows, outlays per capita for the civilian population of the Territory were about double the national average. In 1951 costs of mainland governmental units apparently increased sharply relative to Hawaii, but still remained one-third below per capita expenditures in the Territory.

TABLE 1
PER CAPITA GOVERNMENT COST PAYMENTS
HAWAII AND STATES OF THE MAINLAND - 1940-1951

<u>Fiscal Year</u>	<u>Hawaii: Territory and Counties</u>	<u>Mainland U.S.: State and Local Governments</u>
1940	\$ 84.98	\$ 62.37
1942	70.31	63.64
1944	96.11	66.61
1946	124.03	76.58
1948	174.27	104.79
1950	243.66	120.85
1951	255.63	163.58*

Computed from following sources: Hawaii, reports of territorial Auditor's office. Mainland U.S.; for 1940-50, U.S. Department of Commerce, National Income, 1951 edition, Table 9; 1951 from preliminary data of U.S. Census Bureau, prepared for 1952 Governors' Conference. Computed for civilian population only.

*Exclusive of expenditures by public service enterprises or public employee retirement systems.

Two factors may be borne in mind in considering the above comparisons. The first is the exclusion of military personnel in computing per capita expenditures. This exclusion is necessary because of the unavailability of complete data on the number of servicemen in the Territory. While it is expedient, as well as conventional, to confine measures of per capita governmental outlays to the civilian population, the effect may be to magnify the relative costliness of providing public services in Hawaii. This exaggeration results from the fact that military personnel, who form a larger portion of the Islands' total population than on the mainland, necessarily require the expenditure of public funds. The federal government has recognized the added financial burden placed on the territorial government by the several military posts maintained in Hawaii and has partially defrayed these costs by making grants for housing of military employees, for repairing roads damaged by military vehicles, for providing schools for the children of personnel on military bases, etc. Such federal funds, and much larger territorial outlays caused by federal military activities in these Islands for which no reimbursement is made, contribute to the high level of government cost payments in Hawaii.¹⁰

The second factor to be considered in making comparisons with the mainland is the price level. If, as is widely believed by persons both in government and business, prices tend to be higher in Hawaii than on the mainland, there is an upward pressure on public as well as private expenditures in the Territory which should be allowed for in making the comparisons attempted in the above table. There are now only fragmentary

¹⁰The other side of the coin shows tax payments in the Territory to be enlarged by the heavy expenditures (in excess of \$200 million annually in the last two years) of federal agencies in the Territory. Hawaii's position as a military bastion thus at once contributes to a high level of public outlays and also helps sustain these costs.

data to bear out this assumption;¹¹ it awaits the publication of a cost-of-living survey undertaken recently by the U.S. Bureau of Labor Statistics to discover how important the price factor is. It is not to be expected, however, that price differentials would entirely explain the above-average cost payments in Hawaii shown in Table 1.

Another convenient yardstick, besides population, for comparing governmental costs among jurisdictions is to estimate the ratio of these expenditures to net income received by persons in the jurisdiction. For the United States as a whole, expenditures of states and local units of government in 1951 amounted to slightly more than 10 per cent of personal income (before income taxes).¹²

Data are again lacking on the exact level of personal net income in Hawaii. It appears, however, that in the post-war period average net incomes received by the Territory's population has approximated the national average.¹³ Making the assumption that residents of Hawaii did receive

¹¹Notably a report of the U.S. Bureau of Labor Statistics (BLS Chart Series, 1946, F-8) indicating that in 1945 retail goods, rents, and services were approximately 25 per cent higher in Honolulu than in Los Angeles. Los Angeles, in turn, had a price index of 94, against 88 for Houston, 98 for Chicago, 100 for San Francisco, and 102 for New York City. This general relationship was confirmed in studies of retail prices in Honolulu and in several large mainland cities made in 1952 by the local Office of Price Stabilization. The salary differential paid to federal employees in the Territory is apparently predicated on the assumption that living costs in Hawaii are 20 per cent or more in excess of the average of mainland communities. It was to test this assumption that the current survey of the Bureau of Labor Statistics was undertaken.

¹²Computed from cost payments shown in Table 1 and per capita net income data published in the Survey of Current Business (U.S. Department of Commerce) for August 1952, p. 17.

