CAPITAL IMPROVEMENTS PROGRAMS IN HAWAII

A Review of State Legislative

and Executive Responsibilities

by

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FOREWORD

This report was prepared in accordance with a request made jointly by the respective chairmen of the Committee on Ways and Means of the Senate and the Committee on Finance of the House of Representatives of the Hawaii State Legislature.

The principal objective of the study as requested was to examine the respective roles of the several state agencies, the Governor and the Legislature in the planning, authorization and construction of capital improvements financed through special funds. The requesters recognized, however, that an inquiry of this sort might require attention to other aspects of executive-legislative relationship and could properly include improvements financed by means other than special funds. This has indeed proved to be the case. It not only was impossible to isolate special fund problems without considering others, but as analysis proceeded it was necessary to go far behind the means of financing to seek out the factors that determine the proper role of the several agencies concerned. The result is a report that is broad in scope and intensive in treatment of ideas.

In the preparation of this report materials available in the latter months of 1959 were examined. The Governor's Capital Improvements Program, 1960-1966 had not been completed at that time and consequently was not considered. A brief review of this document just prior to publication indicates that considerable progress has been made in presenting the capital budget for consideration by the Legislature, as compared to the 1959-1961 Capital Improvements Program. The latter document is discussed in some detail in this report and not all of the comments made on it apply to the 1960-1966 program. The requests for public lands and transportation projects especially show considerable improvement over the presentations of a year ago, and the proposed expenditures for succeeding fiscal years are detailed in a manner that lends itself to legislative understanding and decision-making over a relatively long period. It is gratifying to see that progress has been made toward accomplishing the physical programming part of the system suggested in the last chapter of this report, and it is hoped that the discussion of programming will be read in the light of this newer, better document.

SUMMARY

Hawaii's capital improvements responsibilities are unusually great, when compared to those of most state governments. Large amounts of money are involved and the money is spent on a wider variety of improvements than in almost any other state. State concern for education, non-highway transportation, housing, and natural resources seem to be the major factors in this situation.

In Hawaii's capital improvements program bond financing is much more important than current revenue financing, and most improvements are paid for through special funds. The means of financing are related to the means by which moneys are made available for expenditure in that general fund capital outlay is made by specific authorization, but special fund moneys are spent by administrative officers within very general limits laid down in law. The 1959-1961 capital improvements program represented a new concept in planning Hawaii's capital expenditures, and considerable improvement in the 1960-1966 capital program presentation is noted in the Foreword.

Capital improvements administration in Hawaii really consists of four programs—public facilities, development programs, county improvements, and miscellaneous projects. Different considerations apply to each category, and the differences are most apparent if looked at in the light of the stages through which all improvements pass. These stages are policy formulation, long-range planning, programming, project construction, and performance evaluation. Legislative participation is of utmost importance in policy, program, and performance, while administrative discretion is desirably preeminent in planning and construction.

The respective roles of the legislative and executive branches can be identified as to process, and therefore it is possible to relate these roles also to the kinds of improvements built. Policy (primarily legislative) is dominant in development-related programs (such as transportation, land, housing, and conservation). It follows that legislative discretion therefore should be paramount with respect to such improvements. Conversely, public facilities can be planned and built in the absence of specific policy statements because policy respecting such improvements (schools, office buildings, renovations, and the like) has been made many years

ago. Hence the administration desirably would play the major part in improvements of the latter kind. As a matter of fact, however, the opposite is the case. Administrators have the widest discretion in development and legislators have the most direct control in facility construction. This undesirable effect is brought about in large part by the practice of financing development-related improvements through special funds, and by legislative reluctance to treat special fund moneys as just another form of state revenue.

To make the appropriation process serve the ends of all interested parties in all kinds of improvements, the fund structure and sources of revenue must be considered of less importance than bringing the full abilities of both politicians and administrators to bear at the appropriate time. The principles of program appropriation are fully applicable to capital improvements and by using a program approach it will be possible to exert legislative authority when appropriate and still leave administrators with sufficient latitude to make substantial contributions. The problem in the past has been that appropriations were too specific and special fund discretion too broad. By appropriating from all funds and leaving discretion in the development of all programs it will be possible to find a sound middle ground.

The Legislature requires professional, disinterested review of performance on its behalf to make the suggested system work. Only in this way can the legislature be informed as to progress, and enabled to make the evaluations that it can and must make if it is properly to hold the administration to account for its actions and to fulfill the all-important mission of seeing to it that the public will is translated into real accomplishment. The use of a legislative staff goes far beyond capital improvements administration, but certainly includes it. The legislative staff appears an indispensable part of making Hawaii's capital programs truly serve the needs of the population.

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INTRODUCTION

Capital improvements are a major element in governmental operations, and their cost and the means of financing them are important aspects of public finance. The impact of capital improvements runs through every level of government and touches the life of every citizen. In fact, one of the great functions of government is to provide such facilities as are necessary to enable citizens to make the best use of their communities. This is indeed a big assignment, and one that deserves the application of the highest motives, best thought, and most conscientious work of all concerned.

The construction and financing of capital improvements are peculiarly complex because of four characteristics that do not apply with equal force to other kinds of public expenditures. These characteristics are: (1) the relatively long time period involved in their construction; (2) their high initial cost; (3) the impact they have upon the private economy; and (4) their relative permanence. These characteristics really add up to one large factor; namely, that capital improvements create commitments that tend to involve the whole community over an extended period of time.

The commitments referred to may be almost anything--political, economic, social or idealistic. Examples of public works taken from history may make the wide range of possibilities clear. The oldest existing public improvements are the Egyptian pyramids, the cost of which in time and effort could hardly have been borne by any society not dedicated to deification of royalty and abasement of labor. Another relic of antiquity, the Chinese Wall, committed the empire to centuries of isolation, and played its part in creating the east-west barriers in thought, culture, and history that plague us even today. Roman roads, on the other hand, literally paved the way for binding the empire together and committed the Caesars to a policy of integration and world-wide citizenship that profoundly altered western history. More recently, the extravagances of Louis XIV in building elaborate edifices ultimately contributed to the French Revolution, the American investment in the Louisiana Territory set our nation on its way toward a continental destiny, the Erie Canal opened the west to Atlantic commerce, and water development projects helped to overcome the effects of western droughts and river-basin floods. Although necessarily less ambitious, the public works of Hawaii will have similarly far-reaching effects on the future of this state. It is therefore most important that decisions concerning capital improvements be consonant with Hawaii's culture, economy, and aspirations. To assure that this is the case requires democratic decisions on the fundamental issues, and the best possible use of available resources in implementing those decisions.

This report is concerned with how to obtain the desired results touched on in the foregoing paragraph. It is self-evident that administrative agencies, the Governor, and the Legislature all have parts to play in the process; it is not so evident which part may best be filled by which agency. Nor does existing literature shed much light on the subject. It is principally devoted to specific circumstances (chiefly those that prevail in national or municipal governments); to presumed exclusive phases of administration, such as budgeting, debt management, or planning; or to social and economic effects of public improvements and the theories of evaluating such effects. All these factors have pertinence to the present subject, but none can be said to develop a pattern that could be used uncritically by the State of Hawaii. The findings of this study therefore should be considered as evolving from the literature, rather than being taken from it, and as representing an evaluation of many procedures, synthesized into a coordinated proposal for managing Hawaii's capital improvements program so as to exploit the peculiar contributions that each agency can make.

I. HAWAII'S CAPITAL IMPROVEMENTS

Capital improvements are constantly being made by all levels of government, and their pattern and the size of outlay required for them necessarily vary from place to place. The United States Government is by far the largest spender and builder in this county, but the impact of its program on individual states is roughly uniform and its activities are, of course, outside the purview of state legislatures. Legislatures do, however, control the programs of their states and, depending on local home-rule provisions, those of political subdivisions. It is at the state and local levels that the main variations exist, and as the scope and purpose of programs vary, so too does the relative responsibility imposed upon state legislatures for imaginative and sound decisions. Such responsibility is especially prominent in Hawaii, which has a highly individual capital improvements program, a major characteristic of which is concentration of financial responsibility in the state, rather than in localities.