¹³This was indicated by preliminary findings of the National Income Division of the U.S. Department of Commerce. According to tentative estimates made by the division in connection with the allocation of federal aid under the National School Lunch Act, per capita income in Hawaii during the late 1940's closely approached the average for the entire United States. An independent estimate made by the Legislative Reference Bureau for 1947 showed Hawaii's per capita income--then approximately \$1,312--to be in a median position among the 48 states.

an average income identical with that of the entire nation in 1951—\$1,584—in that year cost payments of the Territory and its four counties accounted for some 16 per cent of personal income received in these islands.

This calculation tends to confirm the conclusion previously reached: relative to its population, government cost payments in Hawaii are well above the average of the state and local governments of the entire United States.

APPENDICES OF SUPPORTING DATA

APPENDIX I

A. GOVERNMENT COST PAYMENTS IN HAWAII
1940-1952
(IN THOUSANDS)

Fiscal Year Ending		General Government	Protection	Education**	Community Welfare***	Streets & Highways	Health & Sanitation	Recreation	Natural Resources	Miscel- laneous	Interest	Public Enterprises	Total
<u>1940</u>	Territory	\$1,069	\$ 985	\$ 7,420	\$ 2,400	\$1,290	\$1,582	\$ 44	\$ 634	\$1,274	\$1,395	\$ 546	\$18,638
	Counties	1,105	1,967	2,822	1,479	2,947	1,093	546	---	755	844	1,574	15,134
	Total	\$2,174	\$2,952	\$10,241	\$ 3,879	\$4,238	\$2,674	\$ 591	\$ 634	\$2,029	\$2,238	\$2,120	\$33,772
<u>1941</u>	Territory	\$1,339	\$ 657	\$ 7,694	\$ 2,657	\$ 779	\$1,617	\$ 39	\$ 625	\$1,207	\$1,309	\$ 309	\$18,216
	Counties	1,288	1,802	1,646	1,959	2,442	979	590	---	416	799	2,272	13,581
	Total	\$2,622	\$2,458	\$ 9,340	\$ 4,010	\$3,221	\$2,589	\$ 623	\$ 625	\$1,623	\$2,102	\$2,581	\$31,797
<u>1942</u>	Territory	\$1,256	\$1,305	\$ 7,892	\$ 3,817	\$ 829	\$ 835	\$ 36	\$ 611	\$ 792	\$1,211	\$ 336	\$18,921
	Counties*	1,290	2,571	1,043	1,432	1,936	1,008	590	---	660	775	1,261	12,445
	Total	\$2,486	\$3,876	\$ 8,935	\$ 5,249	\$2,765	\$1,843	\$ 566	\$ 611	\$1,452	\$1,986	\$1,597	\$31,366
<u>1943</u>	Territory	\$1,541	\$ 740	\$ 8,510	\$ 4,077	\$2,061	\$ 909	\$ 43	\$ 664	\$ 571	\$1,159	\$ 268	\$20,537
	Counties*	1,405	2,798	1,118	1,597	2,309	1,364	560	---	1,132	837	1,514	14,632
	Total	\$2,946	\$3,538	9,628	\$ 5,674	\$4,370	\$2,273	\$ 609	\$ 664	\$1,703	\$1,990	\$1,782	\$35,169
<u>1944</u>	Territory	\$1,481	\$1,363	\$ 9,295	\$ 4,858	\$3,223	\$1,068	\$ 52	\$ 974	\$1,190	\$1,089	\$ 362	\$24,955
	Counties*	1,873	3,337	1,219	1,764	2,503	2,589	691	---	2,036	787	2,879	19,666
	Total	\$3,354	\$4,700	\$10,508	\$ 6,622	\$5,726	\$3,657	\$ 743	\$ 974	\$3,226	\$1,876	\$3,235	\$44,621
<u>1945</u>	Territory	\$2,008	\$1,474	\$11,029	\$ 5,828	\$2,189	\$1,677	\$ 57	\$1,007	\$1,082	\$1,022	\$ 413	\$27,786
	Counties*	2,190	3,748	1,867	1,511	2,512	1,694	801	---	2,408	383	2,681	19,496
	Total	\$4,198	\$5,222	\$12,596	\$ 7,339	\$4,701	\$3,371	\$ 858	\$1,007	\$3,490	\$1,405	\$3,094	\$47,282
<u>1946</u>	Territory	\$2,585	\$1,218	\$13,330	\$ 7,949	\$3,420	\$1,659	\$ 71	\$ 980	\$1,402	\$ 656	\$ 667	\$33,997
	Counties	1,828	4,124	1,658	1,170	2,383	2,097	824	---	2,939	361	6,333	24,316
	Total	\$4,414	\$5,341	\$14,988	\$ 9,119	\$5,804	\$3,756	\$ 895	\$ 980	\$4,401	\$1,016	\$7,600	\$58,313
<u>1947</u>	Territory	\$3,275	\$1,334	\$14,922	\$10,705	\$2,998	\$2,125	\$ 91	\$1,210	\$2,038	\$ 499	\$1,075	\$40,211
	Counties	2,622	3,787	2,017	995	3,709	3,182	1,184	---	3,062	244	5,881	26,684
	Total	\$5,897	\$5,121	\$16,939	\$11,700	\$6,707	\$5,307	\$1,275	\$1,210	\$5,100	\$ 683	\$6,956	\$66,895
<u>1948</u>	Territory	\$3,562	\$2,494	\$17,540	\$14,155	\$3,880	\$2,449	\$ 149	\$1,369	\$4,406	\$ 395	\$2,480	\$52,821
	Counties	2,621	4,974	3,420	1,668	5,116	3,028	2,191	---	2,739	251	6,771	32,771
	Total	\$6,183	\$7,469	\$20,960	\$15,823	\$8,996	\$5,477	\$2,340	\$1,369	\$7,139	\$ 586	\$9,251	\$85,592

APPENDIX I

A. GOVERNMENT COST PAYMENTS IN HAWAII
1940-1952
(IN THOUSANDS)
(Cont'd)

Fiscal Year Ending		General Government	Protection	Education**	Community Welfare***	Streets & Highways	Health & Sanitation	Recreation	Natural Resources	Miscellaneous	Interest	Public Enterprises	Total
1949	Territory	\$5,051	\$ 3,401	\$19,248	\$17,484	\$ 7,618	\$2,416	\$ 239	\$1,512	\$5,506	\$ 292	\$ 3,110	\$ 65,877
	Counties	2,937	5,281	3,984	1,574	5,128	4,144	2,917	---	1,976	593	5,270	33,809
	Total	\$7,988	\$ 8,682	\$23,232	\$19,058	\$12,746	\$6,560	\$3,156	\$1,512	\$7,482	\$ 885	\$ 8,380	\$ 99,686
1950	Territory	\$5,621	\$ 5,981	\$19,615	\$20,842	\$10,157	\$2,284	\$ 297	\$1,520	\$7,689	\$ 327	\$ 3,013	\$ 77,940
	Counties	2,823	5,817	5,470	2,057	5,699	6,097	3,283	---	1,163	689	4,435	37,591
	Total	\$8,444	\$11,798	\$25,085	\$22,899	\$15,856	\$8,381	\$3,580	\$1,520	\$8,852	\$1,016	\$ 7,449	\$114,871
1951	Territory	\$4,764	\$ 4,734	\$20,605	\$21,832	\$ 9,785	\$2,329	\$ 642	\$1,790	\$5,059	\$ 571	\$ 6,072	\$ 78,124
	Counties	3,142	6,245	7,292	3,446	7,272	6,416	3,100	---	757	956	4,064	42,689
	Total	\$7,906	\$10,979	\$27,897	\$25,278	\$17,057	\$8,745	\$3,742	\$1,790	\$5,816	\$1,527	\$10,136	\$120,813
1952	Territory	\$3,646	\$ 4,873	\$21,745	\$19,481	\$12,873	\$2,328	\$ 247	\$1,816	\$5,468	\$ 729	\$ 3,552	\$ 76,758
	Counties	3,287	8,015	19,886	5,086	6,495	6,965	2,867	---	2,424	1,029	5,359	55,411
	Total	\$6,933	\$12,888	\$35,631	\$24,567	\$19,368	\$9,292	\$3,114	\$1,816	\$7,892	\$1,758	\$ 8,911	\$132,169

Sources: Reports of territorial Auditor's Office, except county post payments for 1943-45 from county auditor reports and Honolulu Controller reports. Data from these sources augmented and modified as described in Appendix V.