Scope of State Program

The state capital improvements program in Hawaii is different from similar programs in other states in major respects. One difference is in size and cost. Hawaii's per capita expenditure for capital purposes is well over the average of all states, and continuing spending at that level has resulted in high per capita debt and interest payments. These facts are consistent with the general level of Hawaii's state expenditures for all purposes, but regardless of the reasons, the size of the program represents unusually great responsibility for public works at the state level. Correspondingly, it imposes unusually great requirements for sound policies and able administration.

Hawaii's peculiar state-county system of government is the reason for much of the variance between public works financing here and elsewhere. Costs at the state level are high, it is true, but it by no means follows that total costs for all levels of government are equally high. Hawaii probably has the most highly centralized government in America, and certainly has the simplest system of local government. As a direct result of this state-local structure, expenditures that in most states are responsibilities of cities, counties, school districts, and other subordinate units of government are made at the state level in Hawaii. It should be borne in mind in the following discussions that high state costs are largely a result of this condition. The only absolute judgment that can be passed on the fact that costs are high is that state legislators and state administrators have a bigger job to do in Hawaii than in most other states.

Certain general data bearing on the size of the capital improvements program and the magnitude of public expenditures are shown in Table 1, which is based on expenditures during the fiscal year ending in 1958. While the dollar amounts have no doubt increased since then, these latest available figures probably reflect the present relative situation among states with some accuracy. It is also true that capital outlay in individual states will vary considerably from year to year, but the 1958 costs in Hawaii were not exceptional, and it is to be expected that about the same number of states would exceed Hawaii's expenditures in any typical year.

In the table, Hawaii ranks (on a per capita basis) first among the states in current operational expenditures, seventh in capital outlay, third in interest payments, and fourth in total debt. The debt and interest figures would be

TABLE I

Ten Leading States in Per Capita Expenditures for Selected Purposes and in Per Capita Total Debt, 1958[a]

Rank (Among 50 States)	Per Capita Expenditures For: All Purposes State	Amount[b]	Capital Outlay State	Amount[b]	Interest Payments State	Amount	Current Expenditures State	Amount[b]	Total Per Capita Debt Outstanding State	Amount[b]
1	Wyoming	$301	Wyoming	$118	Delaware	$7.26	HAWAII	$117	Delaware	$424
2	Delaware	287	Conn.	111	Connecticut	7.20	Vermont	106	Connecticut	351
3	Nevada	281	Delaware	93	HAWAII	5.46[c]	N. H.	98	Mass.	241
4	Washington	262	Nevada	83	Mass.	5.43	Wyoming	95	HAWAII	202[d]
5	Conn.	253	N. Mexico	73	New Jersey	4.71	Delaware	94	Maryland	188
6	New Mexico	249	Montana	56	W. Virginia	4.50	Oregon	91	New Jersey	155
7	Louisiana	234	HAWAII	55	Maryland	4.27	Alaska	90	W. Virginia	144
8	HAWAII	233	N. Dakota	53	Maine	4.04	Nevada	85	N. H.	138
9	Alaska	230	S. Dakota	51	New York	3.48	Montana	80	New York	128
10	Oregon	229	N. H.	50	Louisiana	3.29	Washington	78	Washington	128
48-State Average[e]		$166	—	$ 35	—	$2.34	—	$ 49	—	$ 91

Source: Compendium of State Government Finances in 1958, U. S. Department of Commerce, Bureau of the Census.

[a]In categories of expenditures not shown on table, Hawaii compared as follows:

Purpose	48-State Average	Hawaii	Hawaii's Rank
Assistance and Subsidies	$11	$10	35th
Insurance Payments	22	11	34th
Intergovernmental Expenditures	47	24	32nd
TOTAL	$80	$55	-

[b]Rounded to nearest dollar.
[c]Would be about $3.90 after pro-rata reduction for bonds issued for county purposes.
[d]Would be about $140 after reduction for bonds issued for county purposes.
[e]Hawaii and Alaska not included.

reduced by about one-third if bonds issued "for county purposes" and reimbursable to the state were excluded, but even if that were done, Hawaii would still be in the first ten states in both categories. Of the six states that spent more per capita than Hawaii on capital outlay, four are among the seven largest and most thinly populated states, (which would be expected to have high per capita costs for highways) while the other two enjoy the highest per capita income in the country (and presumably can afford more outlay). Hawaii certainly is neither large nor wealthy, so the reason for its position must lie elsewhere.

The "elsewhere" is, in part, discernible in the "current operations" column of Table 1. Hawaii, in this instance, ranks number one in the county. The reason for this is obviously that Hawaii performs more direct public services than any other state. Public education alone accounts for $47 of Hawaii's $117 per capita current operating expenditures, but only $2.40 of the average state's total expenditure of $49. Conversely, Hawaii's aid-to-local-government expenditures for education are nil, while the national average is about $26 per person. Similar cases exist in public health, where Hawaii's direct per capita costs are five times those of the average state, and in defense where they are 18 times the average. Programs of such magnitudes obviously require physical plant, land, major equipment, and other items of capital outlay, and the certain result is large and continuing capital expenditure.

Two other items play major parts in fixing the capital expenditure level in Hawaii: non-highway transportation and public lands. Hawaii is one of only 22 states that incurred any non-highway transportation capital costs at all in 1958. It spent about $5 million for capital purposes in harbors and airports--an absolute figure exceeded only by Alabama, Louisiana, Michigan, and Massachusetts.

Five other states spent $1 million or more for these purposes, but on a per capita basis, only Alaska was comparable. Alaska spent some $8.35 per person to Hawaii's $8.00.

Public land expenditures (including the development of resources on such lands) are somewhat harder to identify and compare, and in 1958 Hawaii's capital expenditures in this area were not much higher than in the country as a whole, but its operating costs were about five times as high. Potentially, Hawaii's requirements for capital investment in natural resources are much greater than those of any other state except Alaska, simply because these two states are the only ones that control any significant part of their land. The impact of this extensive resource commitment is seen in the governor's capital improvement program for 1959-1961, in which nearly $6 million was requested for land development, almost $5 million for the Hawaii Water Authority, over $1 million for agriculture and forestry and $.8 million for improvement of Hawaiian homes lands. Added to the $5.6 million asked for development of local water systems, the total capital requests for resource purposes amounted to a substantial $14.88 per capita per year. Had these proposals been enacted, Hawaii's resource-related capital costs alone would have been more than the entire 1958 non-highway capital outlay of every state except Delaware, Alaska, Washington, and Hawaii itself.

Object of Capital Expenditures

The other principal difference between Hawaii's capital improvement program and those of other states lies in the kind of improvements bought or built by state funds. This difference is closely related to the first, as almost the whole of Hawaii's above-average expenditures are for purposes other than highways. The typical state devoted over three-fourths of all its capital outlays to highways in 1958, while Hawaii spent less than half of its capital money for that purpose--a distinction that it shared only with Indiana and Alaska. Nor was this situation unusual. It prevailed in every recent year, and was even more pronounced in the governor's capital improvements program for the 1959-1961 biennium, which allotted only one-fourth of the state's capital outlay to highways.

One result of this pattern, combined with the relatively high total expenditures, is to put Hawaii in a most prominent position with respect to per capita capital expenditures for non-highway purposes. Table 2 shows the ten highest-spending states in this category, with a breakdown of the objects for which outlay was made. The table demonstrates that Hawaii is one of a select group of states in its extensive responsibility for public works other than highways.

The debt position of the State could be another means of comparing its relative obligations by function. The available data are not comparable, however, because the State of Hawaii does not maintain its debt records on an object-of-expenditure basis. Reasonable comparisons, can, however, be made in the category of highway bonds, and here the picture is the same as in expenditures. About half of the total long-term debt of all states was for highway purposes in 1958, while only one-fifth of Hawaii's debt was highway bonds.