*Calendar year.

**Includes schools, libraries, and the University of Hawaii.

***Includes hospitals, institutions for handicapped, correction, and public assistance.

APPENDIX I.

B. PERCENTAGE DISTRIBUTION OF GOVERNMENT COST PAYMENTS IN HAWAII
1940-1952

Fiscal Year Ending		General Government	Protection	Education**	Community Welfare***	Streets & Highways	Health & Sanitation	Recreation	Natural Resources	Miscel- laneous	Interest	Public Enterprises	Total
1940	Territory	5.8%	5.3%	40.2%	13.0%	7.0%	8.6%	0.2%	3.4%	5.9%	7.6%	3.0%	100.0
	Counties	7.1	12.6	18.0	11.0	18.8	7.0	3.5	---	4.9	5.4	11.7	100.0
	Total	6.4%	8.7%	30.0%	12.1%	12.4%	7.8%	1.7%	1.9%	5.4%	6.6%	7.8%	100.0
1941	Territory	7.4%	3.7%	42.7%	14.8%	4.3%	9.0%	0.2%	3.5%	5.5%	7.2%	1.7%	100.0
	Counties	9.0	12.6	11.8	11.2	17.1	6.8	4.1	---	4.5	5.6	17.6	100.0
	Total	8.1%	7.6%	28.9%	13.2%	10.6%	8.0%	1.9%	1.9%	5.1%	6.5%	8.8%	100.0
1942	Territory	6.7%	7.0%	42.1%	20.4%	4.4%	4.5%	0.2%	3.3%	3.2%	6.5%	1.8%	100.0
	Counties*	9.6	20.0	8.1	13.4	15.1	7.9	4.1	---	5.8	6.0	10.0	100.0
	Total	7.9%	12.3%	28.3%	17.5%	8.8%	5.8%	1.8%	1.9%	4.2%	6.9%	5.1%	100.0
1943	Territory	7.6%	3.6%	41.9%	20.1%	10.1%	4.5%	0.2%	3.3%	1.7%	5.7%	1.3%	100.0
	Counties*	9.2	18.9	7.9	13.0	15.1	8.9	3.7	---	9.8	5.5	10.1	100.0
	Total	8.5%	9.9%	27.8%	17.0%	12.9%	6.4%	1.7%	1.8%	4.8%	5.6%	5.1%	100.0
1944	Territory	6.0%	5.5%	37.6%	19.6%	13.0%	4.3%	0.2%	3.9%	4.0%	4.4%	1.5%	100.0
	Counties*	9.1	16.2	5.9	11.4	12.1	12.6	3.4	---	11.4	3.8	14.1	100.0
	Total	7.4%	10.4%	23.2%	15.9%	12.6%	8.1%	1.6%	2.1%	7.4%	4.1%	7.2%	100.0
1945	Territory	7.3%	5.4%	40.0%	21.2%	7.9%	6.1%	0.2%	3.7%	3.0%	9.7%	1.5%	100.0
	Counties*	10.4	17.7	7.4	11.0	11.9	8.0	3.8	---	15.0	1.8	12.9	100.0
	Total	8.6%	10.7%	25.9%	16.8%	9.7%	6.9%	1.8%	2.1%	8.2%	2.9%	6.5%	100.0
1946	Territory	7.7%	3.6%	39.7%	23.7%	10.2%	4.9%	0.2%	2.9%	3.0%	2.0%	2.0%	100.0
	Counties	7.0	15.7	6.9	8.8	9.1	8.0	3.1	---	12.7	1.4	27.9	100.0
	Total	7.4%	8.9%	25.1%	17.7%	9.7%	6.9%	1.5%	1.6%	7.9%	1.7%	19.9%	100.0
1947	Territory	8.2%	3.4%	37.5%	26.9%	7.5%	5.3%	0.2%	3.0%	3.9%	1.1%	2.7%	100.0
	Counties	9.0	13.0	6.9	7.4	12.8	11.0	4.1	---	13.2	0.8	21.7	100.0
	Total	8.6%	7.4%	24.6%	18.7%	9.8%	7.7%	1.9%	1.8%	7.9%	1.0%	16.7%	100.0
1948	Territory	6.8%	4.8%	33.6%	27.1%	7.4	4.7%	0.3%	2.6%	7.4%	0.6%	4.7%	100.0
	Counties	7.4	14.1	9.7	8.5	4.5	8.5	6.2	---	9.8	0.7	20.6	100.0
	Total	7.1%	8.5%	23.9%	19.6%	10.3%	6.2%	2.7%	1.6%	8.9%	0.7%	11.1%	100.0