Financing the Program

Capital improvements are costly, as the foregoing summary shows, and the means of providing the funds necessary for them are important parts of fiscal policy. It is customary to finance most capital outlay through bond sales--a means that has been prominent in Hawaii in the past. The governor's program for 1959-1961, for example, proposed that $81.4 million of a recommended $122 million outlay (almost exactly two-thirds of the total) be provided by bonds. Of the

Table 2

PER CAPITA AMOUNTS AND PERCENTAGE DISTRIBUTION OF CAPITAL OUTLAY, TEN STATES WITH HIGHEST PER CAPITA NON-HIGHWAY OUTLAY, 1958[a]

State	Per Capita Outlay for: Non-Highway Purposes	Highway Purposes	Percentage Distribution of Capital Outlay: Highway	Other Transportation	Education	Other
Delaware	$37	$56	60	-	33	7
Alaska	34	10	23	19	53	5
HAWAII	29	26	47	15	30	8
Washington	15	63	68	-	24	8
California	14	27	67	-[b]	18	15
New York	13	26	62	-[b]	5	33
Massachusetts	13	36	68	5	5	22
Montana	13	67	76	-	13	11
Nevada	13	70	87	-	8	5
Louisiana	12	26	75	5	14	6
48-State Avg.[c]	$ 8	$27	76	1	12	11
HAWAII-1957	29	25	45	6	30	19
HAWAII-1956	30	12	30	6	50	14
HAWAII-1959-1961[d]	74	25	25	23	7	45[e]

Source: Compendium of State Government Finances, 1958, U. S. Department of Commerce, Bureau of the Census.

[a]Amounts rounded to nearest dollar or per cent.

[b]Less than .5 per cent.

[c]Alaska and Hawaii not included.

[d]As proposed in Governor's Capital Improvements Program, reduced to annual averages.

[e]Includes: Housing, 18 per cent; natural resources, 15 per cent; county assistance, 3 per cent; miscellaneous purposes, 9 per cent.

proposed bond expenditures, $51.6 million was to come from revenue bonds, and $29.8 million from general obligation bonds. Four-fifths of current revenue financing was planned from special funds, over half of which was to be receipts from federal grants-in-aid.

Bond Financing

Bonds have traditionally pledged "the full faith and credit" of the issuing jurisdiction, but in recent years a great deal of emphasis has been given to revenue bonds. The latter are comparable to industrial bonds, inasmuch as they are secured by revenue deriving from physical assets, rather than by tax revenues. Revenue bonding is now common for publicly-owned utilities, such as port facilities, toll roads, and water, electric and transit systems. In these cases revenue bonds are convenient and can be so managed that they constitute a charge that is fully passed on to users of the utility, rather than absorbed by taxpayers. The revenue bond device is sound public policy in most utilities, as the patrons reasonably can be expected to pay full costs, including the relatively high costs of revenue bonds, just as they would if the same utility were privately owned. Hawaii has one such utility--its port system--where revenue bond financing has been practiced for over ten years.

Revenue bonds are also often used to finance the construction of buildings that will generate revenue. Common examples at the state level are university buildings, such as dormitories, student unions, bookstores, and the like. Similarly, public housing can be depreciated, reserves for replacements can be set up from revenue, and the whole undertaking made as self-sufficient as a utility. Revenue bonds for purposes such as these have been or will be issued for both the University of Hawaii and the Hawaii Housing Authority, and users of the facilities so provided will be charged for the financing costs.

More recently, the revenue bond idea has been extended to fields where the relationship between customers and owner is by no means as clear as in the utilities and revenue-producing buildings mentioned above. In such cases it is the practice to pledge certain tax revenues as security for bonds, and to state that such bonds are not claims against the public credit, but only against the particular tax source specified. This practice is almost wholly a device for avoiding bond limitations (which ordinarily apply only to general obligation bonds) and is defensible, if at all, only on that basis. The rates are fully as high as on true revenue bonds, the patrons cannot be said to bear the cost, and it is patently impossible for bond holders to take over the management of the revenue-producing properties which consist entirely or in large part of the taxing power of the state. Notwithstanding this criticism, more and more states are issuing bonds secured by highway-user revenues. This has been done in Hawaii, where the practice also extends to airport revenue bonds that are largely secured by fuel tax income.

General obligation bonds are used in Hawaii for financing practically every kind of public improvement except those of the big special fund agencies. The state's bonding power also has been used in behalf of the counties, especially in financing school buildings. The general "public improvements" bonded debt represents the total long-term debt of the state except for the various revenue bond issues, and is presumptively the kind of debt contemplated by the constitutional limitation, since the only other state debt existing in 1950 was represented by harbor and housing obligations. Highway and airport revenue bonds authorized since the constitution was adopted have complicated the matter, and the effect of such bonds is now being tested in the courts. If some or all of the revenue bonds are to be included within the limitation of the constitution, the effect will be to reduce drastically (perhaps even to eliminate) any bond margin remaining.

Current Revenue Financing

Financing capital outlay from current general fund revenue is less common than debt financing. In Hawaii, general fund appropriations have traditionally been relied upon for miscellaneous improvements and county projects. Most of the work so financed consists of small projects that are of importance only to certain persons or communities. The relatively small importance of this source is indicated by the fact that less than four per cent of the governor's capital improvement budget for 1959-1961 was to be financed in this manner. Nearly one-third of this amount was for parks, another one-third for educational facilities, and the remainder was scattered among various public building and facility projects.

Current special fund revenues (as opposed to general fund income) are used extensively for public works. This is especially true of moneys received as grants-in-aid from the federal government. For example, over two-thirds of the proposed "federal-aid" highway capital expenditures in 1959-1961 represent revenues from current fuel taxes and federal aid, and all of the proposed land development expenditure was to come from the special land fund's revenues or reserves. Special considerations, of course, apply to these kinds of revenue. Federal aid is often given specifically for designated projects, and special fund revenue levels are ordinarily set with a view to the requirements of capital outlay, including amounts necessary for matching federal funds. The whole theory and practice of special fund financing, in fact, depends for its rationale in large part upon the real or assumed need for securing consistent and adequate support for capital projects, without the possibility of diversion of revenues to unrelated operating costs.

Authorization of Capital Expenditures

Capital outlays are authorized in Hawaii under a variety of methods, which methods depend principally upon the source of revenue available, rather than the purpose of expenditure. This procedure is consistent with the way in which operating expenditures are authorized, but does not necessarily yield the best results. As a matter of fact, different methods may well be indicated for different kinds of improvements, but the mere fact that the revenues or bonds used come from a given revenue source has no real importance. Improvements are real, tangible assets; funds, bonds, and grants are merely devices to help secure the improvements and therefore need not determine the appropriating or budgeting processes used.

General Fund Moneys

General fund capital appropriations from current revenue or surplus are made in the same way as operating appropriations, except that: (1) they are usually in the same bill with general obligation bond authorizations rather than in the general appropriations (budget) bill; (2) they are made on a specific project-by-project basis rather than in relation to planned programs; and (3) they are made available to the governor to be spent by specified officials (heretofore usually the Superintendent of Public Works). Otherwise, the procedure is the same as for any other appropriation from current revenue, with the legislature having full authority to initiate expenditures and the governor having line-item veto authority as well as authority to grant or withhold allotments from the moneys so appropriated.

General obligation bond authorizations are made in the same way as general fund capital appropriations. There is a major difference in their effects, however, as total authorizations in the past have accrued to amounts well in excess of the debt limit set by the Hawaiian Organic Act. Hence there has been little certainty that any specific project will be built, merely because general obligation bonds have been authorized for it. Whereas an appropriated item need only survive the single major hurdle of gubernatorial allotment, an authorization to build with bond money needed to be selected from among many competing claims for the proceeds of bonds actually sold. The net result of this practice, compounded by the much lower debt limit prescribed by the Constitution, was that Hawaii became a state with over $58 million in unsalable general obligation bond authorizations. The system historically gave the governor a strong voice in determining which projects were to be constructed with bond moneys since he was able to allot the proceeds of bond sales among authorizations with considerable latitude for decision. Legislators, on the other hand, had small incentive to deny requests that certain projects be included in the bond authorization bill, because it was clear that all could not be built and it was assumed that the more frivolous would be indefinitely deferred.