APPENDIX I

B. PERCENTAGE DISTRIBUTION OF GOVERNMENT COST PAYMENTS IN HAWAII
1940-1952
(Cont'd)

Fiscal Year Ending		General Government	Protection	Education**	Community Welfare***	Streets & Highways	Health & Sanitation	Recreation	Natural Resources	Miscel- aneous	Interest	Public Enterprises	Total
1949	Territory	7.7%	5.2%	29.5%	26.8%	11.7%	3.7%	0.4%	2.3%	7.6%	0.4%	4.8%	100.0
	Counties	8.2	14.8	7.8	8.1	14.4	11.5	8.0	---	9.3	1.7	16.2	100.0
	Total	7.9%	8.6%	21.8%	20.2%	12.6%	6.5%	3.1%	1.5%	8.2%	0.8%	8.8%	100.0
1950	Territory	7.3%	7.8%	25.6%	27.2%	13.2%	3.0%	0.4%	2.0%	9.2%	0.4%	3.9%	100.0
	Counties	7.5	15.4	8.5	8.7	15.1	15.3	8.7	---	5.9	1.7	13.2	100.0
	Total	7.4%	10.3%	19.9%	21.1%	13.8%	7.1%	3.1%	1.3%	8.1%	0.9%	7.0%	100.0
1951	Territory	6.1%	6.1%	26.4%	27.9%	12.5%	3.0%	0.8%	2.2%	6.5%	0.7%	7.8%	100.0
	Counties	7.4	14.6	17.1	8.1	17.0	15.0	7.3	---	1.8	2.2	9.5	100.0
	Total	6.5%	9.1%	23.1%	20.9%	14.1%	7.2%	3.1%	1.4%	4.8%	1.3%	8.4%	100.0
1952	Territory	4.8%	6.4%	28.3%	25.4%	16.8%	3.0%	0.3%	2.4%	7.1%	0.9%	4.6%	100.0
	Counties	5.9	14.4	25.0	9.2	11.7	12.6	5.2	---	4.4	1.8	9.8	100.0
	Total	5.2%	9.7%	26.9%	18.6%	14.7%	7.0%	2.4%	1.4%	6.0%	1.3%	6.8%	100.0

Sources: Reports of territorial Auditor's Office, except county cost payments for 1943-45, from county auditor reports and Honolulu Controller reports. Data from these sources augmented and modified as described in Appendix V.

*Calendar year.

**Includes schools, libraries, and the University of Hawaii.

***Includes hospitals, institutions for handicapped, correction, and public assistance.

APPENDIX II

GOVERNMENT COST PAYMENTS IN HAWAII
 ADJUSTED FOR CHANGES IN POPULATION AND PRICE LEVEL
 1940-1952

Fiscal Year	Actual Cost Payments ^a (Millions)	Population ^b	Index of Population (1952=100)	Price Index ^c (1952=100)	Adjustment Factor ^d	Adjusted Cost Payments ^e (Millions)
1940	\$ 33.8	397,405	85.4	46.6	39.8	\$ 84.9
1941	31.8	408,660	87.8	49.1	43.1	73.8
1942	31.4	446,119	95.9	52.9	50.7	61.9
1943	35.2	451,209	97.0	55.9	54.2	64.9
1944	44.6	464,250	99.8	58.0	57.9	77.0
1945	47.3	458,084	98.4	61.2	60.2	78.6
1946	58.3	470,153	101.0	67.4	68.1	85.6
1947	66.9	476,127	102.3	77.6	79.4	84.3
1948	85.6	491,146	105.5	87.1	91.9	93.1
1949	99.7	481,537	103.5	90.2	93.4	106.7
1950	114.9	471,447	101.3	93.3	94.5	121.6
1951	120.8	472,602	101.6	99.2	100.8	119.8
1952	132.2	465,325	100.0	100.0	100.0	132.2

a From Appendix I.