With the advent of statehood, the practice of over-authorizing bond issues will have to cease, as the constitution fixes a limit on bonds authorized, rather than on debt outstanding, and it appears that a specific authorization must accompany all bond fund appropriations in excess of $60 million. Since the prospects of reducing debt below $60 million are exceedingly remote, this is equivalent to saying that all bond fund appropriations for many years to come will require such specific authorization. This change in concept apparently will have the effect of making general fund and general obligation bond capital expenditures more nearly comparable. It will no longer be possible to authorize bonds for insufficient reasons because bonding capacity will be at a premium, and authorizations themselves will be governed by the absolute constitutional limit of 15 per cent of the State's assessed valuation. Conversely, there will be less opportunity for the governor to control capital outlay without using his item-veto power, as the legislature can reasonably expect bonds to be sold upon authorization and the proceeds spent for the designated purposes. The net effect of these changes will probably be to shift responsibility for general obligation bond expenditures more fully to the legislature, and it is to be expected that this shift will be accompanied by greater legislative restraint in authorizing projects.

Special Fund Moneys

Capital outlay through special funds is a very different matter, in that legislative authority is considerably restricted. General laws creating special funds typically authorize expenditure of revenues for any purpose associated with the function involved, so capital expenditures can be and are made by administrative decision. The magnitude of these outlays is limited only by the revenues of the special fund. This rule applies to the highway, airport, housing, and university projects funds. It would apply also to the harbor fund, but for a provision in the law that limits its capital expenditures to $100,000 in any one year, with the further limitation of $25,000 on any one island. These limitations are restrictive enough that the harbor board can build only relatively small projects on its own authority. The fund may be used for substantial public improvements only with the approval of the legislature, which approval has historically been limited to specific jobs, rather than to harbor development generally.

Revenue bond moneys are no more under expenditure control by the legislature than are current special fund revenues. The statute providing for revenue bonds (Chapter 137, Part III, R. L. H. 1955) confers on the governing bodies of departments power to issue bonds upon their own resolution, subject only to maximum total authorizations by the legislature and certain procedural provisions. Specific authorizations under this chapter have been made for highway and airport bonds. In all cases the authorizations to enter into resolution contracts are so broadly given as to leave the use of bond proceeds entirely up to the department concerned within such generally limited purposes as "highways in the Territory upon which federal aid moneys are expendable" or "airport and air navigation facilities."

Housing bonds are authorized under Part IV of Chapter 77, R. L. H. 1955 in language similar to that used for highway and airport issues. The housing authority is given power to sell bonds on its own resolution, and to use the proceeds for "a housing project or projects." The bonds are secured by housing project revenues and may be further secured by mortgage. The legislature has little discretion in the matter at any time, but Section 77-33 does reserve to the governor the power to approve all projects.

University and harbor revenue bonds have similar status to the bonds discussed above, but both are more restricted as to use. The harbor authorizations are a great deal more specific as the proceeds of bonds sold under them may be used only for given improvements at specified locations (Act 95, S. L. H. 1947 and Act 103, S. L. H. 1957). University bond proceeds are also restricted (Sections 44-61 through 44-76, R. L. H., 1955). Such bonds may be used only for "revenue-producing" facilities, which is a far cry from "any purpose of higher education" or other possible language that would be comparable to that used in highway, airport, or housing authorizations.

Capital Program and Budget

The 30th Territorial Legislature was the first to receive a proposed capital improvements program from the governor. This document, submitted in January, 1959, presented a comprehensive overview of proposed capital improvements and the financing required therefor. It brought together for the first time proposed expenditures from all funds for all purposes and related them to each other on a functional basis. Together with the operating budget this document provided the elements of an orderly and comprehensive plan for public expenditures. Like the operating budget, however, it merely summarized expenditures from other than general fund sources, continuing (at least by implication) the assumption that means of financing has importance in itself, rather than merely as a device for obtaining money.

Given the usual procedures for managing special funds in Hawaii it is hard to see how any other assumption could be made. It is quite apparently true that the legislature has over the years yielded wider and wider authority to the special fund agencies, to the point that it is progress just to get a report on their general intentions expressed in large numbers neatly rounded. Yet every large capital improvement program in Hawaii today (save only school construction) is being financed through special funds. Failure or inability of the legislature to control or even to review these large costs is a major limitation on effective capital improvements administration.

Because of the predominance of special fund financing, the capital budget really referred to the legislature just over one-fourth of the total outlay plans for 1959-1961. The highest political authority in the State was asked its opinion on some $4 million in current revenue expenditures and $39 million in general obligation bonds, while $88 million was merely noted as planned for expenditure. Clearly, this was a substantial gain, as the legislature at least was able to put its obligations in perspective. It fell, however, considerably short of the ideal.

Upon its submission to the legislature, the governor's program did not receive total approval. A number of recommended projects were authorized, but many programs were reduced in size, and several others added. Most of the items added were part of the program planned for 1961-1965 (although not itemized in the published improvements program) but the changes in timing appear to have been made principally through project-by-project choices, with little reference to the programs of which the projects were a part.

There was a particularly wide divergence between the governor and legislature in appropriations made for county improvements. The governor's recommendations for these purposes contemplated spending only $3.3 million on county projects--all to be financed by general obligation bonds. The appropriations act by no means followed this suggestion. Actually, 26 individual general fund appropriations were made for Oahu schools, 24 for other Oahu projects, and 37 for jobs on other islands. Similarly, about 65 county projects were authorized for financing out of state general obligation bonds. The effects of these changes were: (1) to increase general fund capital appropriations by nearly $4 million (nearly double the governor's recommendations) with nearly all the increase represented by county projects; and (2) to allocate about one-third, rather than one-tenth, of the bond authorizations for county purposes without materially changing the total authorized.

II. THE PROCESS OF PROVIDING CAPITAL IMPROVEMENTS

Capital improvements are a necessary part of any governmental program, but their place in the total mission of government and the processes by which they are brought into being are not always clearly understood. It is entirely too easy to say that capital outlay and operating expenses are self-evident terms, to insist on separation of the two to the point that no coordination is achieved, or to allege that capital improvements by nature involve only political or technical judgments, but not both. As a matter of fact, the processes of bringing capital improvements into existence depend in considerable part upon operating programs. Further, they are quite complicated.

There are four categories into which the capital improvements of Hawaii may be divided depending upon by the part they play in the mission of the state government; each improvement progresses through five stages in its development, which stages can be differentiated by time; and the whole is financed by any of four different methods. This does not mean, of course, that a different set of considerations apply to every possible combination of these variables, but it does strongly suggest that something more than general theory and inflexible rules are called for in a consideration of the parts desirably played by the different agencies of government. The variable that presently controls the relationships among agencies is the source of funds, which was discussed in some detail in the preceding chapter. It is a thesis of this report, however, that the nature of improvements and the stage of their development are the factors that are really important. This chapter is devoted to an explanation of these factors and their impact upon the capital improvements picture generally.

Kinds of Capital Improvements

The first chapter of this report stressed the fact that Hawaii's capital improvements program is somewhat larger and much more complex than similar programs in other states. Not much is to be gained, however, by generalizing that this fact alone determines the way that Hawaii should go about execution of its program, because in actuality Hawaii has not one program but many, and the procedural considerations that desirably apply to each are somewhat different from all the rest. This is true because each kind of improvement fills a different kind of need in the community, just as the different branches of government do. It is not surprising to find a correlation between these two situations.

Public Facilities

The first and most obvious kind of capital improvement is that which involves facilities used in rendering regular public services. This includes land purchases and the erection, extension, or improvement of buildings necessary for schools, institutions, the university, or administrative offices, and also repair or rehabilitation of existing facilities used for any public purpose. Two principal characteristics identify these improvements: (1) major policy decisions have already been made; and (2) the relative need for each proposed improvement can be expressed in specific terms.

To build a new school, for example, it is not necessary to reexamine the question of whether public education should be made available. All that needs to be done is to determine whether the number of students requires a new building in a given area, to locate and design the building so as to serve its purpose best, and to pay for the land acquisition and construction. Similarly, the relative urgency of new school construction as compared, say, to a new prison or an office building, or the rebuilding of an existing road can be expressed in understandable and reasonably valid terms. Finally, improvements of this kind are like equipment and personnel in that they are principally tools whereby the government can do its own work, and hence can be directly related to operating programs. Thus, they are among the improvements most amenable to long-term scheduling, administrative fixing of priorities, and budgetary-appropriation processes similar to those that apply to operating expenditures. It may be precisely for this reason that general physical planning has reached its highest development in cities where it relates mostly to improvements of this type, rather than in states where the main job is building highways and other economy-related improvements.

Development Programs

The second group of capital improvements includes those that are essentially developmental in nature. These improvements are in some ways the opposite of the first group. They are seldom acted upon until new public policy has been developed, the need for them often can be stated only imprecisely, and their ramifications extend well beyond governmental operations into the private sector of the economy. The parks program proposed last year, for example, was administration policy that represented a considerable departure from previous plans for the use of certain public lands. The "need" for parks can hardly be measured, however, until some exist, as they are to be expected to generate their own clientele. The effects of the parks, it is hoped, will be to stimulate economic activity in certain areas as well as to extend the general recreation program now in existence. All these considerations are different from those that would pertain if a university building were proposed, or the rehabilitation of some existing park site contemplated.

Even clearer cases of these fundamental differences can be shown by considering such questions as:

> Should the State buy the Oahu Railway and Land Company's port properties, and, if so, how will commercial shipping be affected?
>
> Should a Hana belt road be built such that access to Kipahulu will be as easy as access now is to similarly attractive areas?
>
> To what extent should the State enter the middle-income housing field?
>
> Should public lands be disposed of as is, improved and disposed of, or kept as permanent assets of the state government?
>
> Can the use of Hawaiian homes lands be improved?
>
> Should the State operate ferries, build hotels, make tourist sites available, or stay out of such activities altogether?

These are big questions, and none can be resolved outside the context of a agreed-upon public policy. Planners have a great deal to say on the feasibility of such ideas, and budget makers have to provide the wherewithal to do them, but first and foremost it is a question of what role the government is to play--a question that long since was resolved in connection with schools, institutions, and office buildings.

Three other features of developmental improvements should be noted: (1) they are unusually costly and typically require many years to complete; (2) they are necessarily interrelated to the point that to do one without another might be the opposite of progress; and (3) they almost always involve a number of specific projects in order to make the program effective. These features further complicate the picture, and point up the necessity for thorough discussion, policy enunciation, careful planning, and a high level of coordination of the efforts of all agencies involved.

County Improvements

A third type of public improvement program in Hawaii is that which involves county facilities. This process takes a different form from that usually found in state aid to local jurisdictions. The "county purposes program" is entirely made up of specific project authorizations, rather than program assistance and hence it puts the Legislature in the unusual position of deciding on behalf of the counties what local public improvements shall be made. As a result, the Legislature is constantly having to redetermine policies and is cast in the role of a local-government spending agency rather than the highest policy-making group in the state. Further, county officials are deprived of the opportunity to make reputations (if politicians) or to exercise the talents they are paid for using (if administrators). The tax-sharing or lump-sum grant common in other states avoids these problems, as it permits a legislature to decide one policy, devise one self-executing formula, and afterward merely oversee the results of these acts while passing responsibility for specific jobs to the representatives of the people served.

School construction in Hawaii is a special case, inasmuch as the facilities are operated by the State after being built (at least in theory) by the counties. The scope of the state education program and the size of the school population determine school construction needs, but the buildings actually come into being in any number of ways and may be paid for by either the State or the counties or both. Early resolution of the problem so posed has been urged by many observers, but indecision on the ultimate role of the counties in education may further postpone any final determination. In any event, it is certain that the interests of the Legislature in school construction far exceed the interest it has in building facilities for purely county activities. The State must accept responsibility for public education and cannot claim it for traffic engineering, public recreation, or other local functions.

Miscellaneous Projects

The fourth category consists of miscellaneous improvements that specifically benefit special groups or identifiable areas. These improvements may be almost anything, but are distinguishable from the first and second categories in that they are of small importance to general development and would ordinarily be given low priorities in a technical consideration of need. Many of them would be local government projects if the counties of Hawaii had full status as municipalities and full responsibility for local services. The decision to build improvements of this kind or to expend public moneys on them in preference to spending it on other activities or reducing revenues is almost purely political, and hence these projects stand at the opposite pole from public buildings. Planners, budgeters, and engineers cannot be expected to contribute much to this program, but the political exigencies of legislative life and the item-veto power of the governor can.

Procedures in Developing Public Improvements

Capital improvements do not spring up of their own initiative. It takes a good deal of time and a lot of talent to produce them, as they progress from good ideas to operating realities. A common thread of procedures runs through their histories: (1) policy-making; (2) planning; (3) programming; (4) project construction; and (5) performance evaluation. These procedures or processes are totally independent of the source of financing and differ according to objects built only in the relative importance of the part that each may play in the history of a given category of improvements. While the five processes tend to overlap each other, they are reasonably distinct, and are identifiable in terms of time. Thus, they are actually stages of development, each dependent upon the one preceding, and the quality of the end product dependent upon the quality of performance at every stage.

A clear understanding of the several stages is necessary to analysis of the public improvements program generally, because it is with respect to process that the participation of different agencies of government can be defined most easily. The role of the legislature or the administration is constant in any given process, but the importance of the process itself may differ among the several kinds of improvements. Policy determination, for example, is much more a part of development than it is of building construction, so the role of the policy-making body is likewise more important. If, then, participation in processes can be defined, and if the part that each process plays in the several categories of improvements is clear, a reasonable basis for defining the desirable roles of different agencies can be evolved. The plan suggested in the last chapter of this report proceeds from just this sort of consideration, based on the discussions and definisitions of processes in the following sections.

Policy

Policy-making is most important in the development group of public improvements. It is, in fact, hard to visualize any such improvements ever coming into being without a conscious, and often formal, decision by political officers. Numerous examples come to mind, perhaps the most prominent of which are the as-yet-unadopted land policies that have been debated in recent years. Public facility improvements such as schools, libraries, and institutions are really implementations of long-extant policies, and providing them is much the same process as hiring personnel. Policy choices on facility construction therefore seldom have to be made, except as they may relate to the relative emphasis to be given the group in competition with other groups as a whole. County and miscellaneous projects do involve policy judgments, but usually they are the judgments of county officials, individual legislators, or citizen groups. Hence policies become known only at the time that appropriations are made. A different system of county aid would simplify policy in that area, as it would not require almost constant redetermination of minor policy questions that now tend to plague each legislature. There is, however, little prospect of avoiding such recurring decisions with respect to miscellaneous state improvements.

Planning

Planning is used in this discussion in a somewhat restricted sense, as the process of forecasting and generally guiding the developments of the future. It follows as the next step in time after policy is formulated, or at least seriously proposed. Two major functions are essential to this process: generalized physical planning and long-range financial planning. These two functions are fundamental to the very idea of public improvements of almost all kinds, but their application is somewhat different depending upon whether improvements are government facilities, developmental projects, or county undertakings.

Physical planning for public facilities, for example, involves principally forecasting such things as population, use, and deterioration. Physical planning for development, on the other hand, must start from such fundamental considerations as what part in total development should be undertaken by the State, or what technological developments of the future may do to the relative requirements for certain facilities, or what would be the best way to give impetus to a certain industry, or how best to evaluate the feasibility of a proposed policy. Planning for county improvements may involve both of the above concepts, plus the knotty problems of intergovernmental relationships. Usually, however, county improvements can be fitted into the long-range state plan by consideration of the same kinds of questions that arise in planning state facilities.