b Civilian population, estimated by territorial Board of Health as of September 15, 1952, a revision of earlier estimates.

c Price deflator for state and local government purchases, from U.S. Department of Commerce, National Income, 1951 edition, p. 146, Table B; estimates of 1951 and 1952 deflators supplied by Department. Converted from 1939 to 1952 base.

d Product of population and price indexes, expresses joint effect of population and price changes.

e Actual cost payments divided by joint population and price adjustment factor. Amount listed for any year is estimate of total expenditure required to maintain constant per capita outlays in dollars of constant value, using 1952 as base year.

APPENDIX III

TERRITORIAL PUBLIC WORKS EXPENDITURES
1940-1952

<u>Fiscal Year</u>	<u>Highway Projects^a</u>	<u>Other Construction^b</u>	<u>Total</u>
1940	\$ 1,548,940	\$ 106,143	\$ 1,655,083
1941	696,376	333,362	1,029,738
1942	8,394	8,394
1943	522,715	4,956	527,671
1944	2,482,722	2,482,722
1945	3,492,512	312,153	3,804,665
1946	2,269,533	16,772	2,286,305
1947	1,797,388	726,081	2,523,469
1948	2,302,267	1,329,886	3,632,153
1949	4,837,177	7,508,792	12,345,969
1950	6,724,177	2,723,314	9,447,491
1951	6,011,288	2,398,391	8,409,679
1952	7,137,094	833,818	7,970,912

Sources Territorial Department of Public Works.

a Expenditures for completed projects.

b Value of contracts awarded, exclusive of schools other than vocational schools.

APPENDIX IV

EXPENDITURES FOR PRIMARY AND SECONDARY SCHOOL CONSTRUCTION
1940-1952

<u>Year^a</u>	<u>Amount^b</u>
1940	\$ 474,269
1941	272,165
1942	142,253
1943	45,544
1944	46,344
1945	171,820
1946	101,852
1947	840,954
1948	439,504
1949	1,701,162
1950	2,971,382
1951	4,627,700
1952	10,694,028

Sources: Annual reports of Hawaii, Kauai, and Maui auditors and of Honolulu controller; reports of territorial auditor showing expenditures for counties from territorial loan fund, exclusive of vocational schools, which are included in Appendix III.

Calendar year for expenditures from county funds, fiscal year for expenditures (in 1949 and following years) from territorial loan fund.

b Actual disbursements.

APPENDIX V

HOW GOVERNMENT COST PAYMENTS WERE COMPUTED

THE CONCEPT. Government cost payments, as referred to in this report, are all net amounts paid out of public funds by the territorial or county governments, regardless of the source of such funds, whether taxes, fees, rentals, fines, borrowing, or grants from the federal government. They include all monetary costs of government--including payrolls; properties, equipment, and materials purchased or rented; and interest on indebtedness--as well as pensions, assistance or other benefits which may be distributed. Government cost payments exclude the following: (1) expenditures of non-public funds, such as employee contributions to the retirement system; (2) debt repayment (since expenditures of funds raised by the sale of bonds are included, it would be duplication also to include the repayment of this money),¹ and (3) investments, or transfers of funds within or between the divisions of government. When funds are transferred from one governmental agency to another (as some territorial loan funds to the several counties) only the actual outlay by the second agency is considered a "cost payment", the first transaction being merely a transfer of funds within the government.

In arriving at government cost payments for Hawaii according to the above definition, the primary source used was the "Consolidated Statement of Operations, Territory of Hawaii and its Political Subdivisions", prepared by the Office of the Territorial Auditor from its records and from reports received from the counties and the city and county of Honolulu for each

¹ If both expenditure of bond funds and retirement of bonds are included as cost payments (as in the case of the Honolulu Board of Water Supply), an obvious double-counting occurs. A million dollar pumping station, for example, would appear to cost two million dollars--one million when construction costs are paid out of bond revenues, one million when the bonds are retired.

fiscal year (July 1-June 30), and reproduced in the annual report of the Governor of Hawaii to the Secretary of the Interior. During the war years, 1942-45, these reports were not made by the counties; for these four years calendar year data were obtained from annual county auditors' reports, and, in the case of the city and county of Honolulu, from the controller's reports. (All territorial data, however, are for fiscal year periods.)