Long-term financial planning is also fraught with uncertainties, and is as much the servant of future public policy as is physical planning. The future size of existing tax bases is only part of this process, which also includes deriving plans for new or terminated revenues, management of debt and surplus, revenue-sharing plans, and general political orientation toward the place of public finance in the economy at large. Further, the financial plan must be as comprehensive as the physical plan. It must include all sources of revenue and all potential borrowing capacity regardless of fund structure or traditional distinctions among various categories of public resources. Like the physical plan, the financial plan will be imprecise; but, again like the physical plan, it is a necessary part of converting a pre-existing adopted or proposed policy into the next phase—a program.

Programming

A capital improvements program can be described as the actionable part of the plan that underlies it. At this stage, most policy questions should be resolved, and it becomes necessary to convert an indefinite and perhaps erroneous or over-ambitious plan into a scheduled, reasonably specific, and defensible program. This would normally be done by presentation of a five- or six-year budget showing proposed expenditures for all purposes, including all objects of expenditure and sources of revenue. Such a budget could be adopted by the legislature as the state program, and modified from year to year to meet changing needs and conditions. Appropriations would be required for the first year, but developments for future years would be adopted only as a planned program, subject to annual reevaluation.

The program, including appropriations for the current fiscal period, is the stage at which commitments are made. It fills the essential function of bringing plans into focus and subjecting the policies upon which plans are founded to a further searching review. All kinds of improvements must be programmed (if only by being appropriated for) and all agencies of government must participate in developing the program. It is in the scarcity of programming that exists and in the absence of legislative participation in much of the programming done that Hawaii's capital improvements process is most deficient today.

Project Construction

Project construction proceeds immediately after authorization or appropriation of money. Because construction may take anywhere from a few weeks to several years, more than one appropriation or bond issue may be involved. If appropriations have been made on a project-by-project basis, there is nothing left at this stage except to follow the directions of the legislature. If, however, the legislature has appropriated for a program, decisions still need to be made concernig how best to apply available money to the program objective. In any case, and regardless of the nature of the improvement, construction lies fully within the competence of the professionals and technicians in the various administrative depart-

The legislature can and should examine project progress and cost, but it cannot and must not try to impinge upon the construction process or the administrative devices used to bring projects to completion.

Performance Evaluation

The final stage, performance, not only pertains to all kinds of improvements, but also merges capital and operating programs. Employees may be necessary to operate, and certainly to maintain the facilities built. This fact should be recognized in the program stage, but the soundness of the program can be tested only by performance. Further, it is at this stage that a final evaluation may be made of whether the facility is actually needed as programmed, whether it has been economically constructed, whether it is adequately staffed, and generally the extent to which it contributes to the development of the state program of which it is a part or accomplishes the ends sought. An important by-product of evaluating performance in capital improvements is the opportunity afforded to assess the quality of public administration and the degree to which political policy is effectively carried out. This can be done, and the size of most capital improvement undertakings indicates that it must be done if legislative responsibility is to extend into the important field of public improvements. Legislative participation--even legislative preeminence--in the evaluation stage appears indispensable to sound capital improvements administration in the public interest.

III. A PROPOSED SYSTEM FOR IMPROVING CAPITAL IMPROVEMENTS ADMINISTRATION

Hawaii's capital improvements program has been designed primarily to conform to the supposed necessities imposed by the fund structure, federal aid, and other revenue-related devices. The legislature has abstained from close attention to special fund financing but has specified general fund expenditures in detail. Since the developmental programs are principally financed through special funds, the result has been that administrative discretion is maximized in the development field even though that is exactly the area where policy guidance is most important. Conversely, legislative authority has been paramount in other categories simply because they are principally general-fund supported, and despite the fact that technical determinations are most useful in public facility programming and aid to counties.

It is suggested that there is a pressing need to revise certain practices now employed in capital improvements programming in Hawaii in order to moderate the effect of, or even to reverse, the situation described above. The problems of capital improvements administration are large and complex, and can be solved only by taking a somewhat different attitude toward the part played by policy-making agencies, particularly the legislature. The fundamental interests of the several parties to improvements administration should be recognized as should the peculiar contributions that each can make. The definitions and concepts developed in Chapter II can be used with profit in seeking a proper balance of responsibility and in putting the political and administrative resources of the State to work in a way best designed to get the maximum public benefit out from all. This chapter is devoted to an application of the principles developed in Chapter II to the situation described in Chapter I, through discussions of the relative importance of political and technical contributions in each of the five processes, with particular emphasis on the appropriation process and legislative review.

The Long-Range Plan

Further emphasis on long-range planning appears essential to the development of an adequate system of capital improvements administration in Hawaii. Further, it is necessary to execute the plan with full understanding of the relative importance of political decisions and technical determinations in the various processes and hence among the several categories of improvements. To accomplish these ends, it seems clear that long-range planning must contemplate all significant points of view--that is, that it should include planning for the legislature as well as planning for the governor. Planning on behalf of the legislature would be essentially testing and inquiring into the feasibility of policies as they develop, and this function cannot be overlooked if a rational and practical program is ever to develop from legislative initiative. It is also true that legislative policies are likely to prevail whether they are planned for or not, and certainly they will be more easily and validly incorporated as part of state objectives if there has been adequate testing, full discussion, proper financing, and sound scheduling applied to them.

The real need, then, is for a truly comprehensive plan, showing for at least ten years the general public improvements objectives of government and how these objectives may be achieved within the financial realities. The plan should include public facilities, development improvements, and aid to counties, all presented on a program basis, at least for the more distant years. About all that is important now concerning the plan for 1970 is what will be accomplished in the community at large--not whether this building will exist or that park will be operating. A general blueprint can be evolved, leaving its refinements and details to be worked out as the plan merges into the program stage.

Public facility improvements in this plan would be based principally upon estimates of future demand and deterioration of present plant. Developmental plans might describe only what the public share of the whole development scheme will be, given certain assumptions or objectives of the kind of community that will exist. County aid would be predicated on present or presumed future policies as to distribution of costs and services between the two levels of government, as well as predicted facility and development needs. Considered as a whole, the plan should present a total picture of the State's future obligations for capital improvements, under whatever policy, financial, and economic assumptions seem most desirable and realistic.

For the first five or six years, the plan should have a great deal more specificity. Locations of proposed improvements should be shown, sources of revenue identified, and priorities assigned. Even this presentation, however, could properly be quite approximate as to costs and need not be over-specific as to design. The policy questions should, however, be settled and the whole integrated into the financial plan both as to immediate costs and future operating expenses. These first years will be a point of commitment, as they represent the "program" stage, and the legislature will be asked to adopt the program as the objectives of the State. The legislature must have every opportunity to satisfy itself of the soundness and probity of the proposals, and to take a further searching look at the policy implications thereof before it makes such a far-reaching commitment on behalf of the people.

For "year zero" (the fiscal period immediately following the legislative session) the program should be specific enough to justify immediate appropriations. Cost estimates must be precise, project priorities within programs defensible, preliminary drawings available, and estimates of use or contribution to the economy as specific as they can be made. This is because the legislature is being asked to pass the point of no return. At every stage up to actual appropriation there is opportunity to change--afterward there will be no significant changes, at least as far as legislative action is concerned.

The appropriation process is described in a later section of this report, and for present purposes it is enough to say that it should, in one way or another, be applied to every public improvement, regardless of its nature or source of financing, before a commitment of funds is made. This is just another way of saying that the program, right down to the last roll call, should be comprehensive. If further general law is required to clarify the authority of the legislature to appropriate from special funds it should be provided. It would seem contradictory, however, for the budget agency to have expenditure control over special funds as provided in Act 12, SLH 1959, 1st Sp. Sess. if the legislature did not have appropriating power. To be realistic, programs must recognize sources of funds, but to serve best the needs of Hawaii they must represent a balance of all sources and all activities, and give due recognition to the equally important balance required between political desires and technical and financial realities.

Responsibility for Processes

The plan itself is no more than a written summary of agreed policies, physical needs, and financial capabilities. It is the tie that binds policy to objective, objective to program, and program to appropriation. To complete the picture, it is necessary to consider what the interests are and where decisions should lie in each of the five processes of capital improvements development, particularly since such a consideration sheds some light on the execution and proper use of the plan as well as on the attainment of ultimate objectives of public service.

Policy

Policy toward capital improvements, as originally put forward, can be sketchy, ill-considered, and impractical, or the opposite of any or all of these attributes. As it matures and takes on specific form, and particularly as it receives the endorsement of political, social, or economic groups the policy gradually becomes a plan or at least the kernel from which a plan may spring. Several cases currently exist of policy development that involve major capital improvement or capital outlay questions--public lands, tourism, and transportation, for example. Some of these are already merging into long-range planning, while others are still ideas that must await a clearer concensus of the public before they are adopted. All, however, are purely in the province of the legislature and the governor until such time as a technician is assigned the job of planning them.

Planning

Planning takes up as soon as policies are clear enough to permit the use of some valid assumptions concerning future objectives and the political philosophy under which those objectives will be attacked. In some cases, especially in extensions and replacements of existing public facilities, the objectives and policies are so well established that planning is the first stage. In any case, fitting the policies (either established or new) to the physical and financial facts is a professional job. Under the organization prevailing in Hawaii, this means that the job is primarily that of the planning director and budget director. They are in the best position to assign need priorities, to assess financial capability, and to identify the necessary public contribution to a community. Once these plans start moving toward reality, however, the political sphere again becomes paramount.

Program

Programming, or short-term planning, is again largely a political matter. It is at this stage that underlying policies need review prior to commitment, and that relative priorities must be determined. It seems obvious that only political officers can reasonably evaluate the merits of prior political decisions, and it seems only logical that politicians should decide whether a development program should take precedence over extension of facilities or aid to counties. Similarly, the relative urgency of one development program compared with another is for the legislature or governor to decide--not the planner or budgeter whose competence lies mainly in selecting priorities within programs or in identifiable need areas, such as public facilities.

One other political activity also appears at this time--the programming and authorization of miscellaneous projects not previously in the plan. While some such projects can be conscientiously added by the technical staff, most are dictatedby political considerations and it is wise to recognize this fact. Making such last minute additions is, in effect, telescoping policy and program into one activity. The improvements may be set in the framework of the plan, but they are seldom really parts of it. Authorizing them is a political process, and is best left to the legislature to originate and to the governor to control, if he wishes, by the veto power.

Projects

Project construction is almost purely administrative and there are important administrative tasks to be done in deciding which project to build and which to defer within an authorized program. Here the line agencies play their most important role, operating with some discretion within the program and appropriations given them. The main role of the legislature here would be to keep informed of progress and decisions made, so that it can be assured that money is spent wisely and programs are followed.

Performance

Performance is the object of the whole process of capital improvement, whether that performance is the more efficient rendering of public service in a new building, the fostering of home ownership through land sales, or anything in between. Administrative officers obviously operate the facilities, but evaluation of the effectiveness of improvements and the degree of benefit conferred on the community, and the resolution of future policies based on performance are functions of the legislature.

In summary, then, it can be said that the responsibility and initiative for furthering public improvements move back and forth between politician and technician. Political policy and technical planning merge into a program that is satisfactory to both and that produces, in turn, technically designed improvements. The final result, performance by the state government, is the reason why both public representatives and public servants exist. Its evaluation is therefore fully within the province of both.

Appropriations

The most obvious part for the legislature to play in creating public improvements is to appropriate the money required for construction. Nevertheless, the legislature has, in the past, abstained from most capital appropriations by using the device of authorizing revenue bond sales or creating special funds from which expenditures may be made without its approval. There are strong reasons why the legislature should not (or at least need not) make specific project appropriations. These are, however, the same reasons that can be marshalled against a line-item operating budget--not arguments for dealing with certain improvements or certain revenues in a special way. If a program approach is taken, there is as much reason why the legislature should appropriate for highway construction as for tax collection.

Program Appropriations

It appears that the appropriation system has been too specific in the past, with respect to general fund capital outlay. Apparently it became evident that piecemeal, lapsing, and restrictive appropriations could not meet the needs for improvements such as housing or airports so steps were taken to assure a program approach. Unhappily, the cure was in some ways as bad as the disease. Excessive restrictions on administrators were indeed eliminated by special fund financing, but at the high cost of isolating the legislature from the whole process. The desirable middle ground where legislative responsibility is exercised over program objectives and the community also obtains the full benefit of administrative talents as applied to procedures and projects was simply skipped over.

A sort of compromise position was indeed attained with respect to the harbor fund, but that compromise appears unworkable unless prior program agreement is reached, augmented and given reality by periodic authorizations to spend bond or special fund moneys within that program. With no such program approved and adopted, harbor construction is still on a project-by-project basis. Although some of the projects are admittedly very large, others are of such a nature that their selection, location, and priority within a state-wide program of commercial and recreational harbor development is best left to the discretion of specialists and engineers.

The question seems, then, to be one of whether a true program approach to capital outlay can be worked out. It appears that the answer is yes, provided that policy development and advance planning (both physical and financial) is done in a comprehensive, realistic, and understandable way. This report assumes that each legislature will have at its disposal the plan and program discussed above--generalized in the long view and specific in the immediate future. If a long-range plan based on policy directives is forthcoming and if the legislature does in fact adopt its more immediate parts as a capital improvements program covering all funds and all activities, the appropriation process can become merely the means of making last-minute changes and of giving final, definitive, financial approval to those aspects of the program that require immediate action from either a political or technical point of view.

Public Facilities

Public facilities are primarily built by general fund revenues, surplus, or general obligation bonds. Some exceptions to this general rule exist in office buildings devoted exclusively to the use of special fund agencies (the new highway building is an example) and in outlays for renovation of existing facilities originally built with special fund moneys. The major outlays in this category, however, are for institutional and office buildings, schools built by the State, and equipment and furnishings for state offices.

Facilities of this kind should be incorporated in the plan well in advance of the appropriation date. Each can be shown to be required by present or accurately-estimated future needs, and most will be part of recognized programs, such as education, health, or library services. This fact permits full integration of capital and operating budgeting and financial planning. Those improvements that cannot be so allocated, such as the new capitol building, can be deemed programs in themselves.

Because of the definable nature of these facilities, requests for appropriations for them can be made with some specificity, and every project involved in the program can be presented for discussion and justification.

It would be desirable, however, to appropriate on a program rather than a project basis. This means, for example, that $5,000,000 may be given to the university for buildings, rather than making five appropriations for specific structures or improvements. The money would be spent in accordance with the adopted program which includes the five buildings, but costs, needs, and technical questions all change and the administration should be enabled to change with them. The same approach could be used in the case of special funds by appropriating $5,000,000 from the highway or airport fund for rebuilding roads or runways, or from the harbor fund for renovating piers or sheds. The important thing is that the departments concerned have a program, that the legislature agree to it, and that both sufficient funds and adequate administrative discretion be afforded so that the program can in fact be accomplished.

The same reasoning applies to bond moneys as to current revenue. The authorizations again can be on a program basis; the main difference would be the larger amounts and longer time periods involved. These differences need not, however, cause any difficulty if the program itself has already been adopted for a period of some years. All that is necessary is to authorize one year's cash outlay, as the following year's activities are already committed.

Development Program

In this area it is even more urgent that appropriations and bond authorizations be made on a program basis, in large part because the authorizations may be unusually large and may cover several years' programs. These characteristics already have been recognized in relation to highway, airport and housing outlay by providing special fund financing, and have been partially recognized in harbor and university authorizations. As pointed out above, however, the method now in use goes to the extreme of virtually forcing the legislature to buy a "pig in a poke," except in harbor construction where administrative discretion is severely limited through use of project-by-project authorizations within the special fund.