The "objects of payment" classification of expenditures currently employed by the auditor in his consolidated statement had to be modified in two respects in order to conform to classifications used in earlier years of the period covered, 1940 through 1952. The groupings "Hospitals and Institutions", "Charities", and "Correction" were combined under the heading "Institutions and Welfare"; and "Schools" and "Libraries" were combined under the heading "Education". The more inclusive classifications were used by the territorial auditor for the fiscal years 1940 and 1941, and in the county auditors' reports for all counties except the city and county of Honolulu during the years 1942 through 1945.

Under the classification "Public Enterprises" are included expenditures by the Territorial Board of Harbor Commissioners and the Hawaii Aeronautics Commission, and, at the county level, payments by the water supply systems. (Costs of these governmental agencies are largely from receipts for services rendered to "customers" and for the most part do not rest upon the taxpayers of Hawaii. Such expenditures are included, however, in order to present a comprehensive statement of governmental outlays. An attempt to report only those expenditures which are borne ultimately from tax revenues would require exclusion not only of the receipts of public service enterprises but of all other charges made by governmental agencies for services rendered--e.g. book rentals by the Department of Public Instruction, tuition fees by the University of Hawaii, recording fees by the Bureau of Conveyances, etc.).

AVOIDING
DUPLICATIONS
AND OMISSIONS

To determine if there was any duplication in reporting by auditors of the two levels of government, or any omission of expenditures which should be classified as government cost payments under the definition given above, a comparison was made of the amounts reported by the Territory as transfers to the counties and the amounts of such receipts reported by the counties. This and other checks revealed discrepancies and suggested the possibility of duplications and omissions in the auditors' reports.

Investigation revealed: (1) inclusion in county costs of bond retirement by the Honolulu Board of Water Supply, a type of outlay not classified as a cost payment; (2) inclusion in cost payments of Honolulu, Hawaii, and Maui of total contributions to the Employees' Retirement System, although contributions over and above county shares of administrative expenses and pensions actually paid are transfers between governmental units, rather than cost payments; (3) duplication of reporting of governmental subsidies for tuberculosis hospitals and the Shingle Memorial Hospital on Molokai, by the Territory and by three of the counties--Maui, Kauai, and Hawaii; (4) omission of the Territory's share of benefits and administrative costs of the Employees' Retirement System; (5) omission of expenditures from the territorial loan fund (made by the Territory for the counties out of bond sale realizations, which bonds must be repaid by the counties) except by Hawaii, and in part, by Kauai. All counties list the latter expenditures in their auditors' or controller's reports, but do not report them as cost payments. The territorial auditor lists them in detail but correctly classifies them as transfers to the county governments, rather than as territorial cost payments.

ADJUSTMENTS
MADE

The following adjustments were made in expenditures reported by the Territory and its subdivisions in arriving at the cost payments utilized in this study: First, outlays for bond redemption by the

Honolulu Board of Water Supply were subtracted from county expenditures for public enterprises; second, territorial grants for "county" tuberculosis hospitals and the Shingle Memorial Hospital, were also shown as county expenditures, were subtracted from county expenditures for institutions, on the grounds that the county governments appear to act only as intermediaries in this distribution, with the money being supplied by the territorial legislature, which determines the amount going to each institution; third, contributions by the counties to the Employees' Retirement System, except their share of current administrative expenses, were subtracted from county miscellaneous expenditures, while the Territory's share, out of its contributions for benefits and administrative charges, of cost payments by the Employees' Retirement System were added to its miscellaneous outlays; fourth, loan fund expenditures made by the Territory on behalf of the counties—for highways, schools, and other public improvements—were added to county expenditures, after subtracting amounts partially reported by some counties. Hawaii reported all such expenditures, although its figures do not agree with the Territory's; Kauai reported a small fraction of the expenditures for that county, its reports do not include payments made directly to contractors by the Territory. (Because of the apparent difference in accounting methods, the need for consistency dictated acceptance of the territorial payment figures in all cases, including those for Hawaii, so these amounts were added to the county expenditures and classified according to purpose of expenditure. The amounts which were already included in official reports by the county auditors of Hawaii and Kauai were obtained from the county auditors by letter and subtracted from the county totals.)