The way out seems to be through programming extensions and improvements over a long enough period of time that the needs for any one fiscal period can be clearly stated and progress toward the ultimate program objective can be assessed. A good example of such a program is that under which the highway department operates at present, and another may evolve from the current study of harbors of refuge. Parks, irrigation, public lands management, housing development, and aeronautics are all susceptible to such treatment, and some (such as transportation activities) may be best presented as one larger, more meaningful program.

These activities are so important to the general public that legislative decision on specific projects would be hazardous. Any one project is likely to have eloquent proponents and opponents that will be hard to resist in the political arena, even though it might be of low priority or even run counter to the general planned objective of the agency. Administrative officers, however, can and must follow the program as agreed to. They are therefore in a position to make professional judgments on matters of which project comes first, whether an alteration in plan should be made, the reality of current costs compared with available funds, and the frivolity of demands for additions or deletions made by outspoken groups or persons. To enable the administrators to take action on these judgments, appropriations and bond authorizations must be on a program basis. If this is done, the legislature can then find out whether its directives and policies are being followed within reasonable tolerances, and whether objectives are in fact being achieved. At the same time it will be able to get the most out of the talents and skills of administrative personnel--in other words to see to it that the professionals do what they are paid for doing.

It will be noted that no difference is recognized in the foregoing discussion between special and general fund financing. The procedures of appropriation should in fact be exactly the same, the only difference being in the fund from which expenditures are authorized. It is perhaps obvious, therefore, that financial planning must be just as comprehensive and look just as far into the future as physical planning does. Without such financial planning, the continuity necessary to carry out the large and time-consuming development projects is unlikely to be achieved.

Revenue bonds, however, can properly be treated somewhat differently from general obligation bonds. Outlays from revenue bond moneys are likely to have a close correlation with use of facilities and such bonds hence are desirably authorized in large amounts over relatively long periods of time and without excessive restrictions on the use of proceeds. It is suggested that the present policy of making such authorizations be continued (and extended to the harbor bonds) but with the proviso that the actual sale of any issue be subject to prior approval by the legislature. With annual sessions, this should present no hardship and will permit the legislature to enforce its program by authorizing bond sales only in accordance therewith. As a matter of procedure, there is no reason that sales cannot be authorized two or three years in advance, if the adopted program will clearly require bond moneys at that time. It would even be appropriate to permit the sale of revenue bonds in the absence of a veto at the legislative session next following the request to sell, in order to obviate the possibility of urgent needs being stalemated by a deadlocked legislature. The important point is that bonds of any kind are obligations of the State, and all programs carried out are responsibilities of the State. The State should not be so obligated or made responsible without the actual or tacit approval of its governing body.

County Improvements

The same theory of program authorization and appropriation expounded above applies to capital outlay "for county purposes." Program subsidy, rather than project direction is the almost universal rule in grants-in-aid from one government to another, although some grant programs involving capital expenditures reserve to the granting authority the right to approve projects. Other than the county projects appropriations in Hawaii, few, if any, grant programs involve outright appropriation of money for projects selected by the legislative body of the higher jurisdiction. There seems no strong reason to continue this system in Hawaii.

It is therefore suggested that future grants to counties for capital purposes (whether cash or bonds) be made for purposes of program. This would mean, for example, so many dollars for beach improvements, or lights, or highways, or whatever is involved. The counties then should select the projects and work toward the total program accomplishment just as state administrators will do. The State could require that standards be prescribed by state agencies, or that prior approval be given to any project built with state money, but this is a very different thing from the present procedure whereby legislators designate county projects and appropriate money therefor.

One exception to this procedure seems necessary; namely, outlay for school construction. The fact that schools are state-operated facilities indicates that costs for their construction should be programmed with other educational costs. The appropriations, then, should conform to this state-prepared program, even though the money may be spent on behalf of or by the counties (as at present) or even paid by the counties to the State for expenditure on schools. Any plan of this kind would be, in effect, a "reverse grant-in-aid," with county expenditures incurred in support of a state program. While unusual, a system of this kind could work--it is, in fact, essentially the state of affairs that exists today. The important thing is to put authority for physical plant at the same level as operations--which requires program subsidy for county-operated activities and state appropriations for state activities.

Miscellaneous Improvements

Miscellaneous improvements are not likely to be programmed in advance, and the reasons for constructing them are likely to be less amenable to administrative discretion than certain other projects. Obviously any capital outlay made for purposes other than those contemplated by the adopted program must be made on a project basis. Further, if the program is financially balanced from year to year, it may be assumed that each non-programmed improvement will be appropriated for at the expense of some part of a program. The nature and scope of each therefore should be shown clearly in the appropriation bill. No change is suggested in the present means of appropriating for capital improvements of this category. Since they will appear in the appropriation bill as projects not part of any program miscellaneous improvements will be identifiable and debatable, and the responsibility for them will be clearly apparent.

Legislative Review

There are two essentials to the system of capital improvements administration outlined in this report: (1) a sound, comprehensive plan for physical development and financial capability; and (2) a means whereby the legislature may be provided directly with the facts and evaluations necessary to the proper execution of programs. The first of these has been repeatedly stressed in other sections of this report, and a start has been made toward accomplishing it. It remains, however, to examine the question of legislative review, without which legislative restraint in the appropriation process is unlikely.

The vital importance of legislative review lies in the fact that there are no other means available by which legislative intent can be enforced without unduly limiting the authority and discretion desirably vested in professional administrative officers. Legislative budgeting and even legislative administration have been tried (particularly on the municipal level) and found wanting. Specific appropriations for objects of expenditure and capital projects have been commonplace, but generally fail to accomplish their objective because administrators are denied the opportunity to use their skills and legislators find it impossible to determine the net effect of so many expenditure items upon the objectives of government. If these devices leave so much to be desired, the only thing left is an independent, legislative-managed review of what is done under given mandates. Perhaps only in this way can the legislature evaluate conformance to policy, assess the adequacy of administration, assure that programs are in fact carried out at the desired level at a minimum of cost, and accumulate the experience necessary to the definition of future policy.

Today the Hawaii legislature has no means for effecting the review contemplated here. It can and does employ the general observation of members, inquiries by committees, and comments of constituents, but these devices are necessarily incomplete and their conclusions may be based as much on political expediency as on the hard cold facts of performance. The words "smear" and "whitewash" are ugly additions to the political lexicon, but both can be appropriate when evaluations of government are based on something less than complete knowledge and professional disinterest. Without any underestimate of the need that all political officers have for creating and exploiting issues, it can be said with assurance that this process need not and should not be confused with the legislative responsibility for seeing that programs are in fact administered in the public interest and in accordance with prevailing public policies.

The answer seems to be creation of a professional legislative staff engaged full time in examining administrative practices and reporting upon administrative accomplishment. The legislature needs help to avoid the horns of its present dilemma; it needs to know, to understand, and to feel that it is competent to distinguish between constructive changes in program and feeble excuses for non-performance. The legislature, so equipped, could make many judgments not now possible and could distinguish between those things that are fundamental to the public welfare and those that just make good campaign material. The legislature should recognize that, while it cannot do the work required to accomplish an objective, it can see that that work gets done or specifically call the administration to account. The legislature certainly does realize that it cannot negotiate contracts or design buildings, but just as certainly it can find out whether negotiations were conducted in good faith, whether costs are reasonable, whether facilities meet the needs and whether projects conform to agreed programs. The ultimate sanction available to the legislature may be nothing more direct than withholding future appropriations or making a case to take to the people, but both of these devices are well calculated to keep the administration on its mettle.

Here, then, is the last process of capital improvements administration--evaluation of performance. Here, too, is one of the most sensitive and, ultimately, the most important aspect of the whole chain of events set in motion by somebody's ideas of what the State might accomplish at some distant time. It seems obvious that the legislature has at least as much interest in the last process as in any of the preliminary ones, and it is believed that it can best meet its obligations through the kind of review outlined herein. Legislative policy development is accepted as a *sine qua non* of government; legislative programming seems a necessary concomitant of the appropriation power; legislative review can tie the whole together and lay the groundwork for starting the cycle over again through providing a basis for future legislative policy.