ILLUSTRATION
OF ADJUSTMENTS

To clarify the procedures used in arriving at the expenditures presented in this study, and to show how they affect the percentage distribution of government cost payments, illustrations of the steps taken, with actual data, are given below for the fiscal year 1952.

A. Overall adjustments in territorial and county cost payments.

1. Total territorial cost payments:

\$ 75,889,017 - Territorial government cost payments as reported by territorial auditor in the "Consolidated Statement of Operations".

Plus 59,070 - Territorial share, administrative costs, Employees' Retirement System (all administrative costs except county share).

Plus 810,353 - Pensions paid by the Employees' Retirement System, from government contributed funds, to territorial pensioners.

\$ 76,758,440 - Total territorial government cost payments.

2. Total county cost payments:

\$ 44,405,950 - County expenditures as reported to territorial auditor, with minor adjustments (expenditures of Maui waterworks Board added; Kauai interest payments estimated from detail of county auditor's report for 1950 and 1951; adjustment for bond redemption by public enterprises made).

Minus 1,442,689 - Grants to tuberculosis hospital from territorial funds (already classed in territorial auditor's report as territorial cost payments).

Minus 559,319 - Expenditures listed by counties as made from territorial loan funds.

Minus 1,540,149 - County contributions to the Employees' Retirement System for pensions (not including county shares of administrative costs).

Plus 207,775 - Pensions paid by the Employees' Retirement System from government contributed funds, to county pensioners.

Plus 14,339,873 - Territorial loan fund expenditures for county purposes, as reported by the territorial auditor.

\$ 55,411,441 - Adjusted county government cost payments.

3. Consolidated territorial and county cost payments:

\$132,169,881 - Total government cost payments in Hawaii for 1952
(Territory and county) after adjustments.

Minus 120,294,967 - Total government cost payments in Hawaii for 1952
reported in auditor's consolidated statement.

\$ 11,874,914 - Net addition to government cost payments indicated
by adjustments.

B. Example of adjustments in government cost payments for specific governmental functions in 1952.

1. County cost payments for education:

\$ 3,764,924 - Total county expenditures for education, as reported
to the territorial auditor--8.4% of total county cost
payments.

Plus 10,694,022 - Outlays from territorial loan funds for county school
and library buildings.

Minus 478,757 - Expenditures (partially) listed by counties as made
from territorial loan funds.

Minus 93,960 - Contribution to Employees' Retirement System for
county-paid school employees. (This was included in
this classification by the city and county of Honolulu
for the years 1951 and 1952, rather than in the "mis-
cellaneous" classification, where all other pension
payments were included.)

\$ 13,886,229 - Adjusted total county government cost payments for
education--25% of total county governmental cost ex-
penditures.

There was no adjustment necessary in the reported total of territorial ex-
penditures for education of \$21,745,315--28.3% of total territorial cost expendi-
tures.

2. "Miscellaneous" cost payments:

a. By Territory

\$ 4,599,137 - Territorial cost payments for miscellaneous pur-
poses as reported by territorial auditor in con-
solidated statement of expenditures--6.1% of total
territorial expenditures.

Plus \$ 59,070 - Territorial government share of administrative expenses of Employees' Retirement System.

Plus 810,353 - Territorial pensions paid by Employees' Retirement System.

\$ 5,468,560 - Adjusted total territorial government cost payments for miscellaneous purposes--7.1% of total territorial cost expenditures.

b. By counties

\$ 3,307,634 - Total county expenditures for miscellaneous purposes, as reported to the territorial auditor--7.4% of total county government cost payments.

Plus 112,965 - Outlays from territorial loan funds for miscellaneous county purposes.

Plus 207,775 - County pensions currently paid by the Employees' Retirement System.

Minus 1,204,598 - County contributions to Employees' Retirement System less counties' share of administrative expenses.

\$ 2,423,777 - Adjusted total county government cost payments for miscellaneous purposes--4.4% of total county governmental cost expenditures.